2015

Bank Hapoalim

Annual Report

The Bank Hapoalim Group Major Subsidiaries & Affiliates

Commercial Banks
Bank Hapoalim B.M.
Bank Hapoalim (Switzerland) Ltd.
Banque Hapoalim (Luxembourg) S.A.
Bank Pozitif Kredi Ve Kalkinma Bankasi a.s.
JSC Bank Pozitiv Kazakhstan(1)

Investment House
Poalim Capital Markets - Investment House Ltd.

Trust Companies
Poalim Trust Services Ltd.

Underwriting Companies
Poalim I.B.I. Managing and Underwriting Ltd.

Portfolio Management
Peilim – Portfolio Management Company Ltd.
Hapoalim Securities USA, Inc.

Asset Management
Poalim Sahar Ltd.
PAM - Poalim Asset Management (UK) Ltd.
Poalim Asset Management (Ireland) Ltd.

Financial Companies
Isracard Ltd.
Poalim Express Ltd.

(1) Was 100% owned by Bank Pozitif - sold on December 20, 2015

Consolidated Financial Highlights

	2015	2014	**2015**	2014
	NIS millions		USD millions*	
Total Assets	**431,638**	408,033	**110,620**	104,920
Net Profit	**3,082**	2,713	**790**	698
Credit to the Public	**278,497**	263,980	**71,373**	67,879
Deposits from the Public	**321,727**	297,230	**82,452**	76,428
Shareholders' Equity	**33,032**	30,966	**8,465**	7,962

* US dollar figures have been converted at the representative exchange rate prevailing on December 31, 2015, NIS 3.902= USD 1.00

Group Profile
Israel's largest and leading financial institution

Since its founding in 1921, Bank Hapoalim has played a key role in the rapid growth of Israel's economy. Today Bank Hapoalim is widely known as Israel's leading bank, its familiar red logo ubiquitous across a network of about 265 branches. Bank Hapoalim has all the benefits of a large, solid, financial services group. It has successfully leveraged its size, stability and deep expertise to foster innovation in the often slow-and-steady banking sector.

In Israel, Bank Hapoalim operates 245 full-service retail branches, focusing on households, private (affluent) banking & small businesses. The bank offers a deep shelf of banking and payments products, capital market and foreign trade facilities and a full gamut of financial planning advisory services including pension and retirement planning.

Through its celebrated direct banking platform and state-of-the-art 24/7 call centers; the Bank promotes convenient, interpersonal interaction, providing customers the ability to bank through whichever technological channel they choose.

Bank Hapoalim is the lender of choice to Israel's largest corporations and is active in financing industrial and commercial enterprises, as well as major infrastructure projects. The bank runs a thriving foreign trade, foreign exchange, and brokerage & custody business.

Commercial and corporate clients are professionally served through seven regional business centers, business branches and specialized industry desks for major corporate clients.
The Bank, which has long been the favored financial address for Israel's leading corporations, is now strengthening its middle market activities. A network of 22 business branches in significant commercial areas throughout the country offer more convenient and diversified services, as this sector plays an expanding role in the domestic economy.

Internationally, the bank maintains a global presence, operating in locations throughout the world. The Bank is focused on two business segments: Global Private Banking and Commercial Banking.

Global Private Banking led by Bank Hapoalim (Switzerland), serves high net-worth clients from around the world, through offices in Zurich, Geneva, Luxembourg, Tel Aviv, Miami and Hong Kong. In this competitive market, clients are attracted to the Bank's very extensive wealth management expertise, stellar reputation and global spread. Global Private Banking activities are supported by PAM, a fully-owned subsidiary in London, which provides investment products through the world's leading investment firms.
Commercial Banking Services are provided to Israeli companies working abroad and local Middle Market customers, by the New York Branch, together with offices in Miami and Los Angeles. The Bank also serves as the gateway to the Israeli financial markets for international customers investing and doing business in the country.

Building on its experience in structuring complex trade packages, the Bank is promoting its overseas corporate services, primarily targeting Israeli companies establishing or strengthening their presence in established and growth markets.

The Bank Hapoalim Group includes Isracard Ltd, Israel's leading credit card company, as well as financial companies involved in investment banking, trust services and portfolio management.

Hapoalim has also taken a leadership role in the Israeli marketplace in contributing to, and benefitting from, the communities in which it operates.
This combination – stability, innovation, and a deep commitment to the community – has been a powerful growth driver for the Bank and has positioned Hapoalim at the forefront of Israeli banking.

Bank Hapoalim is one of the most actively traded stocks on the Tel Aviv Stock Exchange. In addition, a Level-1 ADR is traded "over-the-counter" in New York, under ticker BKHYY.
The Bank is rated by Moody's, S&P and Fitch.

Letter from the Chairman of the Board

Dear Stakeholders,

On behalf of the Board of Directors and the Board of Management, I am proud to present the annual financial statements of the Bank Hapoalim Group for 2015. During the year, Bank Hapoalim continued to implement our strategic plan for the years 2013-2015, attaining impressive business achievements and yielding 9.6% return of net profit on shareholders' equity, in line with our objectives. A strategic plan for the coming years was built during the year.

2013-2015 Strategic Plan: Growth Drivers, Technology, and Efficiency

In 2015, the Bank continued to follow the trajectories of the strategic plan and of the Board of Directors' plans for 2013-2015, focusing the Bank on three key areas: growth drivers, technology, and efficiency. During the year, management continued to successfully execute the strategic plan, while maintaining profitability in a low-interest-rate environment under changing market conditions, including the continued tightening of the regulatory regime in Israel and direct competition with traditional and new players throughout the value chain in the financial industry. Concurrently, the Bank constructed its strategic plan for the coming years, as a direct continuation of the previous plans that cemented its position as Israel's leading financial institution. The new plan is centered on innovation, and is designed to enable customers to communicate with the Bank and perform transactions in a range of different ways, including through the branches and direct channels, emphasizing both the human and the technological aspects of the plan.

Return on equity stood at 9.6% and annual earnings reached NIS 3,082 million in 2015. This result reflects the Bank's deep commitment to its shareholders to achieve returns aligned with its risk appetite and with macro-economic conditions in Israel and in global markets. The current turmoil in international capital markets highlights the need for a strong, profitable, stable bank, for the benefit of our customers, our employees, and Israel's economy and society.

Global Economy – Seeking Direction

Global economic growth slowed to about 3% over the last year, mainly due to a decrease in the growth rates of the emerging markets. It seems increasingly apparent that the global economy cannot be expected to return to the growth rates of the pre-crisis years. This estimate is supported by demographic factors, technological factors, the volume of debts, and policy considerations. The European economy stabilized over the last year, and some of the countries that were at the epicenter of the debt crisis showed high growth rates. However, unemployment rates remained high, along with government debts. Another challenge facing Europe is the wave of refugees from the Middle East.

The United States continues to stand out among the developed economies, with growth stabilizing at 2.4%, further improvement in the job market, and an increase in the interest rate at the end of the year. The divergence of the US economy from the rest of the world stems from the decisive reaction of the public and private sector, and from the immediate steps taken to counter the crisis.

The calm in Europe has not lessened global risks, which migrated this year to the developing countries and emerging markets. A steep drop in commodity prices, especially the price of oil, is redistributing wealth on a global scale, causing an immense transfer of resources from commodity exporters, usually emerging markets, to importers, usually developed countries.

The sharp decline in prices has led to issues related to budgets and exchange rates, pushing countries such as Russia and Nigeria into severe budget crises.

Developments in China have generated further uncertainty, due to the decline in the growth rate as well as questions surrounding the markets. The low interest rates around the world, and especially the negative rates in parts of Europe, and now in Japan as well, serve as a means of fighting deceleration and deflation, but also have an impact on prices of financial and real assets that must be taken into consideration. Real-estate prices have risen rapidly in some markets, and a renewed increase in the volume of debt has also been apparent in several countries.

Economic Environment and Financial Market in Israel

The growth rate in Israel slowed to just 2.6%. However, the Israeli economy has advantages relative to other markets, most notably its robust financial base, controlled public debt, and high level of savings. The ratio of public debt to GDP decreased to 65%, and financial systems remain stable. Israel is one of the notable countries that did not suffer a financial crisis in 2008. Like Canada and Australia, it stood out with a banking system based more on deposits from the public than on the capital markets. This strength of local banking is an essential element of Israel's sovereign credit rating. The high-tech sector continues to function as a leading growth driver; the advantages conferred by natural gas will emerge in the future, boosting Israel's competitive standing. Employment rates in Israel are high, so that future gains in growth will come primarily from productivity. In addition, the Israeli economy has experienced a decrease in investments over the last two years, mainly due to uncertainty and frequent changes in regulation. The consumer price index in Israel decreased, for a second consecutive year. This decrease can be interpreted as a success of the government's policy of lowering the cost of living, which was supported by the global decrease in commodity and energy prices. The decreases in the consumer price index pose no threat in and of themselves, at least at the current stage.

The new government is prioritizing the struggle against high housing prices. Government efforts to stabilize prices have increased, but these prices still rose in 2015. Long-term action will be necessary in order to increase supply and curb prices. There is no doubt that the increase in prices of homes creates significant social and intergenerational inequalities, and it is therefore important to place this issue at the center of the economic agenda. Monetary policy in Israel is aligned with leading policies globally. The playing field for central banks has changed in recent years: in the absence of inflation, the focus has shifted to financial stability and the promotion of growth. This year, and obviously in the years ahead, the stability of the financial system continues to depend to a great extent on the Bank of Israel and on the bank supervision system. Future legislation and the structure of the financial markets will have significant implications for the economy's ability to cope with financial crises. I believe that the drive to separate credit-card companies from banks will not benefit customers, instead hurting consumers. From banks' perspective there is no question that this step would harm banking services and impair an important element of non-credit operating income. The technological revolution has come to the global financial sector, with hundreds of start-up companies formed in recent years, some of which have grown into significant contenders in financial and banking technology. These players are changing the dynamics of competition in the local and international financial markets. The market share of institutional entities, mainly insurance companies, in the financial sector is growing. Efficiency ratios in the banking system have improved, in comparison to past years.

Leadership in a Competitive Market

As Israel's largest bank, we have capably served every part of our extensive client base, through our branches and the various technological channels, providing individual focus and adaptation to the needs of the different segments of the population. In 2015, we demonstrated our commitment to a focus on growth drivers – customer segments whose economic activity is growing faster than the average in the economy – with an emphasis on strengthening our technological infrastructures, innovation, and creativity.

The Bank continued to increase the number of its retail customers, and maintained its leadership in financing infrastructures and corporations. In commercial banking, the Bank's market share expanded, and revenues and the number of customers grew at an impressive rate. The Bank remains deeply committed to the small-business sector, as reflected in a stronger value offer, the creation of innovative products, and continuous guidance for this customer segment through financing and advising. Small Business Day has become an integral phenomenon, reaching tens of thousands of Israeli businesses. The Bank further expanded its activity in the small-business sector, in recognition of its importance to the Israeli economy and of the revenue potential inherent in strengthening small businesses. We also continued to enhance the Bank's value offer for the high-tech sector, by continuing to strengthen the Poalim High Tech network. The Bank's momentum in the Arab-Israeli sector has changed the terms of competition in this market, reflecting the power and professional excellence of Bank Hapoalim. The Bank doubled the number of its branches in Arab-Israeli communities in recent years, with three new branches opened over the last year. In 2015, the Bank remained the leader in financing in the Israeli economy, during a complex and challenging period for some of our customers. While enhancing our profitability in corporate banking, we also continued to reduce concentration in the credit portfolio, in a process combining growth, profitability, and risk diversification. The Bank also continued to expand its capital base in 2015, in line with its multi-year trajectory for increasing capital, with a focus on satisfactory profitability in its core banking business. At the end of the year, the Bank's capital ratio stood at 9.63%. Bank Hapoalim's net profit increased in 2015 despite a challenging interest-rate environment, a gradual economic slowdown, damage to revenue due to regulation, and heightened competition among banks and between banks and other financial institutions. The Bank continued to improve its efficiency ratio, now at the forefront of Israeli banks and on a par with the Western banking industry.

Looking Ahead

Now that 2015 has drawn to a successful close, we are looking towards the future. The plan for 2016-2018, formulated during 2015, is based on strategic axes planned from a medium-term and long-term perspective. The foundation of the plan is the creation of flexible, optimized infrastructures in areas such as capital management and human-capital development, and the crafting of innovative technological infrastructures as a platform for advanced services for retail and business clients, innovation in financial products and services, focused development of international operations, and continued operational excellence, which has become a way of life for the Bank. Innovation is being embedded in the culture of the Bank, with the goal of offering services to the public with a human and technological focus.

Cultivation of Human Resources and Labor Relations

Bank Hapoalim has continued to promote and develop our most sizable and important resource: our employees. The Bank continued to nurture employee relations, which for years have been one of its key strategic assets. The Employee Union is a full partner in driving the Bank's substantial achievements, and is the benchmark for the entire industry.

Corporate Social Responsibility as a Leading Value

The Bank continued to lead the Israeli banking industry in contribution to the community in 2015. The Bank focused on projects in the area of education, with a particular emphasis on responsible financial behavior as a key to promoting financial freedom.

Half of the budget of the Poalim for the Community Foundation is dedicated to education. The remainder is used to support non-profit organizations active in the areas of social welfare, health care, and more. Within its social responsibility initiatives, the Bank introduced a pioneering strategic drive to benefit the senior-citizen sector in Israel, focusing on financial planning and pension advice alongside the promotion of projects targeted to this sector in the public sphere. The Bank has published a Sustainability and Corporate Social Responsibility Report for several consecutive years, prepared at the highest level of the new GRI-G4 standard. The Bank was ranked at the top of the Platinum Plus category in the Maala rating of leading companies in corporate social responsibility for 2015, the highest level of the general rating scale, in recognition of its extensive accomplishments in each aspect of sustainability and corporate social responsibility. The Bank has also earned top ratings on international indices of sustainability and corporate social responsibility.

Commitment to Markets and Stakeholders

I believe in our ability to continue to create value for our shareholders, in a low-interest-rate environment, during a period of vast technological changes. As a leading Israeli bank with global reach, we accord high importance to maintaining continuous dialogue with stakeholders across all of the markets in which we operate. We place special emphasis on our relationship with the capital markets and the investment community, and we pride ourselves on being the leading Israeli bank in the field of investor relations. We will continue to develop and deepen this dialogue in the future.

We stand committed to a wide universe of stakeholders, including our shareholders; our customers, from individual households to the largest corporations in Israel; the employees of Bank Hapoalim; and the Israeli people. We draw our strength from the communities within which we operate and to which we continue to contribute through the promotion of a wide range of financial, social, and environmental initiatives.
I would like to take this opportunity to express my deepest gratitude to our customers, who continue to express their confidence in us every day; to my colleagues on the Board of Management and Board of Directors; and of course to all our employees, who are our most important asset. The professionalism and dedication of the Bank Hapoalim team are the foundation for the excellent results that we present to you today.

Sincerely yours,

Yair Seroussi
Chairman of the Board of Directors

February 28, 2016

Board of Management

Zion Kenan
President and Chief Executive Officer
Zion Kenan was named President and CEO in August 2009. Mr. Kenan has been with Bank Hapoalim since 1979 and joined the Board of Management in 2001. Before his appointment, he was Deputy CEO and Head of Corporate Banking (2007-2009); Head of Retail Banking (2003-2007), and Head of Human Resources and Logistics (2001-2003). Prior to that, Mr. Kenan fulfilled many senior executive positions in the Retail and Human Resources and Logistics Areas including Southern Regional Manager (1998-2000).
Mr Kenan has a BA from the Open University and a Master's degree from Tel Aviv University, both in Social Sciences.

Ari Pinto
Deputy CEO and Chief Operating Officer
Mr. Pinto has been with Bank Hapoalim since 1980 and was appointed to his current position in February 2016. He serves on the Board of Management since 2009, initially as Head of Corporate Strategy and served as Head of Retail Banking from 2013 - 2015. Prior to joining the Board, he served in a variety of senior positions in the Bank, mainly in Retail Banking and Human Resources & Logistics.
Mr. Pinto has a BA in Business Administration from New England College in New Hampshire and a Master's degree in Public Administration from Clark University in Boston.

Yadin Antebi
Chief Financial Officer
Mr. Antebi joined Bank Hapoalim in July 2013 upon his appointment to the Board of Management as CFO of the Bank. Before joining the Bank, he served as CEO at DS Investment House (2011-2012) and as Commissioner of Capital Markets, Insurance & Savings at the Ministry of Finance (2005-2009).
Mr. Antebi is a Certified Accountant and has a BA in Economics and Accounting and a Master's degree in Business and Management from the Hebrew University of Jerusalem.

Eti Ben-Zeev
Head of Information Technology - CIO
Mrs. Ben-Zeev joined Bank Hapoalim in 2010 and was appointed to the Board of Management in February 2016. Before joining the Board, she served as Application Development Division Manager (2014-2015) and IT Infrastructure & CTO Division Manager (2010-2014). Prior to joining the Bank, she retired as Lieutenant Colonel from an elite R&D unit of the Israeli Intelligence Corps, following 21 years of service, where she led a variety of large scale, complex organizations and projects.
Mrs. Ben-Zeev holds a BSc degree in Mathematics & Computer Science and an MBA degree from Tel-Aviv University.

Tsahi Cohen
Chief Risk Officer
Mr. Cohen joined Bank Hapoalim in 1994 and was appointed to the Board of Management in July 2012. Before his current appointment, he fulfilled several senior positions including Head of Credit Analysis and Project Finance in the Corporate Banking Division.
Mr. Cohen has a B.Sc. in Aeronautical Engineering from the Technion in Haifa and a Master's degree in Business Administration from Tel Aviv University.

Zeev Hayo
Chief Internal Auditor
Mr. Hayo has been with Bank Hapoalim since 1990 and was appointed to the Board of Management in July 2014 as Chief Internal Auditor, Head of Internal Audit in Israel and Abroad. Prior to joining the Board, he served as Financial Market Operational Services Division Manager (2012-2014) and Financial Asset Manager Services Division Manager (2006-2012).
Mr. Hayo has a BA in Accounting and Economics from Tel Aviv University.

Avraham Kochva
Head of Innovation
Mr. Kochva joined Bank Hapoalim in 2011 and was appointed to the Board of Management in August 2014. He served as Head of Information Technology until his current appointment in February 2016. Before joining the Board, he served as Development Division Manager in the IT Area (2011-2014). Prior to joining the Bank, he served in a variety of executive positions in the IDF and in the business industry.
Mr. Kochva has a BA in Political Science and Economics from Bar-Ilan University and a Master's degree in Business Administration from University of Derby in England.

Dan Koller
Head of Financial Markets and International Banking
Mr. Koller joined Bank Hapoalim in 1999 and was appointed to the Board of Management in 2008. He was appointed Head of Financial Markets in December 2013 and as of February 2016 his responsibilities also include International Banking, Prior to his current position, Mr. Koller served as Chief Risk Officer (2008-2012) and Head of International Banking (2012-2013). Before joining the Board, he served as ALM Division Manager (2003-2007).
Mr. Koller has a BA and a Master's degree in Economics and Business Administration from the Hebrew University of Jerusalem.

Ofer Levy
Chief Accountant
Mr. Levy joined Bank Hapoalim in 1981 and was appointed to the Board of Management in 2006. Prior to that, he served as Manager of the Comptrolling Division for ten years.
Mr. Levy is a Certified Public Accountant and has a BA in Accounting and Economics from Tel Aviv University.

Ilan Mazur

Chief Legal Advisor

Mr. Mazur joined Bank Hapoalim in 1981 and was appointed to his current position in 2003. From 1995-2003 he served as General Counsel to the Corporate Area. Prior to that, he was General Counsel for the International Activity. Before joining the Bank, he worked in private law firms. Mr Mazur has a degree in Law from the Hebrew University of Jerusalem. He is a member of the Israeli Bar Association.

Jacob Orbach

Head of Corporate Banking

Mr. Orbach joined Bank Hapoalim in 1980 and was appointed to the Board of Management in 2010 as Chief Internal Auditor, Head of Internal Audit in Israel and Abroad. He assumed his current position in July 2014. Prior to joining the Board, he served as Corporate Banking Division Manager (2006-2009) and Commercial Banking Division Manager (2002-2006). Mr. Orbach has a BA in Economics from Tel Aviv University.

Ronen Stein

Head of Retail Banking

Mr. Stein joined Bank Hapoalim in 1994 and was appointed to the Board of Management in February 2016 as Head of Retail Banking. Prior to joining the Board, he served as CEO of Isracard Group Ltd., Bank Hapoalim's credit card subsidiary (2015) and as Retail Banking Division Manager (2010-2015). Mr. Stein has a BA in Economics from Hebrew University of Jerusalem and a law degree (LL.B) from the Interdisciplinary Center of Herzliya and is a member of the Israeli Bar Association.

Efrat Yavetz

Head of Customer and Stakeholder Relations

Ms. Yavetz has been with Bank Hapoalim since 1988 and was appointed to the Board of Management as Head of Human Capital, Advising and Resources in 2009. She was appointed to her current position in February 2016. In the past, she served as Securities and Financial Assets Division Manager (2006-2009), and as Retail Sales Management Department Manager (2004-2006). Ms. Yavetz has a BA in Biochemistry from the Hebrew University of Jerusalem and a Master's degree in Business Administration from Tel Aviv University.

Amir Aviv

Head of International Banking

Mr. Aviv held this position on the Board of Management from December 2013 until February 1, 2016. Before joining the Board, he served as CEO of Poalim Capital Markets Ltd., the investment-banking arm of Bank Hapoalim (2009-2013), and as Managing Director, responsible for Investment Banking in Israel and abroad (2003-2009). Mr. Aviv has a BSc in Business Administration from the Cardiff Business School at the University of Wales and an MBA degree from the London Business School.

Ron Weksler

Head of Corporate Strategy

Dr. Weksler has been with Bank Hapoalim since 2002 and was appointed to the Board of Management in November 2013. He held this position until February 1, 2016. In the past, he fulfilled several senior positions including Head of Commerce and Sales at Isracard Group (2011-2013) and Southern Regional Manager (2007-2011). Dr. Weksler is a Doctor of Philosophy and Ph.D. in Public Administration from Bar Ilan University; and also has an MBA from Bar Ilan University; and a Bachelor degree in Law and Accounting from Tel Aviv University.

Board of Directors

Yair Seroussi
Chairman of the Board of Directors

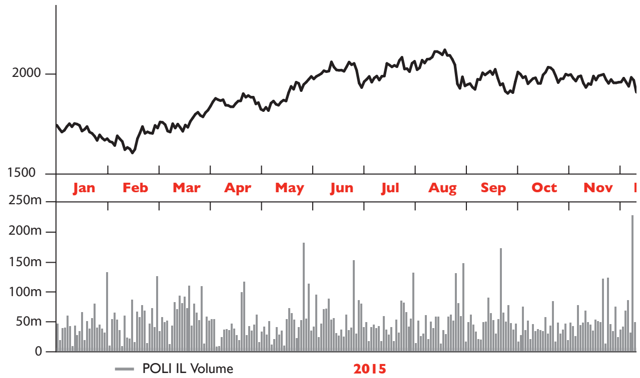
Mali Baron
Amnon Dick
Oded Eran
Irit Izakson
Moshe Koren
Reuven Krupik
Yacov Peer
Efrat Peled
Dafna Schwartz
Ido Stern
Imri Tov
Meir Wietchner
Yosef Yarom
Nir Zichlinskey

Nehama Ronen
Yair Tauman

Information for Shareholders

Listing Information

Bank Hapoalim's ordinary shares are listed on the Tel Aviv Stock Exchange and trade under the ticker symbol POLI.
As of December 31, 2015 1,329,406,719 ordinary shares were outstanding.



The following table presents, the highest and lowest prices for Bank Hapoalim's ordinary shares. The prices are those recorded at the close of business on the Tel Aviv Stock Exchange.

	Tel Aviv	
	High	Low
	(NIS)	(NIS)
2015	2,172	1,640
2014	2,035	1,737
2013	1,920	1,475

Past share price performance should not be regarded as a guide to future performance.
In mid-2006, Bank Hapoalim Level-1 ADR shares were launched on the OTC market in New York under the following information:

Symbol: BKHYY
CUSIP: 062510300
Ratio: 1:5
Country: Israel Industry: Banks
Depositary: Bank of NY (Sponsored)
Underlying SEDOL: 6075808
Underlying ISIN: IL0006625771
US ISIN: US0625103009

Earnings per Share (EPS) in NIS

	EPS
2015	2.32
2014	2.05
2013	1.92

Dividend Policy

Bank Hapoalim's dividend policy is to distribute up to 30% of annual net operating profit to its shareholders.
In 2015, the Board of Directors approved a quarterly dividend payout of 20% of net profit.
The dividends paid over the last three years were:

	Dividend Per Share	Total Paid NIS Millions
2015	0.43	616
2014	0.34	448
2013	0.29	382

The dividend distribution is subject to the provisions of the law, including limitations specified in the directives of the Supervisor of Banks.

Credit Ratings

Bank Hapoalim is rated by the three major credit rating agencies: Moody's, Standard and Poors and Fitch.

	Rating
Moody's	
Long-Term Deposits	A2
Short-Term Deposits	P-1
Standard & Poor's	
Long-Term	A-
Short-Term	A2
Fitch	
Long-Term	A-
Short-Term	F1

Shareholder Structure:

Shareholders as of December 31, 2015 were:

Public	79.8%
Arison Holdings (1998) Controlling stake	20.2%

Institutional Investors Information

For additional copies of this report, other investor materials or questions, please visit our website at: www.bankhapoalim.com

or contact us at: Bank Hapoalim
Investor Relations Dept
Yehuda Halevy 63, Tel Aviv
Tel. 972-3-5673440

Bank Hapoalim Worldwide

Israel

The Bank is a recognized leader in Israel's capital markets.
In Israel, Bank Hapoalim has hundreds of full-service branches organized into customer lines, such as retail, private banking, small businesses and business branches for the middle market and large corporate clients. Direct banking channels now play an increasingly important role in serving both retail and corporate customers.
A trading room, part of a global trading network, offers advanced services.
A Global Private Banking Center provides personalized service and portfolio management for high net worth individuals.

United States

The Miami branch provides private banking services mainly to non-US citizens, serving Latin American clients.
The New York branch is focused on providing comprehensive banking services to Israeli and local companies operating in the United States, corporate credit and treasury activities.
In addition, the branch offers investment services to private and corporate clients, including trading in derivatives and brokerage services.
The Bank operates an advanced trading room in New York.

United Kingdom

Poalim Asset Management, a fully owned subsidiary of Bank Hapoalim, based in London, is the research and product arm behind the Global Private Banking, offering tailored advisory services, discretionary portfolio management and general advice to our Relationship Managers around the world.
The London branch represents the Bank's interests in the UK and offers limited trading services.

Switzerland

Bank Hapoalim (Switzerland) Ltd, is a wholly owned subsidiary headquartered in Zurich, with branches in Zurich, Geneva and Luxembourg and representative offices in Moscow and Tel Aviv. In addition, Bank Hapoalim (Switzerland) holds two wholly owned investment advisory subsidiaries, in Tel Aviv and in Hong Kong, delivering advisory services to high net worth individuals in the respective local markets. The Swiss bank is engaged primarily in private banking services, including global portfolio management.

Luxembourg

Bank Hapoalim BM operates in Luxembourg through a fully owned banking subsidiary. Banque Hapoalim (Luxembourg) S.A. provides a range of corporate banking solutions to Israeli and European companies.

Turkey

Bank Pozitif is headquartered in Istanbul. The Bank is active mainly in corporate banking.

Uruguay

Focused on private banking, Hapoalim (Latin America) S.A. is a wholly owned subsidiary of Bank Hapoalim BM. The Bank is based in Montevideo andhas branches in Colonia and Punta del Este.

Representative Offices

Bank Hapoalim has representative offices in major financial centers worldwide.

Main Locations of Representative Offices

- **Toronto**
- **Paris**
- **Mexico City**
- **Panama City**
- **Santiago**

2015

Bank Hapoalim

Annual Report

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The Bank has received approval from the Supervisor of Banks to publish its annual financial statements on a consolidated basis only.
Note 36 to the Financial Statements contains the condensed financial statements of the Bank alone.
Data concerning the Bank alone is available in hard copy upon request, or on the Bank's website at www.bankhapoalim.co.il.

This is a translation of the Hebrew report and has been prepared for convenience only.
In case of any discrepancy, the Hebrew will prevail.

2015

Bank Hapoalim

Annual Report
of the Board of Directors
and Board of Management for 2015

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4. General Review, Objectives, and Strategy

4.1. Condensed Description of the Bank

General

- The Bank was founded in 1921 by the central institutions of the Jewish Settlement (the Yishuv) at the time, the Zionist Histadrut and the Histadrut General Federation of Hebrew Workers in Eretz Yisrael, and incorporated as a limited company under the Companies Ordinance. The Bank is a "banking corporation" and holds a "bank" license under the directives of the Banking Law. In 1983, within an arrangement formulated between the Israeli government and the banks, the shares of the Bank were brought under the control of the state. The Bank was privatized in 1997, with the controlling interest transferred to the current controlling shareholders and others.
- The Bank Group operates in Israel in all of the various areas of banking through two main units: the Corporate Banking Area and the Retail Banking Area. The Corporate Banking Area provides service to most of the Bank's business customers; activities with large corporate clients are conducted through sectors specializing in specific industries, which operate within the Head Office, while middle-market clients are served through seven Business Centers located throughout Israel. The various banking services are provided to all customers of this Area through the network of business branches, which consists of 22 branches offering the full range of services required by business clients. In addition, other branches of the Bank provide operational services to the clients of the Area. The Retail Banking Area, through the network of branches, serves customers including households, private-banking clients, foreign residents, and small businesses; is responsible for operating direct-channel services: Internet services, Poalim by Telephone, and mobile services; and also oversees consumer credit and mortgage activities. The Retail Banking Area operates through 245 branches, including both traditional branches and advanced digital branches, which provide the full range of banking services.
- In addition to banking activity, the Bank Group engages in associated activities, primarily in the area of credit cards and in the capital market. In the area of credit cards, the Bank Group, through subsidiaries (the "Isracard Group"), issues, operates, and markets credit cards within and outside the Bank, for use in Israel and overseas, and clears transactions executed using its own credit cards and credit cards issued by others. The Bank Group's activity in the capital market includes, among other matters, securities trading services (brokerage), securities custody, trading services in currencies and derivatives, research and consulting, services for financial-asset managers, management of investment portfolios, investment banking, underwriting, and issuance management.
- Alongside its activities in Israel, the Bank Group also operates overseas, in the private-banking sector and in the corporate sector. This activity encompasses Israel, Europe, the United States, Canada, and Latin America, by means including branches, representative offices, banking subsidiaries, and asset-management subsidiaries. The Bank Group also operates in the households sector and in the commercial sector in Turkey. In its private-banking activity, the Bank Group provides its high-net-worth customers abroad with advanced professional products and services, including investment products and global asset management. Corporate sector activity abroad includes the provision of credit to local and foreign borrowers, including through credit granted for the business activities of the Bank's customers, the acquisition of participation in credit organized by leading banks abroad; the provision of credit to borrowers with an affinity to Israel; and investments in bonds. As part of its international activity, the Bank maintains relations with foreign banks around the world (hereinafter: "correspondent banks"). The main focus of the Bank's strategy is the development and expansion of its Global Private Banking activity and of its commercial banking (middle market) business in the United States, while expanding its service package and improving its capabilities in the areas of products, marketing, and customer service.

Forward-Looking Information

Some of the information in these reports that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or changes in the Bank's business plans.

Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "extreme scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intend," "plan," "aim," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature.

The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing, and other entities that publish data and estimates regarding the capital markets in Israel and globally. This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or that actual developments may be the opposite of expectations.

4.2. Condensed Principal Financial Information

The following are details of the principal developments and changes that occurred during 2015:

Net profit of the Bank Group attributed to shareholders of the Bank totaled approximately NIS 3,082 million in 2015, compared with profit in the amount of approximately NIS 2,713 million in 2014.

Net return on equity attributed to shareholders of the Bank was 9.6% in 2015, compared with 9.1% in 2014.

Basic net profit per share of par value NIS 1 amounted to NIS 2.32 in 2015, compared with NIS 2.05 in 2014.

Total assets of the Bank Group as at December 31, 2015 amounted to approximately NIS 431.6 billion, compared with approximately NIS 408.0 billion at the end of 2014, an increase of 5.8%.

Net total credit to the public amounted to NIS 278.5 billion as at December 31, 2015, compared with NIS 264.0 billion at the end of 2014, an increase of 5.5%.

Total deposits from the public amounted to NIS 321.7 billion as at December 31, 2015, compared with NIS 297.2 billion at the end of 2014, an increase of 8.2%.

Total shareholders' equity amounted to NIS 33.0 billion as at December 31, 2015, compared with NIS 31.0 billion at the end of 2014, an increase of 6.67%.

The total capital adequacy ratio as at December 31, 2015 was 14.36%, compared with 14.60% on December 31, 2014.

The common equity Tier 1 capital ratio as at December 31, 2015 was 9.63%, compared with 9.29% on December 31, 2014.

Table 4-1: Principal Data of the Bank Hapoalim Group

	For the year ended December 31			Change vs.	
	2015	2014	2013	2014	2013
	NIS millions				
Profit and Profitability					
Net financing profit**	**8,929**	8,684	8,423	2.8%	6.0%
Fees and other income	**5,433**	5,338	5,241	1.8%	3.7%
Total income	**14,362**	14,022	13,664	2.4%	5.1%
Provision for credit losses	**475**	425	874	11.8%	(45.7%)
Operating and other expenses	**8,790**	*9,183	*9,041	(4.3%)	2.8%
Net profit attributed to shareholders of the Bank	**3,082**	*2,713	*2,537	13.6%	21.5%

	December 31			Change vs.	
	2015	2014	2013	2014	2013
	NIS millions				
Balance Sheet – Principal Data					
Total balance sheet	**431,638**	*408,033	*380,201	5.8%	13.5%
Net credit to the public	**278,497**	263,980	251,600	5.5%	10.7%
Securities	**62,884**	58,778	60,912	7.0%	3.2%
Deposits from the public	**321,727**	297,230	276,525	8.2%	16.3%
Bonds and subordinated notes	**34,475**	33,671	33,980	2.4%	1.5%
Shareholders' equity	**33,032**	*30,966	*28,534	6.7%	15.8%
Net total problematic credit risk	**9,311**	12,721	16,279	(26.8%)	(42.8%)
Of which: net impaired balance sheet debts	**4,265**	5,389	6,817	(20.9%)	(37.4%)

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1). to the Financial Statements.

** Net financing profit includes net interest income and non-interest financing income (expenses).

Table 4-1: Principal Data of the Bank Hapoalim Group (continued)

	2015	2014	2013
Main Financial Ratios			
Net loan to deposit ratio	**86.6%**	88.8%	91.0%
Net loan to deposit ratio including bonds and subordinated notes	**78.2%**	79.8%	81.0%
Shareholders' equity ratio to total assets	**7.65%**	*7.59%	*7.50%
Common equity Tier 1 capital ratio to risk-adjusted assets according to Basel 3(6)	**9.63%**	9.29%	-
Total capital ratio to risk-adjusted assets according to Basel 3(6)	**14.36%**	14.60%	-
Liquidity coverage ratio**(1)(7)	**99.0%**	-	-
Leverage ratio**(6)	**7.1%**	-	-
Financing margin from regular activity(2)	**2.09%**	2.27%	2.12%
Cost-income ratio(3)	**61.2%**	*61.6%	*62.6%
Total income to assets(4)	**3.4%**	3.7%	3.7%
Total expenses to assets(5)	**2.1%**	2.4%	2.4%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.2%**	0.2%	0.3%
Return of net profit on equity attributed to shareholders of the Bank	**9.6%**	*9.1%	*9.3%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**2.32**	*2.05	*1.92

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1). to the Financial Statements.
** Initial implementation as of April 1, 2015.
(1) Calculated on a quarterly basis.
(2) Financing profit from regular activity (see the Board of Directors' report, in the section "Material Developments in Income, Expenses, and Other Comprehensive Income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.
(3) Does not include provision for efficiency plans and provision for banking services to US clients.
(4) Total income divided by average balances of total assets.
(5) Total operating and other expenses, divided by the average balance of total assets.
(6) For additional information, see the section "Capital Adequacy and Leverage" below.
(7) For additional information, see the section "Liquidity and Financing Risk," below.

Table 4-1: Principal Data of the Bank Hapoalim Group (continued)

	For the three months ended				
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	NIS millions				
Profit and Profitability					
Net financing profit**	**2,106**	2,179	2,472	2,172	2,146
Fees and other income	**1,352**	1,354	1,344	1,383	1,438
Total income	**3,458**	3,533	3,816	3,555	3,584
Provision (income) for credit losses	**147**	55	213	60	363
Operating and other expenses	**2,311**	2,183	2,108	2,188	*2,485
Net profit attributed to shareholders of the Bank	**586**	802	886	808	*487

	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	NIS millions				
Balance Sheet – Principal Data					
Total balance sheet	**431,638**	422,919	416,614	426,426	*408,033
Net credit to the public	**278,497**	275,192	270,817	268,921	263,980
Securities	**62,884**	61,064	56,232	54,328	58,778
Deposits from the public	**321,727**	310,692	304,382	307,895	297,230
Bonds and subordinated notes	**34,475**	35,061	34,829	34,808	33,671
Shareholders' equity	**33,032**	32,741	32,260	31,845	*30,966
Net total problematic credit risk	**9,311**	9,898	10,750	12,349	12,721
Of which: net impaired balance sheet debts	**4,265**	4,780	5,268	5,702	5,389

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1). to the Financial Statements.

** Net financing profit includes net interest income and non-interest financing income (expenses).

Table 4-1: Principal Data of the Bank Hapoalim Group (continued)

	For the three months ended				
	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Main Financial Ratios					
Net loan to deposit ratio	**86.6%**	88.6%	89.0%	87.3%	88.8%
Net loan to deposit ratio including bonds and subordinated notes	**78.2%**	79.6%	79.8%	78.5%	79.8%
Shareholders' equity ratio to total assets	**7.65%**	7.74%	7.74%	7.47%	*7.59%
Common equity Tier 1 capital ratio to risk-adjusted assets according to Basel 3(6)	**9.63%**	9.50%	9.42%	9.43%	9.29%
Total capital ratio to risk-adjusted assets according to Basel 3(6)	**14.36%**	14.22%	14.16%	14.19%	14.60%
Liquidity coverage ratio**(7)	**99.0%**	92.0%	88.0%	-	-
Leverage ratio**(6)	**7.1%**	7.2%	7.2%	-	-
Financing margin from regular activity(1)(2)	**2.03%**	2.19%	2.23%	1.96%	2.21%
Cost-income ratio(3)	**66.8%**	61.8%	55.2%	61.5%	*57.0%
Total income to assets(4)	**3.3%**	3.4%	3.7%	3.5%	3.7%
Total expenses to assets(5)	**2.2%**	2.1%	2.0%	2.2%	2.5%
Provision for credit losses as a percentage of the average recorded balance of credit to the public(1)	**0.2%**	0.1%	0.3%	0.1%	0.5%
Return of net profit on equity attributed to shareholders of the Bank(1)	**7.3%**	10.4%	11.6%	10.7%	*6.4%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**0.44**	0.60	0.67	0.61	*0.37

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1). to the Financial Statements.
** Initial implementation as of April 1, 2015.
(1) Calculated on an annualized basis.
(2) Financing profit from regular activity (see the Board of Directors' report, in the section "Material Developments in Income, Expenses, and Other Comprehensive Income") divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.
(3) Does not include provision for efficiency plans and provision for banking services to US clients.
(4) Total income divided by average balances of total assets.
(5) Total operating and other expenses, divided by the average balance of total assets.
(6) For additional information, see the section "Capital Adequacy and Leverage" below.
(7) For additional information, see the section "Liquidity and Financing Risk," below.

Table 4-2: Consolidated Statement of Profit and Loss for the Years 2011-2015 - Multi-Period Data

	For the year ended December 31				
	NIS millions				
	2015	2014	2013	2012	2011
Interest income	**9,837**	10,673	12,961	14,346	14,793
Interest expenses	**(1,952)**	(2,905)	(5,018)	(6,186)	(6,696)
Net interest income	**7,885**	7,768	7,943	8,160	8,097
Provision for credit losses	**475**	425	874	987	1,202
Net interest income after provision for credit losses	**7,410**	7,343	7,069	7,173	6,895
Non-interest income					
Non-interest financing income (expenses)	**1,044**	916	480	255	(213)
Fees	**5,287**	5,207	5,115	5,105	5,098
Other income	**146**	131	126	117	106
Total non-interest income	**6,477**	6,254	5,721	5,477	4,991
Operating and other expenses					
Salaries and related expenses	**4,934**	*5,343	*5,451	5,130	4,847
Maintenance and depreciation of buildings and equipment	**1,555**	1,539	1,544	1,616	1,492
Amortization and impairment of intangible assets and goodwill	**7**	12	12	11	21
Other expenses	**2,294**	2,289	2,034	2,129	2,050
Total operating and other expenses	**8,790**	*9,183	*9,041	8,886	8,410
Profit before taxes	**5,097**	*4,414	*3,749	3,764	3,476
Provision for taxes on profit	**2,097**	*1,713	*1,265	1,230	792
Profit after taxes	**3,000**	*2,701	*2,484	2,534	2,684
The Bank's share in profits (losses) of equity-basis investees, after taxes	**19**	9	9	6	(5)
Net profit:					
Before attribution to non-controlling interests	**3,019**	*2,710	*2,493	2,540	2,679
Loss (profit) attributed to non-controlling interests	**63**	3	44	(34)	39
Attributed to shareholders of the Bank	**3,082**	*2,713	*2,537	2,506	2,718
Earnings per ordinary share in NIS:					
Basic earnings					
Net profit attributed to shareholders of the Bank	**2.32**	*2.05	*1.92	1.90	2.05
Diluted earnings					
Net profit attributed to shareholders of the Bank	**2.31**	*2.04	*1.90	1.88	2.04

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

Table 4-3: Consolidated Balance Sheet for the Years 2011-2015 - Multi-Period Data

	December 31				
	2015	2014	2013	2012	2011
	NIS millions				
Assets					
Cash and deposits with banks	**64,976**	54,974	45,709	55,301	55,790
Securities	**62,884**	58,778	60,912	52,070	34,411
Securities borrowed or purchased under agreements to resell	**119**	476	65	47	-
Credit to the public	**282,911**	268,160	255,543	253,268	250,592
Allowance for credit losses	**(4,414)**	(4,180)	(3,943)	(4,086)	(4,097)
Net credit to the public	**278,497**	263,980	251,600	249,182	246,495
Credit to governments	**2,564**	1,861	1,169	798	616
Investments in equity-basis investees	**143**	135	137	127	125
Buildings and equipment	**3,409**	3,475	3,432	3,426	3,481
Intangible assets and goodwill	**-**	7	19	33	44
Assets in respect of derivative instruments	**12,789**	16,244	10,672	9,624	10,799
Other assets	**6,257**	*8,103	*6,486	5,586	4,744
Total assets	**431,638**	*408,033	*380,201	376,194	356,505
Liabilities and Capital					
Deposits from the public	**321,727**	297,230	276,525	271,411	256,417
Deposits from banks	**4,773**	4,322	5,303	6,015	7,001
Government deposits	**354**	455	613	629	1,085
Securities lent or sold under agreements to repurchase	**83**	42	242	1,116	1,305
Bonds and subordinated notes	**34,475**	33,671	33,980	35,677	32,933
Liabilities in respect of derivative instruments	**13,806**	16,777	12,129	12,718	13,421
Other liabilities	**23,201**	*24,320	*22,625	21,765	20,399
Total liabilities	**398,419**	*376,817	*351,417	349,331	332,561
Shareholders' equity	**33,032**	*30,966	*28,534	26,561	23,662
Non-controlling interests	**187**	250	250	302	282
Total capital	**33,219**	*31,216	*28,784	26,863	23,944
Total liabilities and capital	**431,638**	*408,033	*380,201	376,194	356,505

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

4.3. Condensed Description of the Principal Risks to which the Bank is Exposed

The activity of the Bank involves the following financial risks: credit risks, which represent the risk that a borrower or debtor will default on scheduled payments to the Bank as defined in the credit agreement; market risks, which arise from exposure to changes in rates in the financial markets, such as exchange rates, share prices, and interest rates; and liquidity risk, which is the risk to a banking corporation's profits, stability, and ability to continue its routine operations resulting from uncertainty with regard to its ability to maintain the cash flow necessary for its needs, including financing risk, which is the risk of inability to raise new resources to replace those that have matured, or the risk that new resources may be raised for periods or under conditions that impair the Bank's net interest income.

Other non-financial risks are mainly compliance risk, legal risk, and operational risks. Compliance risk is risk arising from non-compliance of the Bank or of any of its employees, in any place relevant to the activity of the Bank, with laws and regulations. Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events.

Other risks to which the Bank is exposed are handled directly as part of the management of its business: reputation risk, competitive risk, regulatory and legislative risk, strategic risk, economic risk, and environmental risk. For details, see the section "Review of Risks" and the Report on Risks, below.

4.4. Objectives and Business Strategy

The Bank operates in accordance with a three-year strategic plan (2016-2018) approved in late 2015. In the process of constructing the strategic plan, the changes in the markets in which the Bank operates – the full range of changes in the business environment and in the competitive environment – were taken into consideration. The three-year strategic plan was formulated and approved as a continuation of the previous strategic plan launched in early 2013, which guided the Bank's formulation of its strategic map and work plans for 2013-2015.

The global banking system in general, and the Israeli banking system in particular, are influenced by a matrix of factors, primarily changes in customers' habits, tightened regulation, and the growing impact of technology. These shifts have led to more intense competition, from traditional players as well as a multitude of varied new players, which requires the Bank to prepare for the future with the aim of offering its customers an advanced, excellent service experience and creating value for its customers and its other stakeholders. Concurrently, the Bank is preparing to implement the directives of the Bank of Israel concerning higher capital-adequacy targets, which were taken into consideration in formulating the strategic plan.

The Bank's multi-year strategic plan takes the caution necessitated by the risks in the global economy and the Israeli market into account, and balances risk and return considerations. This plan is expected to enable the Bank to continue to pursue a trajectory of stable growth, despite the challenges and instability in the global economy and financial system, while continuing to solidify its leadership in the Israeli banking system and maximizing value for its shareholders and all of its stakeholders.

The strategic plan is examined each year and adjusted to changes in the business environment in Israel and globally and to changes in the competitive environment in which the Bank operates.

The Bank continues to focus on five key themes:

(1) Maintaining and strengthening the Bank's leadership in Israel in the various areas of banking, by expanding relationships and activity with the Bank's customers, based on innovation in services and optimization of activity channels, enhanced added value, and the creation of solutions tailored to customers' needs.

(2) Focused international growth based on customer relationships, leveraging the Bank's strengths in commercial and corporate activity and in Global Private Banking services.

(3) Excellence in financial management and advanced capital management, through efficient capital management and the expansion of sources of revenue from non-credit products.

(4) Streamlining and operational excellence in the execution of existing activities and in the realization of the Bank's growth plans, while examining and improving the efficiency of resource allocation, simplifying and automatic processes, and curbing expenses.

(5) Business and technological leadership, through the development of the Bank's technological capabilities, with extensive consideration of the future needs of the Bank's customers and analysis of trends in financial services.

Activity on all of these axes will be conducted while applying advanced risk management congruent with the trajectory for the activity of the Bank.

The Bank will work to progress on these axes while emphasizing the cultivation of its human capital and excellence within the organization, based on the core values of the Bank and in alignment with the principles of sustainability, as defined in the Bank's vision. In this context, the Bank will work to continue to lead the financial industry in the areas of corporate social responsibility and contribution to the community, as it has in recent years.

In retail banking, competition continues to intensify, on the part of banks, institutional entities, fintech ventures, and other non-bank players. Significant reform initiatives are being led by regulators, focusing on retail credit. In order to respond optimally to the changes in customers' needs and habits, the Bank intends to implement a long-term strategic plan in the area of retail banking, aimed at focused, resolute action to solidify and strengthen its leadership in this sector. The Bank has formulated a comprehensive strategic plan, the core element of which is a change in the operating model for private and business clients, designed to improve and adapt the service offered to customers to their financial needs, and to the channels that they prefer to use for each service, including assistance from professional bankers at branches across Israel, professional bankers at dedicated call centers, digital tools (including the Bank's website and various applications), and self-service stations. Customers will receive higher-quality service better suited to their needs, with a combination of high-quality professional human service and convenient access to simple, accessible technological means. As part of the implementation of the plan, the Bank will continue to develop targeted value offers tailored to the unique needs of high-potential customer segments.

The Bank will also continue to focus and develop its activity in the small business segment, continuing to develop adapted, accessible services while strengthening the teams of expert bankers who provide individual guidance to small businesses, with the goal of providing clients with an excellent, professional service experience matched to their needs. The Bank accords high importance to customer service, and invests substantial resources in the development of an accessible, comfortable customer experience.

Competition is increasing in the corporate and commercial arena as well, particularly with institutional players. Regulatory restrictions, capital requirements, and changes in customers' needs are also creating game-changing transformations. The Bank will continue to work to preserve its leading position as the first choice for large and mid-sized business clients. The Bank endeavors to extend and develop its activity with corporate segment clients – the largest companies and businesses in the Israeli economy – with an emphasis on expansion of its service and product offering and the creation of a comprehensive package of services optimally matched and responsive to the needs of clients in this sector, in their operations in Israel and overseas. The Bank also expects this effort to allow an increase in its non-credit revenues in this sector. Concurrently, the Bank will work to achieve another leap forward in its activity in the middle-market business sector, which is an important element of the backbone of the Israeli economy, through means including the Business Branches infrastructure, while improving and expanding the value offer for customers in this sector. In addition, the Corporate Banking Area will expand its activity in the area of complex credit products, through a dedicated network of leading professionals, in order to provide an optimal response to the unique financing needs of the Area's clients. The Bank's leadership will be solidified and strengthened while optimizing and dynamically managing capital resources and risk-adjusted assets, and maintaining its strong capabilities in the area of risk management.

In international operations, the Bank will work to continue to develop and grow its activity in the commercial sector in the United States, through the expansion of existing activities and selective entry into new areas of activity and new geographical regions within the United States. In Global Private Banking, the Bank will adapt its activity to the regulatory changes and business trends in this area.

The activity of the Bank in the capital markets in Israel and overseas and in the area of treasury management is centralized under the Financial Markets Area. The strategic emphasis in these activities will be placed on adapting the Bank's alignment to the needs of its customers, in Israel and overseas, to the changes in the capital and currency markets, and to the competitive environment, while preparing for and implementing local and international regulation. The Bank will continue to work to leverage the synergies gained by centralizing these activities. The Bank will work to develop its leadership in the capital market and in the area of financial products, by strengthening its technological infrastructures and adapting products to its customers, with an emphasis on the use of digital tools to provide access to trading arenas, market making, and various types of financial products. The Bank will also continue the dynamic management of its banking book and investment portfolios, subject to its risk appetite and changes in the financial markets, and in compliance with regulatory requirements.

Striving for operational excellence and improving expense management will continue to be key principles for the Bank. The Bank will work to improve its operational efficiency ratio throughout the period of the strategic plan. The push towards operational excellence will allow the Bank to make optimal use of its existing resources in order to realize new initiatives. The Bank will work to continue to streamline and improve work processes at its Head Office and administrative units, with an emphasis on simplifying and automating processes, thereby improving service for customers while strengthening operational excellence.

The Bank's preparations for the future make it essential to achieve a leap in innovation and in digital services. The Bank will invest in developing information analysis and leverage capabilities, in order to create value for customers and for the Bank; building interactive, personalized, flexible customer interfaces; and promoting open banking and collaborations, including fintech initiatives, to improve the value offers provided to its customers.

Readiness for the future also consists of the construction of optimal infrastructures. Over the coming few years, the Bank intends to work to create flexible structures, processes, and organizational culture that encourage innovation, and to invest in building human-capital capabilities for the future, setting up simple and flexible technological infrastructures, and honing capabilities for dynamic, advanced capital management.

Adaptation of the Organizational Structure

In order to realize its multi-year strategy and prepare the Bank for the challenges of tomorrow, the Bank has carried out several significant changes in organizational structure. These changes are rooted in the understanding that in order to continue to be a leading, competitive organization in a changing world, the Bank must become more client-centered, innovative, flexible, and efficient, while maintaining its operational capabilities, personal connection, and the professional excellence of the organization's employees and executives.

The changes include:

- Appointment of a Chief Operating Officer (COO), at the rank of deputy CEO, to oversee the bank's resource management, operations, marketing, and strategy, with the mission of centralizing and coordinating lateral processes within the organization to improve its competitive abilities and to continue to improve its efficiency in the future. As part of this process, the Corporate Strategy Area will merge into the activity of the COO.
- Establishment of the Innovation Area, to accelerate and embed innovation at the bank and to provide support in building capabilities for the future. The area's responsibilities include promoting the bank's digital strategy, improving the customer experience, building new big-data tools, quickly implementing new technology, and increasing collaborations with external parties.

- Establishment of a new area to oversee relationships with customers and stakeholders, with the aim of focusing on the customer while remaining considerate of the environment within which the Bank operates. Another axis of this activity is the training and empowerment of the organization's employees and executives, to impart the skills and tools necessary to successfully confront the challenges of today and the challenges of tomorrow.
- Merging of the International Banking Area and the Financial Markets Area into one area, which will continue to be responsible for all of the strategic processes related to these activities.

It should be noted that the strategic plan sets ambitious goals for each of the Bank's activities, yet in any planning, especially in planning several years ahead, and all the more so during a period of changes and turmoil in the global economy and in the world financial system, a considerable degree of uncertainty must be taken into consideration. Various diverse factors may prevent the assumptions on which the strategic plan is based from materializing, or may prevent them from materializing in full, and may prevent the realization or full realization of future plans. Among these factors, it should be noted that the success of a plan of this kind depends on the Bank's internal ability to carry out its objectives, as well as on the business environment in Israel and globally and on macro conditions. Special importance should be accorded to the condition of the global economy; to the economic, political, and security situation in Israel and in the region; and to regulatory changes. It should be taken into consideration that a high level of uncertainty remains with regard to the growth rates of the real economy in Israel and globally in the coming years.

It is emphasized that the Bank's approved work plans and the working assumptions on which they are based refer to the Bank's future activities; therefore, the above information in this section with regard to the Bank's action plans and intentions is "forward-looking information."

5. Explanation and Analysis of Results and Business Position

5.1. Trends, Events, Developments, and Material Changes

Economic and Financial Review

Developments in the Global Economy

Global growth slowed slightly in 2015, to 3.1%, from 3.4% in the preceding year (according to estimates by the International Monetary Fund). The deceleration in growth was centered in the emerging economies and developing countries, which have been the main contributors to global growth over the last few years. Growth in the developed countries was similar to the rate of the preceding year, at 1.9%. European countries such as Ireland, Spain, and Italy showed notable improvements in growth. In the United States, the growth rate was 2.4%. About eight years from the beginning of the crisis, growth rates in the developed countries have not returned to the previous levels; estimates increasingly indicate that this situation will persist in the coming years. Possible explanations include demographical processes of aging populations; a decrease in real investments, due to causes including the debt crises; and technological improvements whose impact has run its course. Most estimates indicate that these factors will continue to affect growth in the coming years.

The European economy showed considerable improvement in growth over the last year, as noted, but signs of the crisis are still apparent there in many respects: unemployment rates remain high, along with levels of government debt. Weak labor markets and declines in energy and commodity prices increased deflationary pressures in the Eurozone, and the European Central Bank further expanded monetary policy; the interest rate on deposits of commercial banks with the central bank was lowered to -0.3%, and the bank committed to a quantitative expansion policy based on bond purchases, through March 2017 at the earliest. In this sense, the situation in the United States is quite different, with unemployment down to 5%, wages trending up, and further recovery in activity in the real-estate sector. These factors led the central bank in the United States to decide on an increase in the interest rate in December 2015, to 0.25-0.5%. The differences in fundamental data between the United States and Europe, and the interest-rate gaps opened between the central banks, caused the US dollar to strengthen against most other currencies.

The price of oil dropped sharply, from approximately USD 60 per barrel at the beginning of 2015 to USD 30 by the end of the year. The steep decline in prices was likely caused primarily by the increase in supply, due to disputes between OPEC cartel members and the production of shale oil, as well as more moderate demand. Prices of other commodities, such as metals and agricultural crops, decreased as well, though to a far more moderate extent. The changes in prices have a strong effect on countries whose economies are reliant on commodity exports, some of which are experiencing crises. Major countries include Russia, which is suffering from recession and budget distress due to the drops in oil prices, and Brazil, also in economic recession, with a fiscal crisis caused by factors including the decrease in agricultural commodity prices. Consumers in the developed countries generally benefited from the decrease in energy prices, although there was some damage in these countries as well, mainly to energy companies, which sustained heavy losses.

The growth rate of the Chinese economy slowed from 7.3% to 6.9%, according to official estimates. Unofficial estimates point to substantially lower rates. The increase in risk led to an outflow of capital from China, and to sharp declines on stock markets. The steps taken by the administration to stem the tide of outgoing capital did not earn investors' confidence. The yuan exchange rate was made more flexible, and the currency depreciated moderately. Looking ahead, developments in several of the emerging economies, most notably China, constitute a significant risk factor for the coming year.

Developments in the First Two Months of 2016

2016 opened on a negative note in global capital markets. Prices of assets characterized by risk, such as companies' stocks and bonds, posted sharp declines. By contrast, demand emerged for government bonds, with a considerable decrease in yields to maturity in the long ranges. The continued deceleration of GDP growth in China, the deepening crisis in other emerging markets such as Brazil and Russia, the disappointment over macro-economic data in some Western countries, the continued global decline in oil prices, and the uncertainty surrounding the interest-rate policy of the Federal Reserve in the United States all weighed on the financial markets. The negative trend was notable in the financial sectors, particularly banking, in view of surprisingly negative performance from some of the largest and best-known commercial banks in Europe. This was reflected in a sharp drop in prices of bank shares, and in an increase in risk premiums priced in to the yields to maturity of bank bonds. The profitability of European banks was harmed by a combination of factors: tight regulation that restricted activity in certain segments, large fines imposed on banks, and the negative interest rates of central banks in Europe. Policymakers in Europe and in other Western countries are aware of the importance of maintaining the high credibility of the banking system in the eyes of the public, and in some cases issued declarations of support, in order to ensure continued recovery in the non-financial arena without shocks to the financial system.

Economic Activity in Israel

Growth slowed to 2.6% in 2015, or just 0.6% per capita. The low growth rate resulted from a 2.5% decrease in exports of goods and services, and a 1.4% decrease in fixed-asset investments. By contrast, private consumption grew at a high rate of 4.7%. The decrease in exports was influenced by the weakness in global trade, the continued appreciation of the NIS, and the slow recovery of the tourism industry following Operation Protective Edge in the summer of 2014. The decline in investments is worrying, as it affects the economy's potential for growth in the coming years. Investment in residential construction continued to growth this year, and the annual pace of construction starts is expected to approach 50,000 housing units. Construction of non-residential buildings decreased, possibly reflecting saturation in commerce and office spaces. Private consumption has been growing at a significantly higher rate than GDP over the last three years; it is likely that the near-zero interest rate was a contributing factor. In terms of sectors, growth in the industry sector was low, at 1.2%, versus high growth rates of 4.9% in the commerce sector and in the hospitality and food services sector. The last year was favorable for the startup industry as well, as Israeli companies raised a record amount of USD 4.4 billion, mostly from foreign investors.

As noted, the housing market also showed brisk activity, reflected in an increase in the pace of construction starts and a record level of purchases of homes (new and preowned). Prices of homes continued to rise at a rapid rate, at 7.6% year-on-year in November 2015. The new government formed at the beginning of the year cited housing prices as a central element of its economic policy. Purchasing tax for buyers of second homes rose to 8-10% in July 2015, and the Ministry of Housing announced the "Mechir Lamishtaken" program for marketing state land. The volume of transactions in homes remained high in the fourth quarter, although the percentage of purchases by investors decreased significantly.

The labor market continued to show strength; the unemployment rate fell to an average level of 5.3%, and the number of employed persons grew by 2.6%. Average wages in Israel increased by approximately 2.3%, due to factors including the increase in minimum monthly wage, in April 2015, from NIS 4,300 to NIS 4,650.

In February 2016, the credit-rating agency S&P affirmed an external sovereign debt rating of A+ for Israel.

Fiscal and Monetary Policy

The budget deficit in 2015 totaled NIS 24.5 billion, or 2.15% of GDP, lower than the original deficit target of 2.75% for the year. The government operated without an approved budget for most of the year, using the preceding year's budget. This may have had a certain effect on expenditures, but the positive surprise was in tax revenues, which increased by 7.1% year-on-year (excluding the effect of legislative changes). The sharp increase in tax collection, which is significantly higher than the rate of economic growth, reflects the boom in the real-estate sector and the heightened efforts leading to increased collection by the Israel Tax Authority, among other effects. The relatively low deficit and the negative inflation led to a decrease in the ratio of public debt to GDP, to 64.9%, from 66.7% at the end of 2014.

The Bank of Israel interest rate was lowered from 0.25% to 0.1% in March 2015, and remained unchanged at that level until the end of the year and in the first two months of 2016. Monetary policy was expansionary, given the negative inflation and the need to align the policy with those of the developed countries.

Inflation and Exchange Rates

The consumer price index decreased by 1.0% in 2015 (the "in lieu" index). The decrease in the CPI was influenced by two main factors: the decrease in energy prices, and the measures applied by the government to reduce the cost of living. The Bank of Israel estimates the effect of both factors as a negative contribution of 1.7% to inflation; in other words, excluding these effects, inflation would have been 0.7%. The low inflation was also affected by the appreciation of the NIS against the currency basket, and by the continued decrease in global commodity prices. The housing item (measured based on rent) had the greatest positive contribution to the CPI, with a 2.2% increase. As at the end of January 2016, the capital market is reflecting estimates that inflation will be negative again in 2016. Note that the background for this estimate is the steep drop in global oil prices, to less than USD 30 per barrel at the beginning of the year, and administrative price reductions by the government.

The NIS depreciated by 0.3% against the US dollar in 2015, and appreciated by 10.1% against the euro. The US dollar gained strength against most global currencies during the year. The NIS appreciated by 7.3% against the effective currency basket. Pressures towards appreciation of the NIS intensified this year, due to an additional increase in the surplus in the current account of the balance of payments, due to factors including the global decrease in energy prices. The Bank of Israel purchased foreign currency at an estimated volume of USD 8.8 billion in order to temper the appreciation of the NIS.

Financial and Capital Markets

Developments in the markets during the year under review were influenced by the expansionary monetary policies, decrease in inflation, and increase in global risks, which mainly took a toll in the second half. The TA-100 index rose by 14.7% through the end of July, and fell by 11.1% over the remainder of the year. Overall for the year, the TA-100 index was up by 2.0%. Similar trends were noted on stock indices in the United States and Europe during the year; overall for 2015, the S&P 500 index fell by 1.2%, and the Stoxx Europe 600 index rose by 7.3%. Emerging-market stock indices began to fall by the second quarter and ended the year with declines. Average daily turnovers in shares continued to grow during the year, reaching NIS 1,449 million, versus NIS 1,213 million in 2014.

The bond market was influenced by the reduction of the interest rate to the low pint of 0.1%, the decrease in the consumer price index, and the decrease in inflation expectations. The CPI-linked government bond index decreased by approximately 0.2%, and the fixed-rate unlinked bond index rose by approximately 3.3%. The corporate bond index rose by approximately 0.4%. The Israeli government bond yield curve was mostly lower than the US government curve, for most of the year. This reflected estimates that monetary policy in Israel would be expansionary over a long period, and that the increase in the interest rate in the United States would not be accompanied by a similar step in Israel.

Non-financial business sector debt grew by 1.5% in 2015 (through November); most of the increase occurred in domestic bank credit, while debt raised overseas decreased. Capital raised through bonds increased sharply, by approximately 30%, to NIS 55 billion, although almost 40% of the issues during the year were in the financial sector. Households' debt grew by 6.0% (through November), with housing loans expanding by 5.8%.

Table 5-1: CPI and Exchange Rates

	2015	2014	2013	**2015**	2014
	Points			Change in % for the year	
Consumer price index:					
November CPI ("known")	**101.2**	102.1	102.2	**(0.9)**	(0.1)
	NIS				
Exchange rate as at December 31:					
USD exchange rate (in NIS per 1 USD)	**3.902**	3.889	3.471	**0.3**	12.0
GBP exchange rate (in NIS per 1 GBP)	**5.784**	6.064	5.742	**(4.6)**	5.6
EUR exchange rate (in NIS per 1 EUR)	**4.247**	4.725	4.782	**(10.1)**	(1.2)
CHF exchange rate (in NIS per 1 CHF)	**3.925**	3.929	3.897	**(0.1)**	0.8
TRY exchange rate	**1.339**	1.666	1.606	**(19.6)**	3.7

	2015	2014	2013
As at December 31:			
Bank of Israel interest rate	**0.10%**	0.25%	1.00%

Top and Emerging Risks

Based on the recommendations of the FSB, a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

The management of risks at the Bank Group is described extensively in the section "Review of Risks" below and in the Report on Risks. During 2015, the Board of Management of the Bank discussed the development of the additional risks described below as top or emerging risks.

- Macro-economic environment: The activity of the Bank is dependent on the business environment in Israel and globally; the condition of the global economy; and the economic, political, and security situation in Israel and in the region. It should be taken into consideration that a high level of uncertainty remains with regard to the growth rates that will accompany the recovery of the real economy in Israel and globally in the coming years. The Bank's multi-year strategic plan incorporates the caution necessitated by the risks still present in the global and Israeli economy, and balances risk and return considerations.
- Regulatory environment in Israel: Several regulatory initiatives have been formulated in Israel over the last few years, with the primary aim of increasing competition in the banking system in Israel. Several additional regulatory initiatives are in the process of being generated. These regulatory initiatives and trends may have an impact on the banking system in general, and on the Bank in particular. At this stage, it is too early to assess and estimate the effect thereof on the Bank.
- Regulatory environment overseas: International regulatory reforms with implications for the business of the Bank, in Israel and globally, including Dodd Frank and the Volcker Rule in the United States, and EMIR in Europe.
- Compliance risk: The continued trend towards the imposition of fines on banks around the world in connection with the violation of regulatory directives, such as in the area of aiding tax evasion and the prevention of terrorism financing and money laundering.
- Information security and cyber incident risk: Continued publications concerning cyber risks, and the resources channeled by the banking industry to cope with these risks.

For details regarding legal proceedings, see the section "Review of Risks," below.
For details regarding legal claims and investigations, see Note 26C, E, and F to the Financial Statements.
For details regarding notable regulatory initiatives, see Note 37 to the Financial Statements, Regulatory Initiatives.

Principal Changes in Critical Accounting Policies and Critical Accounting Estimates

Collective Allowance for Credit Losses

On January 19, 2015, the Supervisor of Banks issued a circular updating the Public Reporting Directives, including guidelines for calculation of the collective allowance. Pursuant to the circular, in establishing the allowance for credit losses, the Bank must, among other matters, take past losses into consideration, calculated according to the average past losses in the last five years, as well as adjustments in respect of environmental factors determined by the Supervisor of Banks.

During 2015, the Bank developed a model for calculation of the collective allowance, taking qualitative adjustment coefficients into account, as required in the directives. The model adopted includes estimates regarding factors that influence the establishment of the adjustment coefficient in each economic sector, above the average losses of the last five years, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the general quality of credit in the sector, changes in the volume and trend of balances in arrears and impaired balances, effects of changes in credit concentration, and more. The adoption of this model did not have a material effect on the balance of the collective allowance in the annual financial statements for 2015. For further details, see Note 1D(6) to the Financial Statements.

Employee Benefit Liabilities

Some of the provisions for the Bank's liabilities in connection with employee-employer relationships are based on actuarial calculations, among other factors. The total liabilities calculated based on actuarial estimates as at December 31, 2015, amounted to approximately NIS 3.6 billion.

The actuarial calculations are mainly based on assumptions and estimates, which are based on the evaluations and resolutions of the Board of Management, past experience, and various statistics, such as discount interest rates, mortality tables, employee departure rates, the rate of real change in wages over time, etc. These estimates and assumptions are reviewed routinely.

US standards in this area were implemented for the first time in 2015, retrospectively. Consequently, and in accordance with the directives of the Supervisor of Banks, the Bank was required to change the discount rate used to calculate the liability in respect of employee benefits, and to set this rate based on the yield of government bonds in Israel, plus an average margin determined according to the difference between rates of yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of US government bonds. For further details, see Note 1D(1) to the Financial Statements.

Disclosure Regarding Emphasis of Matters by the External Auditors

Occasionally, the external auditor finds it appropriate to diverge from the uniform format by including an emphasis-of-matter paragraph, directing attention to a particular matter that has a significant effect on the financial statements and is included in a note to the financial statements. The addition of such an emphasis-of-matter paragraph does not affect the auditor's opinion. Accordingly, the paragraph appears at the end of the auditor's report and indicates that the auditor's opinion is not modified in this regard.

The external auditors have emphasized the section in Note 26C(b) concerning exposure to class-action suits filed against the Bank Group, and Note 26E concerning the Bank Group's business with American clients.

The volume of petitions for class-action suits the outcome of which cannot be estimated at this stage, for which no provisions were included in the financial statements, is in a highly significant total amount; the auditors therefore found it appropriate to draw the attention of readers of the report to this matter.

With regard to the investigation of the Bank Group's business with American clients, Note 26E states that "The Bank cannot estimate the volume of its exposure in connection with this matter. The Bank does not know when or whether it will be able to assess its exposure in this connection. This depends, among other matters, on the development of proceedings with the US authorities, on the conduct of the US authorities, and on the information to be provided to the Bank and its representatives within this process and the information which the Bank is asked, and will be asked, to provide to the US authorities." It is also stated that "given the existing uncertainty, as noted above, it is possible that the eventual results will differ materially from the amount of the provision ordered by the Supervisor of Banks."
In view of this uncertainty, the external auditors included the emphasis of matter in their opinion.

5.2. Material Developments in Revenues, Expenses, and Other Comprehensive Income

Net profit attributed to the shareholders of the Bank totaled NIS 3,082 million in 2015, compared with net profit in the amount of NIS 2,713 million in 2014.

Net return on shareholders' equity was approximately 9.6% in 2015, compared with approximately 9.1% in 2014.

As of January 1, 2015, the Bank has implemented US GAAP with regard to employee benefits, applied retrospectively to periods beginning January 1, 2013, or later.

Table 5-2: Condensed Statement of Profit and Loss

	For the year ended December 31		Change
	2015	2014	
	NIS millions		
Interest income	**9,837**	10,673	(7.8%)
Interest expenses	**(1,952)**	(2,905)	(32.8%)
Net interest income	**7,885**	7,768	1.5%
Non-interest financing income	**1,044**	916	14.0%
Net financing profit**	**8,929**	8,684	2.8%
Provision for credit losses	**475**	425	11.8%
Net financing profit after provision for credit losses	**8,454**	8,259	2.4%
Fees and other income**	**5,433**	5,338	1.8%
Operating and other expenses	**8,790**	*9,183	(4.3%)
Profit before taxes	**5,097**	*4,414	15.5%
Provision for taxes on profit	**2,097**	*1,713	22.4%
The Bank's share in profits of equity-basis investees, after taxes	**19**	9	
Net profit:			
Before attribution to non-controlling interests	**3,019**	*2,710	11.4%
Loss attributed to non-controlling interests	**63**	3	
Attributed to shareholders of the Bank	**3,082**	*2,713	13.6%
Return of net profit on equity attributed to shareholders of the Bank	**9.6%**	*9.1%	

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

** The profit and loss items above were presented in a different format than in the condensed statement of profit and loss, in order to allow better analysis of the financial results. This change is expressed in the reclassification of non-interest financing income, from the item of non-interest income (expenses) to the item of net financing profit.

Developments in Income and Expenses

Net Financing Profit

In order to analyze profit from financing activity, in addition to interest income and expenses, non-interest financing income and expenses must also be included in profit. This income includes financing income in respect of derivative instruments – exchange-rate differences and profit from sale of securities, among other things – which serve as an integral element of the Bank's exposure management. Income from derivatives includes, among other things, the effects of the time value in the fair value of derivatives, which offset balance sheet interest exposures, as well as the effects of the rate of increase in the known CPI on derivatives balances, which offset CPI exposures in respect of balance sheet balances.

Table 5-3: Composition of Net Financing Profit

	For the year ended December 31		Change
	2015	2014	
	NIS millions		
Interest income	**9,837**	10,673	(7.83%)
Interest expenses	**(1,952)**	(2,905)	(32.81%)
Net interest income	**7,885**	7,768	1.51%
Non-interest financing income	**1,044**	916	13.97%
Total net financing profit	**8,929**	8,684	2.82%

Table 5-4: Composition of Net Financing Profit, by Quarter

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
	NIS millions							
Interest income	**2,240**	**2,795**	**3,080**	**1,722**	2,396	2,855	2,983	2,439
Interest expenses	**(288)**	**(671)**	**(872)**	**(121)**	(507)	(882)	(926)	(590)
Net interest income	**1,952**	**2,124**	**2,208**	**1,601**	1,889	1,973	2,057	1,849
Non-interest financing income (expenses)	**154**	**55**	**264**	**571**	257	187	265	207
Total net financing profit	**2,106**	**2,179**	**2,472**	**2,172**	2,146	2,160	2,322	2,056

Table 5-5: Development of Total Net Financing Profit

	For the year ended December 31		Change
	2015	2014	
	NIS millions		
Profit from regular financing activity[(1)]	**8,144**	*8,039	1.3%
Income from realization and adjustments to fair value of bonds	**520**	343	51.6%
Profit from investments in shares[(2)]	**94**	136	(30.9%)
Adjustments to fair value of derivative instruments[(3)]	**121**	215	(43.7%)
Financing income (expenses) from tax hedging of investments overseas[(4)]	**50**	(49)	(202.0%)
Net financing profit	**8,929**	8,684	2.8%

Table 5-6: Quarterly Developments in Total Net Financing Profit

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
	NIS millions							
Profit from regular financing activity[(1)]	**2,005**	**2,131**	**2,172**	**1,836**	*2,034	*2,003	*2,103	*1,899
Income from realization and adjustments to fair value of bonds	**86**	**53**	**176**	**205**	60	88	102	93
Profit (loss) from investments in shares[(2)]	**(13)**	**(65)**	**73**	**99**	(7)	33	39	71
Adjustments to fair value of derivative instruments[(3)]	**29**	**57**	**19**	**16**	84	61	73	(3)
Financing income (expenses) from tax hedging of investments overseas[(4)]	**(1)**	**3**	**32**	**16**	(25)	(25)	5	(4)
Reported profit	**2,106**	**2,179**	**2,472**	**2,172**	2,146	2,160	2,322	2,056

* Reclassified.
(1) Financing profit excluding exceptional effects, and excluding effects arising mainly from the timing of recording in accounting.
(2) A loss in the amount of NIS 72 million is included in the third quarter of 2015, due to a ruling of August 2015 concerning arrears interest charged for credit secured by shares, previously classified as securities.
(3) The effect of the measurement of profit and loss in derivative instruments constituting part of the Bank's asset and liability management strategy on a fair-value basis, versus measurement on an accrual basis.
(4) The effect of hedging the asymmetry in the tax liability in respect of exchange-rate differences in investments in subsidiaries overseas, which are not included in the income base for the calculation of the provision for tax, in contrast to exchange-rate differences in respect of financing sources. The Bank hedges against tax exposure in respect of investments overseas by establishing surplus financing sources against such investments.

Net financing profit totaled NIS 8,929 million in 2015, compared with NIS 8,684 million in 2014. The increase resulted from an increase in profit from regular financing activity, due to an increase in the volume of credit, and was offset by the decrease in the interest rate in Israel and by the effects of the negative CPI. Profit from the realization of bonds and the effect of hedging of investments overseas for changes in exchange rates also contributed to the increase in financing profit. By contrast, a decrease occurred due to adjustments to fair value of derivative instruments, and due to profit from shares, resulting from a verdict in August 2015, concerning a charge of arrears interest on credit secured by shares, classified as securities in the past and included in this item. Profit from regular financing activity in 2015 fluctuated from quarter to quarter, due to positive and negative changes in the CPI, amounting to an expense in the amount of NIS 147 million in 2015. The distribution among the quarters of 2015 was as follows: an expense in the amount of NIS 235 million in the first quarter; income in the amount of NIS 145 million and NIS 35 million in the second and third quarters, respectively; and an expense in the amount of NIS 92 million in the fourth quarter.

Table 5-7: Principal Data Regarding Rates of Interest Income and Expenses

	For the year ended		
	December 31, 2015	December 31, 2014	December 31, 2014
Rate of income on interest-bearing assets	**2.68%**	3.19%	3.86%
Rate of expense on interest-bearing liabilities	**0.78%**	1.15%	1.91%
Overall interest spread	**1.90%**	2.04%	1.95%
Net interest income as a percentage of the balance of interest-bearing assets	**2.15%**	2.32%	2.37%

The decrease in the rate of income on assets and in the rate of expense on liabilities in 2015, as compared to 2014, resulted from the decrease in the interest rate in Israel. The decrease in the overall interest spread resulted from a decrease in financial spreads on deposits as a result of the decrease in the interest rate in Israel.

An analysis of the changes in interest income and expenses, in a comparison of 2015 to 2014, indicates that changes in interest rates caused a decrease in the amount of approximately NIS 579 million, and changes in the volume of average balance sheet balances caused an increase in the amount of approximately NIS 696 million in net interest income.

The provision for credit losses amounted to NIS 475 million in 2015, compared with NIS 425 million in 2014. The provision in respect of the net individual allowance amounted to NIS 53 million, compared with income in the amount of NIS 189 million in 2014. The increase in the individual allowance resulted, on the one hand, from an individual provision in the amount of NIS 1,393 million, compared with an amount of NIS 1,016 million in 2014, and on the other hand, from a decrease in allowances and debt recovery, which totaled NIS 1,340 million, compared with a total of NIS 1,205 million in 2014, offsetting the aforesaid increase in the individual provision.

The provision in respect of the collective allowance totaled NIS 422 million in 2015, compared with a provision in the amount of NIS 614 million in 2014. Note that in 2014, the Bank adjusted the rate of the collective allowance in respect of credit to private individuals, as required according to the guidelines in the circular of the Supervisor of Banks. A provision in the amount of NIS 179 million was recorded in respect of the implementation of these guidelines.

For further information regarding the development of balances of credit to the public, see the section "Structure and Developments of Assets, Liabilities, Capital, and Capital Adequacy" in the Board of Directors' Report.

For further information regarding the change in the balance of the allowance for credit losses, see Note 13 to the Financial Statements.

Table 5-8: Cumulative Provision for Credit Losses in Respect of Debts and in Respect of Off-Balance Sheet Credit Instruments**

	For the year ended December 31	
	2015	2014
	NIS millions	
Individual provision for credit losses	**1,393**	1,016
Decrease in individual allowance for credit losses and recovery of charged off debts	**(1,340)**	(1,205)
Net individual provision (income) for credit losses	**53**	(189)
Net provision in respect of the collective allowance for credit losses and net charge-offs	**422**	614
Total provision for credit losses*	**475**	425
* Of which:		
Net provision for credit losses in respect of commercial credit risk	**291**	138
Net provision for credit losses in respect of housing credit risk	**5**	(37)
Net provision for credit losses in respect of other private credit risk	**180**	326
Net provision for credit losses in respect of risk of credit to banks and governments	**(1)**	(2)
Total provision for credit losses	**475**	425

Provision as a percentage of total credit to the public:		
Percentage of individual provision for credit losses	**0.51%**	0.39%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public***	**0.66%**	0.62%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.17%**	0.16%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.08%**	0.06%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**5.17%**	3.73%

** Including in respect of housing loans examined according to the extent of arrears.

*** The gross provision for credit losses is the total provision for credit losses, net of the decrease in the individual allowance for credit losses and recovery of charged-off debts.

Table 5-9: Cumulative Provision for Credit Losses in Respect of Debts and in Respect of Off-Balance Sheet Credit Instruments, by Quarter**

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
	NIS millions							
Individual provision for credit losses	**495**	**296**	**293**	**309**	330	191	279	216
Decrease in individual allowance for credit losses and recovery of charged off debts	**(456)**	**(287)**	**(317)**	**(280)**	(264)	(284)	(385)	(272)
Net individual provision (income) for credit losses	**39**	**9**	**(24)**	**29**	66	(93)	(106)	(56)
Net provision in respect of the collective allowance for credit losses and net charge-offs	**108**	**46**	**237**	**31**	297	173	103	41
Total provision (income) for credit losses*	**147**	**55**	**213**	**60**	363	80	(3)	(15)
* Of which:								
Net provision (income) for credit losses in respect of commercial credit risk	**85**	**(23)**	**191**	**38**	129	63	(28)	(26)
Net provision (income) for credit losses in respect of housing credit risk	**(2)**	**2**	**5**	**-**	(24)	(9)	-	(4)
Net provision (income) for credit losses in respect of other private credit risk	**66**	**76**	**17**	**21**	256	30	25	15
Net provision (income) for credit losses in respect of risk of credit to banks and governments	**(2)**	**-**	**-**	**1**	2	(4)	-	-
Total provision for credit losses	**147**	**55**	**213**	**60**	363	80	(3)	(15)
Provision as a percentage of total credit to the public***:								
Percentage of individual provision for credit losses	**0.70%**	**0.43%**	**0.43%**	**0.46%**	0.50%	0.30%	0.44%	0.34%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public****	**0.88%**	**0.50%**	**0.78%**	**0.50%**	0.95%	0.57%	0.60%	0.40%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.21%**	**0.08%**	**0.31%**	**0.09%**	0.55%	0.12%	-	(0.02%)
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.08%**	**0.10%**	**(0.06%)**	**0.22%**	0.23%	0.01%	(0.18%)	0.18%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**4.89%**	**6.15%**	**(3.79%)**	**14.66%**	14.35%	0.82%	(12.01%)	12.12%

** Including in respect of housing loans examined according to the extent of arrears.

*** Annualized.

**** The gross provision for credit losses is the total provision for credit losses, excluding the decrease in the individual allowance for credit losses and recovery of charged-off debts.

Fees and other income totaled NIS 5,433 million in 2015, compared with NIS 5,338 million in 2014.

Table 5-10: Details of Fees and Other Income

	For the year ended December 31		Change
	2015	2014	
	NIS millions		
Fees			
Account management fees	**987**	980	0.7%
Securities activity	**1,032**	1,047	(1.4%)
Financial product distribution fees(1)	**219**	218	0.5%
Management, operations, and trust services for institutional entities(2)	**45**	45	0.0%
Credit cards, net	**1,725**	1,674	3.0%
Credit handling	**205**	173	18.5%
Financing transaction fees	**548**	545	0.6%
Conversion differences	**293**	277	5.8%
Foreign trade activity	**114**	124	(8.1%)
Net income from credit portfolio services	**41**	40	2.5%
Life insurance and home insurance fees	**44**	46	(4.3%)
Other fees	**34**	38	(10.5%)
Total fees	**5,287**	5,207	1.5%
Other income	**146**	131	11.5%
Total fees and other income	**5,433**	5,338	1.8%

(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds.

Table 5-11: Details of Fees and Other Income, by Quarter

	2015				2014			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Fees								
Account management fees	**248**	**244**	**251**	**244**	251	249	233	247
Securities activity	**238**	**244**	**261**	**289**	287	245	253	262
Financial product distribution fees[(1)]	**52**	**54**	**56**	**57**	59	55	54	50
Management, operations, and trust services for institutional entities[(2)]	**12**	**12**	**10**	**11**	11	11	11	12
Credit cards, net	**441**	**455**	**420**	**409**	426	426	418	404
Credit handling	**48**	**54**	**54**	**49**	64	43	39	27
Financing transaction fees	**138**	**137**	**133**	**140**	143	135	132	135
Conversion differences	**70**	**76**	**69**	**78**	75	59	71	72
Foreign trade activity	**28**	**26**	**28**	**32**	31	30	34	29
Net income from credit portfolio services	**10**	**10**	**11**	**10**	11	10	10	9
Life insurance and home insurance fees	**11**	**11**	**11**	**11**	11	12	11	12
Other fees	**10**	**6**	**9**	**9**	8	8	11	11
Total operating fees	**1,306**	**1,329**	**1,313**	**1,339**	1,377	1,283	1,277	1,270
Total others	**46**	**25**	**31**	**44**	61	21	20	29
Total operating and other income	**1,352**	**1,354**	**1,344**	**1,383**	1,438	1,304	1,297	1,299

(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds.

Fees totaled NIS 5,287 million in 2015, compared with NIS 5,207 million in 2014. Fees from credit cards and credit handling fees increased. By contrast, income from the capital market decreased.

Other income totaled NIS 146 million in 2015, compared with NIS 131 million in 2014. Most of the increase resulted from profit from the sale of buildings and equipment.

Operating and other expenses totaled NIS 8,790 million in 2015, compared with NIS 9,183 million in 2014, a decrease of approximately 4.3%.

Table 5-12: Details of Operating and Other Expenses

	For the year ended December 31	
	2015	2014
	NIS millions	
Salary expenses		
Wages	**4,406**	*4,862
Bonuses and share-based compensation	**528**	481
Total salaries	**4,934**	*5,343
Maintenance and depreciation of buildings and equipment	**1,555**	*1,539
Amortization and impairment of intangible assets and goodwill	**7**	12
Other expenses*	**2,294**	2,289
Total operating and other expenses	**8,790**	*9,183

* Retrospective implementation - for details regarding retrospective implementation of US GAAP on employee benefits, see Note 1D(1) to the Financial Statements.

Table 5-13: Details of Operating and Other Expenses, by Quarter

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
	NIS millions							
Salary expenses								
Wages	**1,116**	**1,053**	**1,123**	**1,114**	1,424	*1,116	*1,134	*1,188
Bonuses and share-based compensation	**120**	**136**	**126**	**146**	49	154	155	123
Total salaries	**1,236**	**1,189**	**1,249**	**1,260**	1,473	*1,270	*1,289	*1,311
Maintenance and depreciation of buildings and equipment	**429**	**393**	**360**	**373**	397	*393	*382	*367
Amortization and impairment of intangible assets and goodwill	**-**	**-**	**3**	**4**	3	3	3	3
Other expenses*	**646**	**601**	**496**	**551**	612	579	580	518
Total operating and other expenses	**2,311**	**2,183**	**2,108**	**2,188**	2,485	*2,245	*2,254	*2,199

* Retrospective implementation - for details regarding retrospective implementation of US GAAP on employee benefits, see Note 1D(1) to the Financial Statements.

Salary expenses totaled NIS 4,934 million in 2015, compared with NIS 5,343 million in 2014, a decrease of 7.7%. An expense in the amount of NIS 355 million in respect of the efficiency plan was included in 2014. Excluding the efficiency plan, salary expenses indicated a decrease of approximately 1.1%, mainly due to current cost savings as a result of efficiency processes and the effect of provisions measured on an actuarial basis. By contrast, bonuses and share-based payments increased due to the increase in profit.

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 1,555 million in 2015, compared with NIS 1,539 million in 2014, an increase of 1.0%. The increase was mainly recorded in expenses for depreciation of software and computers.

Other operating expenses totaled NIS 2,294 million in 2015, compared with NIS 2,289 million in 2014, an increase of 0.2%. Most of the increase was recorded in expenses for professional services in respect of legal expenses, marketing and advertising, and IT expenses. The increase was offset by a decrease in expenses for client damages, due to a provision recorded in 2014 in the amount of NIS 196 million, in accordance with the directives of the Supervisor of Banks (for further details, see Note 26E to the Financial Statements).

The provision for taxes on profit amounted to NIS 2,097 million in 2015, compared with a total of NIS 1,713 million in 2014. The effective tax rate for the Bank in 2015 reached 41.1%, compared with a statutory tax rate of 37.6%, mainly due to a decrease in profit tax rates, which led to a decrease in tax assets receivable; unrecognized expenses; translation differences of overseas subsidiaries not recognized for tax purposes; and taxes in respect of previous years, mainly due to recovery of charged-off debts. For further details, see Note 8 to the Financial Statements.

The Bank's share in profits of equity-basis investees after taxes amounted to profit in the amount of NIS 19 million in 2015, compared with profit in the amount of NIS 9 million in 2014.

Non-controlling interests' share in net results of consolidated companies totaled a share in loss in the amount of NIS 63 million in 2015, compared with a share in loss in the amount of NIS 3 million in 2014. The increase in loss resulted from an increase in the loss of Bank Pozitif in Turkey, due to a loss from the sale of the subsidiary in Kazakhstan, and a negative effect of changes in exchange rates on profitability.

Net profit attributed to shareholders of the Bank of the Bank Group totaled NIS 3,082 million in 2015, compared with a total of NIS 2,713 million in 2014.

Basic net earnings per share of par value NIS 1 amounted to NIS 2.32 in 2015, compared with NIS 2.05 in 2014.

Developments in Other Comprehensive Income

Table 5-14 Other Comprehensive Income

	2015	2014
	NIS millions	
Net profit before attribution to non-controlling interests	**3,019**	*2,710
Net loss attributed to non-controlling interests	**63**	3
Net profit attributed to shareholders of the Bank	**3,082**	*2,713
Other comprehensive income (loss) before taxes:		
Net adjustments for presentation of securities available for sale at fair value	**(750)**	383
Net adjustments from translation of financial statements**, after hedge effects***	**4**	2
Adjustments of liabilities in respect of employee benefits****	**49**	*(109)
Net gains in respect of cash-flow hedges	**4**	5
Other comprehensive income (loss) before taxes	**(693)**	*281
Effect of related tax	**210**	*(78)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(483)**	*203
Net of other comprehensive loss (income) attributed to non-controlling interests	**2**	(1)
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**(481)**	*202
Comprehensive income before attribution to non-controlling interests	**2,536**	*2,913
Comprehensive loss attributed to non-controlling interests	**65**	2
Comprehensive income attributed to shareholders of the Bank	**2,601**	*2,915

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

** Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

*** Hedges – net gains (losses) in respect of net hedges of investments in foreign currency.

**** Mainly reflects adjustments in respect of actuarial estimates at end of period, and deduction of amounts previously recorded in other comprehensive income.

Other comprehensive income totaled NIS 2,601 million in 2015, compared with a total of NIS 2,915 million in 2014. The change mainly resulted from a decrease in rates in the portfolio of securities available for sale in 2015, compared with an increase in prices in this portfolio in 2014. This decrease was offset by changes in actuarial profits allocated to other comprehensive income, mainly due to a change in the discount interest rate on actuarial liabilities

Information Technology System

Table 5-15: Information-Technology System

Additions to assets(1) in respect of the information-technology system not charged as expenses in 2015

	Software	Hardware(3)	Other	Total
	NIS millions			
Costs in respect of wages and related expenses	**120**	**-**	**-**	**120**
Outsourcing costs, including consultants' fees	**106**	**-**	**-**	**106**
Costs of acquisitions or usage licenses(4)(5)	**81**	**128**	**-**	**209**
Costs of equipment, buildings, and land	**-**	**-**	**10**	**10**
Total	**307**	**128**	**10**	**445**

Balances of assets(2) in respect of the information-technology system as at December 31, 2015

	Software	Hardware(3)	Other	Total
	NIS millions			
Total depreciated cost	**1,018**	**305**	**42**	**1,365**
Of which: in respect of wages and related expenses	**334**	**-**	**-**	**334**

Expenses in respect of the information-technology system as included in the statement of profit and loss in 2015

	Software	Hardware(3)	Other	Total
	NIS millions			
Expenses in respect of wages and related expenses	**370**	**122**	**5**	**497**
Expenses in respect of acquisitions or usage licenses not discounted to assets	**190**	**65**	**11**	**266**
Outsourcing expenses, including consultants' fees	**94**	**11**	**-**	**105**
Depreciation expenses	**346**	**116**	**19**	**481**
Other expenses	**81**	**36**	**(6)80**	**197**
Total expenses	**1,081**	**350**	**115**	**1,546**

(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 21 million (December 31, 2014: NIS 45 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 162 million (December 31, 2014: NIS 172 million).
(3) Including communications infrastructures.
(4) Costs of acquisition or usage licenses in respect of the information-technology system which were classified in the financial statements as prepaid expenses, rather than as fixed assets (costs of equipment, buildings, and land).
(5) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.
(6) Includes expenses by the information-technology system, including current expenses for the use of communications and telephones, mail, rent, taxes, electricity, etc.

Table 5-15: **Information-Technology System** (continued)

Additions to assets[1] in respect of the information-technology system not charged as expenses in 2014

	Software*	Hardware[3]	Other	Total
	NIS millions			
Costs in respect of wages and related expenses	106	-	-	106
Outsourcing costs, including consultants' fees	121	-	-	121
Costs of acquisitions or usage licenses[4][5]	122	133	1	256
Costs of equipment, buildings, and land	-	-	9	9
Total	349	133	10	492

* Reclassified

Balances of assets[2] in respect of the information-technology system as at December 31, 2014

	Software	Hardware[3]	Other	Total
	NIS millions			
Total depreciated cost	1,083	295	58	1,436
Of which: in respect of wages and related expenses	384	-	-	384

Expenses in respect of the information-technology system as included in the statement of profit and loss in 2014

	Software	Hardware[3]	Other	Total
	NIS millions			
Expenses in respect of wages and related expenses	403	129	4	536
Expenses in respect of acquisitions or usage licenses not discounted to assets	188	57	10	255
Outsourcing expenses, including consultants' fees	42	6	1	49
Depreciation expenses	336	91	20	447
Other expenses	88	34	[6]87	209
Total expenses	1,057	317	122	1,496

(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 21 million (December 31, 2014: NIS 45 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 162 million (December 31, 2014: NIS 172 million).
(3) Including communications infrastructures.
(4) Costs of acquisition or usage licenses in respect of the information-technology system which were classified in the financial statements as prepaid expenses, rather than as fixed assets (costs of equipment, buildings, and land).
(5) Including acquisitions and usage licenses of software and hardware for all divisions of the banking corporation.
(6) Includes expenses by the information-technology system, including current expenses for the use of communications and telephones, mail, rent, taxes, electricity, etc.

5.3. Structure and Development of Assets, Liabilities, Capital, and Capital Adequacy

The consolidated balance sheet as at December 31, 2015 totaled NIS 431.6 billion, compared with NIS 408.0 billion at the end of 2014.

Table 5-16: Developments in the Main Balance Sheet Items

	Balance as at December 31		Change
	2015	2014	
	NIS millions		
Total assets	**431,638**	*408,033	5.8%
Net credit to the public	**278,497**	263,980	5.5%
Cash and deposits with banks	**64,976**	54,974	18.2%
Securities(1)(2)	**62,884**	58,778	7.0%
Deposits from the public	**321,727**	297,230	8.2%
Bonds and subordinated notes	**34,475**	33,671	2.4%
Shareholders' equity	**33,032**	*30,966	6.7%

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

(1) With regard to amounts measured at fair value, see Note 33B to the Financial Statements.

(2) For details regarding securities pledged to lenders, see Note 27 to the Financial Statements.

Table 5-17: Net Credit to the Public by Segment of Activity

	December 31		Change
	2015	2014	
	NIS millions		
Households Segment	**76,226**	70,779	7.7%
Private Banking Segment	**40,483**	38,141	6.1%
Small Business Segment	**32,465**	29,339	10.7%
Commercial Segment	**39,188**	35,301	11.0%
Corporate Segment	**83,709**	84,028	(0.4%)
Financial Management Segment	**1,269**	1,746	(27.3%)
Others and Adjustments	**5,157**	4,646	11.0%
Total	**278,497**	263,980	5.5%
Of which, consumer credit in Israel excluding housing loans and credit cards:			
Households Segment	**28,249**	25,521	10.7%
Private Banking Segment	**10,599**	9,921	6.8%
Small Business Segment	**25,520**	23,052	10.7%
Total	**64,368**	58,494	10.0%
Housing loans in Israel:			
Households Segment	**41,084**	38,708	6.1%
Private Banking Segment	**20,114**	17,922	12.2%
Small Business Segment	**5,596**	5,038	11.1%
Total	**66,794**	61,668	8.3%

Problematic Debts

Table 5-18: Segmentation of Problematic Debts

	December 31, 2015			December 31, 2014		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**5,361**	**655**	**6,016**	6,322	676	6,998
Substandard credit risk	**2,489**	**133**	**2,622**	2,603	351	2,954
Credit risk under special supervision	**1,893**	**802**	**2,695**	3,174	1,636	4,810
Total problematic credit risk*	**9,743**	**1,590**	**11,333**	12,099	2,663	14,762
Net problematic credit risk	**7,834**	**1,477**	**9,311**	10,213	2,508	12,721
* Of which, unimpaired debts in arrears of 90 days or more	**857**	**-**	**857**	**951	-	**951

** Restated.

The improvement in the quality of the credit portfolio continued in 2015, as reflected in a decrease of 23% in total problematic debts. For further information regarding the analysis of the credit portfolio and problematic credit risk, see the section "Credit Risk" in the Review of Risks, Board of Directors' Report.

Table 5-19: Developments in Principal Off-Balance Sheet Items

	Balance as at December 31		Change
	2015	2014	
	NIS millions		
Off-balance sheet financial instruments, excluding derivatives:			
Documentary credit	**1,074**	1,586	(32.3%)
Guarantees and other commitments**	**48,430**	46,717	3.7%
Unutilized credit-card credit facilities under the Bank's responsibility	**32,721**	31,070	5.3%
Unutilized credit-card credit facilities under other banks' responsibility	**11,700**	10,753	8.8%
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**41,613**	40,445	2.9%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**55,336**	57,269	(3.4%)

** Includes liabilities of the Bank in respect of its share in the Maof Clearing House risk fund, in the amount of NIS 505 million (2014: NIS 711 million).

Securities

The Bank has investments in government and corporate bonds, as well as investments in tradable shares, non-tradable shares, and mutual funds, broadly diversified.

Securities totaled approximately NIS 62.9 billion as at December 31, 2015, compared with approximately NIS 58.8 billion at the end of 2014, an increase of approximately 7.0%, which mainly resulted from purchases of Israeli government bonds in the trading portfolio and purchases of United States government bonds in the portfolio available for sale.

Details of the Bank Group's activity in securities are set out below.

Table 5-20: Details of Securities Balances

	Trading book		Available for sale		Held to maturity		Total	
	Fair value	% of total securities	Fair value	% of total securities	Fair value	% of total securities	Fair value	% of total securities
December 31, 2015:								
Israeli government bonds	**6,291**	**10.0%**	**37,351**	**59.4%**	**-**	**0.0%**	**43,642**	**69.4%**
US government bonds	**-**	**0.0%**	**3,849**	**6.1%**	**-**	**0.0%**	**3,849**	**6.1%**
Government bonds – other foreign countries	**7**	**0.0%**	**1,766**	**2.8%**	**-**	**0.0%**	**1,773**	**2.8%**
Total government bonds	**6,298**	**10.0%**	**42,966**	**68.3%**	**-**	**0.0%**	**49,264**	**78.3%**
Corporate bonds – Israel	**3**	**0.0%**	**2,274**	**3.6%**	**409**	**0.7%**	**2,686**	**4.3%**
Corporate bonds – foreign countries	**126**	**0.2%**	**8,269**	**13.1%**	**11**	**0.0%**	**8,406**	**13.4%**
Total corporate bonds	**129**	**0.2%**	**10,543**	**16.8%**	**420**	**0.7%**	**11,092**	**17.6%**
Shares	**48**	**0.1%**	**2,486**	**4.0%**	**-**	**0.0%**	**2,534**	**4.0%**
Total securities	**6,475**	**10.3%**	**55,995**	**89.0%**	**420**	**0.7%**	**62,890**	**100.0%**
December 31, 2014:								
Israeli government bonds	2,871	4.9%	37,049	63.0%	-	0.0%	39,920	67.9%
US government bonds	4	0.0%	1,384	2.4%	-	0.0%	1,388	2.4%
Government bonds – other foreign countries	39	0.1%	2,114	3.6%	-	0.0%	2,153	3.7%
Total government bonds	2,914	5.0%	40,547	69.0%	-	0.0%	43,461	73.9%
Corporate bonds – Israel	20	0.0%	3,103	5.3%	535	0.9%	3,658	6.2%
Corporate bonds – foreign countries	535	0.9%	8,537	14.5%	-	0.0%	9,072	15.4%
Total corporate bonds	555	0.9%	11,640	19.8%	535	0.9%	12,730	21.6%
Shares	50	0.1%	2,563	4.4%	-	0.0%	2,613	4.4%
Total securities	3,519	6.0%	54,750	93.1%	535	0.9%	58,804	100.0%

Table 5-21: Details of Corporate Bonds by Economic Sector

	2015		2014	
	Fair value	Percent of total corporate bonds	Fair value	Percent of total corporate bonds
Mining and quarrying	**991**	**8.9%**	564	4.4%
Industry	**1,734**	**15.6%**	1,593	12.5%
Information and communications	**749**	**6.8%**	979	7.7%
Financial services	**233**	**2.1%**	435	3.4%
Banks and financial institutions	**5,375**	**48.5%**	6,791	53.3%
Others	**2,010**	**18.1%**	2,368	18.7%
Total corporate bonds	**11,092**	**100.0%**	12,730	100.0%

For details regarding unrealized loss from adjustments to fair value of securities in the portfolio available for sale, see Note 12(A)(5) to the Financial Statements.

Deposits from the Public and Off-Balance Sheet Activity in Securities Held by the Public

Table 5-22: Developments in the balance of off-balance sheet monetary assets held by the Bank Group's customers for which the Bank Group provides custody, management, operational, and advisory services

	Balance as at December 31		Change
	2015	2014	
	NIS millions		
Securities[1]	**872,139**	880,532	(1.0%)
Assets of provident funds receiving operational services[2]	**116,393**	90,930	28.0%
Mutual fund assets[3]	**70,029**	99,018	(29.3%)
Pension advisory balances[4]	**27,951**	23,488	19.0%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides custody services.
(2) The increase in asset balances mainly resulted from two new institutional clients recruited in the operation of provident funds.
(3) Value of assets of mutual funds receiving services related to account management at various volumes. Most of the decrease in asset balances of mutual funds resulted from the departure of an institutional client.
(4) Balances of study funds and pension products with respect to which pension advisory services were provided.

Table 5-23: Development of Balances of Deposits Received by the Bank

	Balance as at December 31		Change
	2015	2014	
	NIS millions		
Deposits from the public	**321,727**	297,230	8.2%
Deposits from banks	**4,773**	4,322	10.4%
Government deposits	**354**	455	(22.2%)
Total	**326,854**	302,007	8.2%

Deposits from the public as at December 31, 2015 totaled NIS 321.7 billion, compared with NIS 297.2 billion at the end of 2014, an increase of approximately 8.2%. The increase resulted from an increase of NIS 18.6 billion in retail deposits and an increase of NIS 9.8 billion in corporate deposits. This increase was offset by a decrease of NIS 3.9 billion in deposits in the Financial Management Segment, mainly due to a decrease in deposits from large institutional and corporate clients.

Table 5-24: Deposits from the Public by Size

	December 31	
	2015	2014
	NIS millions	
Deposit ceiling		
Up to 1	**108,213**	100,968
Over 1 up to 10	**81,091**	73,445
Over 10 up to 100	**53,447**	48,097
Over 100 up to 500	**33,994**	30,682
Over 500	**44,982**	44,038
Total	**321,727**	297,230

Table 5-25: Deposits from the Public by Activity Segment

	December 31		Change
	2015	2014	
	NIS millions		
Households Segment	**41,299**	38,501	7.3%
Private Banking Segment	**140,286**	127,224	10.3%
Small Business Segment	**32,547**	29,838	9.1%
Commercial Segment	**27,390**	24,659	11.1%
Corporate Segment	**34,663**	27,581	25.7%
Financial Management Segment	**45,542**	49,427	(7.9%)
Total	**321,727**	297,230	8.2%

Bonds and subordinated notes totaled NIS 34.5 billion as at December 31, 2015, compared with NIS 33.7 billion at the end of 2014, an increase of approximately 2.4%. During 2015, bonds in the amount of approximately NIS 5.8 billion were issued by the Bank Group, and bonds and subordinated notes in the amount of approximately NIS 4.5 billion matured.

Table 5-26: Details of Bonds and Subordinated Notes

	December 31, 2015		December 31, 2014	
	Balance sheet value	Of which: tradable	Balance sheet value	Of which: tradable
	NIS millions			
Subordinated notes	**19,885**	**15,750**	21,877	17,469
Bonds	**14,590**	**13,773**	11,794	10,910
Total bonds and subordinated notes	**34,475**	**29,523**	33,671	28,379

Table 5-27: Derivative Instruments

	2015			2014		
	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value	Notional value
	NIS millions					
Interest contracts	**8,244**	**8,975**	**617,003**	8,766	9,463	584,217
Currency contracts	**3,573**	**3,873**	**268,467**	6,296	6,163	297,866
Share-related contracts	**882**	**877**	**37,789**	1,021	1,024	49,184
Commodity and service contracts (including credit derivatives)	**98**	**95**	**1,432**	172	168	1,112
Total	**12,797**	**13,820**	**924,691**	16,255	16,818	932,379

Capital Adequacy and Leverage

(1) Capital Adequacy

The Bank's Approach to the Assessment of Capital Adequacy

The Bank applies the capital measurement and adequacy directives based on the Basel 2 and 3 directives, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The Basel 3 directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth internal processes (ICAAP – Internal Capital Adequacy Assessment Process) to be used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process to be performed by the Supervisor of Banks.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

The Basel 3 Directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives," in order to make it possible to comply with the new requirements regarding supervisory capital within the process of implementation of Basel 3 and establish a transitional period until full implementation. Among other matters, the transitional directives concern supervisory adjustments and deductions from capital, as well as capital instruments ineligible for inclusion in supervisory capital according to the new criteria established in the Basel directives.

Specifically, pursuant to the transitional directives, the supervisory adjustments and deductions from capital, as well as non-controlling interests ineligible for inclusion in supervisory capital, are to be deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital are recognized as of January 1, 2014 up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is lowered by an additional 10% in each subsequent year, until January 1, 2022. From January 1, 2015, to December 31, 2015, deductions as a percentage of supervisory capital stand at 40%, and the ceiling for instruments eligible as supervisory capital is 70%.

Capital Adequacy Target

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios, as part of the preparation for the implementation of the Basel 3 directives. Pursuant to the circular, all banking corporations are required to maintain a minimum common equity Tier 1 capital ratio of 9% by January 1, 2015. In addition, banking corporations of significant importance whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel will be required to maintain a minimum common equity Tier 1 capital ratio of 10%, by January 1, 2017.

The Supervisor also determined that minimum total capital ratios of all banking corporations shall stand at 12.5% beginning January 1, 2015, and that in addition, minimum total capital ratios of banking corporations of significant importance shall stand at 13.5% beginning January 1, 2017. The Bank meets the conditions for the definition of a banking corporation of significant importance.

The Supervisor of Banks issued an additional directive on September 28, 2014; pursuant to this directive and the transitional directives for 2014, a capital requirement at a rate representing 1% of the balance of housing loans at the reporting date will be added to minimum capital ratios as of January 1, 2015. This requirement is being implemented gradually, over eight quarters, until January 1, 2017. The total effect of this directive, based on the balance of housing loans at the date of the Financial Statements, is estimated at approximately 0.2%.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as at January 1, 2017, on a consolidated basis, based on data at the reporting date, will stand at 10.2% and 13.7%, respectively.

On April 20, 2015, the Board of Directors of the Bank resolved to increase the planned common equity Tier 1 capital ratio of the Bank, such that it stands at 10.75% as of December 31, 2017.

For further information, see the Report on Risks.

Table 5-28: Calculation of the Capital Ratio

	December 31, 2015	December 31, 2014
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital	**33,246**	(1)31,482
Additional Tier 1 capital	**1,709**	1,954
Total Tier 1 capital	**34,955**	(1)33,436
Tier 2 capital	**14,593**	16,041
Total overall capital	**49,548**	(1)49,477
2. Weighted balances of risk-adjusted assets		
Credit risk	**317,891**	(1)311,329
Market risks	**4,562**	5,269
Operational risk	**22,671**	22,275
Total weighted balances of risk-adjusted assets	**345,124**	(1)338,873
	%	
3. Ratio of capital to risk-adjusted assets		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**9.63%**	(1)9.29%
Ratio of Tier 1 capital to risk-adjusted assets	**10.13%**	(1)9.87%
Ratio of total capital to risk-adjusted assets	**14.36%**	(1)14.60%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(2)9.07%**	(2)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(2)12.57%**	(2)12.50%

(1) As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1). If the adoption had been carried out in 2014, the common equity Tier 1 capital ratio would have been 9.25% as at December 31, 2014, and the total capital ratio would have been 14.56%.

(2) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively. With regard to the balance of housing loans, see Note 30A(2) to the Annual Financial Statements for 2015.

Table 5-28: Calculation of the Capital Ratio (continued)

	December 31, 2015	December 31, 2014
	%	
4. Significant subsidiaries		
Isracard		
Ratio of common equity Tier I capital to risk-adjusted assets	**19.94%**	*18.85%
Ratio of Tier I capital to risk-adjusted assets	**19.94%**	*18.85%
Ratio of total capital to risk-adjusted assets	**20.96%**	*19.79%
Minimum common equity Tier I capital ratio required by the Supervisor of Banks	**(1)9.00%**	(1)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(1)12.50%**	(1)12.50%
Bank Hapoalim Switzerland		
Ratio of common equity Tier I capital to risk-adjusted assets	**24.11%**	21.09%
Ratio of Tier I capital to risk-adjusted assets	**24.11%**	21.09%
Ratio of total capital to risk-adjusted assets	**24.20%**	21.17%
Minimum common equity Tier I capital ratio required by local regulation	**8.00%**	8.00%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%

	Basel 2[2]	
Bank Pozitif		
Ratio of Tier I capital to risk-adjusted assets	**16.34%**	17.51%
Ratio of total capital to risk-adjusted assets	**17.10%**	18.15%
Minimum total capital ratio required by local regulation	**12.00%**	12.00%

* Retrospective implementation of guidelines of the Supervisor of Banks concerning capitalization of software costs.
(1) Minimum capital ratio required according to the directives of the Supervisor of Banks as of January 1, 2015.
(2) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Table 5-29: Composition of Capital for the Purpose of Calculating the Ratio of Capital to Risk-Adjusted Assets

	December 31, 2015	December 31, 2014
	NIS millions	
Tier 1 capital		
Paid-up common share capital and premium	**8,094**	8,004
Retained earnings	**24,720**	*22,243
Non-controlling interests in equity of consolidated subsidiaries	**148**	224
Unrealized profits from adjustments of securities available for sale to fair value	**451**	961
Other capital instruments	**(34)**	*153
Amounts deducted from Tier 1 capital	**(133)**	(103)
Total common equity Tier 1 capital	**33,246**	*31,482
Innovative hybrid instruments	**1,709**	1,954
Total Tier 1 capital	**34,955**	*33,436
Tier 2 capital		
Hybrid capital instruments and subordinated notes	**1,150**	1,331
Collective allowances for credit losses before the effect of related tax	**3,915**	3,837
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**9,528**	10,873
Amounts deducted from Tier 2 capital	**-**	-
Total Tier 2 capital	**14,593**	16,041
Total eligible capital	**49,548**	*49,477

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

For further details, see Note 25 to the Financial Statements for 2015.

Table 5-30: Risk-Adjusted Assets and Regulatory Capital Requirements in Respect of Credit Risk, Market Risk, and Operational Risk

	December 31, 2015		December 31, 2014	
	Risk-adjusted assets	Capital requirements(1)	Risk-adjusted assets	Capital requirements(2)
	NIS millions			
Credit risk				
Sovereign debt	**2,115**	**266**	2,593	324
Debts of public-sector entities	**3,138**	**394**	3,105	388
Debts of banking corporations	**5,535**	**696**	7,341	918
Debts of corporations	**131,054**	**16,473**	137,059	17,132
Debts secured by commercial real estate	**63,500**	**7,982**	56,300	7,038
Retail exposures to individuals	**45,427**	**5,710**	40,665	5,083
Loans to small businesses	**7,219**	**907**	6,387	798
Housing loans	**35,849**	**4,506**	33,092	4,137
Securitization	**98**	**12**	97	12
Other assets	**19,431**	**2,442**	(3)19,715	(3)2,464
CVA risk	**4,525**	**569**	4,975	622
Total in respect of credit risk	**317,891**	**39,957**	(3)311,329	(3)38,916
Market risks	**4,562**	**573**	5,269	659
Operational risk	**22,671**	**2,850**	22,275	2,784
Total risk-adjusted assets in respect of the various risks	**345,124**	**43,380**	(3)338,873	(3)42,359
Common equity Tier 1 capital	**33,246**		(3)31,482	
Tier 1 capital	**34,955**		(3)33,436	
Total capital	**49,548**		(3)49,477	

	%	
Ratio of common equity Tier 1 capital to risk-adjusted assets	**9.63%**	(3)9.29%
Ratio of Tier 1 capital to risk-adjusted assets	**10.13%**	(3)9.87%
Ratio of total capital to risk-adjusted assets	**14.36%**	(3)14.60%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(4)9.07%**	(4)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(4)12.57%**	(4)12.50%

(1) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.57% required by the Supervisor of Banks.

(2) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks.

(3) As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

(4) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively. With regard to the balance of housing loans, see Note 30A(2) to the Annual Financial Statements for 2015.

(2) Leverage Ratio

On April 28, 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 218, "Leverage Ratio" (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which will serve as a reliable measurement complementary to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items. In general, the measurement is consistent with accounting values, and risk weights are not taken into account. In addition, physical or financial collateral, guarantees, or other credit risk mitigation techniques cannot be used to reduce the exposure measurement, unless otherwise noted in the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Proper Conduct of Banking Business Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, exposure in respect of derivatives is calculated in accordance with Appendix C to Proper Conduct of Banking Business Directive 203; exposures in respect of off-balance sheet items are calculated by converting the notional amount of the items using credit conversion coefficients, as established in Proper Conduct of Banking Business Directive 203.

Pursuant to the Directive, banking corporations shall comply with a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system shall comply with a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank will be 6%.

Banking corporations are required to maintain the leverage ratio as of January 1, 2018. Banking corporations that comply with the applicable minimum leverage ratio requirement at the date of publication of the Directive shall not lower the ratio below the threshold established in the Directive.

The leverage ratio of the Bank and of significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, "Leverage Ratio." The leverage ratio of banking subsidiaries overseas is stated according to the regulatory directives and required ratios in each jurisdiction, where applicable.

Table 5-31: Leverage Ratio

	December 31, 2015
	NIS millions
A. Consolidated data	
Tier 1 capital	**34,955**
Total exposures	**492,192**
	%
Leverage ratio	**7.10%**
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**
B. Significant subsidiaries	
Isracard	
Leverage ratio	**12.11%**
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**
Bank Hapoalim Switzerland*	
Leverage ratio	**10.00%**
Bank Pozitif	
Leverage ratio	**12.60%**
Minimum required leverage ratio according to local regulation	**3.00%**

* Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

Dividends

On July 10, 2013, the Board of Directors of the Bank resolved to update the Bank's dividend distribution policy. Pursuant to the dividend distribution policy established by the Board of Directors, up to 30% of net operating profits will be distributed. This policy will be in effect until the Bank meets the capital targets set by the Supervisor of Banks and adopted by the Board of Directors. The Bank received approval from the Supervisor of Banks to distribute a dividend at a rate of 15% of annual profit, subject to compliance with the trajectory established for the development of its core capital ratio. On April 20, 2015, after receiving the approval of the Supervisor of Banks, the Board of Directors resolved to distribute dividends at a rate of 20% of annual profit, beginning in 2015.

In addition to restrictions under the Companies Law, dividend distribution by banking corporations is subject to regulation applicable to banking corporations in Israel, pursuant to which no dividends shall be distributed: (a) If the cumulative balance of retained earnings of the bank (net of negative differences included in cumulative other comprehensive income) according to its last published financial statements is not positive, or if the payout would lead to a negative balance; (b) when one or more of the last three calendar years ended in a loss or in a comprehensive loss; (c) when the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been released indicates a loss or a comprehensive loss; (d) if the payout would cause the bank's ratio of capital to risk-adjusted assets to fall below the required rate; (e) from capital reserves or positive differences resulting from the translation of financial statements of foreign operations; (f) if after the payout the bank's non-monetary assets would exceed its shareholders' equity; or (g) if the bank does not comply with the requirements of Section 23A of the Banking Law, which establishes a limit on the percentage of capital that a banking corporation may invest in non-financial corporations. Notwithstanding the above, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval of the Supervisor of Banks for such distribution, up to the amount thus approved.

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios, as part of the preparation for the implementation of the Basel 3 directives. Pursuant to the circular, all banking corporations will be required to maintain a minimum common equity Tier 1 capital ratio of 9% by January 1, 2015. In addition, banking corporations of significant importance whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel will be required to maintain a minimum common equity Tier 1 capital ratio of 10%, by January 1, 2017.

The Supervisor also determined that minimum total capital ratios of all banking corporations shall stand at 12.5% beginning January 1, 2015, and that in addition, minimum total capital ratios of banking corporations of significant importance shall stand at 13.5% beginning January 1, 2017.

The Bank meets the conditions for the definition of a banking corporation of significant importance, and will therefore be required to comply with a minimum common equity Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5% beginning January 1, 2017.

The Supervisor of Banks issued an additional directive on September 28, 2014, pursuant to which each banking corporation must raise its common equity Tier 1 capital target at a rate representing 1% of its balance of housing loans, by January 1, 2017. The banking corporations are required to raise their common equity Tier 1 capital target each quarter, beginning January 1, 2015, at a proportional rate of the full target required by January 1, 2017. The effect of this additional directive on the Bank, as at the date of the Financial Statements, is estimated at approximately 0.2%.

As a result of the aforesaid directives in aggregate, beginning January 1, 2017, the Bank will be required to maintain a common equity Tier 1 capital ratio of approximately 10.2%, as mentioned above, and a minimum total capital ratio of no less than 13.7%.

Pursuant to the terms of the Subordinated Notes (Series A), no dividends shall be distributed in the following cases: (a) If interest payments in respect of these notes are suspended, the Bank shall not pay dividends to its shareholders until all of the suspended interest payments are paid in full, whether such dividends are declared prior to the Bank's announcement regarding the formation of circumstances for suspension, or whether the dividends are declared after such an announcement; and (b) If the payout would cause the Bank's ratio of core capital to risk-adjusted assets to fall below 6.5%.

Furthermore, the permission granted by the Governor of the Bank of Israel to the Arison Group to acquire a controlling interest in the Bank states that no dividend shall be distributed from profits accrued at the Bank up to June 30, 1997 (the day prior to the acquisition of the controlling interest), unless the Supervisor of Banks has consented in advance and in writing.

The Supervisor of Banks has approved a buyback of the Bank's shares for the Bank's remuneration plans. For further details, see the section "Investments in the Capital of the Bank and Transactions in its Shares."

The balance of retained earnings at the Bank as at December 31, 2015 totaled NIS 24,724 million, of which a total of approximately NIS 2,734 million cannot be distributed as dividends, as mentioned.

Details regarding dividends distributed in 2015 and not yet paid:

In accordance with the dividend distribution policy of the Bank, following approval by the Supervisor of Banks for the distribution of a quarterly dividend at a rate of 20% of net profits beginning in 2015, the Board of Directors resolved on February 28, 2016, to distribute a dividend in respect of the profits of the fourth quarter of 2015, in the amount of approximately NIS 117 million, or 8.804 agorot per share of par value NIS 1. The Board of Directors set the record date for payment of the dividend at March 8, 2016, and the date of payment at March 16, 2016.

Table 5-32: Details of Dividends Paid

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
November 15, 2015	**December 9, 2015**	**12.080**	**160**
August 19, 2015	September 8, 2015	13.350	177
May 19, 2015	June 10, 2015	12.180	162
March 9, 2015	March 31, 2015	5.262	70
November 23, 2014	December 15, 2014	8.830	117
August 13, 2014	September 3, 2014	9.000	119
May 21, 2014	June 12, 2014	8.000	106
March 19, 2014	April 10, 2014	8.000	106

Control of the Bank

The holder of the permit for control of the Bank, near the date of publication of the Financial Statements, is Ms. Shari Arison. Her stake in the Bank is held through Arison Holdings (1998) Ltd. (hereinafter: "Arison Holdings"), which holds shares comprising approximately 20.20% of the Bank's share capital near the date of publication of the Financial Statements, which constitute the "controlling interest" of the Bank (as defined in the control permit issued by the Governor of the Bank of Israel).

Investments in the Capital of the Bank and Transactions in its Shares

The issued and paid-up share capital of the Bank, as at December 31, 2015, is NIS 1,329,406,719 par value, composed of ordinary shares of par value NIS 1 each. This is the issued capital following the subtraction of 7,970,392 ordinary shares purchased by the Bank (hereinafter: "Treasury Shares"), as detailed below.

The issued and paid-up capital of the Bank near the date of publication of the Financial Statements is NIS 1,330,599,179 par value, following the subtraction of the balance of 6,777,932 Treasury Shares.

The principal developments related to the capital of the Bank, including investments in the capital of the Bank and transactions in its shares, are detailed below.

Sale of Shares by an Interested Party of the Bank

On June 1, 2015, Salt of the Earth Ltd. sold 8,382,105 shares of the Bank in consideration for a total of NIS 168 million, in an off-market transaction. The quantity sold constitutes 0.63% of the capital of the Bank.

Buybacks of Shares of the Bank

The Supervisor of Banks granted the Bank approval for a buyback of 39,250,000 shares, to create a pool of shares for the equity compensation program for employees and senior executives. See Note 25B below. Up to December 31, 2015, the Bank purchased 25,200,000 shares, at a cost of approximately NIS 408 million.

Changes in the Capital of the Bank from January 1, 2015, to Near the Date of Publication of the Financial Statements

Up to the date of publication of the Financial Statements, an increase of 7,390,487 ordinary shares occurred in the issued and paid-up capital of the Bank, as a result of the transfer of shares from the pool of shares due to the exercise of RSU and options, offset by shares purchased for the pool of shares.

Details regarding the remaining options and RSU issued but not yet exercised near the date of publication of the Financial Statements:

3,040,122 share option units issued to employees of the Bank under the 2010-2012 plan.

1,552,346 RSU issued to senior executives under the 2010 remuneration plan.

770,265 RSU issued to senior executives under the 2014 remuneration plan, as a deferred payment of 50% of the annual bonus for 2014. Units for 2015 will be granted after publication of the Annual Financial Statements for 2015.

For further details regarding RSU for the Chairman of the Board of Directors, the CEO, and senior executives, see Note 24 to the Annual Financial Statements for 2015.

5.4 Description of the Bank Group's Business by Segments of Activity

General – The Segments and Customer Assignment Criteria

The Bank Group operates in Israel and abroad in all areas of banking through the Bank, subsidiaries, branches, and representative offices, and provides a wide range of banking and financial services to its customers. The Bank also has investments in equity-basis investee companies.

The activity of the Bank Group is conducted via six principal segments of activity. The division into segments of activity is based on types of products and services or on types of customers. The Board of Management of the Bank uses this division to make decisions and to analyze the Group's business results. The segments of activity are presented according to characteristics stipulated by the Supervisor of Banks.

Criteria for Assignment of Customers to the Segments

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units that serve them, which is executed in accordance with the criteria described below. However, it is clarified that customer assignments occasionally take additional criteria into consideration, as in the case of a private customer or a company with a profile or potential for future activity that justifies an assignment to the Private Banking Segment or to the Corporate Segment, as relevant. In assigning a business client to an organizational unit, the client's association with a group of companies is also taken into consideration.

Households Segment – Provides a range of banking services and financial products to households. Customers assigned to this segment are customers with monthly income of up to NIS 9,000.

Private Banking Segment – Provides a range of advanced banking services, through various channels, and financial products, including investment advisory services, to private customers of medium to high net worth in Israel and abroad. Customers assigned to this segment are customers with monthly income higher than NIS 9,000 and/or who hold investments at the Bank in an amount greater than NIS 100,000, as well as young customers with monthly income higher than NIS 7,000, or who hold investments at the Bank in an amount greater than NIS 75,000.

Small Business Segment – This segment includes customers with total indebtedness (to the Bank or to other lenders) of less than NIS 10 million, or with total indebtedness (to the Bank or to other lenders) of more than NIS 10 million but indebtedness to the Bank of less than NIS 6 million and a sales turnover of less than NIS 30 million.

Commercial Segment – Customers included in this segment are customers with a revenue turnover of over NIS 30 million and up to NIS 400 million annually, or with indebtedness to the Bank of more than NIS 6 million, up to a total of NIS 100 million; and customers whose total indebtedness (to the Bank or to other lenders) is more than NIS 10 million, up to a total of NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 6 million, up to NIS 200 million to the Bank; or total indebtedness (to the Bank or to other lenders) is over NIS 10 million, up to a total of NIS 400 million.

Corporate Segment – Customers included in this segment are customers with a revenue turnover (sales) of over NIS 400 million, with indebtedness to the Bank of more than NIS 100 million, or customers with total indebtedness (to the Bank or to other lenders) of more than NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 200 million to the Bank, or total indebtedness (to the Bank or to other lenders) is over NIS 400 million.

Financial Management Segment – Responsible for the management of the Bank's assets and liabilities, management of the Nostro activity of the Bank, activity of the dealing rooms (foreign currency and securities), overall business with management companies of provident funds (excluding management companies of provident funds managed within insurance companies) and mutual funds, contact and administration of activity with financial entities (in Israel and overseas), and provision of operational services to financial-asset managers and operational services in securities to all customers of the Bank. The segment is responsible for the management of market and liquidity risks, executed through proactive management of the Nostro portfolio and through the use of financial instruments, such as issuance of various securities, deposits, interest and foreign-currency derivatives, and more.

Others and Adjustments – Includes all other activities of the Bank Group, each of which does not form a reportable segment. This segment also includes activity in credit cards under the responsibility of other banks that do not belong to the Bank Group.

The results of operations of the principal subsidiaries and of the Bank's main offices overseas were assigned to the segments of activity as follows: results of operations of Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., Peilim Investment Portfolio Management Ltd., and Hapoalim Securities USA Inc. were assigned to the Financial Management Segment; customers of Bank Hapoalim (Switzerland) Ltd. – Private Banking Segment; customers of the US branches – Private Banking, Commercial, and Corporate Segment; Bank Pozitif, and its subsidiary JSC Bank Pozitiv until the date of its sale – Households and Commercial Banking Segment; Banque Hapoalim (Luxembourg) S.A. – Corporate Segment.

Rules for the Distribution of Results of Operations among the Segments

The following are the main rules applied in dividing the results of operations among the different segments:

Net interest income – Includes among others: (1) the spread between the interest received from the segment's customers and the wholesale interest which the segment is charged in respect of the resource used to provide the loan to the customer; (2) the spread between the wholesale interest at which the segment is credited in respect of resources which it makes available to the Bank, and the interest rate paid to the segment's customers in respect of such resources; (3) the unindexed wholesale interest on the weighted capital calculated for the return on equity attributed to the segment, calculated based on the risk-adjusted assets allocated to each segment; and (4) surplus cost in respect of subordinated notes issuance.

Provision for credit losses – A provision for credit losses is charged to the segment to which the borrower against whose debt the allowance is recorded belongs.

Non-interest financing income – Attributed to the segment to which the customer belongs. Income recorded in the Financial Management Segment includes income from realization and adjustment to fair value of bonds, profits from investment in shares, results of activity in derivative instruments, net profit from exchange-rate differences, and financing expenses arising from hedging of investments overseas. Income recorded in the other segments includes profits from the dealing room.

Fees and other income – Attributed to the segment to which the customer belongs. Income in respect of computer services provided by the Bank to external entities is attributed to the Others and Adjustments Segment.

Operating and other expenses – Expenses are attributed to each segment of activity according to predetermined rules and standard prices, either as an expense identified directly with the activity of the segment, or according to charging formulas. Standard prices are determined similarly to the establishment of transfer prices, as described above. Differences formed in calculations between the actual expense calculation of units that are not profit units and the income attributed to these units based on standard prices are allocated as income or expenses, as relevant, to the Others and Adjustments Segment. Attribution rules are based on the volumes of activity relevant to the types of costs in each segment.

Debiting for inter-segmental services – The assigned segment of a customer receiving services from another segment is charged with an inter-segmental expense, based on standard prices for services provided by other segments to its customers, or based on a transfer price for the service provided to the customer. The costs of the segment providing the service are reduced accordingly, and the costs are concurrently charged to the segment to which the customer belongs. Transfer prices are set by the Bank based, among other factors, on market prices for the service, internal cost estimates, and participation in income derived directly or indirectly from the said service.

Taxes on income – The provision for tax on the results of operation of each segment was calculated according to the annual effective tax rate, excluding the effects of translation differences in respect of consolidated companies overseas (attributed to the Financial Management Segment).

Return on equity – Reflects the ratio of the net profit attributed to shareholders of the Bank in each segment to the capital allocated to that segment.

Capital allocated to the segment – The balance of risk-adjusted assets in each segment, which represents each segment's relative share of the total risk-adjusted assets of the Group, as calculated for the purposes of capital adequacy pursuant to the Basel 3 directives, multiplied by the ratio of weighted capital (as calculated for the purposes of calculating return on equity) to the total balance of risk-adjusted assets.

Regulatory Changes

On April 9, 2014, the Supervisor of Banks issued a circular concerning the adoption of US GAAP on employee benefits. The circular updates the recognition, measurement, and disclosure requirements regarding employee benefits in the Public Reporting Directives, according to GAAP for US banks. This circular was implemented by the Bank beginning January 1, 2015. Upon initial implementation, comparative figures for periods beginning January 1, 2013, or later were amended retrospectively, in order to comply with the requirements of the aforesaid rules. For further details, see Note 1D(1) to the Financial Statements.

Condensed Financial Information on Segments of Activity

Set out below are the condensed developments in the results of operations of the Bank Group and the principal balance sheet items, by segment of activity:

A. Table 5-33: Net Profit Attributed to Shareholders of the Bank, by Segment of Activity

	For the year ended December 31		Change
	2015	2014*,**	
	NIS millions		
Households Segment	**312**	175	78.3%
Private Banking Segment	**27**	(150)	(118.0%)
Small Business Segment	**338**	275	22.9%
Commercial Segment	**380**	323	17.6%
Corporate Segment	**1,064**	1,143	(6.9%)
Financial Management Segment	**895**	866	3.3%
Others and Adjustments	**66**	81	(18.5%)
Total	**3,082**	2,713	13.6%

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

** Reclassified.

B. Table 5-34: Net Credit to the Public by Segment of Activity

	December 31		Change
	2015	2014	
	NIS millions		
Households Segment	**76,226**	70,779	7.7%
Private Banking Segment	**40,483**	38,141	6.1%
Small Business Segment	**32,465**	29,339	10.7%
Commercial Segment	**39,188**	35,301	11.0%
Corporate Segment	**83,709**	84,028	(0.4%)
Financial Management Segment	**1,269**	1,746	(27.3%)
Others and Adjustments	**5,157**	4,646	11.0%
Total	**278,497**	263,980	5.5%
Of which, consumer credit in Israel excluding housing loans and credit cards:			
Households Segment	**28,249**	25,521	10.7%
Private Banking Segment	**10,599**	9,921	6.8%
Small Business Segment	**25,520**	23,052	10.7%
Total	**64,368**	58,494	10.0%
Housing loans in Israel:			
Households Segment	**41,084**	38,708	6.1%
Private Banking Segment	**20,114**	17,922	12.2%
Small Business Segment	**5,596**	5,038	11.1%
Total	**66,794**	61,668	8.3%

C. Table 5-35: Deposits from the Public by Segment of Activity

	December 31		Change
	2015	2014	
	NIS millions		
Households Segment	**41,299**	38,501	7.3%
Private Banking Segment	**140,286**	127,224	10.3%
Small Business Segment	**32,547**	29,838	9.1%
Commercial Segment	**27,390**	24,659	11.1%
Corporate Segment	**34,663**	27,581	25.7%
Financial Management Segment	**45,542**	49,427	(7.9%)
Total	**321,727**	297,230	8.2%

Table 5-36: Details of Average Balances of Net Credit to the Public and Deposits from the Public, by Segment of Activity

	Average balance of net credit to the public		Change	Average balance of deposits from the public		Change
	For the year ended December 31			For the year ended December 31		
	2015	2014		**2015**	2014	
	NIS millions			NIS millions		
Households Segment	**72,807**	67,564	7.8%	**39,890**	37,211	7.2%
Private Banking Segment	**39,144**	35,964	8.8%	**131,488**	123,233	6.7%
Small Business Segment	**30,421**	27,195	11.9%	**31,474**	27,792	13.2%
Commercial Segment	**37,929**	31,635	19.9%	**24,759**	20,046	23.5%
Corporate Segment	**83,774**	84,182	(0.5%)	**30,228**	22,953	31.7%
Financial Management Segment	**1,382**	1,551	(10.9%)	**48,667**	44,376	9.7%
Others and Adjustments	**4,828**	4,585	5.3%	**-**	-	-
Total	**270,285**	252,676	7.0%	**306,506**	275,611	11.2%

Table 5-37: Details of the Capital Attributed to Each Segment of Activity, for the Calculation of Return on Equity[(1)]

	For the year ended December 31		Change
	2015	*2014	
	NIS millions		
Households Segment	**5,629**	5,226	7.7%
Private Banking Segment	**3,408**	3,268	4.3%
Small Business Segment	**2,709**	2,384	13.6%
Commercial Segment	**5,208**	4,293	21.3%
Corporate Segment	**12,246**	12,116	1.1%
Financial Management Segment	**2,574**	2,378	8.2%
Others and Adjustments	**299**	245	22.0%
Total	**32,073**	29,910	7.2%

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

(1) The capital allocation is based on risk-adjusted assets in each segment, and calculated according to risk-adjusted assets pursuant to Basel 3.

Off-Balance Sheet Activity

Table 5-38: Development in Balances of Holdings in Off-Balance Sheet Monetary Assets of Customers of the Bank Group[(1)], by Segment of Activity

	For the year ended December 31		Change	
	2015	2014		
	NIS millions			
Households Segment	**4,473**	4,850	(377)	(7.8%)
Private Banking Segment	**180,482**	182,011	(1,529)	(0.8%)
Small Business Segment	**11,535**	12,212	(677)	(5.5%)
Commercial Segment	**16,145**	16,240	(95)	(0.6%)
Corporate Segment	**161,035**	152,854	8,181	5.4%
Financial Management Segment	**614,862**	603,295	11,567	1.9%
Total	**988,532**	971,462	17,070	1.8%

(1) Includes customers' holdings in securities portfolios and mutual funds, and in assets of provident funds receiving operational services.

The Households Segment

General and Segment Structure

The Bank provides a range of services to private customers who mostly operate at relatively low financial volumes. Services are provided to customers of the segment through 245 branches located throughout Israel, from Kiryat Shmona to Eilat, organized by geographical location into eight regional administrations. These services are also delivered through direct channels: automated teller machines adjacent to branches and in "Customer Courts," "Poalim Online," "Poalim Mobile," the "Poalim by Telephone" call center, and smartphone applications. The services are also provided to Bank customers belonging to other segments, as well as to walk-in customers.

The Bank's activity in the Households Segment abroad also includes the households sector activity of Bank Pozitif in Turkey and Bank Pozitiv in Kazakhstan, at immaterial volumes.

Six new branches opened during 2015, of which three serving the Arab-Israeli sector, bringing the number of branches of the Bank in this sector to 26; a general sector branch; and two digital branches, representing a significant breakthrough in the Bank's leadership in the banking of the future. These branches combine cutting-edge technological means with individual guidance by bankers and consultants to provide banking services to private customers. In addition, the BE Online service launched, serving as an Internet-based branch that allows customers to open and manage online accounts through the Bank's website and application, without fees. Concurrently, sixteen branches were merged.

Activities

The principal activities in this segment are banking and financial services, credit cards, the capital market, and housing loans. Services offered to customers of the segment in the area of "banking and financial services" include current-account management services, granting of credit for various purposes, deposits, and savings plans. For details regarding the services provided by the Bank within "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

Legislative Restrictions, Regulations, and Special Constraints Applicable to the Segment

The Bank operates within the framework of laws, regulations, and regulatory directives that apply to the banking system in Israel, under the authority of entities such as the Supervisor of Banks; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; the Antitrust Commissioner; the Israel Securities Authority; and others.

Regulatory Changes

A final circular amending Proper Conduct of Banking Business Directive No. 432, Transferring Activity and Closing Customers' Accounts, was published on December 15, 2014. The goal of the amendment is to achieve a more efficient and simpler process for the transfer of a customer's activity or closure of a customer's account. Directives include execution of all actions on behalf of the customer by the new bank; provision of detailed information to customers to allow them to determine whether the transfer and closure of the accounts is worthwhile (in the form of an annual report, as part of the "Bank ID," with details of the steps necessary to transfer the activity or close the account); allowing customers to close accounts without visiting a branch of the bank (via the bank's website); timetables for account closure (transfer of activity within five business days of the filing date of the request, closure of an account within five business days of the completion of activity by the customer, and transfer of an Israeli securities portfolio within five days of the customer's notification); and retention of discounts and benefits granted to the customer. This directive took effect on July 1, 2015, with the exception of the sections referring to a Bank ID, which will take effect on February 28, 2016.

On January 21, 2015, the Bank of Israel approved the Banking Rules (Service to Customers) (Fees) (Amendment), 2015, in which the "housing loan management fee" was cancelled, effective February 1, 2015.

On January 25, 2015, the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive 329, stating that in calculating loan payments as a percentage of income, in addition to the borrower's income, half of the disposable monthly income of a relative can be recognized, even if the relative does not acquire an interest in the property, provided that the relative is a first-degree relation (spouse, parent, sibling, or child), undergoes an examination of repayment capability, is added as a guarantor, and pays 20% of the monthly loan payment via a standing order in his or her account. In addition, the disposable monthly income of a spouse of the borrower who meets all of the conditions noted above and resides in the home with the borrower can be recognized in full.

The Banking Order Amendment (Early Repayment Fees – Amendment), 2014, took effect on February 23, 2015. Pursuant to the new order, any supplementary loan (a loan from Bank funds granted in addition to an eligibility loan) shall be granted a discount on fees, even if the loans were not executed on the same date; no fee shall be collected in the event of death; and the formula for calculating the capitalization differences fee has been changed, such that the early repayment fee shall decrease in all cases in which the customer's interest rate at the date of execution of the loan was higher than the average interest rate on that day.

Promotion of the option to open an account online and preparation for the provision of online banking services – The Bank of Israel issued a circular on January 4, 2015, concerning types of accounts and conditions under which the customer's signature would not be required on an agreement (in online accounts). A list of agreements between the banking corporation and the customer was also published, such as an agreement to open a current account, an agreement regarding a deposit for a period of more than one year, and an agreement regarding instructions given by telephone, for which the customer's signature will not be required, provided that the customer affirms perusal of the document on the website. This change is based on the Supervisor's authority to determine types of accounts and conditions under which no customer signature is required.

In accordance with Proper Conduct of Banking Business Directive 308A (9/14), Handling Complaints from the Public, an ombudsman has been appointed at the Bank. The ombudsman, who reports directly to the Head of Retail Banking, engages solely in handling complaints from the public. The ombudsman acts in accordance with the directive with regard to work routines, reporting methods, and the structure and manner of publication of reports. Pursuant to the directive, excluding exceptional cases in which the Supervisor of Banks chooses to handle the complaint directly, each complaint will be investigated by the ombudsman, as a prerequisite for addressing the complaint to the Supervisor of Banks at the Bank of Israel.

See also "Regulatory Initiatives," below.

Bills

A government bill amending the Banking Law (Service to Customers) was filed on September 3, 2015. In the context of housing loans, the bill proposes amending section 9A concerning the cancellation of liens, emphasizing the duty of the bank to ensure, to the extent possible, that the collateral is expunged, rather than only sending documents. A class-action suit on this matter is in progress; no instructions on this subject have been received from the Bank of Israel.

A bill filed by MP Eli Cohen on December 14, 2015, is aimed at assisting non-homeowners by reducing the capital that they must provide for the purchase of their first home. Buyers would receive a state guarantee in the amount of up to NIS 150,000, not to exceed 20% of the value of the acquired home, provided that the price of the acquired home is not higher than NIS 1.3 million.

Developments in the Segment's Markets or Changes in the Profile of its Customers

There were no changes in the profile of the segment's customers in 2015, and until near the date of publication of the financial statements. However, there is an ongoing trend of an increase in banking activity through unstaffed channels (self-service automatic teller machines, the website, applications, the mobile site, and the automatic voice response at the "Poalim by Telephone" call center).

Technological Changes that May Have a Material Impact on the Segment

The increase in the volume of customers' use of direct channels continued in 2015, along with continued solidification of the bank's leadership in various areas of digital banking.

Maintaining Mobile Leadership

Upgrade of Account Management Application

Mobile services took a significant step forward this year, with the launch of an advanced version of the account management application, which offers a central location for a wide range of services in the area of customers' day-to-day financial activities. The application serves as a new gateway to banking activity via mobile devices; all services and actions are accessible in a single location, displayed within a rich, personalized user experience with information arranged in a way suited to smartphones. Even before logging in to their accounts, customers can view their current balance, the expected amount of their next credit-card charge, and the amount of Instant Credit to which they are entitled. Customers can also obtain updates regarding their investment portfolios in the capital market and use an on-the-go digital coin bank for savings, all from the application screen, without the need to enter passwords or move from one screen to another. In addition, relevant information is made accessible based on customers' geographical location, such as the location of branches, nearby ATMs, and more.

Foreign Currency Activity in the Account Management Application

A service launched at the end of the year allows customers to receive detailed information about their foreign-currency accounts and execute currency conversion transactions through the application. This enables customers to track the movements and balances in their account at any time, buy foreign currency easily while abroad, and convert foreign currency back into Israeli currency when they return from a trip. In addition, foreign-currency transactions executed through the application are granted a 50% discount on conversion fees.

Log-In Revolution

A service launched in the second half of 2015 allows customers of the Bank who use the account management application to log in to their accounts quickly and easily, using just one password, without entering additional identifying information. Identification using only one password is the harbinger of a series of advanced services for fingerprint-based rapid identification introduced by the Bank; identification by voice is forthcoming. Customers will be able to choose their preferred form of identification, which will become the default at every log-in, with the option to easily switch to a different form of identification.

Unique Password-Free Services

As part of the ongoing effort to expand its value offer in banking accessible on the go via mobile, the Bank launched the following unique services, which do not require a password:

1. Save & Go in the Account Management Application

   A digital savings bank allowing customers to save small sums on the go in a unique savings account, via mobile, through a quick and simple procedure that does not require identifying information to be entered. The service makes savings more accessible: customers can set aside any amount from NIS 1 to NIS 500, as in a traditional coin bank. Save & Go was introduced as part of the Bank's effort to make banking transactions that may be perceived as complex accessible to its customers, transforming savings into an everyday, simple act.

2. My Portfolio View Widget

   A widget enabling customers who invest in securities to obtain updates on changes in their personal portfolios without entering identifying information or logging in to the Bank's application. The new widget allows customers to go directly to the capital-market information most important to them – the daily percent change in their portfolio of holdings and the market value of their securities portfolio – and view up-to-date data quickly and easily. The service offers a rapid update on the portfolio's performance, so that customers can make decisions regarding trading in each of their securities. If necessary, the customer can move directly to trading (following completion of the identification procedure) and send buy and sell orders via smartphone.

3. Quick Glance

   A new feature has been added to the Quick Glance service, which allows customers to view account information without logging in, adding information regarding the amount of the expected charge on credit cards and the amount of Instant Credit for which the customer is eligible.

Wallet Innovations

UP Card Charging

A feature developed during 2015 allows UP Cards to be charged directly from the application. This new service provides a solution for everyday needs and makes it possible to transfer money easily when the need arises.

HopOn in the Poalim Wallet Application

As part of the Bank's ambition to provide its customers with tools that support smart, simple financial management, a collaboration launched in the first quarter of 2015 enables customers of all banks to pay for bus tickets directly from a smartphone, without using cash, through the Bank's Poalim Wallet application. The application offers a convenient, simple solution for ticketing and payment on public transportation.

A Range of Targeted Applications

1. New Seniors application – As part of the range of solutions for customers aged 55+, a targeted application was launched for this population segment.
2. Poalim Young application – A targeted application for young customers was introduced within the Bank's effort to guide the generation of the future in their first steps in the world of banking.

Digital Personal Assistant – Two-Way Digital Communication

Two-way digital communication capabilities were launched in the fourth quarter of 2015, via Telegram and text messaging; this feature will soon be expanded to WhatsApp. The new service is based on a designated mobile line to which questions can be sent as messages, and which provides useful information via a smart digital response system. The service is offered free of charge to the general public, including customers of other banks. In the first stage, information is available with regard to branches (opening hours, services offered, etc.), location of nearby ATMs and branches, and representative foreign exchange rates. Expansion of the service into a range of additional areas will be considered in the future. The option for customers to conduct a conversation with the Bank in natural language, through a smart digital platform, provides a solution in the form of a digital personal assistant offering customers an immediate response.

Wearable IT

In the context of the adoption of wearable IT, with the aim of offering an innovative account management experience, the Bank launched the Poalim SmartWatch application for the Apple Watch, in addition to the recently launched application for Samsung Gear watches. The new application allows customers of the Bank with compatible Apple smartphones to view their current account balances and expected expenses through the end of the month on their wristwatch screens, without entering account identifying information.

Website Innovations

New Website

A new website for private customers was launched in 2015, ushering in a new era in the customer experience, in the depth and availability of the information offered to customers, and in the range of tools provided to assist customers with sensible financial management. The new website enhances customers' experience and offers accessible, immediate banking, helping customers manage their money quickly and comfortably through an advanced user-friendly interface, in clear and simple language, with a new clean design. The new website functions as a "smart financial partner" for the Bank's customers: it offers individual guidance, interactive tools, insights, and customized solutions that allow customers to optimize their financial management, with the aim of helping them improve their financial condition and realize their financial freedom.

Personal Information About Pensions on the Bank's Website

A service launched in the first quarter of 2015 allows customers to receive an overview of all of their pension information on the Bank's website: balances in pension funds, provident funds, study funds, and executive insurance policies, along with a retirement age accrual forecast in terms of capital, pension, and allowances. In addition, customers can use the website to schedule an appointment with a licensed pension advisor, in order to plan their pension savings prudently and in accordance with their needs.

UP Control

As part of the ongoing drive to develop tools accessible to customers in order to aid sensible financial management, the value offer in the Poalim UP universe was expanded with the launch of the UP Control service. The service allows customers to receive a text message alerting them of exceptional expenses, based on monitoring of changes in the amounts of regular bills and charges in their accounts. For example, a customer might receive notification of a duplicate charge on a particular expense item on a credit card, a high cable or Internet bill, and more.

Unique Value Offers

BE Online

BE Online, launched during 2015, is a value offer allowing customers to manage an account solely online and via the mobile application, without current-account fees. This value offer is suitable for customers interested in basic banking services (current-account transactions, without the capital market or Mishkan), at a reduced cost. BE Online customers carry out banking transactions, including opening the account, via digital channels, including self-service stations. BE Online customers can also deposit checks, order credit cards, set up deposits and savings plans, and receive loans through the digital direct channels, without visiting a branch. BE Online customers can receive banking service via e-mail and technical support from the staff at a dedicated contact center.

Critical Success Factors in the Segment

- Skilled professional personnel.
- Management and development of an available, accessible, advanced retail distribution system, tailored to the needs of various customer groups, in branches and direct channels as well as cross-channel services.
- Continuous development of value offers suited to customers' needs and tastes in the various content areas.
- Development of a range of credit solutions, including new loan and mortgage products, suited to market conditions and customers' needs, as well as all-purpose loans, loans granted against liens of assets, and multi-channel loans.
- Definition of risk policy and appetite, along with strict, rational risk management and the development of decision-supporting models and tools.
- Development of long-term savings products and short-term investment products that address customers' needs, such as the group of "Dan the Saver" products, the Product of the Month, and additional products according to changing market conditions.

- Flexibility and sensitivity to changes in the market, including trends in the competitive and consumer environment as well as changes required under regulatory directives.
- Service and continual, proactive contact with customers, while ensuring the provision of a comprehensive financial solution differentially matched to the customer's needs, as well as a high level of customer satisfaction over time.
- Maintaining operational efficiency and flexibility while continuing to provide optimal service to customers.

Main Barriers to Entry and Exit in the Segment

- Establishment and maintenance of an extensive nationwide system of branches, or joining with a retail entity that has an existing network.
- Training skilled personnel in the various banking products and activities, including housing loans.
- Maintaining personal, continuous relationships with customers.
- A large allocation of regulatory capital for the provision of the various types of credit.
- Continuous information management allowing customers' risk level to be determined.
- Investments in setup, maintenance, and upgrades of advanced technological means.
- Building a strong, leading, credible retail brand.

Alternatives to the Segment's Products and Services, and Changes Therein

Current accounts can be maintained only with banks; other products and services can also be purchased from international banking institutions, other financial institutions, and retail chains.

Competition

The majority of the segment's customers maintain one account, at only one bank. These customers are consumers of credit, and mainly invest in basic investment products (shekel deposits and savings plans). However, the number of customers maintaining accounts with an additional bank is rising, as the segment is subject to increasing competition over customers, with some of these banks focusing on specific sub-sectors within the segment (housing loans, public-sector employees, employee groups, and consumer clubs).

Further to the trend of recent years, competition in 2015 remained centered on salary earning customers, as banks introduced special value offers for this target audience. Competition continued to gain momentum as a result of the changes in the market in previous years, such as the lowering of barriers to transfers between banks; activity of credit companies and non-bank financial entities in the credit industry; the entry of insurance companies and private brokers into the mutual- and provident-fund market (with regard to the capital market reform, see the section "Additional Information Concerning Activity in Certain Products" below); increased activity in the households area by other banks; and the entry of money-market funds into competition in early 2008. The launch of the Deposit and Loan Fund ("Kapam"), approved in 2014, is expected to strengthen competition, mainly over deposits; marketing of this product by investment houses has not yet begun.

In the area of credit, competition is intensifying; alongside traditional competitors, the market share of non-bank credit is growing. Competition is reflected in the development of new unique products and services, and value offers designed to recruit new customers and to enlarge or preserve the share of activity of existing customers. Recently, institutional entities have also entered the consumer credit field; government agencies are seeking to encourage more extensive activity by these entities in the future.

Technological developments and growing maturity of customer groups create potential for increased competition in the market, including the removal of entry barriers for new players and reinforcement of small players.

In the area of housing loans, the main competitors are banking corporations: Mizrahi-Tefahot Bank Ltd. (hereinafter: "Mizrahi-Tefahot Bank"), Bank Leumi LeIsrael Ltd. (hereinafter: "Bank Leumi"), and Israel Discount Bank Ltd. (hereinafter: "Discount Bank"). Credit policy in the area of housing loans is adjusted and updated according to developments and trends in markets globally and in Israel, and their effect on the real-estate sector, on households in Israel, and on customers' needs. From customers' perspective mortgages are a "price seekers' product," characterized by a lack of borrower loyalty to a "home bank," whereas banks view mortgages as an "anchor product" used in the effort to recruit and retain customers. The Bank therefore applies a policy of creating unique value for customers of the Bank, based on the strategy "Take Your Mortgage at Home." The Bank's share in the volume of housing credit (current execution) to customers in 2013, 2014, and 2015 stood at approximately 21.2%, approximately 22.2%, and approximately 22.9% (estimated) respectively (according to the Bank of Israel's reports; including purchasing groups).

In the area of credit cards, competition is high in the various customer segments: card-holding customers (including competition over contracts with customer clubs), banks that distribute credit cards, and businesses that accept credit cards. This competition is expressed in the development of new, unique products and services and in marketing value offers aimed at recruiting new customers and expanding or maintaining a share in the activity of existing customers. In the credit-card market, competition is reflected in initiatives established with leading retail chains to distribute joint credit cards, including the granting of consumer credit.

For details of regulatory directives related to credit cards, see the section "Additional Information Concerning Activity in Certain Products," below.

Main methods of coping with competition:

1. Carefully considered development of the network of branches according to the needs of the various population segments in areas with potential, while selecting the most suitable concept for the surroundings, target audience, and business potential of the branch.
2. Continuous development of a range of products in all content areas of banking, in accordance with market and consumer trends, along with value-added services conferring a competitive advantage for the customers of the Bank, such as the foreign-currency service at the airport, which allows customers to order foreign currency in advance over the Internet or by telephone and receive it at the Bank's counter before boarding their flights.
3. A comprehensive view of the customer: risk management and repayment-capability analysis, integration of mortgages with other banking products, and the creation of product baskets, with an emphasis on offers suited to the customer's needs, such as "Zakaut (Entitlement) Poalim" and others.
4. Reinforcing personal connections and relationships with customers through an emphasis on service and the launch of unique services designed to promote customers' empowerment and growth and provide tools for sensible financial conduct.
5. Use and implementation of DWH tools, CRM systems, and management and optimization systems allowing the development and absorption of advanced work processes aimed at customer retention and expanding activity with customers.
6. Improving work processes, including multi-channel perspectives, and managing and investing in advanced systems.
7. Reinforcement and development of the direct channels – Poalim by Telephone, Poalim Online, and Poalim Mobile – in order to improve the value-added services offered to customers. This includes the introduction and upgrade of the online budget management tool, which is well matched to the needs of this segment, as well as the capital-market website, specialized applications for account management and capital-market activity for a variety of platforms (iPad, iPhone, computer), launch of the Mobile Wallet application, and the Maof simulator designed for customers with greater interest and activity in the capital market.

8. Leveraging the Bank's technological power to provide a multi-channel service package to customers, such as the Multi-Channel Loan service, in which customers can apply for a loan through Poalim Online and receive approval via voice message, to a telephone number of their choice; Instant Credit, which offers loan applications via smartphone (iPhone and Android); cash withdrawal via text message, allowing customers to withdraw or transfer cash using a code sent to their phones; and the "With You in the Moment" service, which allows customers to place an online request for a telephone call from a banker through the Bank's website, and informs the customer of the estimated wait time (usually a few seconds).
9. Preparing for various market scenarios by building flexible infrastructures that allow for an appropriate, rapid response to changes in the competitive environment.

Regulatory Initiatives

In December 2011, the Committee for the Examination of Increasing Competition in the Banking System, headed by the Supervisor of Banks, was appointed as an adjunct to the Committee for Economic and Social Change, headed by Prof. Manuel Trajtenberg. The committee's mission, as described in its letter of appointment, is to examine and recommend "various means and measures to increase competitiveness in the Israeli banking market." The committee's recommendations were published in its final report on March 19, 2013.

The main recommendations of the report in the area of fees were implemented in the most recent amendment of the Banking Rules, issued on November 28, 2012, and applied in two phases, on January 1 and March 1, 2013.

An amendment to the Banking Rules was issued on September 9, 2013, addressing the maintenance of an addition to or subtraction from the basic interest rate established at the creation of a deposit throughout the entire duration of the deposit. It was further established that the mechanism for determining the interest rate should be objective and external, and the banking corporation should not have the ability to influence this determination. These directives took effect on July 1, 2014.

The directives in the Banking Rules concerning minimum management fees and the fee for a single transaction by a clerk have been implemented as of April 1, 2014; the current-account tracks also took effect on that date. Supervision has also been applied to the price of the basic track. The maximum price for this track has been set at NIS 10.

A circular issued on April 2, 2014 concerning disclosure of the cost of securities services took effect on January 1, 2015.

A directive of the Bank of Israel concerning opening of accounts over the Internet was issued on April 15, 2014. The Bank activated the option of opening accounts over the Internet in January 2015.

In March 2014, an amendment to the Banking Law (Service to Customers) was published in the Official Gazette of the Israeli Government, pursuant to which customers shall be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the law. This law took effect on September 10, 2014.

Many changes in the Banking Rules (Service to Customers) (Fees), 2008, took effect during 2015, including:

1. Cancellation of the direct-channel fee in transactions executed using debit cards.
2. Cancellation of management fees for housing loans and non-housing loans granted up to July 2008.
3. Cancellation of the deferred payment fee in transactions executed using credit cards from February 2015 forward.
4. A change in the definition of a "small business," such that the categorization has no expiration date.
5. Changes in fees in respect of transactions in foreign currencies and withdrawals overseas using charge cards. See the section "Additional Information Concerning Activity in Certain Products," below.
6. The fee for notification of a nonsufficient funds alert on a check and for payments in arrears was changed, and the fee charged to depositors for bounced checks was canceled.

On November 19, 2014, as part of the implementation of the recommendations of the Committee for Increasing Competition in the Banking System (the "Zaken Committee"), the Supervisor of Banks issued a directive concerning "Annual Statements to Customers of Banking Corporations." The directive is aimed at formalizing banking corporations' obligation to report to their customers on all of the assets and liabilities of the customer at the banking corporation, including total income and expenses during the year in respect of assets, liabilities, and current activity in the account. The "Banking ID" annual statement is designed to improve customers' ability to monitor the activity in their accounts and to improve the ability to compare different banking products and services. The directive will take effect on February 28, 2016, with regard to data for 2015.

A draft of the report on increasing efficiency and competition in charge cards by the Israel Antitrust Authority was released for comments from the public in February 2014; the final report was published in September 2014. The report addresses several key matters, including the introduction of debit cards to the Israeli market, lowering of barriers to allow new players to enter the clearing field, and the reduction of costs for businesses by setting earlier crediting dates for credit companies.

Main implications of the report – reduction of the interchange fee; immediate credit to businesses for debit transactions; banks obligated to bear the cost of credit days arising from deferred-debit transactions; imposition of a requirement for credit companies to issue a combined card allowing both debit and deferred-debit transactions.

The report was approved by the government on October 22, 2014, but no final implementation date has been set.

Pursuant to the coalition agreement signed in April 2015, the government will act to increase competitiveness in the financial system, reduce the costs of long-term savings, and promote the separation of credit-card companies from banks, in cooperation with the Bank of Israel. In addition, the Ministry of Finance will formulate a memorandum of law for the expansion of competition in the credit market for consumers and for small and mid-sized business owners, through means including promotion of the implementation of the Credit Data Services Law, 2002, and the Non-Bank Loan Regularization Law, 1993; implementation of a "Bank ID"; expansion of the usage of debit cards; and granting of a state guarantee to new banks, including Internet-based and cooperative banks, for capital requirements and credit to households and small businesses. It was further agreed that the government would act and assist in the setup of IT infrastructure systems necessary for new banks, and that a committee would be established to examine the implementation of deposit insurance.

Accordingly, in June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed the Committee for Increasing Competition in Common Banking and Financial Services Provided to Households and Non-Large Businesses (the Strum Committee). The committee is to make recommendations with regard to the introduction of new players in this field, including through the separation of credit-card companies from bank ownership. The committee has also been charged with recommending necessary supplementary measures, the removal of barriers to the entry of new players, and increasing competition, as noted.

The committee has called on the public to present its positions on these issues. The committee's recommendations were published in an interim report released for comments by the public; these include:

1. Separation of the control of credit-card companies from large banks.
2. Increasing competition in the area of clearing.
3. Limiting large banks in the issuance of credit cards.
4. Investment houses, institutional entities, and companies related to institutional entities are to be given incentives to offer retail credit to consumers; tools will be made available to the public to allow credit to be received from these providers, including through completion of the regularization of supervision of non-bank financing companies.
5. Non-large banks are to be permitted to collaborate with each other and with other non-bank entities by pooling IT resources (including cloud resources).
6. All banks will be required to insure deposits that they take with a government insurer.

7. Ordering of the various payment services, based on international regularization, with an emphasis on European regularization.
8. Enhancing consumers' ability to compare prices between banks and facilitating customers' transition between banks.

In addition to the foregoing, various private bills have been submitted to the twentieth Knesset, including proposals to cancel or reduce fees, proposals to implement updates of the Execution Law with direct implications for the activity of banking corporations, including discharges and exemptions from arrears interest for various debtors, and more.

These regulatory initiatives have an adverse effect on the revenues of the Bank, and may have an adverse effect on the business of the Bank Group in the future. At this stage, the Bank is reviewing the overall implications of the foregoing for the Bank's revenues, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

Products and Services

Dan the Saver

In 2015, the Bank continued to lead and promote the importance of imparting sound financial habits from a young age, using the familiar and well-loved character Dan the Saver. Specialized savings plans were set up, through collaborations with the Poalim CashBack Club, with attractive terms for various ranges. Concurrently, the Bank continued to adapt Dan the Saver activities for the Arab-Israeli and Ultra-Orthodox (Haredi) sectors.

Poalim CashBack

The CashBack Club, launched in 2012, continued to solidify its standing as the Bank's customer club during 2015. The club offers rebates directly in customers' accounts on credit-card purchases at any of the participating businesses. Since the club's launch, rebates in a total amount of NIS 86 million have been given to approximately 940,000 customers. The club includes 50 large nationwide chains and thousands of small businesses throughout Israel, where customers of the Bank benefit from a wide range of special offers and significant discounts in addition to regular CashBack rebates.

Poalim Gold

The Poalim Gold Club, launched in July 2015, is another element in the Bank's long-term strategy under the heading "New Seniors." The club is targeted to older customers with a senior citizen card who have bank credit cards. The club offers its members experiences, discounts, and special benefits in the areas of leisure and travel, cooking, classes, and family. In addition, a different Gold Monday benefit is offered to customers each week at a special price. The club holds monthly events designed for senior-citizen customers.

UP Control

The Bank launched the UP Control service in March 2015. The service alerts Bank customers of a jump in their telephone, power, or cable bill. The service is exclusive to the Bank, and offers various alerts delivered to mobile phones in the event of exceptional credit card or current account charges. Customers can register for this service through any of the Bank's channels: branches, the Bank's website, or the account management application.

Quick Glance

A new feature within the Account Management application, allowing customers one-touch access to the most important information – the balance in their account, the amount of their next credit-card charge, their Instant Credit balance, and their expected expenses until the end of the month – without logging in to the account and without entering a password.

Poalim Young Initiative

A targeted marketing effort aimed at recruiting young customers by addressing young people and their parents was conducted in July and August 2015. Within the activity targeted to young people, the Bank's club for these customers was rebranded as Poalim Young; a specialized application was launched for young customers; customers opening new accounts received gifts; and a digital campaign aimed at young people was conducted. A website was created to reach out to parents, under the heading "Parents Teach Kids About Money."

New Seniors Initiative

The Bank has launched an initiative targeted to the population of seniors (aged 55 or older), offering products, tools, and activities matched to these customers' financial needs, with the aim of helping them improve their routine financial management. The initiative encompassed proactive outreach to customers with identified potential, in which customers were offered pension advising or financial advising sessions with professional advisors. The Bank also launched an application targeted to senior customers. This effort is centered on financial and pension advising sessions using a new, advanced advisory system, Poalim Advisor. More than 30,000 financial and pension advising sessions have already been conducted. This initiative gained exposure in an extensive promotional campaign, which included content collaborations in various media channels.

New Seniors Application

The application is designed for older customers in the pre- and post-retirement age group. It offers a unique banking experience, in which customers can receive comprehensive information about their accounts, execute transactions quickly and easily, and view the various targeted Poalim Gold and Poalim CashBack club benefits. Over 3,000 senior customers have downloaded the application and are using it for their needs.

Poalim Young Application

A unique, advanced application for teenagers, designed using language and styles targeted to the young generation. The application offers a range of services to help young customers with everyday financial management, such as paying for bus tickets directly from the application, withdrawing cash without a card, receiving Quick Glance account information without a password, and more.

BE Online

A service model designed for the segment of customers willing to use only basic banking services and interested in operating online only in order to save on fees. On September 3, 2015, the Bank launched BE Online, which allows customers over the age of 18 to manage their bank account via the website or the mobile application, without paying current-account fees for money transfers, cash deposits and withdrawals at self-service stations, account debiting authorizations, and standing orders. Customers carry out banking transactions, including opening the account, via digital channels, which include self-service stations. BE Online customers can also deposit checks, set up deposits and savings plans, and receive loans through the digital channels, without visiting a branch. Customers can receive banking services via e-mail, using the website, and technical support from the staff at a dedicated contact center. BE Online customers who choose to visit a branch of the Bank pay for transactions executed at the branch according to the fee list.

Poalim Digital

In November 2015, the Bank launched the Poalim Digital network of digital branches. For the first time in Israel, the Bank offers the industry's most advanced banking experience, adapting the world of banking and specifically the branch experience to our customers' needs in the new era. Poalim Digital branches combine innovative technological means with individual professional guidance from bankers and advisors. Poalim Digital branches are designed for customers who use the website and applications to carry out banking activities online; the branches are adapted to these customers' pace and way of life.

Innovations include:

1. Extended opening hours.
2. Poalim Store – a digital wall of products for the execution of transactions directly from a smartphone.
3. Poalim Explore – a learning wall, to familiarize customer with and teach about the various products and services of the Bank.
4. Touch Table – the touch table allows customers to experience products before purchasing, using interactive simulations.
5. Poalim Kids – a touch table with interactive games designed to impart sensible financial habits to our customers' children, and more.

Mortgage Supplement

A new credit product targeted to customers who take out a mortgage at the Bank. The Mortgage Supplement is an all-purpose loan offered as additional financing, subject to a lien on the property. This loan provides customers with flexible, quick credit in the ordinary course of business. The product thereby provides a solution for the needs that arise during the process of buying a home, during which many customers find that they need financing for additional expenses, some of which are unplanned. The option of receiving another loan for the related expenses increases home buyers' confidence and helps them achieve sensible financial management.

Customers

The segment's customers mainly include households with low to medium financial wealth, as well as small business clients. Customers are divided into sub-segments based on parameters of age, financial wealth and/or income level, debt balances, and growth potential. Segment customers also include customers who take out a loan that involves mortgaging a home as their only activity at the Bank.

Marketing and Distribution

The segment's marketing and distribution are conducted through advertising campaigns in newspapers, on television, on the Internet, on the radio, and on billboards. The Bank identifies itself publicly as a professional provider in the financial field, leading its customers towards financial freedom through guidance and through the continual development of innovative tools for sensible financial conduct and the encouragement of savings. Customers also receive marketing messages through the various channels they use at the Bank, both reactively and proactively – face to face or over the telephone at the branches, at Poalim by Telephone, on the Poalim Online website, and through Poalim Mobile. Marketing messages are also delivered through direct mailings to customers (account statements, designated direct mail); self-service stations (ATMs and Adcan machines); and marketing e-mails.

The use of digital marketing has expanded significantly over the last year, on the Internet and via mobile, allowing focused communication with customers based on their interests and the characteristics of their activity online, through search terms, banners targeted to specific customer segments, advertisements preceding YouTube videos, digital advertising on Facebook, interstitial advertisements, and more.

Human Capital

The average number of positions of employees of the segment in 2015 was 4,678, compared with 4,977 positions in 2014. The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

Permanent workers trained for various roles, according to customers' banking needs, are employed at the branches. In addition, external workers are employed in basic positions (tellers), after receiving appropriate training.

The Bank's policy is to hire academic degree holding employees as necessary, and there is an ongoing upward trend in the percentage of degree holders. The Bank also encourages employees to study towards undergraduate and graduate level degrees, both through assistance in financing tuition and through added vacation days for exams.

The Poalim by Telephone call centers employ Bank employees and external employees who have undergone designated training, including admission examinations for call-center service providers.

Collaboration Agreements

Collaboration agreements with insurance companies: In order to sell building insurance and life insurance in the course of granting housing loans, as described above, the Bank Group has contracted with several leading insurance companies; customers are offered the option of buying policies from the said insurance companies through presentation of the insurance offers of each of the companies. Customers are free to select the most suitable proposal or purchase insurance elsewhere.

Legal Proceedings

See Note 26 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Review of Risks," below.

Objectives and Business Strategy

The Bank aims to improve its profitability by expanding activities with the segment's customers, recruiting new customers, and streamlining and improving supporting processes. The following measures are planned in order to realize this strategy:

- Prudent management of the retail network based on a multi-channel approach and on potential, with the construction of advanced solutions based both on the branch network and on the accessibility and availability of transactions and information through a variety of direct channels.
- Continued development of advanced infrastructures for understanding of customers' needs, as a basis for the development of tailored, differentiated value offers for the different segments.
- Preserving the Bank's leadership and competitive advantage through the continued development of its advanced service philosophy and increase of customer satisfaction.
- Development of activities in the area of housing loans as an anchor product, with a focus on Bank customers, alongside improvements in sales and marketing processes.
- "Poalim the Right Way" (LEAN Banking) – Implementation of new resource management methods and work processes at the Bank's branches, aimed at creating conditions leading to operational excellence while improving branch workers' professional skills in sales and service processes. As part of this framework (as well as in independent frameworks), operational core processes that do not require direct contact with customers are being transferred from the branches to central back offices, which specialize and are professionally skilled in operational processes, to separate these processes from face-to-face customer service and sales processes in the branches' activity. The first center opened in July 2008. As at the date of the financial statements, six centers (in Beit Dagan, Nesher, Givat Olga, Hatzor, Beer Sheba, and Jerusalem) handle a broad range of core processes, including currency transfers in foreign and Israeli currency, handling guarantees in general and Sale Law guarantees in particular, addressing deviations from credit facilities in customers' accounts and collection, check discounting, subtraction of checks submitted for deferred deposit and check cancellation, check deposits by machine, check truncation, debit authorizations, foreclosures, various services provided to provident funds, and more. The centers also provide operational support for the Express Branches and Business Branches. The Bank estimates that the cultivation of operational expertise and skill at the centers alongside the implementation of advanced control processes, some of which are automated, will allow a reduction of the level of operational risk associated with these processes (including survivability and disaster recovery) to which the Bank was exposed in the work structure prior to the transfer of these activities to the centers. In light of the success of this process, the effort was also expanded to Poalim by Telephone and the central back offices, where processes with potential for improvements in service along with improved efficiency are being examined.
- The Bank has expanded pension advising services at its branches. Over the last year, all licensed pension advisors went through professional training to expand the range of products for which advisory services are provided in the pension portfolio and adjust to regulatory changes, focusing on a comprehensive view of customers' needs and on extensive objective advising. In addition, an advanced, unique advisory system has been implemented, allowing convenient processing and presentation of pension information through all channels. Concurrently, the Bank is developing knowledge and professional expertise centers in the area of pensions, in order to make professional service accessible to a broad audience; this process includes the opening of a pension advice and retirement planning center.

Outlook for Development in the Coming Year

Retail network deployment – The Bank will continue the prudent deployment of its branches, focusing on areas with regional potential and populations with potential, and matching the format of the branch to the needs of the target population.

Pension advising – Within the Bachar Reform, the Bank has been permitted to engage in pension advising, subject to the provisions of the legal arrangement and the derived permits and directives. The Bank is connected to the pension clearing house, and receives information through the clearing house for the purpose of providing pension advisory services to customers of the Bank. The advisory services are provided at most of the branches across Israel, as well as at specialized pension advising centers in twelve major cities.

Pension view for New Seniors – In an extensive initiative targeted to the population of seniors, a new service has been launched on the Bank's website allowing customers to view all pension information transferred from the pension clearing house. This service is provided only to customers who are interested in it, and is free of charge at this stage. The service has three main advantages for customers: 1. centralization of all pension information in a single location – the Bank's website; 2. an up-to-date information infrastructure for pension advising; 3. the option to integrate the customer's pension/financial information.

For further details regarding the Bank's preparations to provide pension advisory services, see the section "Additional Details Regarding Activity in Certain Products."

Table 5-40: Condensed Operating Results and Principal Data of the Households Segment

	For the year ended December 31, 2015						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Housing loans	
	NIS millions						
Net interest income:							
From externals	**1,856**	**125**	**-**	**803**	**29**	**2**	**2,815**
Inter-segmental	**(22)**	**-**	**-**	**(575)**	**(16)**	**-**	**(613)**
Non-interest financing income	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Total net financing profit	**1,836**	**125**	**-**	**228**	**13**	**2**	**2,204**
Fees and other income	**438**	**629**	**36**	**59**	**-**	**-**	**1,162**
Total income	**2,274**	**754**	**36**	**287**	**13**	**2**	**3,366**
Provision for credit losses	**188**	**21**	**-**	**1**	**3**	**-**	**213**
Operating and other expenses:							
From externals	**2,070**	**505**	**62**	**171**	**38**	**2**	**2,848**
Inter-segmental	**(189)**	**-**	**8**	**-**	**-**	**-**	**(181)**
Profit (loss) before taxes	**205**	**228**	**(34)**	**115**	**(28)**	**-**	**486**
Provision for taxes (tax benefit) on profit (loss)	**85**	**70**	**(14)**	**48**	**(12)**	**-**	**177**
Net profit (loss):							
Before attribution to non-controlling interests	**120**	**158**	**(20)**	**67**	**(16)**	**-**	**309**
Attributed to non-controlling interests	**-**	**(3)**	**-**	**-**	**6**	**-**	**3**
Attributed to shareholders of the Bank	**120**	**155**	**(20)**	**67**	**(10)**	**-**	**312**
Return on equity	**4.6%**	**18.2%**	**-**	**3.2%**	**(20.8%)**	**-**	**5.5%**
Average balance of assets	**27,984**	**6,836**	**-**	**39,838**	**238**	**22**	**74,918**
Average balance of liabilities	**39,858**	**-**	**-**	**-**	**34**	**-**	**39,892**
Average balance of risk-adjusted assets	**27,993**	**9,107**	**128**	**22,406**	**512**	**26**	**60,172**
Average balance of mutual funds(2)	**-**	**-**	**2,842**	**-**	**-**	**-**	**2,842**
Average balance of securities	**-**	**-**	**2,002**	**-**	**-**	**-**	**2,002**
Average number of employee positions	**3,409**	**696**	**112**	**403**	**38**	**20**	**4,678**
Balance of net credit to the public	**28,249**	**6,742**	**-**	**41,084**	**151**	**-**	**76,226**
Balance of deposits from the public	**41,276**	**-**	**-**	**-**	**23**	**-**	**41,299**
Spread from credit granting activity	**1,734**	**125**	**-**	**231**	**13**	**2**	**2,105**
Spread from deposit taking activity	**85**	**-**	**-**	**-**	**-**	**-**	**85**
Other	**15**	**-**	**-**	**(3)**	**-**	**-**	**12**
Total net interest income	**1,834**	**125**	**-**	**228**	**13**	**2**	**2,202**

(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

Table 5-40: Condensed Operating Results and Principal Data of the Households Segment (continued)

	For the year ended December 31, 2014*						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Banking and financial services	Housing loans	
	NIS millions						
Net interest income:							
From externals	1,701	92	-	1,044	45	3	2,885
Inter-segmental	75	-	-	(833)	(25)	(2)	(785)
Non-interest financing income	2	-	-	-	-	-	2
Total net financing profit	1,778	92	-	211	20	1	2,102
Fees and other income	450	610	33	70	-	-	1,163
Total income	2,228	702	33	281	20	1	3,265
Provision (income) for credit losses	244	11	-	(25)	11	-	241
Operating and other expenses:							
From externals	2,095	472	59	187	43	1	2,857
Inter-segmental	(63)	-	9	(28)	-	-	(82)
Profit (loss) before taxes	(48)	219	(35)	147	(34)	-	249
Provision for taxes (tax benefit) on profit (loss)	(19)	65	(14)	58	(13)	-	77
Net profit (loss):							
Before attribution to non-controlling interests	(29)	154	(21)	89	(21)	-	172
Attributed to non-controlling interests	-	(4)	-	-	7	-	3
Attributed to shareholders of the Bank	(29)	150	(21)	89	(14)	-	175
Return on equity	(1.2%)	19.0%	-	4.5%	(29.2%)	-	3.3%
Average balance of assets	24,842	6,368	-	37,770	310	32	69,322
Average balance of liabilities	37,181	-	-	-	33	-	37,214
Average balance of risk-adjusted assets	26,340	8,612	132	21,447	523	39	57,093
Average balance of mutual funds[2]	-	-	2,866	-	-	-	2,866
Average balance of securities	-	-	1,987	-	-	-	1,987
Average number of employee positions	3,657	728	121	389	53	29	4,977
Balance of net credit to the public	25,521	6,244	-	38,708	306	-	70,779
Balance of deposits from the public	38,467	-	-	-	34	-	38,501
Spread from credit granting activity	1,551	92	-	207	20	1	1,871
Spread from deposit taking activity	197	-	-	-	-	-	197
Other	28	-	-	4	-	-	32
Total net interest income	1,776	92	-	211	20	1	2,100

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

(1) Distribution fees for financial products and securities activity.

(2) Mutual funds for which the Bank Group provides custody services.

Principal Changes in Net Profit and Balance Sheet Balances

Net profit attributed to shareholders of the Bank in the Households Segment totaled NIS 312 million in 2015, compared with NIS 175 million in the preceding year. The increase mainly resulted from an increase in net financing profit and a decrease in operating expenses.

Net financing profit totaled NIS 2,204 million in 2015, compared with NIS 2,102 million in the preceding year. The increase mainly resulted from an increase in the volume of credit, offset by the decrease in the interest rate in Israel, and its effect on spreads on deposits.

Fees and other income totaled NIS 1,162 million in 2015, compared with NIS 1,163 million in the preceding year.

The provision for credit losses totaled NIS 213 million in 2015, compared with NIS 241 million in the preceding year. The decrease mainly resulted from a collective allowance recorded in 2014 due to the update of the Public Reporting Directives of the Supervisor of Banks on the subject "Collective Allowance in Respect of Credit to Private Individuals" for consumer loans, in the amount of NIS 115 million. This decrease was offset by an increase in collective and individual allowances due to an increase in the volume of activity.

Operating and other expenses of the segment amounted to NIS 2,667 million in 2015, compared with NIS 2,775 million in the preceding year. The decrease resulted from an expense recorded in 2014 in respect of the efficiency plan, in the amount of NIS 110 million, and from current cost savings due to these efficiency processes, and the effect of provisions measured on an actuarial basis. By contrast, bonuses and share-based payment increased due to the increase in profit.

Net credit to the public totaled approximately NIS 76.2 billion as at December 31, 2015, compared with approximately NIS 70.8 billion as at December 31, 2014. The increase mainly resulted from an increase of approximately NIS 2.7 billion in consumer credit in Israel, excluding housing loans and credit cards, which amounted to approximately NIS 28.2 billion, compared with approximately NIS 25.5 billion as at December 31, 2014, and from an increase of approximately NIS 2.4 billion in housing loans, which amounted to approximately NIS 41.1 billion, compared with approximately NIS 38.7 billion as at December 31, 2014.

Deposits from the public totaled approximately NIS 41.3 billion as at December 31, 2015, compared with approximately NIS 38.5 billion as at December 31, 2014.

The Private Banking Segment

General and Segment Structure

The Private Banking Segment serves mid-range to high-net-worth customers in Israel and abroad. The Bank offers financial services and solutions to customers in this segment with complex financial needs, through advanced products, global asset management, and a special professional service package, which includes meetings and telephone calls initiated by the bankers and an advanced advisory system aided by decision support tools. In providing service to customers in this segment, special emphasis is placed on the formation of close long-term customer relationships.

The segment's activity in Israel, for customers who keep accounts with the Bank's branches in Israel (with the exception of one branch, which is assigned to international activity, as detailed below), is conducted through the Bank's nationwide chain of branches, at differentiated Private Banking Units within the branches and at "Boutique Branches" (which are targeted to the segment's customers in Israel), as well as through the direct channels (see the section "The Households Segment" above). Global Private Banking (GPB) services are provided both in Israel, at the GPB Center in Tel Aviv, and in a wide range of locations overseas, including in Europe, the United States, Latin America, Canada, and Asia. These services are provided through activity centers including banking subsidiaries, branches, asset-management subsidiaries (for further details regarding the activity of the Bank Group abroad, see the section "Activity of the Bank Group Abroad" below), and representative offices engaged solely in public relations.

Activities

The principal activities in this segment are banking and financial services, credit cards, the capital market, and housing loans. Services offered to customers of the segment in Israel and to GPB customers in the area of "banking and financial services" include current-account management services, granting of credit for various purposes (in this context, note that the Retail Banking Area and the International Banking Area are authorized to grant credit in larger amounts to customers of the Private Banking Segment, taking into consideration the customer's needs and net worth), deposits, and savings plans. For details regarding the services provided by the Bank within "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

Developments in the Segment's Markets or Changes in the Profile of its Customers

In Israel:

2015 ended with a mixed trend in the markets. The TA-25 index was up by 4.3%, while the TA-75 was down by 5.4%. Unlinked government bond indices posted gains, at 2.7%, versus a decrease of 0.2% in CPI-linked bonds. Long-term CPI-linked bonds were up by 0.8%. The various Tel Bond indices showed a mixed trend as well, with a 1.1% decrease in the Tel Bond 20 index, but a 4.7% increase in the Tel Bond Unlinked index and a 1.6% increase in the Tel Bond Yields index. All of the markets experienced steep volatility this year, in the various stock indices as well as in the fixed-income segments. Advisors and clients worked during the year to optimize risk components in portfolios, as reflected in continued rechanneling to foreign shares, as well as optimization of the corporate bond portfolio and integration of foreign corporate bonds. Optimization of the corporate segment of the portfolio was achieved by advisors mostly based on GSE debt analysis and S&P foreign bond debt analysis, as well as through the use of managed mutual funds, which continued to increase during 2015.

Technological Changes that May Have a Material Impact on the Segment

In Israel:

Changes in the Poalim Advisor Systems

- New financial advising philosophy – The process of launching the new financial advisory service was completed during the first quarter of 2015. The service is based on a new advisory approach and on a unique, innovative global optimization model; its essence is better financial management and planning.

Critical Success Factors in the Segment

In Israel:

- High professional quality of employees.
- Investment advising at a high professional level, aided by advanced decision-support systems. As part of the development of advanced tools, an interface was launched for trading in foreign securities, for the benefit of customers who trade on the capital market.
- Customer-focused personal service, with a strong emphasis on personal relationships, availability, high-quality service, and tailoring to customers' needs.
- A proactive service package tailored to the customer, including meetings with the banker and/or advisor according to the customer's needs.
- Highly flexible service, according to changing market conditions in Israel and worldwide.
- An advanced, available, accessible branch network suited to customers' needs.
- A range of advanced direct communication channels (Internet, "Poalim by Telephone," "Poalim Mobile," and automated self-service devices). In the mobile space, the Bank offers various services to its customers, including Poalim HD, a unique application for account management via iPad; a specialized application for capital-market trading via iPad; an account management application for various smartphones; the OnTime service for information and alerts delivered by cell phone; a specialized capital market application; continued development and expansion of the value offer in the Poalim Wallet for mobile devices; launch of a smart watch application.
- Development of value offers in multi-channel banking, such as a multi-channel loan, in which loan applications can be filed and loans can be received through a range of different channels, and a two-way mail service allowing customers direct personal access to a banker through the secure website.

Overseas:

- High professional quality of employees.
- Personal service, focused on customers' needs.
- A wide variety of products, carefully selected from the world's best producers in accordance with the open-architecture policy (i.e., offering banking products produced by others), implemented through PAM Companies (see the section "Activity of the Bank Group Abroad" below), while tailoring the supply of products to customers' tastes and to prevalent international standards in the industry.

Main Barriers to Entry and Exit in the Segment

In Israel:

- Establishment of a broadly deployed nationwide system of branches, while differentiating service to these customers.
- Development of advanced direct services offering accessible service and the execution of financial activity.
- Training skilled personnel to provide financial advice to customers, in accordance with the provisions of the Advising Law.
- Continual development of a varied, differentiated range of products and services with added value, adapted to customers' needs and tastes.
- Maintaining personal, continuous relationships with customers.
- Investments in setup, maintenance, and upgrades of advanced technological means and management tools.
- High investment in the construction of a strong, leading, credible brand.
- Minimum capital requirements and capital adequacy ratios according to the instructions of the Bank of Israel.

Overseas:

The activity of the Private Banking Segment involves long-term relationships with its customers. In order to be a significant competitor in this segment, financial institutions must meet several criteria:

- Broad geographical deployment, including offices and branches around the world.
- Employment of professional, skilled personnel.
- Investments in setup, maintenance, and upgrades of infrastructures.
- A system of product initiation and distribution.
- Compliance with regulatory restrictions.

Alternatives to the Segment's Products and Services, and Changes Therein

There are no alternatives for the majority of the segment's products and services, although there is competition between banking and financial institutions, in Israel and internationally. The Bank and the Bank Group principally work to improve processes and introduce technological improvements, with the aim of improving service and expanding the offering of banking products.

Customers

Private Banking customers in Israel have high net worth and/or future growth potential. Customers (including foreign residents) are assigned based on criteria of age, financial wealth, and/or income level.

Global Private Banking customers are high-net-worth private customers who are foreign residents, usually with a Jewish/Israeli affinity.

Marketing and Distribution

In Israel, marketing and distribution are executed through private-banking units at branches, face to face and by telephone, and via "Poalim by Telephone," both through proactive outreach and in response to customers' calls. Marketing and distribution activities are also conducted through "Poalim Online," using marketing banners or messages seen when logging in to accounts. Marketing and distribution to private-banking customers in Israel are also carried out through advertising campaigns in newspapers, on television, on the radio, and on billboards.

Marketing messages are also communicated through direct mailings to customers (account statements, enclosures, designated direct mail); self-service stations (ATMs and "Adcan" self-service machines); the "Poalim Online" website; e-mail; and signs, videos, informational pamphlets, and postcards at branches. In addition, mass marketing channels such as television, newspapers, radio, and the Internet are occasionally used to market value offers of the Bank to customers. The use of digital marketing has expanded significantly over the last year, on the Internet and via mobile, allowing focused communication with customers based on their interests and the characteristics of their activity online, through search terms, banners targeted to specific customer segments, advertisements preceding YouTube videos, digital advertising on Facebook, interstitial advertisements, and more.

Exclusive Services for Platinum Club Members

- Meetings with customers are held at the customer's preferred location, using secure mobile banking that allows transactions to be executed outside the Bank's offices.
- Platinum customers are offered the Centurion card – the world's most prestigious credit card, which allows members to enjoy international concierge services and provides benefits and upgrades in various areas of travel and tourism.
- The Platinum Club supports leading cultural and artistic institutions, and customers benefit from unique cultural events and experiences.

Competition

Over 40% of Private Banking customers in Israel maintain accounts with more than one bank. The entrance of insurance companies and private brokers into the mutual-fund and provident-fund market, specifically, and into sales of financial products in general, as well as the lowering of barriers to switching from bank to bank, have increased competition over customers in this segment. As a result, competition over these customers within the banking system is highly aggressive, as expressed in benefits in account management terms, price levels, advertising campaigns, an emphasis on personalized service and service packages tailored to customers, investment advising at an exceptionally high level, and innovation in products, value offers, and technology in order to provide leading services. The competitors in this segment are the four other major banking groups, as well as other banks operating in Israel, foreign banks, and investment houses. However, following the outbreak of the financial crisis, a decrease in the pace of competition was apparent, as some non-bank financial institutions and foreign banks outside Israel were perceived as less stable. With regard to competition in the area of housing loans, see the section "The Households Segment" above.

Anticipated amendments to the directives of the Bank of Israel will permit independent trading in mutual funds, with reduced distribution fees, through a specialized system, with no dependence on the terms of the account at the bank. Smaller banks and investment firms are expected to adopt this platform and make it available to customers of the major banks. This process is likely to have an impact on the level of competition in this segment.

Overseas, Global Private Banking is characterized by a high level of competition, which is increasing over time, as the high-net-worth customer segment is attractive to many financial institutions. The main competitors in this area are Swiss banks specializing in private banking, and Israeli banks operating overseas.

The Bank copes with competition primarily by providing a high level of personalized, professional service; a range of products and services on a par with those offered by competitors; and the ability to respond rapidly to changes in the market and in customers' tastes.

Human Capital

The average number of positions of employees of the segment in 2015 was 3,020, compared with 3,144 positions in 2014. The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

The private-banking units in Israel employ personnel trained for various positions, according to customers' banking needs. The units also employ workers trained as investment advisors, who provide advisory services and banking services tailored to customers' needs.

The Bank's employees abroad are experts in private banking or in international credit products. Many of them hold academic degrees. In order to meet the standards dictated by the global market, employees receive training and enrichment in the areas of their work as well as in local regulatory requirements. These employees are also familiar with customers' needs and preferences, and speak their language.

Legal Proceedings

See Note 26 to the Financial Statements.

Regulatory Initiatives

See the section "The Households Segment," above.

Proper Conduct of Banking Business Directive 311

See the section "Review of Risks," below.

Collaboration Agreements

The Bank has collaboration agreements with international financial entities that are leaders in the area of global investments. Under these agreements, the Bank Group offers Global Private Banking customers a range of funds managed based on an analytical portfolio manager selection model, designed to select the best portfolio managers operating in each sector and market.

Objectives and Business Strategy

The Bank aims to improve its profitability by expanding its activity with the customers of this segment, recruiting new customers, and streamlining and improving the supporting processes.

In Israel:

- Strengthening personal relationships with and knowledge of customers, in order to retain and extend activities with existing customers and recruit potential customers.
- Continued deployment of the retail system in areas with potential, in formats matched to the needs of the customer segment.
- Continued development of advanced tools in the direct channels.
- Creation of a unique value offer suited to customers' differentiated needs.
- Improvement of the quality of customer service and enhancement of customer satisfaction, in order to strengthen loyalty.
- New Seniors Initiative – The Bank launched a far-reaching strategic effort during the year, the first of its kind in Israel, focused on the peri-retirement age population group. This initiative is one of the main focus areas for the activity of the Bank in 2015, and for the following years; it will encompass unique benefits, services, and products for the New Seniors segment. The core element of the project is financial and pension advisory sessions based on a new, advanced advisory system, Poalim Advisor, which allows financial goals to be set and offers a range of solutions for the achievement of the goals, mapping of assets, and analysis of present and future income and expenses. More than 30,000 financial and pension advising sessions have already been conducted.

Overseas:

Growth while focusing on customers; matching business strategy to the competitive environment; developing the capabilities of customer relationship managers; expanding the volume of activity and assets of foreign-resident customers and Israeli customers operating abroad, including through expansion of the service package and the range of products offered to customers; and expansion of the customer base.

Outlook for Development in the Coming Year

Over the last few years, a new approach has been formulated and implemented in the Private Banking Segment, in view of the changing competitive environment in which the Bank operates, where competition for private-banking customers is intensifying. The goal of the new approach is to create an innovative experience for customers, solidifying the Bank's competitive advantage and preserving its status as the leader in this market. This approach is based on key change catalysts such as providing differential service packages tailored to customers' different needs; formulating a service philosophy; defining an organizational structure compatible with customers' needs; transitioning to planned and proactive service; improving the appearance of branches; improving response in the direct channels, including the telephone call center; and empowering the unit's bankers and advisors.

Note that it is possible that the Bank may not succeed in realizing the plans described above, due to causes including legislative and/or regulatory directives, especially including all matters related to the training of a sufficient number of financial advisors and/or the intense competition over customers in this segment.

Table 5-41: Condensed Operating Results and Principal Data of the Private Banking Segment

	For the year ended December 31, 2015						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Banking and financial services	Capital market[1]	
	NIS millions						
Net interest income:							
From externals	**(19)**	**20**	**-**	**283**	**96**	**-**	**380**
Inter-segmental	**552**	**-**	**-**	**(220)**	**32**	**-**	**364**
Non-interest financing income	**40**	**-**	**-**	**-**	**2**	**-**	**42**
Total net financing profit	**573**	**20**	**-**	**63**	**130**	**-**	**786**
Fees and other income	**265**	**356**	**665**	**6**	**151**	**184**	**1,627**
Total income	**838**	**376**	**665**	**69**	**281**	**184**	**2,413**
Provision (income) for credit losses	**9**	**13**	**-**	**-**	**(1)**	**-**	**21**
Operating and other expenses:							
From externals	**1,055**	**254**	**274**	**24**	**268**	**221**	**2,096**
Inter-segmental	**100**	**-**	**153**	**-**	**-**	**14**	**267**
Profit (loss) before taxes	**(326)**	**109**	**238**	**45**	**14**	**(51)**	**29**
Provision for taxes (tax benefit) on profit (loss)	**(135)**	**34**	**98**	**19**	**6**	**(21)**	**1**
Net profit (loss):							
Before attribution to non-controlling interests	**(191)**	**75**	**140**	**26**	**8**	**(30)**	**28**
Attributed to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Attributed to shareholders of the Bank	**(191)**	**74**	**140**	**26**	**8**	**(30)**	**27**
Return on equity	**(15.9%)**	**14.3%**	**-**	**2.8%**	**1.3%**	**-**	**0.8%**
Average balance of assets	**10,920**	**3,833**	**-**	**18,990**	**6,302**	**-**	**40,045**
Average balance of liabilities	**111,843**	**-**	**-**	**-**	**19,678**	**-**	**131,521**
Average balance of risk-adjusted assets	**12,817**	**5,534**	**1,210**	**10,024**	**6,368**	**458**	**36,411**
Average balance of mutual funds[2]	**-**	**-**	**56,050**	**-**	**-**	**863**	**56,913**
Average balance of other assets under management	**-**	**-**	**-**	**-**	**-**	**1,093**	**1,093**
Average balance of securities	**-**	**-**	**91,233**	**-**	**-**	**38,291**	**129,524**
Average number of employee positions	**1,756**	**335**	**455**	**58**	**241**	**175**	**3,020**
Balance of net credit to the public	**10,599**	**3,801**	**-**	**20,114**	**5,969**	**-**	**40,483**
Balance of deposits from the public	**119,712**	**-**	**-**	**-**	**20,574**	**-**	**140,286**
Spread from credit granting activity	**301**	**20**	**-**	**65**	**80**	**-**	**466**
Spread from deposit taking activity	**228**	**-**	**-**	**-**	**49**	**-**	**277**
Other	**4**	**-**	**-**	**(2)**	**(1)**	**-**	**1**
Total net interest income	**533**	**20**	**-**	**63**	**128**	**-**	**744**

(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

Table 5-41: Condensed Operating Results and Principal Data of the Private Banking Segment (continued)

	For the year ended December 31, 2014*,**						
	Activity in Israel				Activity abroad		Total
	Banking and financial services	Credit cards	Capital market(1)	Housing loans	Banking and financial services	Capital market(1)	
	NIS millions						
Net interest income:							
From externals	(234)	18	-	341	94	-	219
Inter-segmental	910	-	-	(296)	34	-	648
Non-interest financing income	33	-	-	-	2	-	35
Total net financing profit	709	18	-	45	130	-	902
Fees and other income	265	345	648	5	149	206	1,618
Total income	974	363	648	50	279	206	2,520
Provision (income) for credit losses	71	7	-	(6)	4	-	76
Operating and other expenses:							
From externals	1,114	234	292	27	346	332	2,345
Inter-segmental	47	-	167	(4)	-	15	225
Profit (loss) before taxes	(258)	122	189	33	(71)	(141)	(126)
Provision for taxes (tax benefit) on profit (loss)	(101)	36	74	13	14	(13)	23
Net profit (loss):							
Before attribution to non-controlling interests	(157)	86	115	20	(85)	(128)	(149)
Attributed to non-controlling interests	-	(1)	-	-	-	-	(1)
Attributed to shareholders of the Bank	(157)	85	115	20	(85)	(128)	(150)
Return on equity	(13.9%)	17.6%	-	2.5%	(12.2%)	-	(4.6%)
Average balance of assets	9,585	3,575	-	16,931	6,556	-	36,647
Average balance of liabilities	103,750	-	-	-	19,509	-	123,259
Average balance of risk-adjusted assets	12,339	5,271	1,166	8,901	7,598	427	35,702
Average balance of mutual funds(2)	-	-	56,622	-	-	985	57,607
Average balance of other assets under management	-	-	-	-	-	882	882
Average balance of securities	-	-	86,724	-	-	31,341	118,065
Average number of employee positions	1,840	345	476	54	242	187	3,144
Balance of net credit to the public	9,921	3,519	-	17,922	6,779	-	38,141
Balance of deposits from the public	107,823	-	-	-	19,401	-	127,224
Spread from credit granting activity	281	18	-	44	80	-	423
Spread from deposit taking activity	374	-	-	-	47	-	421
Other	21	-	-	1	1	-	23
Total net interest income	676	18	-	45	128	-	867

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.
** Reclassified.
(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

Principal Changes in Net Profit and Balance Sheet Balances

The results of the Private Banking Segment in 2015 amounted to profit of NIS 27 million, compared with a loss of NIS 150 million in the preceding year. The increase mainly resulted from a provision for the investigation of the Bank Group's business with American clients recorded in the 2014 within the segment's results overseas.

Net financing profit in 2015 totaled NIS 786 million, compared with NIS 902 million in the preceding year. The decrease mainly resulted from the decrease in the interest rate in Israel, which influenced financial spreads on deposits. This decrease was offset by an increase in balances of credit and deposits in Israel.

Fees and other income of the segment totaled NIS 1,627 million in 2015, compared with NIS 1,618 million in the preceding year. The increase mainly resulted from an increase in income from credit cards.

The provision for credit losses totaled NIS 21 million in 2015, compared with NIS 76 million in the preceding year. The decrease mainly resulted from a collective allowance recorded in 2014, due to the update of the Public Reporting Directives of the Supervisor of Banks on the subject "Collective Allowance in Respect of Credit to Private Individuals" for consumer loans, in the amount of NIS 39 million.

Operating and other expenses of the segment amounted to NIS 2,363 million in 2015, compared with NIS 2,570 million in the preceding year. The decrease resulted from a provision recorded in the segment's results overseas in 2014 for the investigation of the Bank Group's business with American clients. In addition, a decrease occurred in Israel as a result of an expense in the amount of NIS 84 million recorded in 2014 for the efficiency plan, current cost savings due to these efficiency processes, and the effect of provisions measured on an actuarial basis. By contrast, bonuses and share-based payment increased due to the increase in profit.

Net credit to the public totaled approximately NIS 40.5 billion as at December 31, 2015, compared with approximately NIS 38.1 billion as at December 31, 2014. The increase resulted from an increase of approximately NIS 0.7 billion in consumer credit in Israel, excluding housing loans and credit cards, which totaled approximately NIS 6.10 billion, compared with approximately NIS 9.9 billion as at December 31, 2014, and from an increase of approximately NIS 2.2 billion in housing loans, which amounted to approximately NIS 20.1 billion, compared with approximately NIS 17.9 billion as at December 31, 2014.

Deposits from the public totaled approximately NIS 140.3 billion as at December 31, 2015, compared with approximately NIS 127.2 billion as at December 31, 2014. The increase mainly resulted from an increase in positive current-account balances, as a result of a decrease in balances of mutual funds and securities.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at December 31, 2015 totaled approximately NIS 180.5 billion, compared with approximately NIS 182.0 billion as at December 31, 2014. This balance includes customers' holdings in securities portfolios and mutual funds.

The Small Business Segment

General

The Bank provides a range of banking services and financial products to small businesses. The segment's activities are conducted through the Bank's nationwide branch network and through the direct channels (see the section "The Households Segment" above). The segment also provides necessary services to business customers of the Corporate and Commercial Segments.

Activities

This year was declared the fourth Year of Small Businesses at the Bank. In 2015, the Bank continued to focus on the Small Business Segment; accordingly, extensive initiatives were launched to support and develop this sector, including specialized credit offered through a variety of funds, such as the Bank's specialized Poalim for Growth fund, a small and mid-sized businesses fund backed by the state, and sector-based funds established by the Bank in cooperation with leading market players.

The principal activities in this segment are banking and financial services, credit cards, the capital market, and housing loans; support is also given to small businesses through non-banking services, in targeted collaborations. Services offered to customers of the segment in the area of "banking and financial services" include current-account management services, granting of credit for various purposes (the maximum credit that the segment's employees may authorize, taking into account customers' needs, financial condition, and financial wealth, has been raised to a total of NIS 7 million; the amount that the Area's credit committee is authorized to approve has been raised to NIS 12 million), deposits, and savings plans. Services provided to the segment's customers include basic transactions similar to those offered to private customers in the Households Segment, as well as more complex transactions such as check discounting, foreign currency, foreign trade, and other financing transactions. For details regarding the services provided in the areas of "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

Regulatory Changes

See the section "The Households Segment," above.

Developments in the Segment's Markets or Changes in the Profile of its Customers

There were no material changes in the profile of the segment's customers in 2015. However, competition in this sector is increasing, reflected in the development of targeted offers for recruiting and expanding activity with customers. There are indications that institutional entities will enter the field of credit for small businesses in the future, increasing competition in this area. Concurrently, the trend of transition to direct banking channels, such as the Business Online service and check and cash deposit machines, continues.

Technological Changes that May Have a Material Impact on the Segment

Applications for Loans Within Credit Facilities Using Business Online

Based on an understanding of business clients' needs, a feature has been added allowing these customers to independently submit a loan application based on their approved credit facility via Poalim Business Online, without visiting a branch or signing documents. Customers can also complete the loan application process through the Poalim Business mobile application. This service represents a leap forward in the ability to make credit solutions available to business clients online, and an expansion of the value offer for these clients.

Main Barriers to Entry and Exit in the Segment

- Establishment of a broadly deployed and adapted nationwide system of branches.
- Investments in setup, maintenance, and upgrades of direct channels and advanced technological means.
- Maintaining personal, continuous relationships with customers.
- A diverse product range suited to customers' needs.
- Training skilled personnel in the various banking products and activities.
- High investment in the construction of a strong, leading, credible brand.

Alternatives to the Segment's Products and Services

There are no alternatives for the majority of banking products, although there is competition between other financial institutions in some products and services, and from other banks over all services to customers. The Bank principally works to improve processes and introduce technological improvements, with the aim of improving service and expanding the offering of banking products.

Activity of the Segment in 2015

- During 2015, the Bank continued to serve small businesses through business units at retail branches and bankers for small businesses in personal banking departments, in the most extensive network in Israel, across approximately 235 branches.
- The Bank continued to develop tools to allow small businesses to enhance their ability to grow and thrive, including various tools designed to make banking services accessible through the various direct channels, in order to provide an optimal response to the financial needs of the business.
- The "Easy Start" package granted to businesses getting started was renewed and continued, offering a current-account fee exemption for businesses in their first two years, as part of the Bank's efforts to support the creation of new businesses in Israel.
- A range of specialized loan funds targeted to this sector have been established and promoted, such as the Poalim for Growth Fund, aimed at supporting and promoting small businesses as a foundation for the growth of the Israeli economy as a whole; the Poalim New Business Growth Fund, which is focused on businesses in the setup stage, at an age of up to two years; continued promotion and granting of loans through the State-Backed Small and Mid-Sized Business Fund, aimed at encouraging the activity of small and mid-sized businesses with the potential to develop and create new jobs in Israel; a fund backed by the Manufacturers' Association; and micro-finance loans backed by the Korat Foundation.
- Benefits and promotion of collaborations through the Poalim CashBack customer club, which includes all customers of the Bank who hold an Isracard Group bank credit card. The club grants customers a benefit in the form of a rebate to their bank accounts on purchases from each participating business. The club was launched with a focus on small businesses; over the years of its activity, not only major chains have joined, but also thousands of small businesses, throughout Israel, across all sectors of B2C activity. Participating small businesses enjoy a range of marketing platforms made available by the Bank for the promotion of their business.
- During 2014, the Bank completed the process of reinforcing and adapting solutions in the branch network to clients' needs, while making customized service accessible and developing tools to strengthen knowledge and professional skills.

- Leadership of Small Business Day – To raise general public awareness of the importance of small businesses to the Israeli economy, and to encourage business activity in the small business sector, the Bank created an initiative focused on small businesses, for the fourth time, culminating in Small Business Day, which was held on January 28-29, 2016. During this event, the public was asked to deliberately prefer and buy from small businesses. The Bank's initiative was joined by local government leaders and heads of municipalities. As in the previous years, thousands of small businesses throughout Israel will participate, and will benefit from opportunities for advertising and promotion of their business; this initiative will also encompass the small businesses of the CashBack Club and will serve as a marketing catalyst for the club.

Customers

The Small Business Segment serves customers from a wide range of economic sectors with a low volume of business activity, in businesses with a low to medium level of complexity.

Since 2014, the Poalim CashBack Club has conducted continuous marketing efforts calling on customers of the Bank to patronize small businesses near their homes. A different segment of small businesses is chosen every two months for an exceptionally worthwhile offer exclusive to customers of the Bank (e.g. flower shops, cosmetics, and more).

New Products

Business Instant Credit – Business Instant Credit, launched in September 2014, is a credit product allowing small businesses to apply for loans in amounts of up to NIS 400,000 through the Poalim Online website and obtain approval for the loan in real time, without visiting a branch. This product enables small businesses to apply for significant credit necessary to successfully cope with challenges in the life of the business and receive an immediate response matched to their needs.

In February 2015, the new service became available via mobile, for loan applications and real-time approvals. Beginning in September 2015, companies and corporations with complex signature compositions and multiple signatories can also apply for Business Instant Credit using the Bank's website.

Promotion of Women in Business – Within the Bank's focus on the segment of women in business, a unique collaboration with Channel 10 was launched in August 2015, in which the Bank became the main sponsor for a new prime-time television program on Channel 10, Women, aimed at promoting women in business. A zone dedicated to this subject and sponsored by the Bank was set up on the Nana 10 website.

Poalim Business – A club for small and mid-sized businesses was launched in February 2015. The club offers significant savings of up to thousands of NIS annually on the costs involved in running a business, and grants unique benefits relevant to the core activity of the business. The club allows business owners and employees to buy a wide range of products and services at prices similar to those offered to major corporations. Key benefits offered to club members include discounts on restaurants, transportation, office equipment, and insurance. A targeted well-being portal will offer a wide range of benefits on leisure, entertainment, and vacations. All small and mid-sized businesses that maintain an account at Bank Hapoalim and hold a bank credit card are members of the Poalim Business club and are entitled to the various discounts; no advance registration is necessary.

Marketing and Distribution

On Small Business Day 3, held in January 2015 as part of the Bank's support for the Year of the Small Business, all residents of Israel were invited to patronize small businesses and contribute to economic growth. This effort was carried out in collaboration with various public entities, such as municipal authorities, mayors, and more. The Bank intends to maintain Small Business Day as an annual tradition.

Marketing and distribution in Israel are conducted face-to-face or over the telephone at the Bank's branches and at Poalim by Telephone, both proactively and in response to customers' calls. Marketing and distribution activities are also carried out through the Poalim Online website.

The use of digital marketing has expanded significantly over the last year, on the Internet and via mobile, allowing focused communication with customers based on their interests and the characteristics of their activity online, through search terms, banners targeted to specific customer segments, advertisements preceding YouTube videos, digital advertising on Facebook, interstitial advertisements, and more.

Competition

Competition in this segment is primarily with the four other major banking groups as well as other banks in the banking system. Activity in this segment requires expertise and in-depth knowledge of the customer in order to manage credit risks; competition in this segment is therefore primarily among banks only, for overall activity with customers. However, competition in this sector is intensifying, both on the part of the main competitors (major local banks) as well as on the part of institutional and digital entities, which have recently begun to operate in the area of credit for small businesses; government agencies are seeking to encourage increased activity by these entities in the future.

Human Capital

The average number of positions of employees of the segment in 2015 was 1,620, compared with 1,656 positions in 2014. The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

The business units employ specially trained corporate-credit professionals, according to the banking needs of business customers. The Bank's policy is to recruit mainly academic degree holding employees, and there is an ongoing upward trend in the percentage of degree holders. The Bank also encourages employees to advance their education, and provides assistance for undergraduate and graduate level studies.

Legal Proceedings

See Note 26 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Review of Risks," below.

Regulatory Initiatives

See the section "The Households Segment," above.

Objectives and Business Strategy

- Expand the customer base and increase activity with existing customers.
- Provide financial solutions individually tailored to customers.
- Adapt the distribution network to suit customers' needs.
- Strengthen relationships with and knowledge of customers.
- Achieve an optimal mix of personal service and technological means.

Table 5-42: Condensed Operating Results and Principal Data of the Small Business Segment

	For the year ended December 31, 2015					
	Activity in Israel					
	Banking and financial services	Credit cards	Capital market[(1)]	Housing loans	Construction and real estate	Total
	NIS millions					
Net interest income:						
From externals	**1,017**	**48**	**-**	**84**	**201**	**1,350**
Inter-segmental	**(19)**	**-**	**-**	**(50)**	**(19)**	**(88)**
Non-interest financing income	**1**	**-**	**-**	**-**	**-**	**1**
Total net financing profit	**999**	**48**	**-**	**34**	**182**	**1,263**
Fees and other income	**401**	**124**	**44**	**3**	**45**	**617**
Total income	**1,400**	**172**	**44**	**37**	**227**	**1,880**
Provision for credit losses	**234**	**4**	**-**	**-**	**25**	**263**
Operating and other expenses:						
From externals	**795**	**86**	**35**	**13**	**40**	**969**
Inter-segmental	**69**	**-**	**11**	**-**	**6**	**86**
Profit (loss) before taxes	**302**	**82**	**(2)**	**24**	**156**	**562**
Provision for taxes (tax benefit) on profit (loss)	**125**	**25**	**(1)**	**10**	**65**	**224**
Net profit (loss):						
Attributed to shareholders of the Bank	**177**	**57**	**(1)**	**14**	**91**	**338**
Return on equity	**9.9%**	**23.5%**	**-**	**4.6%**	**24.2%**	**12.5%**
Average balance of assets	**20,414**	**1,374**	**-**	**5,312**	**4,171**	**31,271**
Average balance of liabilities	**28,436**	**2,314**	**-**	**-**	**3,056**	**33,806**
Average balance of risk-adjusted assets	**19,019**	**2,594**	**96**	**3,228**	**4,017**	**28,954**
Average balance of mutual funds[(2)]	**-**	**-**	**3,730**	**-**	**-**	**3,730**
Average balance of securities	**-**	**-**	**8,437**	**-**	**-**	**8,437**
Average number of employee positions	**1,295**	**220**	**15**	**63**	**27**	**1,620**
Balance of net credit to the public	**20,885**	**1,349**	**-**	**5,596**	**4,635**	**32,465**
Balance of deposits from the public	**29,119**	**-**	**-**	**-**	**3,428**	**32,547**
Spread from credit granting activity	**955**	**48**	**-**	**33**	**179**	**1,215**
Spread from deposit taking activity	**44**	**-**	**-**	**-**	**5**	**49**
Other	**(1)**	**-**	**-**	**1**	**(2)**	**(2)**
Total net interest income	**998**	**48**	**-**	**34**	**182**	**1,262**

(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

Table 5-42: Condensed Operating Results and Principal Data of the Small Business Segment (continued)

	For the year ended December 31, 2014*					
	Activity in Israel					
	Banking and financial services	Credit cards	Capital market[1]	Housing loans	Construction and real estate	Total
	NIS millions					
Net interest income:						
From externals	931	50	-	106	173	1,260
Inter-segmental	15	-	-	(75)	(20)	(80)
Total net financing profit	946	50	-	31	153	1,180
Fees and other income	391	120	45	3	43	602
Total income	1,337	170	45	34	196	1,782
Provision for credit losses	171	2	-	9	8	190
Operating and other expenses:						
From externals	871	80	39	15	53	1,058
Inter-segmental	55	-	12	(2)	32	97
Profit (loss) before taxes	240	88	(6)	12	103	437
Provision for taxes (tax benefit) on profit (loss)	94	25	(2)	5	40	162
Net profit (loss):						
Attributed to shareholders of the Bank	146	63	(4)	7	63	275
Return on equity	9.2%	28.3%	-	2.6%	21.6%	11.5%
Average balance of assets	18,253	1,267	-	4,823	3,479	27,822
Average balance of liabilities	25,273	2,281	-	-	2,537	30,091
Average balance of risk-adjusted assets	17,332	2,432	97	2,991	3,192	26,044
Average balance of mutual funds[2]	-	-	4,217	-	-	4,217
Average balance of securities	-	-	7,830	-	-	7,830
Average number of employee positions	1,323	112	62	31	128	1,656
Balance of net credit to the public	19,360	1,249	-	5,038	3,692	29,339
Balance of deposits from the public	27,158	-	-	-	2,680	29,838
Spread from credit granting activity	852	50	-	28	144	1,074
Spread from deposit taking activity	88	-	-	-	11	99
Other	6	-	-	3	(2)	7
Total net interest income	946	50	-	31	153	1,180

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.
(1) Distribution fees for financial products and securities activity.
(2) Mutual funds for which the Bank Group provides custody services.

Principal Changes in Net Profit and Balance Sheet Balances

Net profit attributed to the shareholders of the Bank in the Small Business Segment in 2015 totaled NIS 338 million, compared with NIS 275 million in the preceding year. The increase mainly resulted from an increase in net interest income and from a decrease in operating expenses, offset by an increase in the provision for credit losses.

Net financing profit in 2015 totaled NIS 1,263 million, compared with NIS 1,180 million in the preceding year. The increase mainly resulted from an increase in the volume of credit, offset by the decrease in the interest rate in Israel, which influenced spreads and deposits.

Fees and other income of the segment in 2015 totaled NIS 617 million, compared with NIS 602 million in the preceding year. The increase mainly resulted from an increase in income from credit cards and in income from account management fees and conversion difference fees, as a result of an increase in the volume of activity.

The provision for credit losses totaled NIS 263 million in 2015, compared with NIS 190 million in the preceding year. The increase resulted both from an increase in collective allowances and from an increase in individual allowances.

The segment's operating and other expenses totaled NIS 1,055 million in 2015, compared with NIS 1,155 million in the preceding year. The decrease resulted from an expense in the amount of NIS 68 million recorded in 2014 for the efficiency plan, current cost savings due to these efficiency processes, and the effect of provisions measured on an actuarial basis. By contrast, bonuses and share-based payment increased due to the increase in profit.

Net credit to the public as at December 31, 2015 totaled approximately NIS 32.5 billion, compared with approximately NIS 29.3 billion as at December 31, 2014. The increase mainly resulted from an increase in the volume of activity.

Deposits from the public as at December 31, 2015 totaled approximately NIS 32.5 billion, compared with approximately NIS 29.8 billion as at December 31, 2014.

The Commercial Segment

General and Segment Structure

The Commercial Segment provides a range of banking services to middle-market business customers. The main sectors of the economy in which the segment operates are industry, commerce, and construction and real estate. Most of the segment's customers operate in the local market, while some are engaged in imports and exports. The segment operates through seven Business Centers located throughout Israel. Several work teams operate within each Business Center, and are responsible for managing routine business relationships with customers. Each team is headed by a Customer Relationship Manager whose main banking specialization is in the area of business credit. In addition, each Business Center has a legal advisor to guide its activity. Segment customers' accounts are managed through a network of 22 Business Branches, which provide the full range of required business banking services. Some of the customers of the Commercial Segment have been assigned to managers of Business Branches, according to defined criteria. Other branches of the Bank also provide the segment's customers with operational services.

The headquarters of the Corporate Banking Area includes a department engaged in analyzing credit applications of customers of this segment. Part of the department's activity is carried out by credit analysts at the Corporate Banking Area headquarters, while part of the activity is conducted by credit analysts at the Business Centers, who report in terms of management to the headquarters of the Corporate Banking Area. The department's role is to analyze credit applications and provide an independent recommendation to the authorized party. These units are external to the Commercial Division.

The Bank's activity in the Commercial Segment abroad also includes the activity of the New York branch in the United States and of Bank Pozitif in Turkey.

Activities

The principal activities in this segment are banking and financial services, and construction and real estate. Services offered by the Bank to customers of the segment in the area of "banking and financial services" include credit for routine operations and investment financing, guarantees, letters of credit, foreign trade, and transactions in financial and derivative instruments, in accordance with a credit policy validated annually. Investment services are also provided, in the various channels: foreign currency, shekels, securities, etc.

A new four-year agreement was signed with the Ministry of Finance in December 2012. Under this agreement, the Bank provides loans to customers of the segment who meet the criteria established. The Bank also signed a four-year agreement with the Manufacturers' Association of Israel, under which the Employers' Reciprocal Fund of the Manufacturers' Association provides a deposit serving as collateral for medium-sized businesses that are members of the Manufacturers' Association, as a substitute for the collateral required of the customer.

The Commercial Segment also provides banking services to clients who operate in the construction and real-estate sector. These banking services include the provision of credit to customers, as well as the issuance of guarantees of various types, including guarantees to buyers of homes pursuant to the Sale Law.

Developments in the Segment's Markets or Changes in the Profile of its Customers

2015 was marked by moderate growth in economic activity. The segment's customers were affected by the growth rate of the economy, the low interest rates, the weakness in global demand, and the changes in the real-estate sector caused by government plans concerning housing. In view of the conditions in global financial markets and the mixed trends in growth rates in these markets, the improvement in the American economy, developments in regional geopolitical conditions, and expectations of a relatively moderate growth rate in the local market, there are still risks to continued growth in this segment.

Technological Changes that May Have a Material Impact on the Segment

The segment makes use of technological systems to manage processes of analysis of customers' condition, control, and marketing. The Bank applies an ongoing process of improvement in these systems. This process also includes components relevant to handling the segment's customers. The enhancement of the quality and sophistication of the Bank's systems is an important factor in improving the level of service for the segment's customers and in creating additional possibilities for expanding activities with them.

Critical Success Factors in the Segment

- Identification of customers' needs and adaptation of banking services to such needs – correctly identifying the customer's full range of banking needs, correctly matching banking products to customer's business needs, and providing them in real time.
- The ability to provide comprehensive service suited to each customer – reducing the gap between the customer's expectations of the service provided and the actual quality of service (response time, professionalism, etc.), based, among other things, on technological capabilities for service delivery.
- The ability to manage and control risks (primarily credit risks) in real time – credit risk is the most significant risk factor in the segment's operations. Management of these risks and an appropriate control system are essential to the minimization of risks, to the extent possible, and to attaining adequate profitability in the segment's operations.
- Establishment of a credit policy congruent with the Bank's approach to risk and customers' financing means, while monitoring performance.

Main Barriers to Entry and Exit in the Segment

- Establishment of a broadly deployed nationwide system of branches.
- Training skilled personnel in the various banking products and activities.
- Investments in setup, maintenance, and upgrades of advanced technological means.
- The segment's activity, wherein risk-adjusted assets are a significant part of the mix, requires capital to be locked in on a substantial scale.

Alternatives to the Segment's Products and Services, and Changes Therein

Alternatives to bank credit for some of the segment's customers are public and private issues, and credit granted by non-bank financial institutions. The average level of issues in 2015 was similar to that of 2014; private loans granted by institutional entities increased.

Customers

For details regarding the manner of assignment of customers to this segment, see the section "General – The Segments and Customer Assignment Criteria" above.

Marketing and Distribution

Marketing of banking products and services and distribution to customers are conducted through the Sales Management Department in the headquarters of the Commercial Division, sales managers at the Business Centers, and the network of Business Branches, in collaboration with an area-level administrative unit. The communication channels commonly used in local banking are available to customers, such as branches, "Poalim by Telephone," Internet, etc. Marketing activities are conducted via unmediated contact between Bank employees and customers, without material dependence on entities external to the Bank.

Competition

The level of competition in the segment is high, encompassing the four major banking groups as well as medium-sized banks. In the area of credit, competition is reflected both in interest rates and fees offered to customers by the competing banks, and in related terms such as the financing rates which the competitors are willing to approve. In line with its established strategy, the Bank increased its market share among customers of this segment in 2015.

Human Capital

The average number of positions of employees of the segment in 2015 was 1,074, compared with 1,109 positions in 2014. The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and optimization of the deployment of the branch network.

High professional skill in the area of business, particularly credit and investments, is required of most employees in the Commercial Segment. Employees of the Bank trained for various roles, according to the Bank's needs, are employed at the Business Branches. In addition, external workers are employed from time to time in basic positions (tellers), after receiving appropriate training.

Objectives and Strategy

The strategic objectives of the Bank in this segment are focused on several areas:

- Providing comprehensive service and solutions for customers' needs, while tailoring new products for their activities.
- Rational management of the credit portfolio and monitoring of the risk profile.
- Increasing the Bank's market share in this segment.
- Meeting the targets for profitability and risk-adjusted return on equity in the segment's banking activity.
- Continued improvement of the technological infrastructures that support the processes of analysis, control, and marketing; development of alternative and complementary products to traditional credit.

In accordance with the strategy approved for the New York branch, the branch will continue to develop activity in the middle-market segment in the United States, by cultivating relationships and granting direct credit to local commercial clients, with a clear focus on business in specific geographical regions and areas of activity.

Legal Proceedings

See Note 26 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Review of Risks," below.

Table 5-43: Condensed Operating Results and Principal Data of the Commercial Segment

	For the year ended December 31, 2015				
	Activity in Israel		Activity abroad		Total
	Banking and financial services(1)	Construction and real estate	Banking and financial services(1)	Construction and real estate	
	NIS millions				
Net interest income:					
From externals	**531**	**391**	**296**	**76**	**1,294**
Inter-segmental	**(74)**	**(70)**	**(132)**	**(17)**	**(293)**
Non-interest financing income	**12**	**-**	**4**	**2**	**18**
Total net financing profit	**469**	**321**	**168**	**61**	**1,019**
Fees and other income	**176**	**166**	**18**	**2**	**362**
Total income	**645**	**487**	**186**	**63**	**1,381**
Provision (income) for credit losses	**88**	**51**	**(13)**	**(2)**	**124**
Operating and other expenses:					
From externals	**394**	**73**	**73**	**53**	**593**
Inter-segmental	**(5)**	**11**	**-**	**-**	**6**
Profit before taxes	**168**	**352**	**126**	**12**	**658**
Provision for taxes on profit	**67**	**146**	**52**	**5**	**270**
Net profit (loss):					
Before attribution to non-controlling interests	**101**	**206**	**74**	**7**	**388**
Attributed to non-controlling interests	**-**	**-**	**(8)**	**-**	**(8)**
Attributed to shareholders of the Bank	**101**	**206**	**66**	**7**	**380**
Return on equity	**4.8%**	**10.0%**	**9.3%**	**2.1%**	**7.3%**
Average balance of assets	**18,041**	**13,376**	**5,416**	**2,331**	**39,164**
Average balance of liabilities	**18,837**	**3,487**	**5,544**	**7**	**27,875**
Average balance of risk-adjusted assets	**22,513**	**22,099**	**7,546**	**3,513**	**55,671**
Average balance of mutual funds(2)	**2,193**	**-**	**-**	**-**	**2,193**
Average balance of securities	**14,016**	**-**	**-**	**-**	**14,016**
Average number of employee positions	**697**	**131**	**194**	**52**	**1,074**
Balance of net credit to the public	**17,046**	**13,958**	**5,670**	**2,514**	**39,188**
Balance of deposits from the public	**18,083**	**3,736**	**5,558**	**13**	**27,390**
Spread from credit granting activity	**435**	**321**	**161**	**57**	**974**
Spread from deposit taking activity	**21**	**4**	**4**	**2**	**31**
Other	**1**	**(4)**	**(1)**	**-**	**(4)**
Total net interest income	**457**	**321**	**164**	**59**	**1,001**

(1) Includes activity in the area of credit cards and the capital market.
(2) Mutual funds for which the Bank Group provides custody services.

Table 5-43: Condensed Operating Results and Principal Data of the Commercial Segment (continued)

	For the year ended December 31, 2014*				
	Activity in Israel		Activity abroad		Total
	Banking and financial services[(1)]	Construction and real estate	Banking and financial services[(1)]	Construction and real estate	
	NIS millions				
Net interest income:					
From externals	543	364	218	92	1,217
Inter-segmental	(95)	(86)	(107)	(42)	(330)
Non-interest financing income	9	-	-	-	9
Total net financing profit	457	278	111	50	896
Fees and other income	176	119	22	12	329
Total income	633	397	133	62	1,225
Provision (income) for credit losses	33	(5)	57	6	91
Operating and other expenses:					
From externals	401	71	67	66	605
Inter-segmental	-	9	-	-	9
Profit (loss) before taxes	199	322	9	(10)	520
Provision for taxes (tax benefit) on profit (loss)	75	126	4	(4)	201
Net profit (loss):					
Before attribution to non-controlling interests	124	196	5	(6)	319
Attributed to non-controlling interests	-	-	4	-	4
Attributed to shareholders of the Bank	124	196	9	(6)	323
Return on equity	6.6%	12.1%	1.6%	(2.6%)	7.5%
Average balance of assets	16,400	10,188	4,024	1,865	32,477
Average balance of liabilities	15,898	2,572	4,101	12	22,583
Average balance of risk-adjusted assets	20,676	17,747	5,978	2,511	46,912
Average balance of mutual funds[(2)]	2,559	-	-	-	2,559
Average balance of securities	13,263	-	-	-	13,263
Average number of employee positions	723	136	199	51	1,109
Balance of net credit to the public	16,727	11,655	4,782	2,137	35,301
Balance of deposits from the public	15,487	3,054	6,105	13	24,659
Spread from credit granting activity	416	266	109	49	840
Spread from deposit taking activity	26	8	1	1	36
Other	6	4	1	-	11
Total net interest income	448	278	111	50	887

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

(1) Includes activity in the area of credit cards and the capital market.

(2) Mutual funds for which the Bank Group provides custody services.

Principal Changes in Net Profit and Balance Sheet Balances

Net profit attributed to shareholders of the Bank in the Commercial Segment in 2015 totaled NIS 380 million, compared with NIS 323 million in the preceding year. The increase resulted from an increase in profit from the segment's activity overseas, as a result of an increase in services to mid-sized companies (middle-market) at the New York branch.

Net financing profit of the segment in 2015 totaled NIS 1,019 million, compared with NIS 896 million in the preceding year. The increase mainly resulted from an increase in the volume of credit in Israel, and from an increase in the volume of activity in the middle-market sector at the New York branch.

Fees and other income of the segment totaled NIS 362 million in 2015, compared with NIS 329 million in the preceding year. The increase mainly resulted from an increase in income from credit handling fees, as a result of an increase in the volume of activity, and an increase in fees from financing transactions, mainly in construction and real estate.

The provision for credit losses totaled NIS 124 million in 2015, compared with NIS 91 million in the preceding year. The increase resulted from an increase in allowances recorded on an individual basis in Israel, offset by a decrease in allowances recorded on an individual basis at Bank Pozitif in Turkey.

Operating and other expenses of the segment amounted to NIS 599 million in 2015, compared with NIS 614 million in the preceding year. The decrease resulted from an expense in the amount of NIS 24 million recorded in 2014 for the efficiency plan, current cost savings due to these efficiency processes, and the effect of provisions measured on an actuarial basis. By contrast, bonuses and share-based payment increased due to the increase in profit.

Net credit to the public totaled approximately NIS 39.2 billion as at December 31, 2015, compared with approximately NIS 35.3 billion as at December 31, 2014. The increase resulted from an increase in activity in Israel, mainly reflected in an increase in credit balances in the construction and real-estate sector, and from an increase in activity in the middle-market sector at the New York branch.

Deposits from the public totaled approximately NIS 27.4 billion as at December 31, 2015, compared with approximately NIS 24.7 billion as at December 31, 2014. The increase mainly resulted from an increase in the industry and commerce sector, as well as an increase in the construction and real-estate sector in Israel.

The Corporate Segment

General and Segment Structure

The Corporate Segment specializes in the provision of financial services to large corporations in Israel and abroad, with the granting of credit constituting the principal area of activity. The Bank's Corporate Segment mainly operates through the Corporate Division within the Corporate Banking Area, and through banking subsidiaries and the branches in the United States, which report to the International Banking Area. The segment also includes activity with foreign banks and financial institutions.

The Corporate Division is divided into three sectors, in each of which Customer Relationship Managers (CRMs) specialize in specific areas. The Corporate Division also includes a unit working with complex credit products, which contains departments specializing in areas such as complex foreign-trade transactions and adaptation of types of financing for specific transactions, serving all clients of the Area engaged in these activities; and a unit engaged in debt restructuring, syndication, risk sales, and the capital market.

The Corporate Banking Area contains the Corporate Credit headquarters, which includes two departments responsible for analyzing and assessing credit risks: one for customers of this segment, and one for customers of the Commercial Segment. The Corporate Credit headquarters also contains a department engaged in business planning and control and in formulating credit policy for the segment's customers in Israel and overseas, and for customers of the Commercial Segment, in collaboration with the Risk Management Area. In addition, Marketing and Strategy headquarters contains the Strategy Unit, which formulates strategy for the Corporate Banking Area, and the Marketing and Sales Department, which manages marketing, sales, and business intelligence in this Area.

Also operating within the Corporate Banking Area is the Special Credit Division, which coordinates the handling of customers in financial difficulties in the Corporate and Commercial Segments and endeavors to assist them in restructuring by providing business support. This division also handles the collection of debts from customers in financial difficulties when restructuring is not possible.

Activities

The principal activities in this segment are banking and financial services, and construction and real estate. Services offered to customers of the segment in the area of "banking and financial services" include financing of routine operations, financing of investments, financing of infrastructure projects based on the BOT/PFI method, financial services, foreign-trade transactions, and transactions in financial derivatives. In addition, through the branch network, the segment provides various banking services such as foreign trade, investments, and dealing-room services. The segment's activity overseas is conducted through banking subsidiaries and the branches in the United States.

The Corporate Segment also provides banking services to customers operating in the construction and real-estate sector. Among other things, these banking services include financing of construction projects, granting credit to customers, and issuing various types of guarantees, including guarantees to buyers of homes pursuant to the Sale Law. The various banking services are provided to all customers of this segment through a network of 22 Business Branches. In addition, the Bank's general branch network provides the segment's customers with operational services. For further details regarding "construction and real estate" activity, see the section "Review of Risks," below.

Proper Conduct of Banking Business Directive 311

See the section "Review of Risks," below.

Legislative Restrictions, Regulations, and Special Constraints Applicable to the Segment

The Bank operates within the framework of laws, regulations, and regulatory directives that apply to the banking system in Israel, under the authority of entities such as the Supervisor of Banks; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; the Antitrust Commissioner; the Israel Securities Authority; and others. Set out below is a description of several such directives that have, or had at the time of their publication, material implications for the segment:

Limit on Granting of Credit to Certain Customers

Under the Proper Conduct of Banking Business Directives, the following limits apply to volumes of credit:

Business of a banking corporation with related persons – Proper Conduct of Banking Business Directive 312, "Business of a Banking Corporation with Related Persons," took effect on January 1, 2015. Pursuant to the expected amendment to Directive 312, among other matters, the definition of a "related person" has been expanded to encompass, among others:

A. Any holder of more than 5% of any type of means of control in a bank, a relative thereof, and corporations controlled by any of them.

B. Any holder of more than 5% of any type of means of control in a banking corporation that controls a bank, a relative thereof, and corporations controlled by any of them.

C. An officer at any of the four types of corporations listed below, the relative of such an officer, and corporations controlled by any of them:
the bank; a corporation through which the means of control of the controlling group are held (i.e. the group of people with the permit to control and hold means of control in the banking corporation) (hereinafter: the "Control Group"); a corporation holding more than 5% of any type of means of control in the bank; a corporation holding more than 5% of any type of means of control in a banking corporation that controls the bank.

D. Any holder of 10% or more of any type of means of control in a corporation controlled by the bank, and a relative of any holder of 10% or more of any type of means of control in a corporation controlled by the bank.

In addition, pursuant to the aforesaid amendment to Directive 312, the quantitative limits on the business of the Bank with related persons that refer to the capital of the Bank shall refer exclusively to "Tier 1" capital of the Bank (after supervisory adjustments and deductions, as defined in Proper Conduct of Banking Business Directive 202). In addition, the following quantitative limits have been added:

- On anyone who is not part of the Control Group and holds 5% or more of any type of means of control in a bank or in a banking corporation that controls a bank, such that the indebtedness of any such person shall not exceed 5% of the Tier 1 capital of the bank at any time.
- On anyone who holds 10% or more of any type of means of control in a corporation controlled by a bank, such that the indebtedness of any such person shall not exceed 5% of the Tier 1 capital of the bank at any time.

The changes described above significantly reduce the volume of permitted indebtedness of the related persons in aggregate and of each of the related persons.

Limits on indebtedness of borrowers and groups of borrowers – An update of Proper Conduct of Banking Business Directive 313, "Limits on Indebtedness of Borrowers and Groups of Borrowers," was issued in June 2015. Among other matters, the update restricts the definition of capital to Tier 1 capital (after supervisory adjustments and deductions), as defined in Proper Conduct of Banking Business Directive 202, and updates the limit on the indebtedness of a banking borrower group to a banking corporation, which previously stood at 25% of capital, to 15% of capital. The amendments to the directive took effect on January 1, 2016.

With regard to the definition of capital, the following will apply: Tier 1 capital, as in the definition of capital, supplemented by Tier 2 capital, as published in the financial statements as at December 31, 2015. The supplement will be reduced in equal installments over twelve quarters, until it reaches zero on December 31, 2018.

Pursuant to the directive, the rate of the "indebtedness" of a "borrower" and of a "group of borrowers," as defined therein, after subtraction of the amounts deductible from the indebtedness for this purpose, as specified in the directive, shall not exceed 15% and 25%, respectively, of the capital of the bank, as defined above. The directive further states that the total indebtedness (after subtracting the permitted amounts) of the borrowers, borrower groups, and banking borrower groups, each of whose net indebtedness to the banking corporation exceeds 10% of the capital of the bank, shall not exceed 120% of the capital of the bank, as defined above. As at the reporting date, the Bank is in compliance with these limits.

According to the Bank's estimates, the amendment of the directive has no effect on the ability of the Bank to comply with the supervisory limits required in the directive, and the effect of the adoption of the directive on the financial statements is not expected to be material.

Financing the acquisition of means of control – Proper Conduct of Banking Business 323, "Financing of the Acquisition of Means of Control of Corporations," limits the balance of credit extended for the acquisition of means of control of corporations, in cases in which the rate of financing for the acquisition of the means of control of the corporation is greater than 50% of the cost of the acquisition, to 70% of the capital of the bank. The directive also sets a limit on the rate of financing for the acquisition of means of control of other banking corporations. As at the reporting date, the Bank is in compliance with these limits.

Pursuant to an update of Proper Conduct of Banking Business Directive 323 issued in April 2015, the directive will apply to all "credit for the purpose of an equity transaction," instead of "credit for the acquisition of means of control." An equity transaction is a transaction the purpose of which is to acquire an equity interest in another corporation, a buyback, or a distribution of equity. Proper Conduct of Banking Business Directive 323 limits the total balance of credit granted for the purpose of equity transactions, in cases in which the financing rate exceeds 50%, to no more than 70% of the capital of the bank. The directive also sets a limit on the rate of financing for the acquisition of equity interests in another banking corporation. In this context, equity is defined as Tier 1 capital, after supervisory adjustments and deductions, as defined in Proper Conduct of Banking Business 202 concerning supervisory capital. The amendments to the directive took effect on January 1, 2016. The effect of the directive is an expansion of the category of transactions, beyond the financing of means of control.

Management of leveraged loans – Proper Conduct of Banking Business Directive 327, "Management of Leveraged Loans," a new directive, was issued in April 2015. The directive establishes an overall risk management structure for leveraged loans, and regularizes various matters, including the definition of a leveraged loan, general policy guidelines, underwriting procedures, quantitative reporting and analysis, classification of leveraged loans, credit analysis, and more. The foregoing will apply to credit granted from January 1, 2016, forward.

Sector limit – Proper Conduct of Banking Business Directive 315, "Supplementary Allowance for Doubtful Debts," states, among other matters, that when the total indebtedness ("indebtedness" as defined in the directive, after subtracting the amounts permitted in the directive) of a particular sector to the banking corporation exceeds 20% of the total indebtedness of the public to the banking corporation, the surplus shall be considered exceptional indebtedness in respect of which the bank must record an allowance within the supplementary allowance for doubtful debts, constituting the lower threshold for the collective allowance for credit losses. Note that this limit is examined on an unconsolidated basis. As a result of the increase in credit indebtedness in the construction and real-estate sector, the weight of this sector in the total indebtedness of the public to the banking corporation is approaching 20%.

In addition to the limits described above, pursuant to the Proper Conduct of Banking Business Directives, the Board of Directors of the Bank establishes additional limits, from time to time, on the concentration of credit. As at the reporting date, the Bank is in compliance with the established limits. In addition, the Bank has implemented a policy of reducing its exposure to areas of concentration in the credit portfolio, which led to a continued decrease in concentration in 2015 as well.

Type Exemption – Borrower Consortiums

The Antitrust Commissioner (hereinafter: the "Commissioner") issued a letter on February 28, 2011, concerning a change of the terms established by the Commissioner in the past with regard to consortium arrangements entered into by banks and/or insurance companies; the period of application of the letter was extended from time to time, until December 31, 2014 (hereinafter: the "Commissioner's First Letter"). On December 30, 2014, the Commissioner issued a letter changing the terms established in the Commissioner's First Letter (hereinafter: the "Commissioner's Second Letter"). On December 31, 2015, the Commissioner issued a letter changing the terms established in the Commissioner's Second Letter (hereinafter: the "Commissioner's Updated Letter").

The Commissioner's Updated Letter establishes several changes in the terms for joining a consortium arrangement, and expands the term "parties" to include financers outside Israel. The following are the main points of the updated terms for banking corporations and/or institutional entities (as defined in the Commissioner's Updated Letter) joining a credit consortium:

1. The credit consortium shall be formed, including negotiations with respect thereto, after obtaining the client's consent, in writing, on a separate form.
2. The client shall be given the opportunity to negotiate the terms of the credit with any of the parties (as defined in the Commissioner's Updated Letter) that are members of the consortium, including through another person acting on the client's behalf.
3. Bank Hapoalim B.M. (hereinafter: "the Bank") and Bank Leumi LeIsrael Ltd. (hereinafter: "Bank Leumi") shall not be permitted to join the same credit consortium. This restriction shall not apply to consortium arrangements involving the repayment of debt arising from credit granted by the Bank and Bank Leumi prior to August 18, 2002, to the same person. This restriction also shall not apply to a consortium arrangement involving the repayment of debt arising from credit granted by the Bank and Bank Leumi prior to December 31, 2014, to the same person, provided that the arrangement complied with the terms noted in the Commissioner's Letter.
4. The parties shall document the main points of the negotiations held or information transferred among the parties on matters concerning the formation of the credit consortium, both with respect to a credit consortium that has actually been formed, and with respect to negotiations that were conducted but did not culminate in the actual formation of a credit consortium, all according to the details required in the Commissioner's Updated Letter, including as detailed in the table attached to the letter. This documentation shall be retained by each of the parties, and shall be submitted to the Antitrust Authority, as established in the Commissioner's Updated Letter.
5. The terms as established in the Commissioner's Updated Letter shall be in effect until December 30, 2016.

Developments in the Segment's Markets or Changes in the Profile of its Customers

2015 was marked by moderate growth in economic activity in Israel. The segment's customers were affected by the growth rate, low interest rates, and weakness in global demand, as well as by changes in the real-estate sector due to government plans concerning housing. Customers of the segment will be influenced by conditions in the global financial markets, the mixed trends in growth rates in these markets, the improvement in the American economy, and developments in regional geopolitical conditions, as well as expectations of a relatively moderate growth rate in the local market and additional regulatory requirements.

Technological Changes that May Have a Material Impact on the Segment

The information systems used by the Corporate Segment are designed to assist analysis, control, and marketing processes. The Corporate Segment continually works to improve and update the technological systems it uses. In addition, the use of the "Matbea" system has been expanded, with the aim of improving work processes, information management, and monitoring of segment customers' activity.

Critical Success Factors in the Segment

- Correctly identifying customers' overall banking needs, and suitably adapting banking products to their business needs.
- The ability to provide comprehensive service suited to customers – tailoring banking services and improving service quality (response time, professionalism, etc.), based, among other things, on technological capabilities for service delivery.
- Ability to conduct risk management and control in real time (primarily credit risks) – credit risk is the most significant risk factor in the segment's activity.
- Management of risks and maintenance of an adequate control system are essential in order to minimize the risks inherent in the segment's activity to the extent possible, and attain adequate profitability in its activity.
- Establishment of credit policies in line with the Bank's risk approach and methods of financing customers while monitoring performance.

Main Barriers to Entry and Exit in the Segment

Activity in the Corporate Segment involves long-term relationships with its customers, including familiarity with their financial data and the collateral they have provided to the Bank, monitoring and control of the different risks and exposures, as well as appropriate capital allocation and compliance with the regulatory restrictions that apply to the segment. Risk-adjusted assets constitute a significant part of the mix of activity in this segment, necessitating locked-in capital on a significant scale. This requires training high-quality, skilled personnel and acquiring a high level of technological capability in order to cope with the complexity of the segment.

Alternatives to the Segment's Products and Services, and Changes Therein

Bond offerings in 2015 were mainly executed by large industry-leading corporations, while also expanding to corporations with an average level of credit risk. Some clients of the Corporate Segment use bond issuance or credit from non-bank sources as a partial or full substitute for bank credit.

Customers

For details regarding criteria for the assignment of customers to this segment, see the section "General – The Segments and Customer Assignment Criteria" above.

Marketing and Distribution

Banking products are marketed and distributed to customers of this segment through Customer Relationship Managers in the Corporate Division, in collaboration with an area-level administrative unit. As a key element of this sales platform, product experts, working closely with the CRMs, are at the disposal of the segment's customers, in the areas of the dealing room, investment advising, foreign trade, current accounts, and more. CRMs are in continuous contact with the customers they serve, in order to respond to their banking needs, market the Bank's products, and tailor financing solutions to various transactions.

Competition

There is a high level of competition in this area from banking entities (with regard to non-bank financing options, see above). Competition is reflected in service, prices, financing terms, and rapid response. The Bank Group competes in this area mainly against the four other major banking groups in Israel, as well as foreign banks with representative offices in Israel. The Bank's activity through banking subsidiaries and through branches in the United States is conducted in a highly competitive environment dominated by global financial institutions.

Human Capital

The average number of positions of employees of the segment in 2015 was 670, compared with 696 positions in 2014. The decrease in the number of positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.

The Corporate Segment employs employees trained in the area of credit, at various levels. Most employees are required to have strong professional skills in the area of business and credit as well as relevant academic qualifications.

Objectives and Strategy

The Corporate Segment's strategic objectives are focused in several areas:

In Israel:

- Provide service and respond to customers' needs, while tailoring new products for their activities.
- Prudently manage the credit portfolio and monitor the risk profile, including through the sale of credit assets.
- Strengthen the Bank's leadership with the segment's customers.
- Organize and lead complex financing arrangements, including financing of infrastructure projects and collaboration with other financers through syndication.
- Meet the targets for profitability and risk-adjusted return on equity in the segment's banking activity.
- Continue to improve the technological infrastructure supporting analysis, control, and marketing processes.
- Develop products that offer alternatives and supplements to traditional credit.

Overseas:

- Provide full banking services to Israeli companies and Israeli institutional investors operating abroad.
- Support Israeli companies or companies with an affinity to Israel operating overseas.

Legal Proceedings

See Note 26 to the Financial Statements.

Table 5-44: Condensed Operating Results and Principal Data of the Corporate Segment

	For the year ended December 31, 2015				
	Activity in Israel		Activity abroad		Total
	Banking and financial services[(1)]	Construction and real estate	Banking and financial services[(1)]	Construction and real estate	
	NIS millions				
Net interest income:					
From externals	**1,689**	**727**	**133**	**-**	**2,549**
Inter-segmental	**(630)**	**(219)**	**(3)**	**-**	**(852)**
Non-interest financing income	**10**	**2**	**45**	**-**	**57**
Total net financing profit	**1,069**	**510**	**175**	**-**	**1,754**
Fees and other income	**349**	**225**	**7**	**-**	**581**
Total income	**1,418**	**735**	**182**	**-**	**2,335**
Provision (income) for credit losses	**202**	**(341)**	**(4)**	**-**	**(143)**
Operating and other expenses:					
From externals	**431**	**109**	**48**	**4**	**592**
Inter-segmental	**57**	**15**	**-**	**-**	**72**
Profit (loss) before taxes	**728**	**952**	**138**	**(4)**	**1,814**
Provision for taxes (tax benefit) on profit (loss)	**301**	**394**	**57**	**(2)**	**750**
Net profit (loss):					
Attributed to shareholders of the Bank	**427**	**558**	**81**	**(2)**	**1,064**
Return on equity	**5.6%**	**15.1%**	**10.0%**	**(1.8%)**	**8.7%**
Average balance of assets	**55,283**	**24,664**	**6,346**	**1,383**	**87,676**
Average balance of liabilities	**35,172**	**5,467**	**214**	**-**	**40,853**
Average balance of risk-adjusted assets	**81,662**	**39,417**	**8,613**	**1,218**	**130,910**
Average balance of mutual funds[(2)]	**1,329**	**-**	**-**	**-**	**1,329**
Average balance of securities	**161,797**	**-**	**-**	**-**	**161,797**
Average number of employee positions	**520**	**128**	**14**	**8**	**670**
Balance of net credit to the public	**52,241**	**22,606**	**7,537**	**1,325**	**83,709**
Balance of deposits from the public	**28,940**	**5,567**	**156**	**-**	**34,663**
Spread from credit granting activity	**1,008**	**504**	**132**	**-**	**1,644**
Spread from deposit taking activity	**25**	**10**	**-**	**-**	**35**
Other	**26**	**(6)**	**(2)**	**-**	**18**
Total net interest income	**1,059**	**508**	**130**	**-**	**1,697**

(1) Includes activity in the area of credit cards and the capital market.
(2) Mutual funds for which the Bank Group provides custody services.

Table 5-44: **Condensed Operating Results and Principal Data of the Corporate Segment** (continued)

	For the year ended December 31, 2014*				
	Activity in Israel		Activity abroad		Total
	Banking and financial services[(1)]	Construction and real estate	Banking and financial services[(1)]	Construction and real estate	
	NIS millions				
Net interest income:					
From externals	1,982	831	101	-	2,914
Inter-segmental	(840)	(302)	2	-	(1,140)
Non-interest financing income	77	-	1	-	78
Total net financing profit	1,219	529	104	-	1,852
Fees and other income	351	213	22	-	586
Total income	1,570	742	126	-	2,438
Provision (income) for credit losses	138	(314)	(1)	-	(177)
Operating and other expenses:					
From externals	477	124	57	7	665
Inter-segmental	65	6	-	-	71
Profit (loss) before taxes	890	926	70	(7)	1,879
Provision for taxes (tax benefit) on profit (loss)	349	363	27	(3)	736
Net profit (loss):					
Attributed to shareholders of the Bank	541	563	43	(4)	1,143
Return on equity	7.1%	15.0%	6.6%	(3.4%)	9.4%
Average balance of assets	57,599	23,629	4,877	1,312	87,417
Average balance of liabilities	28,286	5,449	143	-	33,878
Average balance of risk-adjusted assets	82,854	41,130	7,118	1,271	132,373
Average balance of mutual funds[(2)]	3,137	-	-	-	3,137
Average balance of securities	161,695	-	-	-	161,695
Average number of employee positions	539	132	17	8	696
Balance of net credit to the public	53,343	23,801	5,600	1,284	84,028
Balance of deposits from the public	22,242	5,202	137	-	27,581
Spread from credit granting activity	1,069	506	102	-	1,677
Spread from deposit taking activity	23	14	-	-	37
Other	50	9	1	-	60
Total net interest income	1,142	529	103	-	1,774

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.
(1) Includes activity in the area of credit cards and the capital market.
(2) Mutual funds for which the Bank Group provides custody services.

Principal Changes in Net Profit and Balance Sheet Balances

Net profit attributed to shareholders of the Bank in the Corporate Segment in 2015 totaled NIS 1,064 million, compared with NIS 1,143 million in the preceding year. The decrease resulted from a decrease in net financing profit in Israel, offset by a decrease in operating expenses.

Net financing profit of the segment totaled NIS 1,754 million in 2015, compared with NIS 1,852 million in the preceding year. The decrease mainly resulted from a loss in the amount of NIS 72 million recorded in the third quarter of 2015, due to a court ruling in August 2015 regarding a charge of arrears interest on credit secured by shares, classified as securities in the past, and from a decrease in the volume of credit in the segment's activity in Israel. This decrease was offset by an increase in income from activity at the Bank's US branches, as a result of an increase in the volume of credit, and by the sale of securities written down in full in the past.

Fees and other income totaled NIS 581 million in 2015, compared with NIS 586 million in the preceding year.

Income in the amount of NIS 143 million was recorded under the item of provision for credit losses in 2015, compared with income in the amount of NIS 177 million in the preceding year. The decrease in income resulted from an increase in allowances recorded on a collective basis, offset by a decrease in allowances recorded on an individual basis.

The segment's operating and other expenses totaled NIS 664 million in 2015, compared with NIS 736 million in the preceding year. The decrease resulted from an expense recorded in 2014 in respect of the efficiency plan, in the amount of NIS 42 million, current cost savings due to these efficiency processes, and the effect of provisions measured on an actuarial basis. By contrast, bonuses and share-based payment increased due to the increase in profit.

Net credit to the public totaled approximately NIS 83.7 billion as at December 31, 2015, compared with approximately NIS 84.0 billion as at December 31, 2014.

Deposits from the public totaled approximately NIS 34.7 billion as at December 31, 2015, compared with approximately NIS 27.6 billion as at December 31, 2014.

The balance of off-balance sheet monetary assets of customers of the Bank Group attributed to this segment as at December 31, 2015 totaled approximately NIS 161.0 billion, compared with approximately NIS 152.9 billion as at December 31, 2014. This balance includes customers' holdings in securities portfolios and mutual funds.

The Financial Management Segment

General and Structure

The activity of the Bank in the area of the capital market and treasury management is centralized under the Financial Markets Area. The activity of this segment includes activity in the banking book and trading activity. Activity in the banking book primarily includes the management of assets and liabilities, alongside management of market and liquidity risks (for details regarding these risks, see the section "Review of Risks," below), through the establishment of internal transfer prices (see below), investment portfolio management, bond issuance, and the execution of transactions in derivative financial instruments. The segment's activity in the banking book is mostly conducted through the Asset and Liability Management (ALM) units in Israel and abroad, and through units responsible for management of the Nostro investment portfolio, which are responsible for managing the portfolio of government and corporate bonds and investment in shares at the Group level. Trading activity is mainly conducted through the dealing rooms, which offer services for the Bank's customers for the execution of transactions in Israeli and foreign securities, financial instruments in Israeli shekels, foreign currency, and interest rates, as well as support for the development and pricing of sophisticated financial products.

Most of the income of the segment derives from exposure management in the banking book and in the trading book, and from spreads and fees in the dealing rooms' activity and operational services for customers. In addition, the segment includes the results of investments in shares and investments in equity-basis investee companies in calculating its income.

The segment's business activity, with the exception of investments in equity-basis investee companies (in this context, note that under Section 23A of the Banking Law, the Bank is subject to limits on its rate of holding in non-financial corporations, and on the volume of capital which it is permitted to invest in such corporations), is centralized under the authority of the Member of the Board of Management who heads the Financial Markets Area. Treasury activities include the Asset and Liability Management Division in Israel, as well as units responsible for asset and liability management at the Bank's branches overseas. Treasury activity also encompasses the coordination of management of the financial assets and liabilities of the Bank Group (including foreign subsidiaries) in foreign currency on a global level, and coordination of trading activity in foreign currency and derivatives at the overseas branches.

The activity of this segment includes the results of the subsidiaries Poalim Sahar Ltd., which specializes in brokerage services in Israel and overseas, research services, custody services, and other related services; Poalim Capital Markets Investment House Ltd., which mainly operates in the area of investments in Israel and overseas, investments in private-equity funds, and direct investments, including funds that invest in the technology sector; and Peilim Investment Portfolio Management Ltd., which manages investment portfolios for private clients, business organizations, non-profit associations, and others. The Area also maintains relationships with banks and financial institutions around the world, and is responsible for providing services to customers operating in Israel in a range of areas, including the capital and money markets.

The Banking Book – Asset and Liability Management

The Financial Management Segment, through the Asset and Liability Management Division of the Bank, is responsible for managing the assets and liabilities of the Bank, over the range of activities of the various segments. The segment receives and allocates resources for the use of the various segments and establishes the internal transfer prices for such resources ("wholesale rates" – for further details, see below). Wholesale prices constitute the basis for the activity of the various segments with the Bank's customers and also serve as a means for market and liquidity risk management.

The Bank has varied sources of financing, primarily fixed-term deposits from the public. The deposits are taken from a very large number of depositors, with no reliance on any single depositor or group of depositors. Most of the Bank's resources are raised from the public in Israel, particularly private customers. Resources in unlinked shekels mainly derive from these customers, though also to some extent from large institutional and business clients (some of which work directly with the Financial Management Segment). Resources in linked shekels are raised both from the general public and from institutional clients who invest in deposits with the Bank and in bonds and secondary capital issued by the Bank Group. The Bank accords high importance to raising resources that are stable and highly diversified. Note that the balance in money-market funds has decreased over the last two years, leading to lower concentration of banks' resources.

Resources in foreign currency include deposits of private customers and business customers in Israel, non-residents, Global Private Banking customers, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, and issues of bonds abroad (through the subsidiary Hapoalim International). In addition, as part of market and liquidity risk management, the Financial Markets Area maintains a bond portfolio, consisting of government bonds and corporate bonds. The portfolio is managed by a professional team aided by operational, control, and research teams.

Resources raised by the various segments are "transferred" from the segment to which the customer belongs to the Financial Management Segment, and in return, the Financial Management Segment credits the relevant segment at the wholesale interest rate determined by the ALM Division for that resource, according to the characteristics of the resource (i.e. according to the duration and linkage segment; for further details regarding the method of setting the wholesale interest rate, see below). The aforesaid resources, as well as resources raised by the segment, as described above, are allocated by the Financial Management Segment for the use of the various segments. In return, the segment is debited at the wholesale rate (according to the linkage segment and duration of usage) determined by the ALM Division.

Wholesale rates are set by the ALM Division, and reported and discussed routinely on a weekly basis by the ALM Committee. In addition to routine discussion and analysis by ALM committees, a committee of the Board of Management receives a report each month, and the Board of Management and Board of Directors of the Bank receive a report on this matter each quarter.

Wholesale rates are set taking the following factors into consideration, among other matters: market prices of comparable resources (by linkage segment and duration); cost of issuing bonds and cost of issuing notes of the Bank and similar banking corporations; government bond yields; the Bank of Israel interest rate; and macro-economic data. In addition, ALM committees examine information concerning principal and interest flows (gap reports) of the Bank by dates of interest-rate changes and by maturity dates; interest-rate exposures of the Bank (sensitivity of value and sensitivity of income); overall VaR of the Bank; expected transactions; daily balances and performance; and more. The committees also discuss limits and the desired position, in line with the Bank's policy.

Trading Activity – Foreign Currency Dealing Room (OTC)

The Bank provides comprehensive services to its customers through its dealing rooms, for hedging against risks involved in fluctuations in exchange rates and interest rates, on one hand, and for investment and profiting from such fluctuations, on the other hand. The dealing room in Tel Aviv provides customers with services related to the various financial instruments (spot, forwards, options, exotic options, swaps, and structured products) and various underlying assets (foreign-currency/foreign-currency and foreign-currency/shekel exchange rates, shekel and foreign currency interest rates, consumer price index, stock indices, commodities, etc.).

Transactions with the Bank's customers are conducted in accordance with the credit limits allocated to them by the credit authorities at the Bank, and on the basis of the Bank's internal models that define credit exposures for transactions executed in the dealing room. Awareness of the activities offered by the dealing room has grown steadily in recent years, leading to demand for a broader range of products with a higher level of sophistication. In response to these needs, and in order to preserve the Bank's standing as a leader and innovator, complex products have been added to the product range in Israel, including derivatives (which include interest-rate options in shekels), exotic options, credit derivatives, and sophisticated interest-rate products. In addition, in recent years customers have increasingly used structured products, which include deposits or bonds whose interest terms are determined according to the terms of a particular derivative embedded in the debt instrument.

The Bank serves as one of the primary market makers in government bonds. The dealing room is a market maker in most of the products in which it has activity; the Bank acts as a party to the transaction with the customer, rather than as an intermediary between the customer and a third party.

Brokerage Services

In addition to the foreign currency dealing room, the Financial Markets Area contains two securities dealing rooms: a dealing room for Israeli securities and a dealing room for foreign securities. The Israeli securities dealing room serves institutional clients as well as private customers with high levels of activity. The foreign securities dealing room serves institutional clients and selected private customers, and provides backup for trading activity to other customers of the Bank. All three dealing rooms operate in coordination, providing the Bank's customers with a professional, advanced, efficient, centralized service package.

Services for Financial Asset Managers

The Financial Asset Manager Services Unit encompasses activities related to the provision of various services to financial-asset managers: managers of provident funds, study funds, and pension funds, mutual-fund managers, and investment-portfolio managers. The activity of the unit encompasses the operation of the financial assets noted above and the provision of banking services to entities that manage these assets. Services include asset revaluation, production of control reports, production of reports to government agencies, bookkeeping, management of accounts and rights of provident-fund members, and calculation of returns.

The Bank has signed agreements for the provision of operational services to provident-fund management companies, some incidental to the sale of provident funds formerly owned by the Bank. In the area of mutual funds, the Bank has service agreements with mutual-fund management companies. The unit also provides service to management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds. Amounts of balances and results of operations in this area are presented in the Financial Management Segment.

At the end of 2015, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 116.4 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 70 billion.

Services for Financial Institutions

Within its activity with foreign banks and financial institutions, the Bank provides a wide range of services, including sub-custody services for leading foreign custodian banks active in Israel in the area of securities.

Regulatory Changes with an Impact on the Segment

The Financial Management Segment is subject to extensive regulation and continually influenced by local and global regulatory changes. For example, the agreements regarding reform of the global derivatives market reached by the G20 leaders, notable implementations of which include the Dodd Frank regulations in the United States and the EMIR regulations in Europe. These regulations affect work processes related to OTC derivatives.

On July 29, 2015, the Capital Market, Insurance, and Savings Division of the Ministry of Finance issued a draft amendment to the Supervision of Financial Services Regulations (Provident Funds) (Purchasing and Selling Securities), 2009, and the Supervision of Financial Services Regulations (Provident Funds) (Provident Funds Under Personal Management), 2009 (hereinafter: the "Draft Amendment"). Among other matters, the Draft Amendment states that an institutional investor who is part of a group of investors, one of which has a contractual engagement with a banking corporation for the provision of management services or operational services, is prohibited from purchasing or selling securities or foreign currency through that banking corporation, or from the banking corporation, or through a related party of the institutional investor, or from such a related party, and is prohibited from holding securities through that banking corporation. At this stage, it is not possible to estimate whether the Draft Amendment will be passed, or in what format. The Bank is examining the effect of the Draft Amendment on the volume of services it will provide to financial asset managers.

The Bank completed the implementation of the Basel 3 liquidity directives during 2015, and reports in accordance with these directives.

Technological Changes that May Have a Material Impact on the Segment

The Financial Management Segment is technology-intensive. Accordingly, technological changes influencing the segment occur routinely. In recent years, several such processes may be noted, such as the widespread distribution of financial information in real time and the ability to execute transactions instantly, regardless of geographical location. The principal investments carried out by the segment are in information systems.

Critical Success Factors in the Segment

The most important success factor in the area of financial management is the quality of human resources; employees in this area must have excellent professional knowledge and analytical skills. Another critical success factor is high-quality computerized systems, both in the area of transaction execution and in the area of information and analytics. Financial management interacts extensively with most of the areas of the Bank's business activity. Naturally, therefore, the success of this activity depends on the level of inter-segmental cooperation within the Bank.

Main Barriers to Entry and Exit in the Segment

The main entry barriers in the Financial Management Segment stem from the need for large investments in information systems and the ability to recruit high-quality professional personnel. In addition, the ability to provide services to large-scale customers is also derived from the Bank's relative size and its ability to supply liquidity in the various areas of activity. Accordingly, size is an advantage in certain areas of activity and in certain types of transactions.

Alternatives to the Segment's Products and Services, and Changes Therein

In recent years, Israel's financial markets have grown progressively more sophisticated. This is particularly notable in the broader range of products available to investors and market players. Various types of tradable instruments as well as derivative instruments are becoming more accessible. Examples of these instruments include ETFs, structured deposits, exotic options, Maof options, and more.

Competition

Intense, extensive competition exists in all areas of dealing-room activity. The principal competitors are the four major banking groups in Israel, and in recent years also foreign banks, as well as other financial companies specializing in this area.

Customers

The segment provides diverse services to all customers of the other segments at the Bank, both through the Bank's branches and CRMs, and through direct contact with large clients. The dealing room conducts marketing activity with foreign financial institutions, which has led to substantial expansion of the volume of activity with these customers (in the range of products for which the Bank serves as a market maker).

Human Capital

The average number of positions of employees of the segment in 2015 was 784, compared with 823 positions in 2014. The decrease in the number of employee positions mainly resulted from the implementation of the standardization process at the Head Office units, in accordance with the "Poalim the Right Way" (LEAN Banking) methodology.

The Financial Management Segment is oriented towards professional personnel. Accordingly, there is considerable competition for the services of high-quality employees, from local banks, foreign banks, other financial entities, and business concerns. This is particularly apparent in the area of dealing rooms.

Collaboration Agreements

During the routine course of business, the Bank, and within it the Financial Management Segment, maintain extensive ties with the world's leading financial institutions. Business relations between the Bank and these entities in the various capital markets are based, among other things, on standard international arrangements, such as: framework agreements supporting the activity of dealing rooms, special agreements to minimize credit risks aimed at limiting credit risk in derivatives (credit support annex), or activity via an international clearinghouse (CLS) to minimize settlement risks in foreign-currency swap transactions.

Objectives and Business Strategy

The segment's key objectives are the development of financial activity in the local and international markets, as well as continued growth of local activity. The strategic plan for 2016 includes work plans addressing infrastructures, work processes, and quantitative objectives. The plan is based on expanding the range of products, enlarging the customer base, increasing activity with existing customers, and developing global activity, both in the area of trading and in the area of brokerage.

The strategic plan is based on estimates and reflects the Bank's current viewpoint; it therefore constitutes forward-looking information. There is a possibility that the plan may not materialize, or may not materialize in full.

Table 5-45: Condensed Operating Results and Principal Data of the Financial Management Segment

	2015	2014*,**
	NIS millions	
Net interest income:		
From externals	**(503)**	(727)
Inter-segmental	**1,482**	1,687
Non-interest financing income	**924**	792
Total net financing profit	**1,903**	1,752
Fees and other income	**404**	384
Total income	**2,307**	2,136
Provision (income) for credit losses	**(3)**	4
Operating and other expenses:		
From externals	**1,080**	1,030
Inter-segmental	**(218)**	(240)
Profit before taxes	**1,448**	1,342
Provision for taxes on profit	**641**	482
Profit after taxes	**807**	860
The Bank's share in profits of equity-basis investees, after taxes	**19**	9
Net profit (loss):		
Before attribution to non-controlling interests	**826**	869
Attributed to non-controlling interests	**69**	(3)
Attributed to shareholders of the Bank	**895**	866
Return on equity	**34.8%**	36.4%
Average balance of assets	**138,455**	120,639
Of which: investments in equity-basis investees	**139**	136
Average balance of liabilities	**113,583**	104,384
Average balance of risk-adjusted assets	**27,514**	25,978
Average balance of assets of provident funds and mutual funds(1)	**102,347**	90,601
Average balance of securities	**517,951**	504,054
Average number of employee positions	**784**	823
Balance of net credit to the public	**1,269**	1,746
Balance of deposits from the public	**45,542**	49,427

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.
** Reclassified.
(1) Provident funds receiving operational services.

Principal Changes in Net Profit and Balance Sheet Balances

Net profit attributed to shareholders of the Bank in the Financial Management Segment in 2015 totaled NIS 895 million, compared with profit in the amount of NIS 866 million in the preceding year.

Net financing profit attributed to this segment amounted to NIS 1,903 million in 2015, compared with NIS 1,752 million in the preceding year. The increase resulted from an increase in profit from the realization of bonds, and from the effect of hedging of investments overseas for changes in exchange rates. By contrast, a decrease occurred due to adjustments to fair value of derivative instruments, and income from linkage to the consumer price index decreased due to the decrease in the consumer price index.

Fees and other income of the segment in 2015 totaled NIS 404 million, compared with NIS 384 million in the preceding year.

Operating and other expenses of the segment in 2015 totaled NIS 862 million, compared with NIS 790 million in the preceding year. The increase resulted from an increase in IT expenses.

Net credit to the public as at December 31, 2015 totaled approximately NIS 1.3 billion, compared with approximately NIS 1.7 billion in the preceding year.

Deposits from the public as at December 31, 2015 totaled approximately NIS 45.5 billion, compared with approximately NIS 49.4 billion in the preceding year. The decrease mainly resulted from a decrease in deposits from large institutional and corporate clients.

The balance of off-balance sheet monetary assets of customers of the Bank Group attributed to this segment as at December 31, 2015, amounted to approximately NIS 614.9 billion, compared with approximately NIS 603.3 billion in the preceding year. The balance includes customers' holdings in securities portfolios and mutual funds, and includes the balance of assets of provident funds that receive operational services from the Bank.

Others and Adjustments

This section includes all other activities of the Bank Group, each of which does not form a reportable segment under the Supervisor of Banks' directives. These activities mainly include activity in credit cards in respect of the activity of customers of banks outside the Group and incoming tourism, and income from computer services for companies consolidated in the past. In addition, adjustments of inter-segmental activities are allocated to this section.

The profit attributed to shareholders of the Bank in this section in 2015 amounted to NIS 66 million, compared with NIS 81 million in the preceding year.

Profit from credit cards in respect of the activity of customers of banks outside the Group and incoming tourism totaled NIS 43 million in 2015, compared with a total of NIS 44 million in the preceding year.

Credit to customers of other banks, which are not part of the Bank Group and with which the Isracard Group has entered into an arrangement, as at December 31, 2015, totaled approximately NIS 5.2 billion, compared with NIS 4.6 billion as at December 31, 2014.

Additional Information Concerning Activity in Certain Products

Credit Cards

General

The Bank Group's principal activities in the area of credit cards are conducted through companies operating in the area of means of payment under a single managerial and operational umbrella, referred to hereinafter as the "Isracard Group." The core activity of the Isracard Group is the issuance and clearing of Isracard credit cards, a private brand under its ownership, as well as of MasterCard, Visa, and American Express cards under licensing agreements.

In June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed a committee for increasing competition in common banking and financial services provided to households and non-large businesses (the Strum Committee). The committee's interim report, published on December 14, 2015, contains recommendations including the separation of credit-card companies from major banks within three years of the adoption of the committee's conclusions in legislation, among other matters. For further details, see the section "Regulatory Changes," below.

Credit Card Issuance

The Isracard Group issues credit cards to customers of banks that have entered into arrangements with the Isracard Group, including the Bank, Mizrahi Tefahot Bank Ltd., First International Bank Ltd., Bank Yahav Ltd., Bank Otsar Hahayal Ltd., Bank Massad Ltd., Bank of Jerusalem Ltd., and Union Bank Ltd. The Isracard Group also issues cards directly to customers ("non-bank cards"), primarily members of various consumer clubs and groups with which the Isracard Group has contracted.

Customers of the Isracard Group in the area of issuance are private customers, employees of corporations, and corporations (as well as corporate purchasing, including B2B – business to business payments).

As part of its issuance activity, the Isracard Group issues and operates a range of additional products and services, such as cards providing revolving credit, fuel cards and fuel devices, gift cards, specialized purchasing cards, and rechargeable cards. In addition, the Isracard Group grants general-purpose credit and loans based on credit facilities of credit cards, loans for the purchase of vehicles, various options for payment in installments, and information and confirmation services.

In addition to the Isracard Group, two credit-card companies controlled by banks currently operate in Israel in the area of issuance: Cartisei Ashrai LeIsrael Ltd. (hereinafter: "CAL"), controlled by Discount Bank, and Leumi Card Ltd. (hereinafter: "Leumi Card"), controlled by Bank Leumi.

The number of cards issued by the Isracard Group as at December 31, 2015 is 4.7 million, compared with 4.2 million cards as at December 31, 2014.

In 2015, the volume of activity in Isracard Group cards reached NIS 126.3 billion, compared with NIS 116.9 billion in 2014.

Credit Card Clearing

In agreements signed for the purpose of providing clearing services, the clearing credit-card company undertakes a commitment to the merchant, subject to fulfillment of the terms of the agreement, to settle the debits to the merchant undertaken by holders of the cards which it clears when purchasing goods or services from the merchant. The Isracard Group also offers merchants a range of additional financial services, such as loans and advances (advancement of payments in respect of transactions executed), advance payments, and sale-slips discounting, as well as marketing and operational services, including options for payment in installments, flexible crediting dates, targeted information, and sales promotion campaigns.

Customers of the Isracard Group in the area of credit-card clearing are numerous diverse merchants that have entered into agreements with it, including various government agencies, as well as companies that provide discounting services to merchants.

The credit-card clearing sector is characterized by a very high level of competition, due to factors including the operation of the local interface for cross-clearing of transactions in MasterCard and Visa credit cards (subsequent to which CAL and Leumi Card began to clear MasterCard cards, and the Isracard Group began to clear Visa cards). The market was opened for cross-clearing of Isracard brand cards on May 15, 2012; merchants can now switch clearers of this brand. Competition in the area of clearing is focused on recruiting new merchants for clearing agreements and retaining existing merchants as customers in the area of clearing. Another aspect of this competition is reflected in the development of financial and operational products and services for merchants. In addition to the Bank Group, the two credit-card companies controlled by banks listed above operate in the area of clearing in Israel.

Regulatory Changes

Pursuant to an arrangement between the company and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "Arrangement"), the average issuer fee shall stand at 0.7% from July 1, 2014 to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties detailing the terms for the operation of the common technical interface was submitted to the Commissioner, in order to receive an exemption from approval of a restrictive arrangement.

Amendment 18 to the Banking Licensing Law, published in August 2011, states, among other matters, that an entity engaged in clearing transactions in charge cards must obtain a clearing license. Later, in December 2013, the Supervisor of Banks published the process for receiving a clearing license and the general criteria and terms for a controlling party and a holder of means of control in an applicant for a clearing license. In November 2015, the Supervisor of Banks published an amended draft of the process for receiving a clearing license. Among other matters, the draft details cleared capital requirements and establishes various directives with regard to the manner of holding funds not yet transferred to merchants, information security, working with the EMV standard, compliance with legal directives, and more. Along with the draft, the Supervisor of Banks issued a press release stating the following, among other matters: a new clearer receiving a license from the Bank of Israel will be permitted to connect to the charge-card system through hosting on the infrastructure of an existing clearer, based on an agreement to be signed between them; the minimum controlling interest for ownership of a clearer was reduced, as detailed in the amended draft; the financial robustness of a controlling party of a clearer was also reduced in accordance with the amended draft; and the list of entities permitted to compose the controlling interest of a clearer was expanded.

In February 2015, the Bank of Israel published recommendations and measures for expansion of the distribution and use of debit cards in Israel and for increasing competition in the area of charge cards. Within these recommendations, among other matters, the Supervisor of Banks will establish directives for the distribution of debit cards to customers of banks, rules for immediate monetary settlement in transactions executed using debit cards, and rules regarding the manner of presentation of details of transactions executed using the card. In June 2015, the Supervisor of Banks issued several directives aimed at implementing these recommendations, including schedules for implementation. In August 2015, a temporary order was published in which the Governor of the Bank of Israel declared the interchange fee for debit transactions to be a supervised fee, and set its price at 0.3% of the amount of the transaction, for a period of one year, beginning April 1, 2016.

Concurrently with the abovementioned with respect to debit cards, in June 2015, the Supervisor of Banks issued a directive on implementation of the EMV security standard in both issuance and clearing. Among other matters, the directive establishes schedules for the issuance of cards that support the EMV standard and for the connection of terminals that support the standard, as well as for application of a mechanism for redirecting responsibility from the issuer to the clearer.

In May 2015, a private bill was submitted to Knesset, for increasing competition in the area of credit, concerning separation of the ownership of credit-card companies from banks. In June 2015, the Ministerial Committee for Legislation resolved to postpone the discussion of this bill until after the publication of the conclusions of the Strum Committee and the achievement of agreements between the proposers of the bill and the Ministries of Finance and Justice. In November 2015, the Ministerial Committee for Legislation resolved to postpone the discussion of the bill by three months. Another private bill concerning the separation of credit-card companies from banks was submitted to Knesset in June 2015.

In June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed a committee for increasing competition in common banking and financial services provided to households and non-large businesses (the Strum Committee). The committee is to make recommendations with regard to the introduction of new players in this field, including through the separation of credit-card companies from bank ownership. The committee has also been charged with making recommendations regarding necessary supplementary measures, the removal of barriers to the entry of new players, and increasing competition, as noted. The committee's interim report, published on December 14, 2015, contains recommendations including the following: separation of credit-card companies from major banks within three years of the adoption of the committee's conclusions in legislation; setting limits on entities permitted to acquire the credit-card companies; increasing competition in the clearing market (by easing the conditions for granting a clearer's license, reducing the interchange fee no later than 2018, and transitioning from monthly to daily clearing within several years); allowing the post-separation credit-card companies to use the information available to them as a result of the operation of issuance and clearing activities; obligating all banks to distribute all credit cards with equal terms; prohibiting all major banks from issuing credit cards for four years, and permitting them to issue debit cards; permitting the post-separation credit-card companies to issue credit cards jointly with banks (other than the major banks) or financial institutions, up to a rate of 25% of their total credit-card facilities; and retention of the supervision of credit-card companies by the Bank of Israel. There are dissenting opinions of some committee members with regard to some of the recommendations. The committee called on the public to present its responses to the interim conclusions by February 7, 2016. The company submitted its position to the committee. The committee held hearings during February 2016.

In July 2015, the Knesset plenum passed a bill, in the first reading, for the reduction of the use of cash. The goal of the bill, which was published in January 2015 and approved by the Ministerial Committee for Legislation in May 2015, is to implement the recommendations in the report of the Committee for the Examination of the Reduction of Cash Use in the Israeli Economy, while gradually setting limits on the use of cash and marketable checks, in order to minimize the underground economy in Israel, fight crime and money laundering, and allow the use of advanced, efficient means of payment. Among other matters, the memorandum would grant the Antitrust Commissioner the authority to determine interchange fee rates for transactions in charge cards. The bill states that a condition for its inception is that debit cards are an available product, similar to deferred charge cards.

In accordance with an amendment to the Banking Rules concerning fees, which took effect in July 2015, the number of fees collected from small businesses receiving clearing services was reduced, through the establishment of a uniform price list for common services in this field. In addition, pursuant to the amendment, rules concerning fees collected from cardholders have been amended; for example, uniform rules have been established regarding the collection of conversion fees. Further, in July 2015, an order took effect that limits the maximum amount of the fee that can be collected for "notification or alert" services; and another order took effect that limits the maximum amount of the fee for a service provided by a clearer to a provider of discounting services in charge-card transactions.

In August 2015, the Bank of Israel released an interim report, "The Chain of Execution of Transactions in Charge Cards." The report contains recommendations for increasing competition, efficiency, and stability in the charge-card market, which, according to the Bank of Israel, should remove the existing barriers in the market and allow the entry of new players.

In November 2015, the Knesset plenum approved the Law for the Economic Plan for 2015 and 2016, within the Economic Arrangements Law, in the second and third reading. Among other matters, the law permits non-bank entities to raise capital by issuing debt certificates to the public. The increase in sources of financing is expected, among other matters, to increase the ability of non-bank entities to compete with the banking system in granting credit to households and to small and mid-sized businesses, thereby lowering credit costs in the retail credit sector.

The Supervisor of Banks issued a draft directive in December 2015 concerning clearers and clearing of charge-card transactions, in which some of the directives mentioned above were formalized, as well as additional matters, including clearers' capital requirements; protection of funds in clearing; obligation to comply with legal directives according to the type of clearer; fund transfers in debit transactions; a mechanism for redirection of responsibility; clearer-merchant relationships; and terminal rentals.

The large number of regulatory procedures, to the extent that they are implemented, may have a material negative effect on the activity of the company; however, the extent of such an effect cannot be estimated at this stage.

For additional details regarding regulatory changes also relevant to credit-card companies, see the heading "Regulatory Initiatives" in the section "The Households Segment."

Additional Activities

In addition to activities related to the issuance and clearing of credit cards, as described above, the Isracard Group has the following additional activities: check settlement guaranteeing and check discounting; granting of consumer credit other than through credit cards; direct sale-slips discounting; and factoring (receivables discounting).

Merger of Visa Europe and Visa Inc.

The Bank holds shares of Visa Europe. On December 21, 2015, Visa Inc. announced its intention to acquire Visa Europe. Upon closing of the transaction, towards the end of the second quarter of 2016, the Bank will transfer its holdings in Visa Europe, in consideration for a total of approximately EUR 20-25 million, to be received in cash and in restricted shares of Visa Inc.

In addition, when four years have elapsed from the closing date, subject, among other matters, to compliance with future revenue tests and additional conditions, the Bank may receive contingent proceeds in the amount of approximately EUR 6-7 million in cash, if the Bank remains a Principal Member when the four years have elapsed.

Upon the legal closing of the share exchange transaction, towards the end of the second quarter of 2016, the Bank is expected to recognize pretax income in the amount of approximately EUR 20-25 million. This profit is subject to changes that may result from appeals filed by other members of Visa Europe with regard to their share of the consideration. The recognition of profit in respect of the contingent proceeds will be postponed until such time as the amount in cash is determined, or can be determined.

Contribution of Income from Credit Cards

The contribution of income from credit cards to income from fees, included within operating income (before deducting related expenses), totaled NIS 1,725 million in 2015, compared with NIS 1,674 million in 2014, an increase of approximately 3.0%.

Table 5-46: Distribution of the results of operations and principal data in credit cards by segment of activity

	For the year ended December 31, 2015							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Incoming tourism and others	Total
	NIS millions							
Net interest income:								
From externals	**125**	**20**	**48**	**15**	**-**	**6**	**-**	**214**
Non-interest financing income	**-**	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Net financing profit	**125**	**20**	**48**	**15**	**-**	**16**	**-**	**224**
Income from fees	**629**	**356**	**124**	**13**	**9**	**-**	**594**	**1,725**
Total income	**754**	**376**	**172**	**28**	**9**	**16**	**594**	**1,949**
Provision for credit losses	**21**	**13**	**4**	**-**	**-**	**-**	**-**	**38**
Operating and other expenses	**505**	**254**	**86**	**9**	**5**	**-**	**533**	**1,392**
Profit before taxes	**228**	**109**	**82**	**19**	**4**	**16**	**61**	**519**
Provision for taxes on profit	**70**	**34**	**25**	**6**	**1**	**5**	**18**	**159**
Net profit:								
Before attribution to non-controlling interests	**158**	**75**	**57**	**13**	**3**	**11**	**43**	**360**
Attributed to non-controlling interests	**(3)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(4)**
Attributed to shareholders of the Bank	**155**	**74**	**57**	**13**	**3**	**11**	**43**	**356**
Average balances								
Average balance of assets	**6,836**	**3,833**	**1,374**	**243**	**122**	**-**	**4,831**	**17,239**
Average balance of liabilities	**-**	**-**	**2,314**	**2,169**	**9,979**	**-**	**-**	**14,462**
Average balance of risk-adjusted assets	**9,107**	**5,534**	**2,594**	**157**	**90**	**-**	**-**	**17,482**
Average number of employee positions	**696**	**335**	**220**	**12**	**8**	**-**	**544**	**1,815**

Table 5-46: Distribution of the results of operations and principal data in credit cards by segment of activity (continued)

	For the year ended December 31, 2014*							
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Incoming tourism and others	Total
	NIS millions							
Net interest income:								
From externals	92	18	50	16	-	14	-	190
Non-interest financing income	-	-	-	-	-	37	-	37
Net financing profit	92	18	50	16	-	51	-	227
Income from fees	610	345	120	14	9	-	576	1,674
Total income	702	363	170	30	9	51	576	1,901
Provision for credit losses	11	7	2	-	-	-	-	20
Operating and other expenses	472	234	80	9	4	-	514	1,313
Profit before taxes	219	122	88	21	5	51	62	568
Provision for taxes on profit	65	36	25	6	1	14	18	165
Net profit:								
Before attribution to non-controlling interests	154	86	63	15	4	37	44	403
Attributed to non-controlling interests	(4)	(1)	-	-	-	-	-	(5)
Attributed to shareholders of the Bank	150	85	63	15	4	37	44	398
Average balances								
Average balance of assets	6,368	3,575	1,267	228	114	-	4,620	16,172
Average balance of liabilities	-	-	2,281	2,139	9,839	-	-	14,259
Average balance of risk-adjusted assets	8,612	5,271	2,432	152	94	-	-	16,561
Average number of employee positions	728	345	112	12	8	-	554	1,759

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

Capital Market Activity

General

The Bank Group's capital-market activity includes a range of financial activities and services in various areas: trading, operations, and custody in Israeli securities, including Maof (the Bank and a wholly-owned subsidiary are members of the Tel Aviv Stock Exchange and the TASE Clearing House; for details regarding a lien placed on the assets of the Bank as a condition of its membership in various clearing houses, see Note 27 to the Financial Statements); trading in foreign securities (the Bank is a member of the Euroclear clearing house); research and consulting services for customers on the capital market; provision of services to financial-asset managers; issuance management; management of investment portfolios in securities and financial assets for private customers, corporations, non-profit organizations, and institutions; and trust services (an equity-basis investee of the Bank also engages in underwriting). Some of the aforesaid financial activities and services are performed directly by the Bank, while others are performed by subsidiaries, each of which specializes and engages in a specified field.

Pension Advising

The Bank holds a pension advisor's license and employs licensed pension advisors. To date, the Bank has signed distribution agreements with approximately 16 management companies of provident funds and pension funds. The Bank began to open pension advising centers across Israel in 2013. Twelve centers have been established thus far.

It is mandatory for the Bank, as for other pension distributors, to use the pension clearing house established for transfers of advance information regarding customers' holdings in pension products from institutional entities to pension advisors and marketers. The Bank is connected to the pension clearing house, and receives data regarding customers' holdings in pension products through the uniform holdings interface.

Difficulties exist in the provision of pension advisory services to customers, among other matters as a result of the difficulty of routinely and efficiently receiving full information from institutional entities and from employers and transmitting it to the clearing house. In addition, at this stage the clearing house does not perform monetary transfers in connection with the pension products; there are difficulties with the settlement of monetary transactions.

Another obstacle concerns the distribution of insurance products. Regulations have not yet been enacted to establish the rate of distribution fees for insurance products, and distribution agreements have not been signed for such products. The examination of insurance products is difficult, due to the wide variety of insurance plans in the various years and the difficulty comparing them to one another.

Within the Ministry of Finance's plan to increase competition in the pension-savings market, legislative amendments will take effect in 2016, the effect of which on pension advising at the Bank is not yet clear:

1. Employees are entitled to choose a pension license holder, at any time, for pension advising/marketing and for the execution of transactions.
2. Guidelines have been established with regard to investment tracks in provident funds, including age-dependent tracks and specialized tracks.

Set out below is a description of the principal services provided by the Bank Group within its capital-market activity, and of some of the companies in the Bank Group that operate in this area:

Distribution of Study Funds, Provident Funds, and Pension Funds

The Bank has entered into agreements regarding the distribution of study funds, provident funds, and pension funds to its customers. The Bank is entitled to collect distribution fees for the distribution of the funds, as stipulated in the regulations.

Distribution of Mutual Funds

The Bank has reached agreements with the decisive majority of mutual-fund managers in Israel with regard to the distribution of mutual-fund units to its customers. The Bank is entitled to collect distribution fees from the fund managers in respect of this activity, as stipulated in the regulations.

Poalim Sahar Ltd.

Poalim Sahar Ltd. (hereinafter: "Poalim Sahar"), a wholly owned subsidiary of the Bank, is a member of the TASE and of the TASE Clearing House. The company specializes in services for institutional entities: new and established pension funds, bank provident funds, segmental provident funds, study funds, insurance companies, and public companies and entities. The company provides brokerage services to customers in Israel and abroad, as well as research services, custody services, and other related services, including operational services.

Peilim Portfolio Management Company Ltd.

Peilim Portfolio Management Company Ltd., a wholly-owned subsidiary of the Bank, manages investment portfolios for private customers, business organizations, non-profit entities, and others. The company manages investments for Israeli and foreign clients in the Israeli capital market and in capital markets worldwide.

As at December 31, 2015, the company manages portfolios with a monetary value of NIS 16.6 billion, compared with NIS 15.1 billion at the end of 2014.

Services for Financial Asset Managers

The Financial Asset Manager Services Unit encompasses activities related to the provision of various services to financial-asset managers: managers of provident funds, study funds, and pension funds; managers of mutual funds; and investment-portfolio managers.

The activity of the unit encompasses the operation of the financial assets noted above and the provision of banking services to entities that manage these assets. Services include asset revaluation, production of control reports, production of reports to government agencies, bookkeeping, management of accounts and rights of provident-fund members, and calculation of returns.

The Bank has signed agreements for the provision of operational services to provident-fund management companies, some incidental to the sale of provident funds formerly owned by the Bank. In the area of mutual funds, the Bank has service agreements with mutual-fund management companies.

The unit also provides services to management companies of provident funds (excluding management companies of provident funds managed within insurance companies) and mutual funds. Amounts of balances and results of this activity are stated in the Financial Management Segment.

At the end of 2015, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 116.4 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 70 billion.

Services for Financial Institutions

Within its activity with foreign banks and financial institutions, the Bank supplies sub-custody services to leading foreign custodian banks operating in Israel in the area of securities.

Brokerage Services

In addition to the foreign-currency dealing room, the Financial Markets Area also contains two dealing rooms for securities: the Israeli securities dealing room and the foreign securities dealing room. The Israeli securities dealing room serves institutional clients as well as private customers with high levels of activity. The foreign securities dealing room serves institutional clients and selected private customers, and provides backup for trading activities for other customers of the Bank. All three dealing rooms operate in coordination, providing the Bank's customers with a professional, advanced, efficient, centralized service package.

Table 5-47: Distribution of results of operations and principal data in the capital market by segment of activity

	For the year ended December 31, 2015						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	**36**	**849**	**44**	**20**	**55**	**292**	**1,296**
Operating and other expenses:							
From externals	**62**	**495**	**35**	**-**	**-**	**540**	**1,132**
Inter-segmental	**8**	**167**	**11**	**7**	**32**	**(225)**	**-**
Profit (loss) before taxes	**(34)**	**187**	**(2)**	**13**	**23**	**(23)**	**164**
Provision for taxes (tax benefit) on profit (loss)	**(14)**	**77**	**(1)**	**5**	**10**	**(10)**	**67**
Net profit (loss):							
Attributed to shareholders of the Bank	**(20)**	**110**	**(1)**	**8**	**13**	**(13)**	**97**
Average balance							
Average balance of assets of provident funds and mutual funds(1)	**2,842**	**56,913**	**3,730**	**2,193**	**1,329**	**102,347**	**169,354**
Average balance of other assets under management	**-**	**1,093**	**-**	**-**	**-**	**-**	**1,093**
Average balance of securities	**2,002**	**129,524**	**8,437**	**14,016**	**161,797**	**517,951**	**833,727**
Average balance of risk-adjusted assets	**128**	**1,668**	**96**	**57**	**938**	**1,463**	**4,350**

	For the year ended December 31, 2014*						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	33	854	45	20	56	302	1,310
Operating and other expenses:							
From externals	59	624	39	-	-	520	1,242
Inter-segmental	9	182	12	6	24	(233)	-
Profit (loss) before taxes	(35)	48	(6)	14	32	15	68
Provision for taxes (tax benefit) on profit (loss)	(14)	61	(2)	5	13	6	69
Net profit (loss):							
Attributed to shareholders of the Bank	(21)	(13)	(4)	9	19	9	(1)
Average balances							
Average balance of assets of provident funds and mutual funds(1)	2,866	57,607	4,217	2,559	3,137	90,601	160,987
Average balance of other assets under management	-	882	-	-	-	-	882
Average balance of securities	1,987	118,065	7,830	13,263	161,695	504,054	806,894
Average balance of risk-adjusted assets	132	1,593	97	45	1,068	1,520	4,455

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

(1) Provident funds receiving operational services and mutual funds for which the Bank Group provides custody services.

General – The Supervisory Segments and Criteria for the Assignment of Customers to Supervisory Activity Segments

A circular amending the Public Reporting Directives concerning supervisory activity segments was issued on November 3, 2014. The following are the main changes to the Public Reporting Directives:

- Addition of a disclosure requirement with regard to "supervisory activity segments," in accordance with the definitions of the Supervisor of Banks, which are mainly based on the classification of customers according to turnover. The format for disclosure of supervisory activity segments includes the following segments: private banking, households, microbusinesses and small businesses, mid-sized businesses, large businesses, institutional entities, and financial management.
- Addition of a requirement for separate disclosure of the "financial management" segment.
- The Bank's operations overseas will be presented separately, with a division into activity with private individuals and business activity.

The directives set forth in the circular apply beginning with the annual financial statements for 2015, with respect to balance sheet data. Other disclosure requirements will apply beginning with the financial statements for the first quarter of 2016, with the exception of the separate disclosure of the financial management segment, which will not apply in 2015 and 2016. Eased requirements were also established with respect to classification into segments for the presentation of comparative figures. The initial implementation of the directives will have an effect on the presentation of the financial statements of the Bank. Note 29A has been adjusted to include the new disclosure, subject to the transitional directives, as described above.

Definitions and Characteristics of Supervisory Activity Segments

Private individuals – classified into activity segments based on their portfolio of financial assets at the Bank, as detailed below:

- Private banking segment – Private individuals, the balance of whose portfolio of financial assets at the Bank, on a consolidated basis (including monetary deposits, securities portfolios, and other financial assets) exceeds NIS 3 million.
- Households segment – Private individuals other than those customers included in the Private Banking Segment.

Business clients – classified into activity segments according to turnover, as detailed below:

- Microbusiness – A business with a turnover of less than NIS 10 million.
- Small business – A business with a turnover greater than or equal to NIS 10 million, and lower than NIS 50 million.
- Mid-sized business – A business with a turnover greater than or equal to NIS 50 million, and lower than NIS 250 million.
- Large business – A business with a turnover greater than or equal to NIS 250 million.

When the turnover of a business client does not reflect the volume of its activity, the client's business activity is classified as follows: if the total indebtedness of the business client is greater than or equal to NIS 100 million, the client is assigned to the Large Business Segment. When the client's total indebtedness is lower than NIS 100 million, the client is assigned to the appropriate supervisory activity segment based on its total balance sheet assets.

Pursuant to the transitional directives set forth in the file of questions and answers released by the Bank of Israel, if a business client's indebtedness to the Bank is up to a total of NIS 300 thousand (including credit facilities, etc.) and the Bank has no information about the client's turnover, the client is classified into the appropriate supervisory activity segment based on its total financial assets at the Bank (including monetary deposits, securities portfolios, and other financial assets); instead of total balance sheet assets, the classification is based on total financial assets, multiplied by a coefficient of 10.

Institutional entities – Includes provident funds, mutual funds, pension funds, study funds, and insurance companies, in accordance with the definitions of the Supervisor of Banks.

Financial management segment – Includes trading activity, asset and liability management, non-financial investment, and additional activities, as defined in the directives of the Supervisor of Banks. Pursuant to the transitional directives for 2015, no separate disclosure was included in the note with regard to the financial management segment or with regard to geographical regions and activity segments based on management's approach.

Other – Including discontinued operations, profits from amounts funded and other results related to employee benefits not allocated to other activity segments, activities not allocated to other activity segments, and adjustments of the total items attributed to the segments with the total items in the consolidated financial statements.

The disclosure of segments of activity at the Bank is based on the assignment of the customer, in practice, to the relevant organizational unit, in accordance with criteria established by the Board of Management of the Bank (see the section "Description of the Bank Group's Business by Segments of Activity," above). The segmentation of customers into supervisory activity segments is based on uniform definitions established by the Supervisor of Banks, as detailed above. The difference in definitions is primarily evident in the following segments:

- Private customers with a portfolio of financial assets at the Bank in an amount lower than NIS 3 million, classified into the Private Banking Segment in the disclosure of activity segments, were classified into the Households Segment in the disclosure of supervisory activity segments.
- Microbusinesses and small businesses, which were classified into the Households Segment and the Private Banking Segment in the disclosure of activity segments, according to their assignment to the organizational unit by which they are served, were classified into the business segments noted above in the disclosure of supervisory activity segments, based on the criteria detailed above.
- Business clients classified into the Corporate Segment or the Commercial Segment in the disclosure of activity segments, according to their assignment to the organizational unit by which they are served and their association with a group of companies, were classified into the Microbusinesses and Small Businesses Segment in the disclosure of supervisory activity segments, based on the criteria detailed above.
- Institutional entities, which were classified into the Corporate Segment and the Financial Management Segment in the disclosure of activity segments, were classified into the Institutional Entities Segment in the disclosure of supervisory activity segments.

Table 5-48: Condensed principal data of the supervisory activity segments

	December 31, 2015												
	Activity in Israel								Activity abroad			Total
	Households segment	Private banking segment	Microbusinesses and small businesses	Mid-sized businesses	Large businesses	Institutional entities	Financial management segment	Other segment	Total activity in Israel	Private individuals	Business activity	Total activity abroad	
	NIS millions												
Gross balance of credit to the public	**108,759**	**3,043**	**50,392**	**28,578**	**61,935**	**1,752**	**-**	**5,159**	**259,618**	**6,158**	**17,135**	**23,293**	**282,911**
Balance of impaired debts	**661**	**5**	**1,086**	**492**	**2,961**	**-**	**-**	**-**	**5,205**	**30**	**101**	**131**	**5,336**
Balance of debts in arrears of more than 90 days	**724**	**-**	**132**	**1**	**-**	**-**	**-**	**-**	**857**	**-**	**-**	**-**	**857**
Balance of deposits from the public	**118,526**	**33,938**	**41,481**	**19,128**	**28,797**	**43,580**	**-**	**-**	**285,450**	**20,597**	**15,680**	**36,277**	**321,727**
Balance of risk-adjusted assets	**88,313**	**5,445**	**55,543**	**44,185**	**87,976**	**6,548**	**25,065**	**3,795**	**316,870**	**7,364**	**20,890**	**28,254**	**345,124**

5.5. Principal Subsidiary and Affiliated Companies

General

The Bank Group operates through banking and non-banking subsidiary companies in Israel and abroad. The non-banking subsidiaries operate in the fields of finance, marketing and operation of credit-card systems, trust activity, issuance and financing, and investment-banking services.

The contribution of subsidiary and affiliated companies to the Bank's results of operations in 2015, excluding exchange-rate differences of the subsidiaries overseas, totaled NIS 508 million, compared with NIS 542 million in 2014. The Bank's investment in subsidiary and affiliated companies totaled NIS 16.6 billion as at December 31, 2015, compared with NIS 16.4 billion at the end of 2014.

Subsidiaries in Israel

The principal companies are reviewed below:

The Isracard Group

The Group includes the following companies: Isracard Ltd., Poalim Express Ltd., Europay (Eurocard) Israel Ltd., Isracard Mimun Ltd., Isracard (Nechasim) 1994 Ltd., Tzameret Mimunim Ltd., and Global Factoring Ltd. These companies constitute the Bank's credit-card business.

The core activity of the Isracard Group is issuance, clearing, and financing in Isracard credit cards, a private brand under its ownership, as well as MasterCard, Visa, and American Express credit cards under licensing agreements. The Group also has activities in the following areas: granting consumer credit other than through credit cards, check payment guarantees and check discounting, direct sales-slip discounting, and factoring (receivables discounting).

Net profit of the Isracard Group totaled NIS 291 million in 2015, compared with NIS 337 million in 2014, a decrease of approximately 13.6%. Net profit in 2014 included profit in the amount of NIS 9 million from the sale of shares of MasterCard Inc. during the first quarter of 2014.

The contribution of the Isracard Group to the Bank's operating results after taxes amounted to NIS 282 million in 2015, compared with NIS 327 million in 2014.

The Bank's investment in the Isracard Group totaled NIS 2,743 million on December 31, 2015, compared with NIS 2,461 million at the end of 2014.

Return of net profit on investment of the Isracard Group reached NIS 10.75% in 2015, in annualized terms, compared with 14.21% in 2014.

For further details regarding regulatory changes, see the section "Additional Information Regarding Activity in Certain Products," above.

For details regarding various regulatory issues, see Note 26C to the Financial Statements.

Poalim Capital Markets and Investments Holdings Group Ltd.

The Poalim Capital Markets Group Ltd. (hereinafter: "Poalim Capital Markets") operated in three main areas during the reported year: investments in private-equity funds and direct investments; investment-banking activity in Israel and abroad; and broker-dealer activities in the United States.

In the area of investment in private-equity funds, Poalim Capital Markets invests in private-equity funds operating in various sectors, including infrastructures, buyouts, alternative energy, and others. In addition, Poalim Capital Markets continues to manage venture-capital funds, in accordance with a permit granted by the Bank of Israel. Poalim Capital Markets also invests in companies in various sectors, including industry, fintech, etc.

In the area of investment banking, Poalim Capital Markets provides a range of services, including financial and strategic consulting for mergers and acquisitions and guidance of companies in various investments in Israel and abroad, and consulting for public and private issues abroad. In addition, Poalim Capital Markets has a stake in Poalim I.B.I. (rate of holdings 18.93%), which provides consulting, underwriting, and management services for public issues in Israel and capital raising through private issues.

In recent years, broker-dealer activities in the United States have been conducted through the wholly owned subsidiary Hapoalim Securities U.S.A. Inc. (HSU). In December 2015, a decision was made to significantly reduce the activity of HSU.

The contribution of Poalim Capital Markets to the results of operations of the Bank in 2015 amounted to a loss of NIS 10 million, which includes a negative contribution in the amount of NIS 52 million as a result of the reduction of HSU's activity in the areas of the emerging markets and the fixed-income segment. In 2014, the contribution of Poalim Capital Markets to the results of operations of the Bank amounted to profit of NIS 43 million.

The Bank's investment in Poalim Capital Markets totaled NIS 853 million on December 31, 2015, compared with NIS 863 million at the end of 2014.

Activity of the Bank Group Abroad

General

The international activity of the Bank Group is conducted through banking subsidiaries, financial companies, the Bank's overseas branches, and representative offices. The Bank's activity overseas is focused on the private-banking and corporate sectors. The Bank also has activities in the households and commercial sectors in Turkey and Kazakhstan. Within its international activity, the Bank maintains relationships with correspondent banks around the world. Its activity with these correspondent banks includes trading through dealing rooms, cooperation in foreign trade and international trade financing, project financing, clearing of payments, and capital-market services (see the section "Credit Exposure to Foreign Financial Institutions").

In its Global Private Banking business, the Bank provides high-net-worth customers abroad with advanced professional services and products, including investment products and global asset management. Activity in the corporate segment abroad includes granting credit to local and foreign borrowers, and investments in bonds. Activity in the households and commercial segments in emerging markets is focused on the activity of Bank Pozitif in Turkey and Bank Pozitiv in Kazakhstan. With regard to the agreement for the sale of the Bank's holdings in Bank Pozitiv in Kazakhstan, see below.

The key focus of the Bank's strategy is its commercial banking business in New York and its Global Private Banking (GPB) business. The Bank aims to continue to expand its service offering and improve its capabilities in products, marketing, and customer service.

Legislative Restrictions, Regulation, and Special Constraints Applicable to International Activity

The following is a brief description of the main limits applicable to international activity.

Regulatory Supervision Abroad

In addition to the rules and limits imposed by the Bank of Israel on the international activity of the Bank Group, pursuant to legislation and procedures as well as the provisions of permits granted by the Bank of Israel for the acquisition of subsidiaries and/or opening of branches abroad, the activity of the international banking sector in the various countries is subject to regulations relevant to the nature of activity of the Group in the countries in which its business is conducted (cross-border regulations) and to regulatory supervision by various government agencies in the countries in which the Bank's overseas offices operate, including requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

The Bank Group's Business with American Clients

Over the course of 2011, the Swiss authorities notified Bank Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland") that several Swiss banks, including Hapoalim Switzerland, were being investigated by US authorities, seemingly in connection with suspicions or concerns of assisting American clients in evading US tax. No details or circumstances relating to Hapoalim Switzerland specifically were provided in connection with this investigation.

Pursuant to a request by the Swiss authorities, these banks submitted statistical information with regard to their transactions with American clients to the Swiss authorities, which the Swiss authorities were to convey to the US authorities. In this context, during the second half of 2011, Hapoalim Switzerland submitted statistical information to the Swiss authorities, without submitting identifying information regarding the clients, such as the names of the clients. Hapoalim Switzerland has cooperated and continues to cooperate with the Swiss authorities, and is acting in accordance with the legal directives to which it is subject.

On August 29, 2013, it was announced that the US and Swiss authorities had reached an arrangement (the "Swiss Arrangement"), pursuant to which Swiss banks that choose to join the Swiss Arrangement and meet its conditions (including the payment of a fine and the submission of extensive information regarding the accounts of their American clients, funds received from other banks, and more) will not be brought to trial in the United States in connection with matters covered by the arrangement. The Swiss Arrangement defines "Category 2" as a category that refers to banks that are not under investigation, and can join the arrangement and sign an agreement in which they will not be brought to trial (Non-Prosecution Agreement).

The US Department of Justice announced that the Swiss Arrangement would not apply to 14 Swiss banks, the activity of which is being investigated. Therefore, Hapoalim Switzerland is not included in the Swiss Arrangement and, on August 29, 2013, the US Department of Justice sent a letter notifying the representative of Hapoalim Switzerland that it would not be included in the Swiss Arrangement, as it is subject to investigation. The aforementioned letter did not specify any claims or demands whatsoever.

From 2011 until the end of 2014, excluding a few telephone conversations between representatives of the US authorities, the Bank's representatives, and the Bank's US counsel, no meetings or discussions were conducted between representatives of the US authorities and the Bank and Hapoalim Switzerland or their counsel in connection with the investigation against Hapoalim Switzerland and/or the banking activities of other entities in the Bank Group with American clients.

In early 2015, the Bank's representatives held several meetings with representatives of the New York Department of Financial Services (NYDFS) and representatives of the United States Department of Justice (DOJ) in Washington. They also met with representatives of the Federal Reserve in New York. In these meetings, the American authorities notified the representatives of the Bank of an investigation underway against the Bank Group, and delivered orders to disclose documents and various requests for information and materials. Additional requests for the collection and submission of information and additional materials were received during 2015 and in January 2016. The Bank, through its representatives, submitted and continues to submit information and various materials to the DOJ and the NYDFS with regard to the activity of the Bank Group with American clients. The Bank, through its representatives, continues to communicate and cooperate with them, and representatives of the Bank are expected to continue to meet with representatives of the authorities. Since 2011, the Bank Group has been assisted by outside counsel from the United States, Switzerland, and Israel, and internal reviews have been conducted regarding banking activities with American clients. The Bank is continuing, and is expected to continue, to conduct internal reviews, among other matters, in order to complete the collection of the information and materials demanded in the past and demanded from time to time by the US authorities, to the extent possible and within the bounds of the law. The Bank estimates that most of the material that the Bank has been asked to submit up to this point was transferred to the American authorities, and that it is likely that discussions with these authorities with regard to the materials will be held during the course of this year.

On January 27, 2016, the US Department of Justice announced that the last agreement had been signed with banks included in Category 2 within the Swiss Arrangement. In the announcement, the US Department of Justice further noted that a total of approximately eighty agreements had been signed with Swiss banks in Category 2 of the Swiss Arrangement. The variation among the Swiss banks, the agreements that they signed with the US Department of Justice, and the charges and fines imposed by these agreements is extensive, as indicated by the public announcements of the US Department of Justice in this connection. Over time, the US Department of Justice also signed arrangements with banks that are not included in Category 2. These arrangements are also different from one another, and were also announced publicly by the US Department of Justice. Some of the banks also paid fines to other American government agencies.

At this stage, taking into account the fact that, as of the date of this report, the US authorities have not directed any specific claims against the Bank, and taking into account that the Bank Group is not conducting any negotiations with the US authorities and that one cannot draw an analogy with the arrangements signed by various banks with the US Department of Justice, as noted above (including the events and results of Bank Leumi LeIsrael B.M. in this context, which differ from those of the Bank), and in light of legal opinions and the uncertainty resulting from all of the above, the Bank cannot assess the scope of the exposure in this matter.

Notwithstanding the above, the Supervisor of Banks, after inspecting the circumstances and for conservative accounting reasons, ordered the Bank, during 2014, to include a provision in its financial statements with respect to the aforementioned (which would not have been included in the financial statements if not for the Supervisor of Banks' order, for the reasons noted above), and later ordered the disclosure of this provision in the Annual Report for 2014. Accordingly, the financial statements include a provision in an amount in NIS equal to approximately USD 50 million. In accordance with the directive of the Supervisor of Banks, the amount of this provision was calculated on the basis of the estimated sum that Hapoalim Switzerland would probably have paid to the US authorities according to the formula established in the Swiss Arrangement, if Hapoalim Switzerland had been included in Category 2 within the Swiss Arrangement, despite the fact that the aforementioned provision refers to the Bank Group as a whole. It is possible, in view of the existing uncertainty, as noted above, that the eventual outcome will differ materially from the amount of the provision ordered by the Supervisor of Banks.

Investigation of the Bank in Connection with Senior FIFA Officials

On May 27, 2015, the United States Department of Justice announced the existence of an indictment filed with the Federal Court in New York against 14 senior officials of the Fédération Internationale de Football Association (FIFA) in connection with suspected offenses of bribery, fraud, and related offenses. According to the indictment, some of the defendants maintained accounts with the Bank Group. Under these circumstances, the Bank Group is conducting internal examinations of the accounts pertaining to the investigation. In September 2015, the Bank was informed that the US authorities were also investigating the involvement of various banks, including the Bank Group, in this matter. The Bank is in contact with these authorities, cooperating with them in the investigation, and submitting information and documents, in accordance with the relevant laws. At this preliminary stage, the Bank cannot estimate the extent of its exposure in connection with this matter.

Condensed Aggregate Financial Statements of International Operations

The condensed financial statements of international operations presented below include the Bank's overseas offices with activity in one or more of the following areas: granting credit, taking deposits, issuing bonds or notes, and managing client assets. The activity of the Global Private Banking Center in Israel is also included.

A. Table 5-49: Balance Sheet of the Bank's Overseas Offices**

	Balance as at December 31	
	2015	2014
	USD millions	
Assets		
Cash and deposits with banks	**7,387**	8,851
Securities	**1,971**	2,102
Securities borrowed or purchased under agreements to resell	**-**	1
Net credit to the public	**5,937**	5,371
Credit to governments	**50**	-
Buildings and equipment	**24**	30
Assets in respect of derivative instruments	**50**	96
Other assets	**70**	131
Total assets	**15,489**	16,582

Liabilities and Capital		
Deposits from the public	**9,297**	8,421
Deposits from banks	**4,418**	6,132
Government deposits	**20**	20
Securities lent or sold under agreements to repurchase	**21**	11
Bonds and subordinated notes	**497**	625
Liabilities in respect of derivative instruments	**111**	143
Other liabilities	**149**	*231
Total liabilities	**14,513**	*15,583
Non-controlling interests	**34**	53
Capital means***	**942**	*946
Total liabilities and capital	**15,489**	16,582

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

** The balance sheet of international operations is based on data of the overseas offices, translated into US dollars, following adjustments to the accounting principles applied by the Bank, with adjustments in respect of the balance of the surplus of the acquisition cost over the capital of the overseas offices, and attribution of the share of non-controlling interests.

*** Includes calculated capital in the amount of USD 288 million (December 31, 2014: USD 262 million) for branches of the Bank that are not companies. The calculated capital includes the amounts of the original deposits deposited with the branches of the Bank, with the addition of profits or subtraction of losses recorded up to the balance sheet date, including adjustments from the presentation of securities available for sale at fair value and a capital reserve for adjustments of liabilities in respect of employee benefits.

B. Table 5-50: Client Assets at the Bank's Overseas Offices

	Balance as at December 31	
	2015	2014
	USD millions	
Deposits from the public, bonds, and subordinated notes	**9,794**	9,046
Client assets (off-balance sheet)	**10,661**	9,448
Total	**20,455**	18,494

C. Table 5-51: Profit and Loss and Contribution of the Bank's Overseas Offices*

	For the year ended December 31	
	2015	2014**
	USD millions	
Net financing profit	**147**	169
Provision (income) for credit losses	**(3)**	21
Net financing profit after provision for credit losses	**150**	148
Fees and other income	**135**	163
Operating and other expenses	**258**	264
Profit before taxes	**27**	47
Provision for taxes on profit	**28**	23
Net profit (loss):		
Before attribution to non-controlling interests	**(1)**	24
Attributed to non-controlling interests	**6**	4
Attributed to shareholders of the Bank	**5**	28

* Based on the results of the overseas offices, translated into US dollars, after adjustment to the accounting principles applied by the Bank, deduction of the surplus acquisition cost over the capital of the overseas offices, attribution of the share of minority interests in the results of consolidated companies, and a supplement for the additional tax applicable to the Bank in Israel.

** Restated; retrospective implementation. For details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1) to the Financial Statements.

The functional currency of consolidated subsidiaries overseas is defined in accordance with the directives of the Supervisor of Banks (for further details, see Note 1C(2) to the Annual Financial Statements for 2015). Accordingly, exchange-rate differences in respect of the investment in Bank Hapoalim Switzerland are allocated directly to equity, within "adjustments from translation of financial statements," net of hedging effects. With regard to other companies, the Bank performs economic hedges of the aforesaid currency exposures, and exchange-rate differences are allocated to the statement of profit and loss.

The Bank's investments in the principal overseas offices totaled NIS 3,682 million on December 31, 2015, compared with NIS 3,626 million on December 31, 2014.

The results of operations of the principal overseas offices in 2015 amounted to profit of approximately NIS 11 million (NIS 95 million including exchange-rate differences), compared with profit of approximately NIS 129 million (NIS 208 million including exchange-rate differences) in 2014.

Table 5-52: Data regarding the investment in the principal overseas offices and their contribution to the net profit of the Bank

	December 31, 2015		
	Balance as at December 31, 2015[(1)]	Contribution in 2015 excluding exchange-rate differences[(2)]	Return in 2015[(3)]
	NIS millions		
Company			
US branches[(4)]	**1,108**	**95**	**9.6%**
Bank Hapoalim (Switzerland) Ltd.	**1,676**	**34**	**2.1%**
Bank Pozitif**	**328**	**(68)**	**(16.5%)**
Banque Hapoalim (Luxembourg) S.A.	**237**	**(12)**	**(6.2%)**
Others	**333**	**(38)**	**(9.6%)**
Total	**3,682**	**11**	**0.3%**

	December 31, 2014		
	Balance as at December 31, 2014[(1)]	Contribution in 2014 excluding exchange-rate differences[(2)]	Return in 2014[(3)]
	NIS millions		
Company			
US branches[(2)(4)]	*878	*71	*9.4%
Bank Hapoalim (Switzerland) Ltd.	1,645	56	3.5%
Bank Pozitif	495	(37)	(7.3%)
Banque Hapoalim (Luxembourg) S.A.	153	(12)	(12.2%)
Others	456	21	5.2%
Total	3,626	129	3.6%

* Restated; retrospective implementation. For details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1B to the Condensed Financial Statements.

** Includes a loss from the sale of Kazakhstan in the amount of NIS 22 million (approximately TRY 17 million). For further details, see the information about Bank Pozitif later in this section.

(1) The balance of the investment in the subsidiaries is presented after adjustment to the accounting principles applied at the Bank.

(2) The contribution of the overseas offices consists of net profit, translated into NIS, with adjustments for the deduction of the surplus of the investment cost in respect of these offices, and the attribution of minority interests' share of the profits of consolidated companies overseas, after deduction of the supplement for the statutory tax rate applicable in Israel, in the amount of NIS 29 million (in the same period last year: NIS 67 million).

(3) The return of the companies is calculated by dividing the contribution of the subsidiaries, excluding exchange-rate differences, by the average investment.

(4) The balance of the investment in the Bank's branches overseas is based on the calculated capital of the branches, which includes the original amounts of deposits deposited with the branches of the Bank, with the addition of profits or subtraction of losses recorded up to the balance sheet date, including adjustments from the presentation of securities available for sale at fair value.

Table 5-53: Details of the net profit (loss) of the principal offices overseas, after adjustment to the accounting principles applied at the Bank (in local currencies)

	For the year ended December 31		Change
	2015	2014	
	Millions		
US branches – USD*	**38.8**	**29.5	**9.3
Bank Hapoalim (Switzerland) Ltd. – CHF	**11.2**	20.8	(9.6)
Bank Pozitif – TRY***	**(77.8)**	(27.8)	(50.0)
Banque Hapoalim (Luxembourg) S.A. – USD	**(3.2)**	(3.4)	0.2
Others – USD	**(10.6)**	5.0	(15.6)

* At the US branches, data are before local tax.

** Restated; retrospective implementation. For details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1B to the Condensed Financial Statements.

*** Includes a loss from the sale of Kazakhstan in the amount of NIS 22 million (approximately TRY 17 million). For further details, see the information about Bank Pozitif later in this section.

Global Private Banking Activity of the Bank Group

Within this framework, the Bank Group provides private customers who maintain accounts at the Bank Group's overseas branches and at the Global Private Banking Center in Tel Aviv with advanced professional services and products, including investment products and global asset management. This activity currently encompasses Israel, Europe, the United States, Latin America, Canada, and Asia, by means of sites including banking subsidiaries, branches, asset-management subsidiaries, and representative offices.

Set out below are details of the Bank's branches and principal subsidiaries overseas operating in the area of private banking:

Bank Hapoalim (Switzerland) Ltd. (Hapoalim Switzerland)

A banking subsidiary, wholly owned by the Bank, mainly engaged in the provision of private-banking services, through three branches – two in Switzerland, in Zurich and Geneva, and one in Luxembourg. The Bank also operates through investment consulting firms in Hong Kong and Israel, and through representative offices in Israel and Russia.

Net profit of Hapoalim Switzerland totaled approximately CHF 11 million in 2015, compared with approximately CHF 21 million in 2014. The decrease in profit resulted from a decrease in income from fees, an increase in operating expenses, and tax expenses, offset by an increase in non-interest financing income, primarily positive adjustments to fair value of derivative financial instruments.

The contribution of Hapoalim Switzerland, excluding exchange-rate differences and after supplementary taxes in Israel, to the Bank's operating results in 2015 totaled NIS 34 million, compared with NIS 56 million in 2014.

Total capital of Hapoalim Switzerland amounted to approximately CHF 427 million as at December 31, 2015, compared with approximately CHF 419 million at the end of 2014.

The total balance sheet of Hapoalim Switzerland amounted to approximately CHF 4,051 million as at December 31, 2015, compared with approximately CHF 3,812 million at the end of 2014.

The total credit of Hapoalim Switzerland amounted to approximately CHF 1,308 million as at December 31, 2015, compared with approximately CHF 1,487 million at the end of 2014.

Total deposits from the public of Hapoalim Switzerland amounted to approximately CHF 3,444 million as at December 31, 2015, compared with approximately CHF 3,212 million at the end of 2014.

For details regarding the Bank Group's business with American clients, see Note 26E to the Financial Statements.

For details regarding the investigation of the Fédération Internationale de Football Association (FIFA), see Note 26F to the Financial Statements.

Banque Hapoalim (Luxembourg) S.A. (hereinafter: "Hapoalim Luxembourg")

A banking subsidiary (wholly owned by the Bank), mainly engaged in providing operational services for credit granted to companies with an affinity to Israel operating in Europe.

Credit to the public totaled USD 492 million as at December 31, 2015, compared with USD 570 million at the end of 2014. The balance of capital attributed to the shareholders of Hapoalim Luxembourg totaled approximately USD 61 million at the end of 2015, compared with USD 39 million at the end of 2014, as a results of capital issuance in the amount of USD 25 million in 2015.

Global Private Banking Center in Tel Aviv

A center providing private banking services and products to foreign residents from all over the world; an integral part of the GPB network.

Poalim Asset Management (UK) Ltd. and Poalim Asset Management (Ireland) Ltd., held by PAM Holdings Ltd. (hereinafter: "PAM Companies")

PAM Companies (wholly owned subsidiaries of the Bank) are responsible for selecting and providing professional support for investment products offered to Global Private Banking customers worldwide, in cooperation with leading international financial companies in these fields. The Group is a key element in the implementation of the Bank's growth strategy abroad.

As at December 31, 2015, the Bank Group's customers have holdings in funds of international financial entities with which PAM collaborates totaling approximately USD 2.4 billion, compared with USD 2.9 billion on December 31, 2014. PAM Companies also develop, plan, and provide professional support for additional investment products, such as structured products, in accordance with international standards, including through collaboration with leading global financial entities. In addition, PAM Companies offer consulting and research services to the Bank's subsidiaries and branches abroad.

Hapoalim (Latin America) S.A. (hereinafter: "Hapoalim Latin America")

Provides private-banking and credit services. Hapoalim Latin America operates in Uruguay through two branches, in Montevideo and Punta del Este.

US Branches

The New York Branch – Activity in the Corporate Segment

Most of the Bank Group's international business activity is conducted through the New York branch. The New York branch is focused on three areas of activity:

- Providing comprehensive banking services to large Israeli companies operating in the United States, as well as to local companies and clients, including credit, foreign trade, investments, and dealing-room services. The New York branch also offers its customers FDIC deposit insurance.
- Granting corporate credit to large companies in the US economy by acquiring participation in credit lines organized by leading banks (some 95% of the credit is provided to companies rated Investment Grade or secured by entities rated Investment Grade by the international rating agencies Standard & Poor's or Moody's).
- Providing dealing-room services, including during hours in which dealing rooms in Israel are closed, as part of the global activity of the Bank's dealing rooms.

In accordance with the strategy approved for the branch, the New York branch is developing its activity in the middle-market segment (hereinafter: "Local Activity") in the United States, by developing relationships with and granting direct credit to local commercial clients, with a clear business focus on specific geographical regions and areas of activity. The Bank will also continue its activity in the syndication market, as a complementary activity, as well as its activity with Israeli clients conducting business in the United States.

The Bank has representative offices in Los Angeles, which mainly focus on mid-sized companies and offer a range of financial solutions.

Private Banking in the United States

The Miami branch and the Private Banking Department at the New York branch offer private-banking services to GPB customers. Private banking in the United States primarily focuses on customers from Latin America.

Balance Sheet and Result Data of the US Branches

The profit of the US branches, before local taxes, totaled approximately USD 39 million in 2015, compared with approximately USD 30 million in 2014. The increase in profit mainly resulted from an increase in net interest income, as a result of an increase in regular activity, and from a decrease in the provision for credit losses in comparison to 2014. This increase was offset by a decrease in proceeds from the sale of bonds written down in the past.

Total capital means of the US branches amounted to approximately USD 283 million as at December 31, 2015, compared with approximately USD 209 million on December 31, 2014.

The total balance sheet of the US branches as at December 31, 2015, totaled approximately USD 9.0 billion, compared with approximately USD 9.7 billion on December 31, 2014. The decrease in the total balance sheet resulted from the withdrawal of deposits deposited with the Federal Reserve, in the amount of USD 1.8 billion, offset by an increase in credit in the amount of approximately USD 1.0 billion.

Total credit of the US branches amounted to approximately USD 3.6 billion as at December 31, 2015, compared with approximately USD 2.6 billion at the end of 2014.

Total deposits from the public of the US branches amounted to approximately USD 4.8 billion as at December 31, 2015, compared with approximately USD 3.9 billion at the end of 2014.

Hapoalim Securities U.S.A. Inc. (hereinafter: "Hapoalim Securities")

A broker-dealer registered and operating in the United States. The broker-dealer is under the supervision of the Securities and Exchange Commission (SEC) in the United States, the New York Stock Exchange (NYSE), the National Association of Securities Dealers (NASD), and additional stock markets in which it is a member, and operates in accordance with the rules established by these entities. The company's activity is also subject to supervision by the Supervisor of Banks in Israel.

The company supports the expansion of the Bank's activity in securities trading on behalf of its customers. In December 2015, a decision was made to significantly reduce the activity of HSU in the area of investment in securities in emerging markets and in the fixed-income segment.

The loss of Hapoalim Securities totaled USD 13.2 million in 2015, compared with profit in the amount of USD 0.7 million in 2014. The loss resulted from the reduction of activity noted above, and from provisions recorded for severance pay and other operational expenses related to the reduction of activity.

Activity in Emerging Markets

The Bank Group currently operates in Turkey through Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: Bank Pozitif). The Bank Group also operated in Kazakhstan, through the subsidiary JSC Bank Positiv, until its sale at the end of 2015.

Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif")

A bank incorporated and operating in Turkey, specializing in corporate and investment banking and in the households segment. The Bank's stake in Bank Pozitif stands at 69.8%. Bank Pozitif does not have a permit from the Turkish regulator to take deposits.

JSC Bank Pozitiv

A bank incorporated and operating in Kazakhstan, which provides banking services to business and private customers. Bank Pozitif held full ownership of the bank until the date of its sale.

On December 30, 2015, Bank Pozitif sold 100% of the share capital of JSC Bank Pozitiv Kazakhstan to Eurasian Bank JSC. The Bank recorded a loss of NIS 22 million (approximately TRY 17 million), in respect of its share, as a result of this sale in its financial statements for 2015.

Balance Sheet and Result Data of Bank Pozitif

The loss of the Bank Pozitif Group totaled approximately TRY 78 million (approximately USD 33.3 million) in 2015, compared with a loss of approximately TRY 28 million (approximately USD 12.9 million) in 2014. The loss resulted from a decrease in non-interest financing income, due to negative adjustments to the fair value of ALM derivatives, and an increase in expenses for exchange-rate differences, caused by weakening of the Turkish lira against the dollar and the euro as well as depreciation of the Kazakhstani tenge against the dollar. Bank Pozitif also recorded a loss of approximately TRY 23 million from the sale of the subsidiary in Kazakhstan. In addition, net interest income and income from fees decreased. This loss was somewhat offset by a decrease in the provision for credit losses and in operating expenses.

The Bank Pozitif Group's contribution to the Bank's operating results, excluding exchange-rate differences and after supplementary taxes in Israel, amounted to a negative contribution of approximately NIS 68 million in 2015, compared with a negative contribution of approximately NIS 37 million at the end of 2014.

Total capital of the Bank Pozitif Group amounted to TRY 328 million (approximately USD 140 million) as at December 31, 2015, compared with approximately TRY 409 million (approximately USD 189 million) at the end of 2014.

Total assets of the Bank Pozitif Group amounted to approximately TRY 1,773 million (approximately USD 0.8 billion) as at December 31, 2015, compared with approximately TRY 1,905 million (approximately USD 0.9 billion) at the end of 2014.

Total net credit to the public of the Bank Pozitif Group amounted to approximately TRY 1,273 million (approximately USD 545 million) as at December 31, 2015, compared with approximately TRY 1,366 million (approximately USD 632 million) at the end of 2014. The decrease in credit mainly resulted from early repayments due to economic conditions in Turkey and from the sale of the bank in Kazakhstan in 2015.

Credit is primarily financed through the issuance of bonds denominated in Turkish lira and through deposits from banks. Total deposits from the public at the Bank Pozitif Group amounted to approximately TRY 51 million (approximately USD 22 million) as at December 31, 2015, compared with approximately TRY 129 million (approximately USD 60 million) at the end of 2014.

The Bank's investment in the Bank Pozitif Group totaled NIS 328 million as at December 31, 2015, compared with approximately NIS 495 million at the end of 2014. The decrease mainly resulted from the Pozitif Group's losses, and from exchange-rate differences due to the weakening of the Turkish lira against the shekel.

6. Review of Risks

Some of the information in this section, even if it is based on processing of historical data, constitutes forward-looking information, as defined in the Securities Law and as detailed above. Additional information regarding risks is available on the Bank's website, in the Report on Risks: Pillar 3 Disclosure and Additional Information Regarding Risks, hereinafter the "Report on Risks."

6.1. General Description of Risks and Risk Management

The Bank's activity is accompanied by the following financial risks: credit risks (including concentration risk and counterparty risk), market risks (including exchange-rate risk and interest-rate risk in the banking book), investment risk (share and credit spread risk), and liquidity risk (including financing risk). Other non-financial risks are mainly compliance risk, legal risk, and operational risks. Additional risks to which the Bank is exposed are handled directly as part of the management of its business: reputation risk, competitive risk, regulatory and legislative risk, economic risk, strategic risk, and environmental risk.

The risk management strategy of the Bank Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Bank is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting rational risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite.

The Bank has defined the following risks as material risks: credit risk, market risk, investment risk, compliance risk, operational risk, concentration risk, counterparty risk, interest-rate risk in the banking book, liquidity risk, reputation risk, strategic risk, and regulatory risk. For added information and details regarding each type of risk, see this section and the Report on Risks.

Risk Governance and Risk Management Method

The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the risks to which a banking corporation is exposed and stipulate basic principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-review function. The Bank operates in accordance with these guidelines.

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries. Risks are managed separately by each subsidiary in the Bank Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Bank. The Bank manages the various risks, using hedges for some risks, as detailed in the relevant sections below. Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the unique characteristics of the activity of each subsidiary. Any risks in new products or processes are identified through an orderly procedure, based on the policy for the launch of new products and processes. Models used to assess risks are tested prior to implementation and periodically, based on the Bank's model validation policy.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with risk appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense:

1. The first line of defense includes the business units within the Areas, including supporting and operational units, that create or take risks, as well as the internal control units within the Areas that provide internal control over the risk creators and risk takers. The management of the business line bears the initial responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.
2. The second line of defense consists of the control units at the Risk Management Area, which is independent of the business Areas. This line is also responsible for presenting an overview of risks; formulating methodologies for risk assessment and for economic capital allocation; independent risk assessment; analysis of the congruence of products and activities with the level of risk appetite and risk capacity established by the Board of Directors; and validating models. The second line of defense contains additional independent control functions, such as accountancy, legal counsel, the secretariat of the Bank, and human resources.
3. The third line of defense consists of the Internal Audit system. Internal Audit operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and through ensuring that the instructions of the Board of Management and of the Board of Directors are implemented, and making recommendations for the reduction of risks through improved controls.

The Board of Directors of the Bank is responsible for delineating the overarching risk strategy and supervising the risk-management framework of the Group, directly or through the Risk Management and Control Committee. Main duties of the Board of Directors in the area of risk management:

1. Setting limits for the risk appetite and risk capacity of the Group.
2. Approving a risk management policy consistent with the risk appetite limit, including the establishment of risk limits in the various areas of activity and main risk areas.
3. Approving the control philosophy structure for the Group and ensuring that it meets risk management needs.
4. Providing clear guidance to senior management with regard to risk management, based on the recommendations of the Board of Management Risk Management Committee, headed by the CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
5. Approving methodologies for risk assessment and control, and for the allocation of economic capital in respect of risks.
6. Supervising and monitoring the implementation of the established risk management policy, examining the actual risk profile, and examining the processes and actions that the Bank must apply in order to comply with all regulatory directives concerning risk management.

The Board of Management is responsible for formulating, instilling, and implementing the risk management framework of the Group, directly or through committees acting on its behalf. Main duties of the Board of Management in the area of risk management:

1. Designing a risk management policy consistent with the risk appetite framework established by the Board of Directors, including risk limits in the various areas of activity and key risk areas, and submitting this policy to the Board of Directors for approval.
2. Establishing procedures and risk limits aligned with the policy, appropriate working methods for risk assessment, and decision-making processes based on an analysis of return / business benefit and risk, and receiving the appropriate reports, while ensuring compliance with risk-management policy objectives.
3. Ensuring the existence of an internal process for capital assessment and for setting capital targets consistent with the risk profile of the corporation and with its control environment.
4. Ensuring the existence of adequate resources for risk management in the corporation, including a framework of internal controls, and the existence of comprehensive, effective, independent control and reporting systems for risks.

The Chief Risk Officer and the member of the Board of Management responsible for the Risk Management Area is Mr. T. Cohen.

Financial risks are managed by designated members of the Board of Management and under their responsibility. The members of the Board of Management responsible for managing credit risks are Mr. J. Orbach, Head of Corporate Banking, and Mr. A. Pinto, who served as Head of Retail Banking until February 14, 2016; as of that date, the Retail Banking Area is headed by Mr. R. Stein. The member of the Board of Management responsible for managing market, investment, and liquidity risks is Mr. D. Koller.

Legal risk is managed by the Chief Legal Advisor, Attorney I. Mazur. Technological risk was managed by Mr. A. Kochva, as Head of Information Technology, until February 14, 2016; as of that date, the Information Technology Area is headed by Ms. E. Ben-Zeev. Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible. For further information regarding changes in the structure of the Board of Management of the Bank, see the section "Other Matters" in the Corporate Governance Report.

The Board of Directors' Committee on Risk Management and Control – A Board of Directors' Committee on Risk Management is in operation at the Bank. The committee's mission is to formulate the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to effectively comply with all regulatory directives concerning risk management. The Board of Directors' Committee on Risk Management and Control and the plenum of the Board of Directors receive reports on risks and on the execution of approved policies at least once each quarter.

The Credit Committee – Among its other responsibilities, the committee makes recommendations to the Board of Directors with regard to the Bank's credit policy; assists the Board of Directors in supervising and monitoring various matters in the area of credit; and examines and approves credit classifications and the allowance for credit losses, in accordance with a hierarchy of authority.

Additional committees of the Board of Directors are engaged in matters related to risk management, most notably the Board of Directors' Remuneration Committee, the Audit Committee, and the Board of Directors' New Products Committee. For further details regarding the activity of the Board of Directors and of the Board Committees, see the Corporate Governance Report.

The Board of Management Committee on Risk Management Headed by the CEO – Responsible for planning the Bank's risk-management policy, risk limits, and reporting and control procedures, and for examining the Bank's overall risk profile and the interactions among the various risk types and factors. The committee submits its reports or recommendations for approval to the committees of the Board of Directors and/or to the plenum of the Board of Directors, as relevant.

The Board of Management Committee on Compliance Headed by the CEO – The committee works to strengthen compliance at the Bank Hapoalim Group and ensure it is accorded high priority. The committee discusses the compliance policy established by the Board of Directors, the implementation of the policy in practice, and the closure of gaps.

Additional committees of the Board of Management operate in specific areas of risk, within the risk policies and limits established by the Board of Directors and the Board Committees.

The Risk Management Area also operates several committees, headed by the Chief Risk Officer:

Extreme Scenarios and Risk Concentrations Committee – The committee's role is to approve methodologies in the area of extreme scenarios and concentration risk, and to manage the process of testing extreme scenarios and concentration risk at the Bank.

Operational Risk Management Subcommittee – The subcommittee coordinates the activities necessary in order for the Group to comply with the Proper Conduct of Banking Business Directives of the Bank of Israel and with the recommendations of the Basel Committee in the area of operational risk, and it reviews the operational risk profile of the Group, with due attention to findings, surveys, reports, and related activities.

Credit Review Committee – The committee discusses credit review reports prepared for major borrowers of the Bank, in accordance with the volume required in the Bank of Israel's directive, and examines the reliability of the credit rating and the fairness of the classifications and allowances of the Group.

Validation Committee – The committee is responsible for monitoring the status of progress on the plan for validation and improvement of the models in use, related validation studies, and monitoring and approval of the set of material models in use.

Board of Management Committee on Debt Classification and Determination of Allowance for Credit Losses – The committee is charged with formulating a methodology for the collective allowance, formulating policy for classifications and individual allowances, credit classifications, and determining individual allowances for credit losses, subject to the hierarchy of authority.

Policy Steering Committee – The committee formulates the credit policy of the Bank.

Board of Management Specialized Committee for Financial Crises – Whenever focused treatment is necessary for a material financial crisis with organization-wide consequences, pursuant to a resolution of the Board of Management, this committee shall convene to address and monitor the crisis and its consequences.

The Risk Management Area – The activities and responsibilities of the Area are congruent with Proper Conduct of Banking Business Directive 310. The primary objective of the Risk Management Area is to instill an advanced culture of risk management and monitoring at the Bank Group, while formulating risk-management policies and methodologies in line with the goals of the Group and with the Basel directives and the relevant local regulation. The Area ensures the existence and quality of the key risk-management processes of the Group: identification, assessment, establishment of risk capacity and risk appetite limits, establishment of control mechanisms, monitoring of positions, and reporting. The Area leads and coordinates the ICAAP (the annual Internal Capital Adequacy Assessment Process, taking risks into account) and is an active participant in capital management. The Area comprises four units: (1) the Credit Risk Management Unit, (2) the Operational and Market Risk Management Unit, (3) the Chief Compliance Officer and Securities Enforcement Unit, and (4) the Risk Integration Unit.

Risk Appetite

Risk appetite is a key tool for linking the organization's strategy, capital allocation, and risk management. The Board of Directors establishes the risk appetite framework, taking into consideration the recommendations of the Chief Executive Officer, the Chief Risk Officer, and the Chief Financial Officer, who translate these expectations into targets and limits for the business lines.

The risk appetite framework includes policies, procedures, controls, and systems used to implement, communicate, and supervise risk appetite. The risk appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk appetite framework. The risk appetite framework refers to the material risks to the Bank, and establishes the risk profile in alignment with the Bank's business strategy and risk capacity. An effective risk appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework explicitly defines the boundaries within which the Board of Management is expected to operate in order to realize the business strategy of the Bank.

The framework includes the following main components:

- Risk appetite statement: Written formulation of the size and types of aggregate risk that the Bank is interested in bearing in order to achieve its business objectives, including qualitative reports as well as quantitative metrics of profits, capital, risk indicators, liquidity, and other relevant means, as necessary.
- Risk capacity: The maximum level of risk that the Bank is able to sustain without violating capital limits relevant to a stress test, including from the perspective of shareholders and customers. Compliance with the risk capacity shall be examined, among other matters, by applying stress tests designed to estimate the impact on to the Bank's profit and to the Bank's capital adequacy as a result of the materialization of a stress test.
- Risk appetite: The maximum total aggregate risk that the banking corporation is willing to bear, within its defined risk capacity, in order to achieve its business objectives in accordance with the strategic plan, under various constraints (such as sources of capital and liquidity, regulatory requirements, risk/return attributes, etc.).
- Risk limits: Quantitative metrics based on forward-looking assumptions, which give practical expression to the aggregate risk appetite declaration of the Bank.

Extreme Scenarios

In order to understand the possible consequences of various shocks for the financial robustness of the Bank, both given the existing balance sheet and in the event of materialization of work plans and other business intentions, a process of stress testing is carried out. Three types of scenarios are examined at the Bank: general systemic scenarios, single-factor scenarios, and reverse scenarios. The Bank adapts the range and characteristics of the scenarios to financial, political, and environmental developments in Israel and globally. In addition, the Bank implements the directives of the Bank of Israel and applies the uniform stress test of the Supervisor of Banks.

Goals of analysis of extreme scenarios:

- Identification of risk concentrations and potential weaknesses in the Bank's portfolio.
- Examination of the effect of strategic decisions of the Bank.
- Integration in the planning process and examination of the effects of the business plan on potential exposures.
- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types.
- Analysis of the sensitivity of the Bank to shocks or exceptional but possible events.
- Assessment of the materiality of the various risks.
- Examination of the Bank's compliance with its risk appetite and risk capacity, and segmentation of risk appetite by Area.
- Support for the business units in understanding the risk map of the various areas of activity and sectors.
- Support for the ICAAP and for the formulation of a preventive plan to be activated in order to minimize the damage of extreme events.

Some of the scenarios are examined on a monthly or quarterly basis, while others are examined annually. Assumptions, methodology, and results are discussed and approved by the Extreme Scenarios and Risk Concentrations Committee and in meetings of the Board of Management and committees of the Board of Directors.

Capital management takes the results of various extreme scenarios into consideration, in several ways: first, the capital target of the Bank is determined in view of the risk capacity, which establishes the minimum capital adequacy that the Bank is willing to reach in the event of an extreme scenario. Second, capital planning includes contingency plans which the Bank can activate if an extreme scenario materializes, in order to improve its capital adequacy. In addition, extreme scenarios are tested for each planning year, given the capital targets and expected capital ratio, in order to ascertain that the capital planning ensures compliance with the risk capacity throughout the years of the plan.

The structure and organization of the risk system and the risk culture described in this section are applicable to all types of risks and to all units of the Bank. Each type of risk is addressed further, separately, as relevant, later in this section. Additional information is available in the Report on Risks.

6.2. Credit Risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement. The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

1. Balance sheet exposures: Current liabilities to the Bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (present value) of derivatives and financial instruments.
2. Off-balance sheet exposures: Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities arising from changes in the value of transactions in derivatives and financial instruments.

Management of Credit Risks

The goal of credit risk management is to allow the Group to operate, and to ensure that it operates, in accordance with the policies and strategic objectives established and within the risk appetite defined in the area of credit, from the level of the single transaction to the overview of the credit portfolio.

The Bank's credit risk management policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio among a large number of borrowers in different sectors of the economy, among the different linkage segments, and among different geographical regions overseas. The policy of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Bank conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Bank's business objectives are determined in accordance with these surveys and studies.

The credit management system monitors customers' credit exposure. Credit review systems identify, monitor, and report to the responsible function and to managers on negative signs related to borrowers.

Credit risk management is based on principles including the following:

1. Independence – The principle of independence is an essential element of proper corporate governance, in order to prevent conflicts of interest and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.

2. Hierarchy of authority – The Bank has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of debt of the borrower or group, the risk rating, and problematic debt classifications, allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committees, as well as the composition of such committees.
3. Comprehensive view of the customer/group – Management of risk groups encompassing several borrowers who are related in terms of risk, such as a company and its subsidiaries, a married couple, etc. The activity of customers and groups is overseen by a customer manager who is responsible for all activities of that borrower/group. Information systems continuously provide customer managers and their staff with a comprehensive view of the activity of the customer/group, including the level of credit risk, and in accordance with Proper Conduct of Banking Business Directive 313.
4. Credit policies and procedures – The Board of Directors of the Bank sets forth the credit policy, which is examined and updated routinely, according to changes in the financial markets and in the economy. This policy includes various limits on the credit portfolio, in accordance with the risk appetite of the Bank, including exposure limits by economic sector, country, or financial institution, as a function of the risk level assessed by the Bank. Limits are also imposed on the maximum exposure to a single borrower, according to the credit rating assigned to the borrower, which reflects the borrower's risk level, as well as a maximum limit for a group of borrowers.

   Credit policy includes the credit risk management policy of the corporation; it formalizes and defines the rules applicable to all parties at the Bank involved with credit risk, and is designed to serve the business goals of Bank Hapoalim, in alignment with its risk policy and risk appetite, and in compliance with regulatory directives. Credit policy documents delineate the aspects relevant to each Area (customer type, economic sector, purpose of the loan, etc.), taking risk levels into consideration.

   Adherence to the guidelines of the credit document in carrying out business operations allows rational management of credit and credit exposures, and serves as a tool for the management of credit risks. The credit policies and procedures are binding for everyone involved in the area of credit at the Bank. The policy specifies the principles and considerations related to credit granting, the authority to grant credit, prohibitions and limits applied to credit granting, and the procedures that establish the Bank's practices and principles in the areas of credit and collateral. The Risk Management Area is responsible for the overall policy of the Bank, and for formulating and coordinating the policies of the business units.
5. Controls and risk identification – The process of reviewing and identifying credit risks is conducted by the three lines of defense. Controls are applied from the level of each individual credit to the level of the portfolio, in the first and second lines of defense, according to materiality thresholds. The Credit Risk Management Unit leads and coordinates reports to the Board of Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, extreme scenarios, and a presentation of general risk indices in Israel and globally.

   The identification of credit risk in existing products is based on risk management, measurement, and control processes at various levels. In the third line of defense, Internal Audit is responsible, among other matters, for reviewing the implementation and effectiveness of risk-management procedures and risk-assessment methodology, including the implementation of risk management and control policies at the Bank.
6. The identification of risk in new products relies on the policy for new products, which specifies the processes to be followed for each new product at the Bank in order to identify all risks involved in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

   A quarterly and annual process has been designed in order to identify concentration risk and examine the potential implications of various shocks (financial, political, and others) for the financial robustness of the Bank. This process includes definition, examination, and reporting of the results of extreme scenarios, and mapping of the effects on profit and on capital adequacy.

7. Credit risk is quantified and measured on several levels: the level of the individual borrower, borrower groups by area of activity, sectors of the economy, segments of borrowers, products, and the overall portfolio of the Bank and of the Group. Procedures for risk quantification and measurement and for the ranking of borrowers and of credit have been developed and implemented for each area of activity and type of credit. These processes combine assessments by credit experts with decision-making processes and advanced statistical models.
8. Identification and treatment of borrowers in distress – The Bank has established procedures for the identification and handling of borrowers who, according to the Bank's evaluation, may default on their obligations to the Bank. The Credit Analysis Department and the Credit Review Department in the Risk Management Area determine, in the opinion they prepare, whether the specific customer should be included in the Bank's watch list, whether the customer's rating requires classification, and whether an allowance for credit losses is necessary. Customers identified for a watch list are discussed as part of the quarterly process of examining the fairness of classifications. These borrowers are supervised and monitored more closely, and the Bank endeavors to reduce its exposure to them by redeeming credit from the borrowers' resources and/or by obtaining additional collateral from them. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to debt collection units. In addition, the Bank regularly reviews the level of credit risk in borrower portfolios on the basis of conservative assumptions, classifies problematic credit risk according to the directives of the Bank of Israel (impaired, substandard, or under special supervision), and records a sufficient allowance for credit losses in respect of the total credit risk at the Bank.
9. Uniform instruction and training – Employees involved in the area of credit undergo training and instruction on credit, foreign trade, and mortgages. These sessions provide uniform training to all those involved in this area, imparting professional tools and teaching the Bank's policies and principles in the area of credit. Lessons-learned processes based on various credit events are conducted by the units and communicated to the relevant functions, in accordance with the procedures of the Bank.
10. Hedging and risk mitigation – The Bank manages credit collateral using a collateral system with safety margins that are conservative relative to the Basel safety margins, which reduce the value of collateral based on the risk of decline in value and rapid realization. It should be noted that the use of collateral to reduce the Pillar 1 regulatory capital requirement is minor and conservative, relative to the level permitted by the regulator. In this sense, the Pillar 1 capital requirement already reflects a reduction to zero of a considerable part of the collateral against exposures. Concurrently, analysis of the composition of the Bank's collateral portfolio indicates that collateral is highly diversified, including within categories, such as collateral in the form of real estate and collateral in the form of securities. This diversification reduces the probability of a sweeping decline in the value of collateral. In addition to the extensive diversification of this collateral, the Bank conservatively applies safety margins that reduce the value of the collateral.

6.2.1. Problematic Debts

Table 6-1: Segmentation of Problematic Debts

	December 31, 2015			December 31, 2014		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**5,361**	**655**	**6,016**	6,322	676	6,998
Substandard credit risk	**2,489**	**133**	**2,622**	2,603	351	2,954
Credit risk under special supervision	**1,893**	**802**	**2,695**	3,174	1,636	4,810
Total problematic credit risk*	**9,743**	**1,590**	**11,333**	12,099	2,663	14,762
Net problematic credit risk	**7,834**	**1,477**	**9,311**	10,213	2,508	12,721
* Of which, unimpaired debts in arrears of 90 days or more	**857**	**-**	**857**	**951	-	**951

** Restated.

Table 6-2: Nonperforming Assets

	Balance as at	
	December 31, 2015	December 31, 2014
	NIS millions	
Impaired credit to the public not accruing interest income (NPL)	**4,942**	5,859
Assets received upon settlement of debts	**125**	129
Total nonperforming assets	**5,067**	5,988

Table 6-3: Additional Information Regarding Changes in Problematic Debts in Respect of Credit to the Public and in the Individual Allowance in 2015

Change in balance of impaired debts in respect of credit to the public

	Commercial	Private	Total
Balance of impaired debts at beginning of year	**5,591**	**690**	**6,281**
Debts classified as impaired during the period	**1,209**	**321**	**1,530**
Impaired debts charged off	**(769)**	**(137)**	**(906)**
Impaired debts repaid or removed from impaired classification, including exchange-rate differences and others	**(1,391)**	**(178)**	**(1,569)**
Balance of impaired debts at end of period	**4,640**	**696**	**5,336**

Change in balance in troubled debt restructuring

	Commercial	Private	Total
Balance in troubled debt restructuring at beginning of year	**2,047**	**568**	**2,615**
Restructured during the period	**597**	**402**	**999**
Debts in restructuring charged off	**(537)**	**(45)**	**(582)**
Debts in restructuring debts repaid, including exchange-rate differences and others	**(255)**	**(340)**	**(595)**
Balance in troubled debt restructuring at end of period	**1,852**	**585**	**2,437**

Change in balance sheet balance of allowance for credit losses in respect of impaired debts

	Commercial	Private	Total
Allowance for credit losses in respect of impaired debts at beginning of year	**794**	**139**	**933**
Provision for credit losses – increase in provision	**1,229**	**164**	**1,393**
Provision for credit losses – reduction of provision	**(252)**	**(57)**	**(309)**
Recoveries of debts charged off in previous years	**(912)**	**(108)**	**(1,020)**
Allocated to P&L – allowance for credit losses	**65**	**(1)**	**64**
Charge offs during the period	**(786)**	**(132)**	**(918)**
Recovery of charged off debts	**912**	**108**	**1,020**
Other	**-**	**(3)**	**(3)**
Allowance for credit losses in respect of impaired debts at end of period	**985**	**111**	**1,096**

Table 6-4: Risk Indices

	As at	
	December 31, 2015	December 31, 2014
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**1.89%**	2.34%
Balance of unimpaired credit to the public, in arrears of 90 days or more, as a percentage of the balance of credit to the public*	**0.30%**	**0.35%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of credit to the public*	**1.56%**	1.56%
Balance of collective allowance for credit losses, as a percentage of the balance of credit to the public*	**1.22%**	1.35%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public*	**82.72%**	66.55%
Balance of allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public plus the balance of credit to the public in arrears of 90 days or more*	**71.27%**	57.80%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**2.47%**	3.32%
Provision as a percentage of total credit to the public:		
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.17%**	0.16%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.08%**	0.06%
Net charge-offs in respect of credit to the public as a percentage of the allowance for credit losses in respect of credit to the public	**5.17%**	3.73%

* Before deduction of the allowance for credit losses.

** Restated.

Portfolio Quality Analysis

Most risk indices indicate improvement in the quality of the Bank's credit portfolio in 2015:

- Problematic credit risk in respect of the public, as a percentage of overall credit in respect of the public, decreased substantially, from 3.32% in December 2014 to 2.47% in December 2015.
- Impaired credit as a percentage of the balance of credit to the public decreased, from 2.34% in December 2014 to 1.89% in December 2015.
- The balance of the allowance for credit losses in respect of credit to the public, as a percentage of the balance of impaired credit to the public, increased from 66.55% on December 31, 2014, to 82.72% on December 31, 2015. This increase indicates that a higher percentage of the credit examined has been assigned an allowance for credit losses; therefore, the probability that additional credit losses will be recorded in respect of the impaired credit is lower. These indices point to a decrease in the volume of problematic debts and an increase in the rate of the allowance in respect of existing problematic credit.
- The provision for credit losses, as a percentage of the average recorded balance of credit to the public, rose from 0.16% on December 31, 2014, to 0.17% on December 31, 2015. Note that the rate of net charge-offs increased.

Table 6-5: Composition of the Allowance for Credit Losses

	Allowance for credit losses			
	On an individual basis	On a collective basis		Total
		According to the extent of arrears	Other**	
	NIS millions			
Composition of the allowance as at December 31, 2015:				
In respect of credit to the public	**1,096**	**453**	**2,865**	**4,414**
In respect of debts other than credit to the public	**-**	**-**	**3**	**3**
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	**75**	**-**	**594**	**669**
Allowance for credit losses as at December 31, 2015	**1,171**	**453**	**3,462**	**5,086**
Composition of the allowance as at December 31, 2014:				
In respect of credit to the public	933	*445	*2,802	4,180
In respect of debts other than credit to the public	-	-	4	4
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	86	-	586	672
Allowance for credit losses as at December 31, 2014	1,019	*445	*3,392	4,856

* Reclassified.
** Including a collective allowance in respect of debts examined individually and found to be unimpaired.

Each quarter, customers with problematic potential are identified, and all borrowers on watch lists and/or classified as problematic are reviewed. The fairness of the classification and allowance for these customers is examined. In cases in which the customer's situation has changed, changes have occurred in collateral, and/or collection has been performed, the classification is updated accordingly; for impaired customers, the recoverable amount and the allowance are updated.

The balance of the allowance for credit losses increased by NIS 230 million in 2015, mostly in respect of credit examined on an individual basis. The balance of the allowance in respect of credit to the public as a percentage of the balance of credit to the public remained unchanged (1.56%).

Updates of valuations of private companies and updates of market capitalization of public companies that serve as the basis for calculation of the recoverable amount of several major customers led to an increase in the gross individual allowance, along with a slight increase in charged-off debts.

An analysis of multi-year trends indicates that the rate of the total balance of the allowance in the commercial credit portfolio increased at a very low rate, mostly due to the collective allowance. In the retail credit portfolio, following the decline in 2013, the rate of the balance of the allowance remained stable, with the decrease in the individual allowance offset by the increase in the collective allowance. In housing credit, the rate of the collective allowance based on the extent of arrears has trended down.

The increase of approximately 2% in the balance of the collective allowance from 2014 to was mainly influenced by the following factors:

- A general increase in exposure balances, on one hand, and a decrease in problematic debt balances, on the other hand;
- A change in the mix of debts by economic sector during 2015: an increase in debts with a higher allowance rate, such as credit to private individuals (due to the instructions of the Bank of Israel), and a decrease in the proportion of debts with a relatively low allowance rate;
- Implementation of the adjustment coefficients model, in accordance with the instructions of the Bank of Israel.

Changes in the Method of Determining Rates of Collective Allowance

With regard to sound credit or unimpaired problematic credit (substandard or under special supervision), a "collective allowance" is calculated based on the economic sector to which the customer belongs. In order to calculate the collective allowance, the Bank sets two allowance rates for each economic sector, for problematic and sound credit risk, on a quarterly basis, based on an analysis of historical credit losses, net accounting charge-offs, the quality of the credit portfolio in the sector, and an analysis of market trends, in accordance with the instructions of the Bank of Israel. The process of establishing allowance rates consists of three stages, in accordance with the instructions of the Bank of Israel: calculation of a multi-year average of charge-off rates; adjustment in the event of significant changes over the last year; and establishment of adjustment coefficients. The adjustment coefficients are used to cause the collective allowance rates to reflect changes in the quality of the credit portfolio in the sector, macro-economic trends, and changes in the Bank's procedures and policies for granting credit. The Bank has developed an advanced model for establishing adjustment coefficients, in accordance with the instructions of the Bank of Israel. This model allows the expression of a wide range of environmental risk factors that may affect the rate of credit losses at the Bank, in an automated, consistent, controlled process. The use of the new model for setting adjustment coefficients began in the fourth quarter of 2015. The previous method was based on expert evaluations of changes in the quality of the credit portfolio and of changes in economic conditions each quarter. The model accords special attention to credit to private individuals, in accordance with the circular issued by the Bank of Israel in January 2015. Pursuant to the instructions of the Bank of Israel, the adjustment coefficient of sound balance sheet debt in the sector of credit to private individuals shall not be less than 0.75%, and the rate of the collective allowance in respect of housing loans shall not be less than 0.35% of the balance of loans.

Classification and Analysis of Credit Risk by Economic Sector

Table 6-6: Credit Risk by Economic Sector

	December 31, 2015									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
	Total	Credit execution rating[5]	Problematic[6]	Total*	* Of which: debts[2]	Problematic[6]	Impaired	Credit losses for the year ended December 31, 2015[4]		
								Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	**2,754**	**2,467**	**39**	**2,747**	**2,062**	**39**	**25**	**1**	**(7)**	**25**
Mining and quarrying	**3,256**	**3,219**	**6**	**2,829**	**2,226**	**6**	**-**	**(4)**	**-**	**7**
Industry	**39,357**	**36,962**	**2,291**	**38,146**	**17,805**	**2,249**	**879**	**(149)**	**(150)**	**469**
Construction and real estate - construction[7]	**57,262**	**54,988**	**1,328**	**56,887**	**20,576**	**1,305**	**637**	**(106)**	**(148)**	**636**
Construction and real estate - real-estate activities	**24,147**	**22,958**	**1,056**	**23,801**	**19,891**	**1,056**	**583**	**(169)**	**(148)**	**515**
Electricity and water supply	**11,054**	**10,986**	**2**	**9,696**	**6,091**	**2**	**1**	**2**	**(1)**	**61**
Commerce	**37,452**	**33,353**	**2,310**	**37,092**	**26,609**	**2,301**	**1,293**	**626**	**298**	**1,170**
Hotels, hospitality, and food services	**10,640**	**9,558**	**266**	**10,608**	**9,432**	**266**	**234**	**(4)**	**5**	**70**
Transportation and storage	**8,914**	**7,967**	**141**	**8,717**	**6,538**	**141**	**96**	**4**	**(2)**	**42**
Information and communications	**6,735**	**5,682**	**913**	**6,246**	**4,029**	**912**	**715**	**91**	**20**	**234**
Financial services	**31,362**	**30,756**	**465**	**26,691**	**13,887**	**465**	**453**	**(16)**	**82**	**218**
Other business services	**12,583**	**11,593**	**171**	**12,555**	**8,311**	**171**	**81**	**34**	**24**	**108**
Public and community services	**8,008**	**7,705**	**55**	**8,001**	**5,997**	**55**	**42**	**(22)**	**(11)**	**51**
Total commercial[8]	**253,524**	**238,194**	**9,043**	**244,016**	**143,454**	**8,968**	**5,039**	**288**	**(38)**	**3,606**
Private individuals - housing loans	**63,161**	**61,919**	**634**	**63,161**	**60,569**	**634**	**-**	**5**	**-**	**389**
Private individuals - other	**90,193**	**85,242**	**999**	**90,171**	**51,825**	**999**	**672**	**174**	**252**	**809**
Total public - activity in Israel	**406,878**	**385,355**	**10,676**	**397,348**	**255,848**	**10,601**	**5,711**	**467**	**214**	**4,804**
Banks in Israel[9]	**4,439**	**4,439**	**-**	**1,374**	**51**	**-**	**-**	**-**	**-**	**-**
Israeli government	**44,907**	**44,907**	**-**	**1,065**	**813**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**(1)456,224**	**434,701**	**10,676**	**399,787**	**256,712**	**10,601**	**5,711**	**467**	**214**	**4,804**

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 256,712, 45,943, 119, 5,656, and 147,794 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 11,700 million), excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) Including balance sheet credit risk in the amount of approximately NIS 829 million and off-balance sheet credit risk in the amount of approximately NIS 1,029 million extended to certain purchasing groups, which are currently in the process of construction.
(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 6,067 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.
(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table 6-6: Credit Risk by Economic Sector (continued)

	December 31, 2015									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
	Total	Credit execution rating[5]	Problematic[6]	Total*	* Of which: debts[2]	Problematic[6]	Impaired	Credit losses for the year ended December 31, 2015[4]		
								Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	**20**	**20**	**-**	**20**	**17**	**-**	**-**	**-**	**-**	**-**
Mining and quarrying	**1,003**	**1,003**	**-**	**349**	**153**	**-**	**-**	**-**	**-**	**-**
Industry	**6,923**	**6,907**	**14**	**5,385**	**3,225**	**14**	**1**	**(1)**	**6**	**10**
Construction and real estate	**9,566**	**9,397**	**163**	**9,062**	**6,338**	**163**	**123**	**9**	**(22)**	**88**
Electricity and water supply	**2,078**	**2,078**	**-**	**1,905**	**592**	**-**	**-**	**(2)**	**-**	**6**
Commerce	**3,004**	**2,882**	**33**	**2,840**	**2,037**	**33**	**10**	**(1)**	**31**	**9**
Hotels, hospitality, and food services	**2,030**	**1,967**	**64**	**2,002**	**1,731**	**64**	**55**	**8**	**-**	**16**
Transportation and storage	**794**	**782**	**10**	**614**	**548**	**10**	**10**	**1**	**-**	**6**
Information and communications	**1,721**	**1,651**	**202**	**1,186**	**650**	**202**	**-**	**15**	**(4)**	**37**
Financial services	**18,171**	**18,064**	**101**	**13,816**	**8,153**	**101**	**30**	**(2)**	**(5)**	**45**
Other business services	**1,105**	**1,092**	**1**	**940**	**669**	**1**	**1**	**2**	**(3)**	**6**
Public and community services	**898**	**881**	**17**	**691**	**430**	**17**	**17**	**(26)**	**(5)**	**18**
Total commercial[7]	**47,313**	**46,724**	**605**	**38,810**	**24,543**	**605**	**247**	**3**	**(2)**	**241**
Private individuals - housing loans	**569**	**555**	**6**	**569**	**551**	**6**	**-**	**-**	**-**	**3**
Private individuals - other	**3,220**	**3,147**	**46**	**3,183**	**1,969**	**46**	**32**	**6**	**16**	**35**
Total public - activity overseas	**51,102**	**50,426**	**657**	**42,562**	**27,063**	**657**	**279**	**9**	**14**	**279**
Banks overseas[8]	**37,524**	**37,524**	**-**	**25,514**	**24,186**	**-**	**-**	**(1)**	**-**	**3**
Governments overseas	**7,607**	**7,607**	**-**	**1,985**	**1,751**	**-**	**-**	**-**	**-**	**-**
Total activity overseas	**(1)96,233**	**95,557**	**657**	**70,061**	**53,000**	**657**	**279**	**8**	**14**	**282**
Total in Israel and overseas	**552,457**	**530,258**	**11,333**	**469,848**	**309,712**	**11,258**	**5,990**	**475**	**228**	**5,086**

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 53,000, 14,407, 0, 7,132, and 21,694 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 59 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.
(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

Table 6-6: Credit Risk by Economic Sector (continued)

	December 31, 2014***									
	Total credit risk(1)			Debts(2) and off-balance sheet credit risk (excluding derivatives)(3)						
	Total	Credit execution rating(5)	Problematic(6)	Total*	* Of which: debts(2)	Problematic(6)	Impaired	Credit losses for the year ended December 31, 2014(4)		
								Provision (income) for credit losses	Net charge-offs**	Allowance for credit losses
	NIS millions									
In respect of borrower activity in Israel										
Public – commercial										
Agriculture	2,764	2,521	43	2,748	2,084	43	28	(7)	(4)	17
Mining and quarrying	3,175	3,135	8	2,736	2,189	8	-	8	-	11
Industry	42,972	38,696	4,011	41,262	18,635	3,814	1,051	(71)	(19)	479
Construction and real estate - construction(7)	52,498	49,768	1,536	51,989	19,632	1,501	734	(329)	(252)	599
Construction and real estate - real-estate activities	23,244	21,802	1,255	22,862	19,033	1,255	723	152	76	540
Electricity and water supply	11,600	11,554	1	10,140	4,935	-	-	46	(1)	58
Commerce	36,796	33,225	2,505	36,146	25,324	2,504	1,099	386	65	819
Hotels, hospitality, and food services	10,496	9,371	395	10,383	8,762	395	364	(14)	3	76
Transportation and storage	8,383	7,746	149	8,078	6,230	149	110	(30)	17	36
Information and communications	8,183	6,892	1,282	7,450	5,161	1,280	980	29	144	162
Financial services	31,471	29,688	880	25,425	12,769	875	588	(46)	22	316
Other business services	12,352	11,263	181	12,275	8,472	181	99	12	36	102
Public and community services	7,745	7,393	131	7,717	5,753	131	58	(94)	(75)	63
Total commercial(8)	251,679	233,054	12,377	239,211	138,979	12,136	5,834	42	12	3,278
Private individuals - housing loans	58,431	57,103	718	58,431	55,971	718	1	(34)	(2)	385
Private individuals - other	85,120	81,922	917	85,079	48,196	917	644	309	109	884
Total public - activity in Israel	395,230	372,079	14,012	382,721	243,146	13,771	6,479	317	119	4,547
Banks in Israel(9)	5,960	5,960	-	1,753	404	-	-	-	-	-
Israeli government	41,796	41,796	-	1,521	560	-	-	-	-	-
Total activity in Israel	(1)442,986	419,835	14,012	385,995	244,110	13,771	6,479	317	119	4,547

** Reclassified.

*** Comparative figures were reclassified, following the April 2014 circular of the Bank of Israel concerning adoption of the directives of the Central Bureau of Statistics for the uniform classification of economic sectors for 2011, which replaced the classification established in 1993.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts(2), bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 244,110, 43,390, 280, 8,088, and 147,118 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 10,753 million), excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

(7) Including balance sheet credit risk in the amount of approximately NIS 892 million and off-balance sheet credit risk in the amount of approximately NIS 1,402 million extended to certain purchasing groups, which are currently in the process of construction.

(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 5,496 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.

(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table 6-6: Credit Risk by Economic Sector (continued)

	December 31, 2014***									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
	Total	Credit execution rating[5]	Problematic[6]	Total*	* Of which: debts[2]	Problematic[6]	Impaired	Credit losses for the year ended December 31, 2014[4]		
								Provision (income) for credit losses	Net charge-offs**	Allowance for credit losses
	NIS millions									
In respect of borrower activity overseas										
Public – commercial										
Agriculture	66	29	27	66	45	27	27	13	-	17
Mining and quarrying	586	569	-	339	154	-	-	-	-	-
Industry	6,560	5,275	23	5,125	2,853	24	10	1	9	18
Construction and real estate	8,627	7,036	210	8,180	5,466	210	210	15	3	75
Electricity and water supply	1,803	1,803	-	1,452	337	-	-	(1)	-	6
Commerce	2,823	2,283	86	2,711	1,669	86	37	41	3	40
Hotels, hospitality, and food services	3,078	2,901	66	3,039	2,211	66	50	(5)	-	9
Transportation and storage	529	378	16	391	297	16	16	3	-	4
Information and communications	1,015	980	168	458	278	168	-	(3)	-	16
Financial services	17,479	17,339	49	12,973	7,511	49	49	(17)	1	38
Other business services	1,033	975	3	885	580	2	-	21	8	6
Public and community services	1,320	1,095	25	1,143	785	25	25	28	2	23
Total commercial[7]	44,919	40,663	673	36,762	22,186	673	424	96	26	252
Private individuals - housing loans	560	539	7	560	544	7	-	(3)	-	2
Private individuals - other	3,483	3,389	70	3,391	2,284	70	52	17	11	51
Total public - activity overseas	48,962	44,591	750	40,713	25,014	750	476	110	37	305
Banks overseas[8]	46,499	46,499	-	32,981	31,781	-	-	(2)	-	4
Governments overseas	5,878	5,878	-	2,337	1,301	-	-	-	-	-
Total activity overseas	[1]101,339	[1]96,968	750	76,031	58,096	750	476	108	37	309
Total in Israel and overseas	544,325	516,803	14,762	462,026	302,206	14,521	6,955	425	156	4,856

** Reclassified.

*** Comparative figures were reclassified, following the April 2014 circular of the Bank of Israel concerning adoption of the directives of the Central Bureau of Statistics for the uniform classification of economic sectors for 2011, which replaced the classification established in 1993.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 58,096, 12,775, 196, 8,156, and 22,116 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 103 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.

(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

Construction and Real Estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 91 billion as at December 31, 2015.

Table 6-7: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal areas of activity

	Balance as at December 31, 2015		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Construction for commerce and services	**1,822**	**884**	**2,706**
Construction for industry	**453**	**196**	**649**
Housing construction	**11,119**	**26,516**	**37,635**
Yield-generating properties	**22,799**	**5,814**	**28,613**
Other	**11,462**	**9,910**	**21,372**
Total construction and real-estate sectors	**47,655**	**43,320**	**90,975**

Credit Risk in Respect of Exposure to Major Borrowers

Table 6-8: Details of balances of balance sheet credit and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy

	December 31, 2015			
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk	Total
	NIS millions			
Economic sector				
Industry	**3**	**886**	**7,088**	**7,974**
Construction and real estate - real-estate activities	**2**	**2,065**	**831**	**2,896**
Construction and real estate - construction	**1**	**239**	**1,360**	**1,599**
Electricity and water supply	**1**	**1,808**	**2,290**	**4,098**
Financial services	**4**	**5,039**	**2,617**	**7,656**
Total	**11**	**10,037**	**14,186**	**24,223**

Table 6-9: Balances of balance sheet credit and off-balance sheet credit risk to the six largest borrowers, by sector of the economy

	December 31, 2015		
	Balance sheet credit	Off-balance sheet credit risk	Total
	NIS millions		
Economic sector			
Industry	**171**	**4,683**	**4,854**
Electricity and water supply	**1,808**	**2,290**	**4,098**
Financial services	**1,848**	**421**	**2,269**
Financial services	**294**	**1,579**	**1,873**
Financial services	**1,801**	**1**	**1,802**
Financial services	**1,096**	**616**	**1,712**
Total	**7,018**	**9,590**	**16,608**

Credit Risk in Respect of Exposure to Borrower Groups

Table 6-10: Group of borrowers the indebtedness of which exceeds 15% of the capital of the Bank

Details of credit risk balances for each group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: Directive 313), exceeds 15% of the capital of the banking corporation (as defined in Directive 313)

	December 31, 2015						
	Balance sheet credit risk(1)	Off-balance sheet credit risk(1)	Of which: Off-balance sheet credit risk in respect of derivative instruments(2)	Gross indebtedness(3)	Deductions(4)	Net indebtedness(5)	Percentage of regulatory capital
	NIS millions						
Borrower group A	**4,827**	**4,134**	**287**	**8,969**	**509**	**8,460**	**17.07%**

(1) After deduction of the balance of charge-offs and the allowance for credit losses calculated on an individual basis.
(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
(3) This amount includes third-party guarantees outside the group.
(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.
(5) The data presented above represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313, and after deduction of the allowance for credit losses calculated on an individual basis. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.

Pursuant to Proper Conduct of Banking Business Directive No. 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers," a limit is imposed on the Bank, among other matters, under which the rate of "indebtedness" of a "borrower" and of a "group of borrowers," as defined in the directive, after subtracting certain permitted amounts as specified in the directive, shall not exceed 15% and 25%, respectively, of the capital of the Bank, calculated according to Proper Conduct of Banking Business Directive 202, "Capital Components." The directive further states that the total indebtedness (after subtracting the permitted amounts) of the borrowers, borrower groups, and banking borrower groups, each of whose indebtedness exceeds 10% of the capital of the Bank, shall not exceed 120% of the capital of the Bank.

An update of Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers," was issued in June 2015. Among other matters, the update restricts the definition of capital to Tier 1 capital (after supervisory adjustments and deductions), as defined in Proper Conduct of Banking Business Directive 202, and updates the limit on the indebtedness of a banking borrower group to a banking corporation, which previously stood at 25% of capital, to 15% of capital. The amendments to the directive took effect on January 1, 2016. With regard to the definition of capital, the following will apply: Tier 1 capital, as in the definition of capital, supplemented by Tier 2 capital, as published in the financial statements as at December 31, 2015. The supplement will be reduced in equal installments over twelve quarters, until it reaches zero on December 31, 2018. For details, see the section "Description of the Bank Group's Business by Segments of Activity – The Corporate Segment."

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. In addition, the Bank performs periodic surveys of credit risk in such borrower groups, with an individual examination of the borrowers belonging to the borrower groups, the nature of these borrowers' activities, and the correlations between the borrowers that can affect group-level risk.

Credit Exposure to Foreign Countries

The risk of credit exposure to foreign countries represents the possibility that an economic, political, or other event in a foreign country may impair the value of assets of the Bank Group or negatively affect the ability of debtors in that country to meet their obligations to the Bank Group. The risk of exposure to foreign countries includes cross-border balance sheet exposure (total balance sheet exposure of the Bank in Israel to residents of foreign countries, plus total balance sheet exposures of the Bank's overseas offices to non-residents of the country in which the office is located) as well as balance sheet exposure of the Bank's overseas offices to local residents in those countries, net of these offices' liabilities. Cross-border balance sheet exposure risk is the risk that actions taken by foreign governments may eliminate the possibility of converting currency and/or transferring currency outside the country (transfer risk), thereby affecting the ability of companies and customers to execute cross-border transactions.

The risk of exposure to foreign countries is managed at the Bank by individually examining the risks arising from the various countries, taking into consideration the countries' ratings by the international rating agencies S&P, Moody's, and Fitch. The total exposure to foreign countries includes balance sheet exposures in respect of balance sheet debt balances, net of local liabilities, securities, and other investments attributed to countries other than Israel. The balance sheet exposure was adjusted based on the final risk, taking into account credit reinforcements, which include guarantees, tangible and liquid collateral, insurance contracts, participations in risk, and credit derivatives. The Bank routinely monitors and examines the macro-economic situation in countries in which it conducts activity.

Information Regarding Total Exposures to Foreign Countries and Exposures to Countries Total Exposure to Each of which Constitutes More than 1% of Total Balance Sheet Assets or 20% of Capital, Whichever is Lower:

Table 6-11: Principal exposures to foreign countries(1)

	December 31, 2015		
	Balance sheet exposure(4)		
	Cross-border balance sheet exposure		
	To governments(3)	To banks	To others
	NIS millions		
Country			
A. United States	**3,583**	**2,055**	**3,826**
B. Switzerland	**-**	**504**	**32**
C. England	**129**	**4,850**	**3,509**
D. Turkey	**-**	**6**	**13**
E. Germany	**280**	**1,022**	**297**
F. France	**115**	**2,005**	**612**
G. Ireland	**-**	**3**	**152**
H. Spain	**-**	**158**	**65**
I. Portugal	**-**	**-**	**13**
J. Greece	**-**	**-**	**-**
K. Italy	**-**	**5**	**48**
L. Others	**1,522**	**2,603**	**7,940**
Total exposures to foreign countries	**5,629**	**13,211**	**16,507**
Of which: total exposure to LDCs	**67**	**269**	**1,012**

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.

Balance sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive No. 313.
(3) Governments, official institutions, and central banks.
(4) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral deductible for the indebtedness of a borrower and of a group of borrowers.

December 31, 2015									
Balance sheet exposure(4)						Off-balance sheet exposure(2)(4)			
Balance sheet exposure of the banking corporation's offices in foreign countries to local residents			Total balance sheet exposure	Problematic balance sheet credit risk(4)	Impaired debts(4)	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk(4)	Cross-border balance sheet exposure	
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities						Maturity up to one year	Maturity over one year
NIS millions									
27,190	12,808	14,382	23,846	129	41	9,194	55	2,096	7,368
7,050	-	7,050	7,586	1	-	229	-	163	373
75	-	75	8,563	1	-	2,637	-	1,988	6,500
2,055	935	1,120	1,139	80	84	976	-	16	3
-	-	-	1,599	-	-	155	-	844	755
-	-	-	2,732	29	26	1,262	-	825	1,907
-	-	-	155	-	-	206	-	129	26
-	-	-	223	-	-	33	-	28	195
-	-	-	13	-	-	-	-	12	1
-	-	-	-	-	-	1	-	-	-
-	-	-	53	-	-	154	-	41	12
66	1	65	12,130	125	45	2,660	14	4,668	7,397
36,436	13,744	22,692	58,039	365	196	17,507	69	10,810	24,537
2,055	935	1,120	2,468	92	94	1,627	-	456	892

Table 6-11: Principal exposures to foreign countries[1] (continued)

	December 31, 2014		
	Balance sheet exposure[4]		
	Cross-border balance sheet exposure		
	To governments[3]	To banks	To others
	NIS millions		
Country			
A. United States	1,148	2,532	4,683
B. Switzerland	-	547	51
C. England	117	5,120	4,075
D. Turkey	1	11	17
E. Germany	285	1,151	784
F. France	62	2,490	587
G. Ireland	-	7	192
H. Spain	-	150	11
I. Portugal	-	-	1
J. Greece	-	-	-
K. Italy	1	4	45
L. Others	1,430	5,245	7,830
Total exposures to foreign countries	3,044	17,257	18,276
Of which: total exposure to LDCs	173	558	898

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.

Balance sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive No. 313.
(3) Governments, official institutions, and central banks.
(4) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral deductible for the indebtedness of a borrower and of a group of borrowers.

	December 31, 2014									
	Balance sheet exposure(4)						Off-balance sheet exposure(2)(4)			
	Balance sheet exposure of the banking corporation's offices in foreign countries to local residents			Total balance sheet exposure	Problematic balance sheet credit risk(4)	Impaired debts(4)	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk(4)	Cross-border balance sheet exposure	
	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities						Maturity up to one year	Maturity over one year
	NIS millions									
	30,731	10,405	20,326	28,689	124	60	9,412	2	3,091	5,272
	5,174	-	5,174	5,772	-	-	281	-	309	289
	93	-	93	9,405	2	-	2,404	-	2,738	6,574
	2,509	1,323	1,186	1,215	109	110	1,263	-	21	8
	-	-	-	2,220	-	-	58	-	1,209	1,011
	-	-	-	3,139	31	26	893	-	929	2,210
	-	-	-	199	-	-	239	-	166	33
	-	-	-	161	-	-	24	-	46	115
	-	-	-	1	-	-	2	-	-	1
	-	-	-	-	-	-	1	-	-	-
	-	-	-	50	-	-	95	-	22	28
	324	-	324	14,829	141	71	2,365	13	6,831	7,674
	38,831	11,728	27,103	65,680	407	267	17,037	15	15,362	23,215
	2,788	1,323	1,465	3,094	137	120	1,736	-	708	921

Table 6-12: Change in amount of balance sheet exposure to foreign countries with liquidity problems[1]

	2015					
	Greece	Ireland	Portugal	Italy	Spain	Total
	NIS millions					
Total exposure at the beginning of the period	**-**	**199**	**1**	**50**	**161**	**411**
Net changes in amount of short-term exposure	**-**	**(37)**	**12**	**19**	**(18)**	**(24)**
Changes in other exposures:						
Added exposures	**-**	**1**	**-**	**6**	**81**	**88**
Accrued interest income	**-**	**-**	**-**	**-**	**4**	**4**
Amounts collected	**-**	**(8)**	**-**	**(22)**	**(5)**	**(35)**
Total exposure at the end of the period	**-**	**155**	**13**	**53**	**223**	**444**

	2014					
	Greece	Ireland	Portugal	Italy	Spain	Total
	NIS millions					
Total exposure at the beginning of the period	-	156	2	70	142	370
Net changes in amount of short-term exposure	-	11	-	(1)	29	39
Changes in other exposures:						
Added exposures	-	32	-	13	31	76
Accrued interest income	-	-	-	2	4	6
Amounts collected	-	-	(1)	(34)	(45)	(80)
Total exposure at the end of the period	-	199	1	50	161	411

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

6.2.4. Credit Exposure to Foreign Financial Institutions

In the course of its routine business operations, the Bank Group is exposed to risk arising from credit exposures to foreign financial institutions. This risk is evident in a variety of activities with financial institutions, such as transactions carried out at the Bank's dealing rooms (deposits, foreign-currency balances, and derivatives), purchases of bonds issued by such institutions, financing of the various types of foreign trade, capital-market activity, and account management. The foreign financial institutions include banks, investment banks, insurance companies, broker-dealers, and institutional entities. The exposure to foreign financial institutions is influenced both by the specific condition of each institution and by the risk level of the countries in which it operates, and may be affected by events in foreign countries that can cause a decrease in the value of the Bank's assets or impair the foreign institutions' ability to meet their obligations, including obligations to the Bank Group. Such events include financial or economic crises, the effects of changes in political conditions in various countries, social instability, and more. It should be emphasized that most of the Bank Group's credit exposures to foreign financial institutions are to banks, and most of these exposures are to the banking system in Western Europe and North America; exposure to other financial institutions is relatively low.

The Bank takes steps to minimize risk by channeling activity in derivative financial instruments to institutions with which Credit Support Annex (CSA) agreements have been signed (offsetting agreements that limit and minimize the credit risks in this activity, through daily account settlement usually executed between the Bank and the counterparty, pursuant to the agreement). The Bank also takes measures to neutralize clearing risks by conducting currency clearing activities through the international clearinghouse known as CLS (Continuous Linked Settlement).

Credit policy is continually examined and adjusted to developments in the global markets. In addition, the Bank routinely monitors and examines the financial robustness of all financial institutions with which it conducts activity, and its exposures to such institutions. This monitoring is based on routine examination of several indicators, among other matters: the position of the international rating agencies; price movements in the capital markets, including prices of insurance for financial assets (CDS); financial statements; macro-economic forecasts and estimates; and an examination of countries' ability to support the financial sector if necessary. For details regarding changes in the risk environment, see the section "Economic Risk," below.

Table 6-13: Exposure of the Bank Group to Foreign Financial Institutions(1)

	December 31, 2015		
	Balance sheet credit risk(2)	Current off-balance sheet credit risk(3)	Total current credit risk
	NIS millions		
External credit rating(5)			
AAA to AA-	**3,769**	**2,080**	**5,849**
A+ to A-	**11,272**	**999**	**12,271**
BBB+ to BBB-	**2,423**	**231**	**2,654**
BB+ to B-	**93**	**20**	**113**
Lower than B-	**-**	**-**	**-**
Unrated**	**226**	**23**	**249**
Total current credit exposures to foreign financial institutions*	**17,783**	**3,353**	**21,136**
Of which: problematic credit risk(4)	**-**	**-**	**-**
Of which: balance of impaired debts	**-**	**-**	**-**
Individual allowance for credit losses	**-**	**-**	**-**
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	**17,783**	**3,353**	**21,136**
Collective allowance for credit losses	**3**	**1**	**4**

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 161 million, of which a total of NIS 46 million rated BBB+, a total of NIS 112 million rated BBB, and the remaining amount of NIS 3 million rated BB+ (total exposure at the end of 2014 was approximately NIS 155 million, of which a total of approximately NIS 44 million rated BBB+, a total of NIS 107 million rated BBB, and the remaining amount of NIS 4 million rated BB-).
Ireland – Total exposure of approximately NIS 12 million, of which a total of approximately NIS 3 million rated AA-, and the remaining amount of NIS 9 million unrated (total exposure at the end of 2014 was approximately NIS 23 million, of which a total of approximately NIS 4 million rated AA- and the remaining amount of NIS 19 million unrated).
Italy – Total exposure of approximately NIS 145 million, of which approximately NIS 144 million rated BBB-, and the remaining amount of approximately NIS 1 million rated B- (total exposure at the end of 2014 was approximately NIS 96 million, of which approximately NIS 95 million rated BBB-, and the remaining amount of approximately NIS 1 million rated BB).
In Greece and Portugal, exposure to financial institutions is minimal, in the amount of less than NIS 1 million.

** Of which, clearing houses overseas constitute 74% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2014: 12% of the balance).

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
(4) Credit risk that is impaired, substandard, or under special supervision.
(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch. The rating is current as at January 27, 2016 (December 31, 2014: rating current as at February 5, 2015).

Table 6-13: Exposure of the Bank Group to Foreign Financial Institutions[1] (continued)

	December 31, 2014		
	Balance sheet credit risk[2]	Current off-balance sheet credit risk[3]	Total current credit risk
	NIS millions		
External credit rating[5]			
AAA to AA-	3,753	1,514	5,267
A+ to A-	15,675	1,015	16,690
BBB+ to BBB-	2,919	216	3,135
BB+ to B-	145	58	203
Lower than B-	1	-	1
Unrated**	155	42	197
Total current credit exposures to foreign financial institutions*	22,648	2,845	25,493
Of which: problematic credit risk[4]	-	-	-
Of which: balance of impaired debts	-	-	-
Individual allowance for credit losses	-	-	-
Total credit exposure to foreign financial institutions after deduction of the individual allowance for credit losses	22,648	2,845	25,493
Collective allowance for credit losses	4	1	5

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of approximately NIS 161 million, of which a total of NIS 46 million rated BBB+, a total of NIS 112 million rated BBB, and the remaining amount of NIS 3 million rated BB+ (total exposure at the end of 2014 was approximately NIS 155 million, of which a total of approximately NIS 44 million rated BBB+, a total of NIS 107 million rated BBB, and the remaining amount of NIS 4 million rated BB-).
Ireland – Total exposure of approximately NIS 12 million, of which a total of approximately NIS 3 million rated AA-, and the remaining amount of NIS 9 million unrated (total exposure at the end of 2014 was approximately NIS 23 million, of which a total of approximately NIS 4 million rated AA- and the remaining amount of NIS 19 million unrated).
Italy – Total exposure of approximately NIS 145 million, of which approximately NIS 144 million rated BBB-, and the remaining amount of approximately NIS 1 million rated B- (total exposure at the end of 2014 was approximately NIS 96 million, of which approximately NIS 95 million rated BBB-, and the remaining amount of approximately NIS 1 million rated BB).
In Greece and Portugal, exposure to financial institutions is minimal, in the amount of less than NIS 1 million.

** Of which, clearing houses overseas constitute 74% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2014: 12% of the balance).

(1) Foreign financial institutions include: banks, investment banks, broker/dealers, insurance companies, institutional entities, and entities controlled by such entities.
(2) Deposits with banks, credit to the public, investments in bonds, securities borrowed or purchased in agreements to resell, and other assets in respect of derivative instruments.
(3) Mainly guarantees and commitments to grant credit. Does not include credit risk in off-balance sheet financial instruments, as calculated for the purposes of the limits on indebtedness of a borrower.
(4) Credit risk that is impaired, substandard, or under special supervision.
(5) According to the lowest of the long-term foreign-currency credit ratings assigned by any of the major rating agencies: S&P, Moody's, and Fitch. The rating is current as at January 27, 2016 (December 31, 2014: rating current as at February 5, 2015).

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 21.1 billion on December 31, 2015, a decrease of approximately NIS 4.4 billion, compared with approximately NIS 25.5 billion at the end of 2014. This decrease resulted from a decrease in balance sheet exposure, in the amount of approximately NIS 4.9 billion, due to a decrease in deposits, securities, and derivative financial instruments, partially offset by an increase of NIS 0.5 billion in off-balance sheet exposure.

Approximately 86% of the exposure to foreign financial institutions is to financial institutions rated A- or higher. The Bank Group's exposure to foreign financial institutions is distributed as follows: 84% in banks and bank holding companies, 12% in other financial institutions, and 4% in insurance companies. Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (24%) and in Western European countries (68%).

The sector "banks overseas" in the disclosure of credit risk by economic sector in the section Review of Risks includes only exposures in respect of banks abroad, including central banks. Financial institutions are mainly presented in the "financial services" sector. "Total credit risk" also includes balance sheet and off-balance sheet balances in respect of derivatives. The table above does not include exposure in respect of central banks, or off-balance sheet balances in respect of derivatives. The total of "debts and off-balance sheet credit risk" in the disclosure of credit risk by economic sector in the section Review of Risks includes credit to the public and deposits with banks, but does not include bonds and securities borrowed or purchased under agreements to resell, which are included in the table above. Balance sheet and off-balance sheet credit in respect of derivatives is not included in the total of "debts and off-balance sheet credit risk." However, the table above includes balance sheet balances in respect of derivatives.

6.2.5. Risks in the Housing Loan Portfolio

Table 6-14: Risks in the Housing Loan Portfolio

	December 31	
	2015	2014
	NIS millions	
Credit balances		
Loans from Bank funds	**67,246**	62,114
Loans from Finance Ministry funds*	**2,135**	2,963
Grants from Finance Ministry funds*	**132**	183
Total	**69,513**	65,260

	For the year ended December 31	
	2015	2014
Execution of housing loans		
Loans from Finance Ministry funds:		
Loans	**4**	18
Grants	**7**	10
Total from Finance Ministry funds	**11**	28
Total loans from Bank funds	**15,180**	12,157
Total new loans	**15,191**	12,185
Old loans refinanced from Bank funds	**3,054**	2,445
Total loans extended	**18,245**	14,630

* This amount is not included in balance sheet balances to the public.

The Bank has joined an initiative of the Ministry of Housing, in cooperation with the Supervisor of Banks, for refinancing of loans granted from state funds through loans from bank funds. Within this effort, the Bank proactively contacts borrowers who received CPI-linked eligibility loans at an interest rate of 4% or more, and offers them refinancing of the loan through a loan from the funds of the Bank, at an interest rate to be determined at the date of execution of the refinancing based on the average interest rate published by the Bank of Israel for housing loans of that type. Refinancing is executed through a letter of amendment sent to the customer, without visiting a branch, and involves payment of a fee for change in terms, in the amount of only NIS 120. This process was completed in December 2015.

Development of Housing Credit Balances

Table 6-15: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign currency segment		Total	Rate of change during the period
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		Recorded debt balance in NIS millions	
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
Dec.31, 2015	**8,785**	**13.1%**	**23,880**	**35.5%**	**13,179**	**19.6%**	**20,724**	**30.8%**	**678**	**1.0%**	**67,246**	**8.3%**
Dec. 31, 2014	4,250	6.8%	21,374	34.4%	13,379	21.5%	22,241	35.8%	870	1.4%	62,114	6.6%
Dec.31, 2013	2,298	3.9%	19,171	32.9%	12,918	22.2%	22,964	39.4%	943	1.6%	58,294	7.8%

Volume of Problematic Debt

An ongoing decrease has been apparent in recent years in amounts in arrears as a percentage of credit balances, and in the volume of the allowance for credit losses.

Table 6-16: Development of Amounts in Arrears in Housing Loans and Allowance for Credit Losses

	Recorded debt balance	Amount in arrears of more than 90 days	Rate of arrears	Allowance for credit losses based on extent of arrears (including collective allowance) NIS millions	Rate of allowance for credit losses based on extent of arrears	Problematic debt in NIS millions	Rate of problematic debt
	NIS millions						
December 31, 2015	**67,246**	**111**	**0.2%**	**453**	**0.7%**	**949**	**1.4%**
December 31, 2014	62,114	121	0.2%	445	0.7%	1,029	1.7%
December 31, 2013	58,294	129	0.2%	472	0.8%	1,111	1.9%

Risk Quantification and Measurement – Housing Credit Portfolio

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

Risk hedging: The Bank manages and hedges risk appetite, including through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Area. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, rate of arrears, etc. These indices are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks macro-economic conditions and changes in general, and in the business environment of the industry in particular. Some events require a reexamination of policy, such as a sharp increase in the floating interest rate, steep inflation, an increase in unemployment in the Israeli economy, and a material change in housing prices.

Data are reported on a monthly basis in an Area-level risk forum, with the participation of the Head of Risk Management, and on a quarterly basis as part of the report on developments in the credit portfolio and in credit risk to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the economic allocation in the mortgage portfolio. In addition, stress scenarios are applied to the mortgage portfolio, and the effect on the portfolio and on the Bank as a whole is analyzed.These scenarios include a sharp decline in prices of homes, an increase in the interest rate, and an increase in the unemployment rate.

In addition, insurance arrangements are in place (life insurance and building insurance). For loans approved up to November 1, 2012, the Bank also required credit insurance when the LTV ratio was greater than 75%. As of November 1, 2012, loans with an LTV ratio greater than 75% can no longer be approved.

For further details, see the section "The Households Segment," above.

Table 6-17: Developments in housing credit balances, last five years

	2015	2014	2013	2012	2011
	NIS millions				
Balances at end of period	**67,246**	62,114	58,294	54,060	49,250
Annual change in balances	**8.3%**	6.6%	7.8%	9.8%	13.7%
Annual execution of new loans	**15,180**	12,157	11,748	11,541	11,303

The average annual growth rate for the last four years is approximately 8.1%. This rate reflects the high growth rates in the industry. The Bank's market share in this activity did not increase during this period.

Risk Quantification and Measurement – Housing Credit Execution

Housing loans are approved based on a hierarchy of authorizations reflecting the nature of the credit application and its inherent risk. Housing credit risk is quantified and measured on several levels: the level of the individual customer and the level of the overall credit portfolio of the Bank. For that purpose, quantification and measurement processes have been developed and implemented, combining assessments by housing-credit experts with statistical models. As part of the quantification of risk, a focused examination of repayment capability is executed, including a test of sensitivity to possible changes in repayment capability as a result of possible changes in the interest rate.

Housing loan data – percentage of total new loans executed

Table 6-18: Characteristics of Housing Credit Granted by the Bank

	For the year ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Characteristics			
Financing rate over 60%	**33.3%**	36.6%	36.7%
Ratio of repayment to income greater than 40% (for acquisition and in monthly payments)	**0.7%**	5.6%	11.9%
Financing rate over 60% and repayment rate over 40%	**0.3%**	1.9%	4.2%
Percentage of execution of floating-rate loans with interest varying at a frequency of less than 5 years (Bank of Israel limit 33.3%)	**30.0%**	31.0%	31.0%
Percentage of all-purpose loans	**2.7%**	4.5%	5.6%
Loans for investment purposes as a percentage of acquisition	**16.7%**	16.8%	14.7%
Average loan per acquisition (in NIS thousands), excluding refinancing of Ministry of Finance loans	**657**	613	627
Average original term to maturity per acquisition, in years (excluding bridge loans)	**21.6**	20.9	20.6
Percentage over 25 years (including refinancing)	**24.7%**	20.8%	17.8%
Marginal rate of borrower balances over NIS 5 million	**1.23%**	1.48%	1.74%

Note that financing rates were calculated pursuant to Reporting Directive No. 876 of the Supervisor of Banks, "Report on Housing Loans."

Risk indices have improved in recent years, as reflected in the decrease in the percentage of execution of credit at a financing rate greater than 60%, payments at more than 40% of income, and credit over NIS 5 million. The rate of execution of general-purpose loans and of floating-rate loans also decreased. The average amount of loans and the average maturity period increased.

6.2.6. Leveraged Financing

Leveraged financing includes, among other matters, transactions for the financing of means of control of corporations at high financing rates; holding companies, at high financing rates relative to the value of their holdings; financing of subordinate (mezzanine) debt; and financing of the acquisition of operations, when the credit is provided at the acquired company and is at a high financing rate, and exceeds the sector policy for the acquired company. An internal limit is in place for leveraged financing as a percentage of the total capital of the Bank. Reports on developments in leveraged financing and on compliance with the established limit are submitted each quarter to the Board of Management and the Board of Directors of the Bank, for monitoring of the risks inherent in this type of financing.

A new directive, Proper Conduct of Banking Business Directive 327, "Management of Leveraged Loans," was issued in April 2015. The directive establishes an overall risk-management framework for leveraged loans, and formalizes various matters including the definition of a leveraged loan, general policy guidelines, underwriting procedures, quantitative reporting and analysis, classification of leveraged loans, credit analysis, and more. The directive applies to credit granted as of January 1, 2016. The Bank is preparing to update the leveraged financing category and adjust its internal limits in accordance with the new directive.

Table 6-19: Exposures of the Bank to Leveraged Financing by Economic Sector of the Borrower

	December 31, 2015			
	Number of borrowers	Balance of balance sheet credit	Balance of off-balance sheet credit	Total*
		NIS millions		
Economic sector[1] of the borrower				
Construction and real estate - construction	**11**	**1,626**	**302**	**1,928**
Construction and real estate - real-estate activities	**12**	**1,011**	**992**	**2,003**
Financial services and insurance services	**13**	**882**	**13**	**895**
Other business services	**3**	**70**	**3**	**73**
Commerce	**11**	**977**	**6**	**983**
Industry	**4**	**912**	**125**	**1,037**
Information and communications	**5**	**507**	**-**	**507**
Mining and quarrying	**4**	**1,442**	**122**	**1,564**
Electricity and water	**-**	**-**	**-**	**-**
Hotels, hospitality, and food services	**-**	**-**	**-**	**-**
Transportation and storage	**-**	**-**	**-**	**-**
Public services	**-**	**-**	**-**	**-**
Agriculture	**-**	**-**	**-**	**-**
Total	**63**	**7,427**	**1,563**	**8,990**

* Net of an individual allowance for credit losses in the amount of approximately NIS 319 million.
(1) Definitions of economic sectors changed following the circular of the Bank of Israel of April 2014.

	December 31, 2014			
	Number of borrowers	Balance of balance sheet credit	Balance of off-balance sheet credit	Total*
		NIS millions		
Economic sector of the borrower				
Construction and real estate - construction	7	135	152	287
Construction and real estate - real-estate activities	11	1,024	1,431	2,455
Financial services and insurance services	25	2,920	305	3,225
Other business services	1	59	-	59
Commerce	7	1,273	12	1,285
Industry	7	2,483	247	2,730
Communications and computer services	2	343	-	343
Electricity and water	-	-	-	-
Hotels, hospitality services, and food	-	-	-	-
Transportation and storage	-	-	-	-
Public services	1	13	-	13
Agriculture	-	-	-	-
Total	61	8,250	2,147	10,397

* Net of an individual allowance for credit losses in the amount of approximately NIS 300 million.

Additional information is available in the Report on Risks.

6.3. Market Risk

Market risk – The risk of loss or decline in value arising from change in the economic value of a financial instrument, or of a particular portfolio or group of portfolios; and on the general level, a change in the economic value of the Bank due to changes in prices, rates, spreads, and other market parameters, including the following:

- **Interest-rate risk –** The risk of loss or decline in value as a result of changes in interest rates in the various currencies.
- **Currency risk –** The risk of loss as a result of changes in exchange rates.
- **Inflation risk –** The risk of loss as a result of changes in the curve of CPI expectations.
- **Share price risk –** The risk of loss as a result of changes in stock prices or in stock indices.
- **Credit spread risk –** The risk of loss as a result of change in the spread between the yield to maturity of corporate bonds traded in the markets and the relevant risk-free interest rate.
- **Volatility risk –** The risk of loss as a result of changes in the volatility rates quoted in the market.
- **Basis spread risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.

Management of Market Risks

Market risks are managed based on a global view of the Bank's activity in Israel and at its branches abroad, taking into account the activity of the subsidiaries with significant exposures for the Group. The Board of Management and the Board of Directors approve areas of activity and risk limits. Market risk management policy is aimed at increasing expected profits, while maintaining approved, controlled risk levels.

Market risk management at the Bank differentiates between exposures that arise in the course of routine management of the Bank's assets and liabilities, hereinafter the banking book (non-trading exposures), under the management of the Asset and Liability Management Division, and exposures in the trading book (primarily managed in the dealing rooms). Global management is under the responsibility and direction of the Head of Financial Markets. Routine management and supervision of asset and liability management and trading are under the responsibility of managers in the Asset and Liability Management Division and in the Dealing Rooms and Brokerage Division of the Financial Markets Area in Tel Aviv, and in the asset and liability management unit and dealing room at the Bank's New York branch. The branch is professionally subordinate in these matters to the Head of Financial Markets.

Policies are guided and controlled by the Board of Management Global Asset and Liability Management Committee, the Board of Management Nostro Committee, and the Board of Management Investment Committee. Policies, including the established limits and objectives, are submitted for discussion and approval to the committees of the Board of Management, the committees of the Board of Directors, or the plenum of the Board of Directors, as relevant. Ongoing activity is conducted by secondary committees, with the participation of senior officers of the Bank.

Market risks are managed separately by each subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. Market risks are assessed and controlled based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the size of capital and the unique characteristics of the activity of each subsidiary. Exposures to market risks of the subsidiaries are examined by the Market and Liquidity Risk Management Department in the Risk Management Area, and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level. The Bank has set risk limits for the Group that also apply to its subsidiaries in which the risk level has been defined as significant for the Group. Additional information regarding the method of risk management, assessment, and control is available in the Report on Risks.

6.3.1. Interest Rate Risk

Interest-rate risk, as defined above, also includes the following risk factors:

Repricing risk – Risk arising from timing differences in terms to maturity (in fixed interest rates) and repricing dates (in floating interest rates).

Yield curve risk – Risk arising from different changes in interest rates for different terms to maturity, reflected in changes in the slope of the curve (steepening or flattening) or in its shape (twist).

Basis spread risk – Risk of loss as a result of changes in spreads between different interest curves.

Optionality risk – Arising from different exercise rights inherent in assets and liabilities (for example, the right to withdraw funds at any time, sometimes without fines).

Value exposure – The estimated expected change in economic value (financial capital) as a result of changes in the interest rate.

Accounting income exposure – The expected change in accounting income in the coming year as a result of changes in the interest rate.

The Bank, like banks worldwide, is exposed to interest-rate risk both in the banking book and in the trading book. Interest-rate risk is inherent in banking activity. Most of the exposures to this risk arise from the management of the banking book. Interest-rate risk management is part of the management of exposures to market risks, as described above.

Interest-rate risk in the banking book – Refers to the potential effect of changes in the various interest-rate curves on the economic value of capital and/or on accounting income. The risk emerges during banking activity, as a result of services to the general public and to the business and financial sectors, and from other activities; this includes interest-rate exposure arising from the management of investment portfolios. The risk arises from differences in the structure of assets and liabilities – gaps between segments, durations, interest bases, interest-rate renewal dates, and more.

The exposure to this risk is measured on two levels: (a) value exposure – an estimate of the change in the economic value of the banking book as a result of a change in the interest-rate curve; (b) accounting income sensitivity – the expected changes in (accounting) income in the banking book as a result of changes in the yield curve (assuming a fixed level of balances). Income exposure is also measured on two levels: income sensitivity of the entire banking book in the coming year (twelve months ahead), and immediate income sensitivity of the instruments measured in accounting based on MtM (excluding accounting hedges). The Bank has chosen to focus on the management of value exposure; limits are also imposed on income sensitivity, as noted above.

6.3.1.1. Analysis of Sensitivity of Fair Value

Table 6-20: Details of the Fair Value of the Bank and its Consolidated Companies, by Linkage Segment

	December 31, 2015					
	Israeli currency		Foreign currency**			Total
	Unlinked	CPI-linked	USD	EUR	Other	
	NIS millions					
Financial assets*	**270,387**	**51,595**	**66,154**	**9,953**	**11,091**	**409,180**
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	**374,975**	**19,173**	**244,086**	**31,754**	**20,399**	**690,387**
Financial liabilities*	**235,880**	**42,693**	**82,877**	**14,963**	**5,729**	**382,142**
Amounts payable in respect of derivative and off-balance sheet financial instruments***	**389,397**	**21,568**	**231,205**	**26,436**	**22,796**	**691,402**
Net fair value of financial instruments	**20,085**	**6,507**	**(3,842)**	**308**	**2,965**	**26,023**

	December 31, 2014					
	Israeli currency		Foreign currency**			Total
	Unlinked	CPI-linked	USD	EUR	Other	
	NIS millions					
Financial assets*	234,523	55,972	73,161	9,105	9,992	382,753
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	443,202	15,902	228,442	29,622	28,210	745,378
Financial liabilities*	****210,916	45,592	****80,591	****14,798	****7,198	****359,095
Amounts payable in respect of derivative and off-balance sheet financial instruments***	446,872	22,183	224,089	23,459	29,292	745,895
Net fair value of financial instruments	****19,937	4,099	****(3,077)	****470	****1,712	****23,141

* Includes hybrid financial instruments. Does not include balance sheet balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

** Including Israeli currency linked to foreign currency.

*** Amounts receivable (payable) in respect of derivative financial instruments and in respect of off-balance sheet financial instruments, capitalized by the interest rates used to calculate the fair value.

**** Reclassified.

Table 6-21: Effect of hypothetical changes in interest rates on the net fair value of financial instruments of the Bank and its consolidated companies, excluding non-monetary items

	December 31, 2015							
	Net fair value of financial instruments, after the effect of changes in interest rates**						Change in fair value	
	Israeli currency		Foreign currency*			Total	Total	
	Unlinked	CPI-linked	USD	EUR	Other			
	NIS millions							
Change in interest rates								
Immediate parallel increase of 1%	**19,275**	**6,439**	**(4,083)**	**240**	**2,974**	**24,845**	**(1,178)**	**(4.5%)**
Immediate parallel increase of 0.1%	**20,012**	**6,485**	**(3,867)**	**300**	**3,065**	**25,995**	**(28)**	**(0.1%)**
Immediate parallel decrease of 1%	**20,980**	**6,558**	**(3,590)**	**378**	**3,175**	**27,501**	**1,478**	**5.7%**

	December 31, 2014							
	Net fair value of financial instruments, after the effect of changes in interest rates**						Change in fair value	
	Israeli currency		Foreign currency*			Total***	Total***	
	Unlinked***	CPI-linked	USD***	EUR***	Other***			
	NIS millions							
Change in interest rates								
Immediate parallel increase of 1%	19,251	4,112	(3,329)	425	1,622	22,081	(1,060)	(4.6%)
Immediate parallel increase of 0.1%	19,853	4,117	(3,125)	469	1,709	23,023	(118)	(0.5%)
Immediate parallel decrease of 1%	20,653	4,119	(2,871)	521	1,815	24,237	1,096	4.7%

* Including Israeli currency linked to foreign currency.

** The net fair value of financial instruments presented in each linkage segment is the net fair value in that segment, assuming that the noted change has occurred in all interest rates in that linkage segment. The total net fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items), assuming that the noted change has occurred in all interest rates in all linkage segments.

*** Reclassified.

For further information regarding the assumptions used to calculate the fair value of financial instruments, see Note 33 to the Financial Statements, below.

6.3.1.2. Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

Table 6-22: Exposure of the Bank and its Consolidated Companies to Changes in Unlinked Interest Rates

	December 31, 2015					
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years
	NIS millions					
Israeli currency unlinked						
Financial assets, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial assets						
Financial assets(1)(3)	**197,356**	**16,948**	**24,835**	**14,265**	**7,262**	**5,535**
Derivative financial instruments (excluding options)	**73,234**	**118,391**	**63,687**	**55,860**	**32,901**	**25,571**
Options (in terms of underlying asset)	**638**	**954**	**939**	**664**	**449**	**1,332**
Total fair value	**271,228**	**136,293**	**89,461**	**70,789**	**40,612**	**32,438**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial liabilities						
Financial liabilities(1)	**205,206**	**8,056**	**9,053**	**7,431**	**3,964**	**1,819**
Derivative financial instruments (excluding options)	**74,230**	**123,532**	**66,854**	**61,236**	**32,515**	**26,699**
Options (in terms of underlying asset)	**1,095**	**1,102**	**1,749**	**87**	**-**	**-**
Total fair value	**280,531**	**132,690**	**77,656**	**68,754**	**36,479**	**28,518**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(9,303)**	**3,603**	**11,805**	**2,035**	**4,133**	**3,920**
Cumulative exposure in the segment	**(9,303)**	**(5,700)**	**6,105**	**8,140**	**12,273**	**16,193**

* Restated.

(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of compound financial instruments.

(2) Average weighted by fair value of effective average duration.

(3) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions on fair value is an increase of the fair value by NIS 80 million, and a reduction of the average duration of the assets and of the difference in the average duration by 0.02 years.

General Notes:

A. Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the various balance sheet items, will be provided upon request.

B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting to the fair value included in respect of the financial instrument in Note 33 to the Financial Statements, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 33 to the Financial Statements.

C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 33 to the Financial Statements.

D. The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

E. Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

			December 31, 2015			December 31, 2014		
Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
	NIS millions			%	Years	NIS millions	%	Years
1,853	**83**	**2,242**	**270,379**	**2.63**	**0.51**	234,512	2.55	0.54
363	**-**	**-**	**370,007**		**1.11**	433,656		0.91
-	**-**	**-**	**4,976**		**2.65**	9,557		1.69
2,216	**83**	**2,242**	**645,362**		**(2)0.87**	677,725		(2)0.80
262	**-**	**89**	**235,880**	**1.12**	**0.23**	*210,916	*1.20	*0.30
298	**-**	**-**	**385,364**		**1.10**	437,799		0.92
-	**-**	**-**	**4,033**		**0.35**	9,073		0.36
560	**-**	**89**	**625,277**		**(2)0.77**	*657,788		(2)*0.71
1,656	**83**	**2,153**	**20,085**			*19,937		
17,849	**17,932**	**20,085**						

6.3.1.2. Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates (continued)

Table 6-23: Exposure of the Bank and its Consolidated Companies to Changes in CPI-Linked Interest Rates

	December 31, 2015					
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years
	NIS millions					
CPI-linked Israeli currency						
Financial assets, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial assets						
Financial assets(1)(3)	**2,314**	**1,697**	**8,860**	**18,272**	**10,284**	**7,291**
Derivative financial instruments (excluding options)	**268**	**937**	**2,739**	**6,773**	**4,631**	**3,384**
Total fair value	**2,582**	**2,634**	**11,599**	**25,045**	**14,915**	**10,675**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial liabilities						
Financial liabilities(1)	**1,545**	**645**	**4,347**	**10,864**	**13,506**	**10,762**
Derivative financial instruments (excluding options)	**97**	**1,063**	**2,839**	**8,933**	**4,717**	**3,034**
Total fair value	**1,642**	**1,708**	**7,186**	**19,797**	**18,223**	**13,796**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**940**	**926**	**4,413**	**5,248**	**(3,308)**	**(3,121)**
Cumulative exposure in the segment	**940**	**1,866**	**6,279**	**11,527**	**8,219**	**5,098**

(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of compound financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions on fair value is an increase of the fair value by NIS 50 million, and a reduction of the average duration of the assets and of the difference in the average duration by 0.16 years.

General Notes:

A. Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the various balance sheet items, will be provided upon request.

B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting to the fair value included in respect of the financial instrument in Note 33 to the Financial Statements,
in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 33 to the Financial Statements.

C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 33 to the Financial Statements.

D. The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

E. Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

December 31, 2015						December 31, 2014		
Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
NIS millions				%	Years	NIS millions	%	Years
2,601	**185**	**91**	**51,595**	**2.67**	**3.34**	55,972	2.56	3.24
441	**-**	**-**	**19,173**		**3.13**	15,902		3.65
3,042	**185**	**91**	**70,768**		**(2)3.28**	71,874		(2)3.33
1,024	**-**	**-**	**42,693**	**1.14**	**3.84**	45,592	1.01	3.82
885	**-**	**-**	**21,568**		**3.21**	22,183		2.99
1,909	**-**	**-**	**64,261**		**(2)3.63**	67,775		(2)3.55
1,133	**185**	**91**	**6,507**			4,099		
6,231	**6,416**	**6,507**						

6.3.1.2. Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates (continued)

Table 6-24: Exposure of the Bank and its Consolidated Companies to Changes in Foreign-Currency Interest Rates

	December 31, 2015					
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years
	NIS millions					
Foreign currency(3)						
Financial assets, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial assets						
Financial assets(1)(4)	**42,527**	**11,725**	**8,494**	**7,956**	**7,633**	**7,149**
Derivative financial instruments (excluding options)	**75,203**	**93,640**	**55,146**	**20,615**	**13,939**	**26,444**
Options (in terms of underlying asset)	**3,930**	**1,967**	**3,220**	**195**	**7**	**34**
Total fair value	**121,660**	**107,332**	**66,860**	**28,766**	**21,579**	**33,627**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial liabilities						
Financial liabilities(1)	**68,884**	**15,101**	**16,672**	**2,219**	**430**	**130**
Derivative financial instruments (excluding options)	**72,494**	**78,841**	**53,927**	**16,123**	**15,694**	**30,905**
Options (in terms of underlying asset)	**3,369**	**1,833**	**2,390**	**785**	**466**	**1,379**
Total fair value	**144,747**	**95,775**	**72,989**	**19,127**	**16,590**	**32,414**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(23,087)**	**11,557**	**(6,129)**	**9,639**	**4,989**	**1,213**
Cumulative exposure in the segment	**(23,087)**	**(11,530)**	**(17,659)**	**(8,020)**	**(3,031)**	**(1,818)**

* Restated.
(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of compound financial instruments.
(2) Average weighted by fair value of effective average duration.
(3) Including Israeli currency linked to foreign currency.
(4) The data include assumptions regarding early repayment in respect of housing loans. The effect of these assumptions is negligible.

General Notes:

A. Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the various balance sheet items, will be provided upon request.

B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting to the fair value included in respect of the financial instrument in Note 33 to the Financial Statements,
in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 33 to the Financial Statements.

C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 33 to the Financial Statements.

D. The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

E. Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

December 31, 2015						December 31, 2014		
Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
NIS millions				%	Years	NIS millions	%	Years
333	**117**	**1,264**	**87,198**	**2.78**	**1.25**	92,258	2.84	1.27
1,899	**-**	**-**	**286,886**		**1.18**	266,584		1.15
-	**-**	**-**	**9,353**		**0.29**	19,690		0.30
2,232	**117**	**1,264**	**383,437**		**[2]1.17**	378,532		[2]1.13
103	**6**	**10**	**103,555**	**1.33**	**0.21**	*102,546	*1.45	*0.34
2,131	**114**	**-**	**270,229**		**1.37**	256,932		1.30
-	**-**	**-**	**10,222**		**1.44**	19,949		1.02
2,234	**120**	**10**	**384,006**		**[2]1.05**	*379,427		[2]*1.03
(2)	**(3)**	**1,254**	**(569)**			*(895)		
(1,820)	**(1,823)**	**(569)**						

6.3.1.2. Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates (continued)

Table 6-25: Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates – Total Exposure to Changes in Interest Rates

	December 31, 2015					
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years
	NIS millions					
Total exposure to changes in interest rates						
Financial assets, amounts receivable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial assets						
Financial assets(1)(3)(4)	**242,197**	**30,370**	**42,189**	**40,493**	**25,179**	**19,975**
Derivative financial instruments (excluding options)	**148,705**	**212,968**	**121,572**	**83,248**	**51,471**	**55,399**
Options (in terms of underlying asset)	**4,568**	**2,921**	**4,159**	**859**	**456**	**1,366**
Total fair value	**395,470**	**246,259**	**167,920**	**124,600**	**77,106**	**76,740**
Financial liabilities, amounts payable in respect of derivative instruments and in respect of off-balance sheet financial instruments, and compound financial liabilities						
Financial liabilities(1)	**275,635**	**23,802**	**30,072**	**20,514**	**17,900**	**12,711**
Derivative financial instruments (excluding options)	**146,821**	**203,436**	**123,620**	**86,292**	**52,926**	**60,638**
Options (in terms of underlying asset)	**4,464**	**2,935**	**4,139**	**872**	**466**	**1,379**
Total fair value	**426,920**	**230,173**	**157,831**	**107,678**	**71,292**	**74,728**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(31,450)**	**16,086**	**10,089**	**16,922**	**5,814**	**2,012**
Cumulative exposure in the segment	**(31,450)**	**(15,364)**	**(5,275)**	**11,647**	**17,461**	**19,473**

* Restated.

(1) Excluding balance sheet balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of compound financial instruments.

(2) Average weighted by fair value of effective average duration.

(3) Includes shares presented in the "no maturity period" column.

(4) The data include assumptions regarding early repayment in respect of housing loans. In the unlinked and CPI-linked segments: the effect of these assumptions on fair value is an increase of the fair value by NIS 80 million and NIS 50 million, and a reduction of the average duration of the assets and of the difference in the average duration by 0.02 years and 0.16 years, respectively. In the foreign-currency segment, the effect of these assumptions is negligible.

General Notes:

A. Further details regarding the exposure to changes in interest rates in each segment of the financial assets and financial liabilities, according to the various balance sheet items, will be provided upon request.

B. In this table, data by periods represent the current value of future cash flows of each financial instrument, capitalized by the interest rate used for discounting to the fair value included in respect of the financial instrument in Note 33 to the Financial Statements, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used to calculate the fair value of financial instruments, see Note 33 to the Financial Statements.

C. The internal return rate is the interest rate for discounting of the expected cash flows from the financial instrument to the fair value included in respect thereof in Note 33 to the Financial Statements.

D. The effective average duration of a group of financial instruments constitutes an approximation of the change, in percent, in the fair value of the group of financial instruments which would be caused by a small change (an increase of 0.1%) in the internal return rate of each of the financial instruments.

E. Option components embedded in financial instruments, for accounting purposes, were expressed in cash flows through sorting by terms to maturity.

December 31, 2015						December 31, 2014		
Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	Total fair value	Internal rate of return	Effective average duration
	NIS millions			%	Years	NIS millions	%	Years
4,787	**385**	**6,131**	**411,706**	**2.70**	**1.01**	385,355	2.77	1.11
2,703	**-**	**-**	**676,066**		**1.20**	716,142		1.06
-	**-**	**-**	**14,329**		**1.11**	29,247		0.75
7,490	**385**	**6,131**	**1,102,101**		**(2)1.13**	1,130,744		(2)1.07
1,389	**6**	**99**	**382,128**	**1.19**	**0.63**	*359,054	*1.17	*0.76
3,314	**114**	**-**	**677,161**		**1.27**	716,914		1.12
-	**-**	**-**	**14,255**		**1.13**	29,022		0.81
4,703	**120**	**99**	**1,073,544**		**(2)1.04**	*1,104,990		(2)*0.99
2,787	**265**	**6,032**	**28,557**			*25,754		
22,260	**22,525**	**28,557**						

As noted, the Bank focuses on the management of value sensitivity, which is based on changes in the discounted value of the total assets and liabilities in the Bank's balance sheet with the change in the interest rate (internal models are used for the calculation); income sensitivity is monitored using limits. Income sensitivity differs from value sensitivity in that unlike the latter, income sensitivity does not take into account changes in the discounted value of long-term assets and liabilities not measured in the statement of profit and loss on a fair-value basis, but does fully take into account changes in spreads of deposits and current accounts. The Bank measures the sensitivity of economic value in a range of scenarios, on a monthly basis – a frequency congruent with the characteristics of the banking book, with more frequent measurements for the purposes of exposure management. The sensitivities of the trading book are measured several times daily.

Table 6-26: Data regarding the sensitivity of the capital of the Bank, including subsidiaries with significant exposure for the Group, to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario, including internal models)

	December 31, 2015			**Maximum in 2015**		**Minimum in 2015**		December 31, 2014
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease	1% increase
	NIS millions							
Scenario								
Change in CPI-linked interest rate:								
Bank	**(173)**	**215**	**(19)**	**(230)**	**263**	**(37)**	**59**	(162)
Of which: Banking book	**(174)**	**217**	**(19)**	**(229)**	**262**	**(32)**	**54**	(161)
Trading book	**1**	**(2)**	**-**	**(21)**	**23**	**-**	**-**	(1)
Change in unlinked interest rate:								
Bank	**(160)**	**195**	**(18)**	**(194)**	**236**	**(3)**	**(7)**	(87)
Of which: Banking book	**(165)**	**200**	**(18)**	**(192)**	**229**	**-**	**-**	(92)
Trading book	**5**	**(5)**	**-**	**21**	**(27)**	**(2)**	**3**	5
Change in foreign-currency interest rates:								
Bank	**37**	**(42)**	**4**	**235**	**(252)**	**17**	**(20)**	147
Of which: Banking book	**33**	**(39)**	**4**	**249**	**(265)**	**27**	**(31)**	158
Trading book	**4**	**(3)**	**-**	**(25)**	**25**	**(2)**	**2**	(11)

The above table presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the discounting of expected cash flows by the interest-rate curve, without taking into account the credit risk spread of the counterparty, and with the use of internal models for some products. This differs from a fair-value calculation, which is based on factors including the discounting of expected cash flows by interest rates reflecting the risk levels, according to the accepted practice in financial statements, without internal models for some products.

Derivatives not used for accounting hedges affect the capital of the Bank directly, through the profit and loss account. The Bank uses derivatives and applies hedge accounting rules to hedge some of the interest-rate sensitivity of long-term bonds in foreign currency. The Bank also uses derivatives to hedge sensitivities in the banking book as well as for the activity in the trading book. These sensitivities are included in the value sensitivity presented above. In addition to the examination of overall value sensitivity, the Bank also examines the sensitivity of derivatives not used for accounting hedges, against designated sensitivity limits that are separate from the overall limits.
For further information, see the Report on Risks.

6.3.2. Exchange Rate Risk

Currency risks (also known as linkage base exposure) include exposure to exchange rates of the various currencies against the shekel, and exposure to the consumer price index, at the Bank as a whole. The Bank operates in currency markets through spot and forward transactions, as well as through options, both on its own behalf and on behalf of its customers. Consequently, the Bank has activity in tradable currencies in developed markets as well as developing markets.

Currency exposure management, including the use of hedging instruments, is part of the management of exposures to market risks, as described above, and is applied both in activity in the banking book and in the activity of the trading desks in the dealing rooms. Ongoing management is conducted within the limits set by the Board of Directors on currency exposures and overall exposures, main points of which appear in the main limits on exposures to market risks table in the Report on Risks.

Table 6-27: Data regarding the sensitivity of the capital of the Bank to changes in the consumer price index (theoretical change in economic value as a result of each scenario)

		Maximum	Minimum
	December 31, 2015	**2015**	
	NIS millions		
Scenario			
1% decrease in CPI	**(55)**	**(126)**	**(53)**

Table 6-28: Assets and Liabilities by Linkage Base

	December 31, 2015						
	Israeli currency		Foreign currency[(1)]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
	NIS millions						
Total assets	**281,512**	**51,782**	**69,837**	**10,104**	**11,348**	**7,055**	**431,638**
Total liabilities	**247,782**	**41,391**	**87,236**	**15,148**	**6,004**	**858**	**398,419**
Surplus assets (liabilities)	**33,730**	**10,391**	**(17,399)**	**(5,044)**	**5,344**	**6,197**	**33,219**
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	**1,646**	**-**	**11**	**-**	**(1,657)**	**-**	**-**
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	**(16,341)**	**(2,106)**	**18,278**	**4,424**	**(4,255)**	**-**	**-**
Options in the money, net (in terms of underlying asset)	**1,171**	**-**	**(1,696)**	**522**	**3**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**(386)**	**-**	**66**	**182**	**138**	**-**	**-**
Total	**19,820**	**8,285**	**(740)**	**84**	**(427)**	**6,197**	**33,219**

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.

Table 6-28: Assets and Liabilities by Linkage Base (continued)

	December 31, 2014						
	Israeli currency		Foreign currency[1]			Non-monetary items**	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Total assets	*245,915	55,301	*79,644	9,435	10,494	7,244	*408,033
Total liabilities	*222,768	43,111	*87,524	15,048	7,560	806	*376,817
Surplus assets (liabilities)	*23,147	12,190	*(7,880)	(5,613)	2,934	6,438	*31,216
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	1,592	-	17	-	(1,609)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(5,344)	(5,925)	8,702	3,845	(1,278)	-	-
Options in the money, net (in terms of underlying asset)	(56)	-	(1,537)	1,414	179	-	-
Options out of the money, net (in terms of underlying asset)	321	-	(693)	508	(136)	-	-
Total	*19,660	6,265	*(1,391)	154	90	6,438	31,216

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

** Including derivative instruments the underlying asset of which refers to a non-monetary item.

(1) Including linked to foreign currency.

For additional details, see Notes 31 and 32, Assets and Liabilities by Linkage Base and by Term to Maturity.

Currency Exposures – Market Making and Trading

Spot/forward desks in foreign currency and in NIS operate in each of the Bank's two dealing rooms. The Tel Aviv dealing room also has a desk for options in foreign currency and in NIS. Trading and market-making activity in currencies and options is conducted subject to various risk limits and under an overall authorization for NIS/foreign currency exposure allocated to this activity, out of the overall limit on the exposure of the Bank's financial capital to foreign currency.

6.3.3. Share Price and Credit Spread Risk: Investment Risk

"Investment risk" is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately).

The overall investment framework was established from a global, systemic perspective, with the approval of the Board of Directors of the Bank, which has set limits on the volume of the investment and on risk indices including risk appetite, risk capacity, and individual limits for the various investment segments, including diversification limits. The risk is managed under the overarching responsibility of the Financial Markets Area, with respect to policy, allocation of the limits approved by the Board of Management and Board of Directors, monitoring, guidance, and reporting. Investment activity is concentrated in a small number of subsidiaries; managerial responsibility for the activity of each company rests with the member of the Board of Management who oversees that company.

In general, the investment portfolio consists of products traded on the financial markets, for which price quotes can be obtained. The activity is managed by specialized units established for that purpose, and monitored by the Board of Management Investment Committee, which was established for that purpose, as described in the Report on Risks.

In the management of the investment portfolio, the Bank is also exposed to credit risks and credit spreads, in its investments in bonds of companies and of foreign governments. According to the definitions of the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the sovereignty in which a branch/subsidiary operates do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

Investment risk arises at the Bank Hapoalim Group in three frameworks:

1. Investment in tradable products in the investment portfolio, managed under the responsibility of the Financial Markets Area.
2. Non-tradable investments through the subsidiary Poalim Capital Markets (PCM), managed according to the policy of the PCM Group. Management in this area is under the responsibility of the board of directors of PCM.
3. Equity-basis investees.

The Group holds shares and bonds primarily for investment purposes (rather than for trading); a decrease in the value of these shares may damage the capital of the Bank. Note that strategic holdings in shares of subsidiaries appear in the balance sheet in reports on related companies.

For details regarding changes in the risk environment, see the section "Economic Risk," below.

Table 6-29: Details of the Bank Group's investment in shares in the banking book, by balance sheet classification

	December 31, 2015		
	Balance sheet value and fair value	Of which: traded on the stock exchange	Of which: privately held
	NIS millions		
Investments classified into the trading portfolio	**48**	**48**	**-**
Investments classified into the available-for-sale portfolio	**2,486**	**1,843**	**643**
Total investments in shares	**2,534**	**1,891**	**643**

	December 31, 2014		
	Balance sheet value and fair value	Of which: traded on the stock exchange	Of which: privately held
	NIS millions		
Investments classified into the trading portfolio	50	50	-
Investments classified into the available-for-sale portfolio	2,563	1,951	612
Total investments in shares	2,613	2,001	612

For further information regarding investments, see Note 12.

For further information, see the Report on Risks.

6.4. Liquidity and Financing Risk

Liquidity risk - Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to maintain the cash flow required for its needs. Liquidity risk at the Bank is defined as the ability of the Bank to repay its liabilities on schedule, including during times of stress, without damage to its routine operations within the work plans of the Bank and without incurring exceptional losses.

Refinancing risk - is the risk of inability to raise new resources to replace resources that have matured, or that the reissue may be performed at durations and terms that damage the Bank's net interest income.

Refinancing Risk Management

Liquidity and refinancing risks are managed based on a global view of the Bank's activity in Israel, at its branches abroad, and at subsidiaries with significant liquidity risk for the Group. The Bank manages routine liquidity and liquidity risk on several levels. The first level is routine liquidity management at the ALM Division, through the NIS and foreign-currency liquidity units, in accordance with the routine needs of the Bank and its customers. Similar activity is carried out at the overseas branches and at the banking subsidiaries. The second level is the management of the Bank's liquidity risk. Liquidity risk at the Bank, in foreign currency and in NIS, is managed and controlled routinely, in accordance with Group policy, with the aim of ensuring the ability to cope competitively even in exceptional supply and demand situations in the financial markets.

In accordance with Proper Conduct of Banking Business Directive 342, "Liquidity Risk Management," the Bank operates an internal model for the assessment of liquidity risk. This model is based on the proven stability of deposits at the Bank over long periods, and includes different scenarios with respect to rollover and maturity rates of assets and liabilities. In general, while in the ordinary course of business the Bank assumes very high rollover of deposits and credit, in stress scenarios the Bank assumes an exit of deposits, according to the type of customers and deposits; utilization of credit facilities beyond the usual levels; declines in value of assets; and additional coefficients, examined annually by the Board of Management and Board of Directors of the Bank. In each scenario, the liquidity gap for a period of up to one month against liquid assets is examined, and a liquidity ratio is calculated; this ratio is not to fall below the minimum level specified in the directive. Scenarios applied in the internal model refer to different market conditions, and specifically to a scenario for the Bank, a scenario for the system, and a combined scenario. The scenarios differ primarily in the assumptions with regard to rollover of deposits and haircuts for liquid assets. The Bank also applies models for longer and shorter periods; an NSFR-based model for a period of one year; depositor concentration indices; an alert system, including a system that monitors indicators that may point to a risk of a crisis situation leading to an action plan; and more; some of these indices are subject to internal and/or regulatory limits.

The Bank calculates its liquidity coverage ratio (LCR) in accordance with Proper Conduct of Banking Business Directive 221, Liquidity Coverage Ratio, issued in September 2014, which adopts the recommendations of the Basel Committee with regard to the liquidity coverage ratio in the Israeli banking system. The LCR refers to a horizon of thirty days, in an extreme scenario. The directive establishes the method of calculation of the LCR, including a definition of characteristics and operational requirements for the "high-quality liquid assets" (the numerator) and the applicable haircuts, and defines the net expected cash outflow in the extreme scenario defined in the directive for the coming thirty calendar days (the denominator). This flow includes, among other matters, some withdrawal of various types of deposits, in accordance with the coefficients in the scenario, some utilization of credit facilities provided by the Bank, and more, with the deduction of repayment during the month of credit granted by the Bank, at certain coefficients, etc. Classifications of bonds, types of deposits, types of credit facilities, etc., and the applicable coefficients were established in the directive.

The Bank calculates its standalone liquidity ratio on a daily basis, divided into NIS and foreign currency. The Bank tracks this ratio at the subsidiaries, which are required to comply with internal liquidity limits adapted to the characteristics of their activity, and calculates the consolidated ratio on a monthly basis, in accordance with the transitional directives. The calculation of the consolidated ratio takes into consideration limits that may apply to the transfer of liquidity from some of the subsidiaries during a crisis, particularly banking subsidiaries overseas. The standalone banking corporation ratio is reported as an average of daily observations, while the consolidated ratio is reported as the average of three monthly observations. The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory LCR requirement, both for the standalone banking corporation and consolidated.

Financing risk is managed at the Bank as part of liquidity risk. The Bank has varied financing sources, primarily deposits from the public, mostly from private customers. As noted below, these sources create low liquidity and financing risk, relative to other resources.

Table 6-30: Liquidity Coverage Ratio

	For the three months ended December 31, 2015
	%
A. Consolidated data(1)	
Liquidity coverage ratio	**99%**
Minimum liquidity coverage ratio required by the Supervisor of Banks*	**60%**
B. Data of the Bank(2)	
Liquidity coverage ratio	**92%**
Minimum liquidity coverage ratio required by the Supervisor of Banks*	**60%**
C. Significant subsidiaries**	
Bank Hapoalim Switzerland	
Liquidity coverage ratio according to local regulation	**149%**
Minimum required liquidity coverage ratio according to local regulation***	**60%**

* The minimum liquidity coverage ratio required by the Supervisor of Banks will rise gradually, from 60% on April 1, 2015, to 80% on January 1, 2016, and to 100% from January 1, 2017, forward.

** At this stage, credit-card companies are not required to comply with the circular, and shall continue to fulfill the requirements of Proper Conduct of Banking Business Directive 342. At a later date, credit-card companies will be required to comply with a supervisory quantitative model adapted to the characteristics of their operations. In addition, Bank Pozitif is not subject to the liquidity coverage ratio directive in Turkey.

*** The minimum required liquidity coverage ratio according to local regulation is increasing by 10% annually, up to 100% in 2019.

(1) The consolidated ratio is calculated on a monthly basis, in accordance with the transitional directives, and reported as the average of three monthly observations.

(2) The standalone ratio of the banking corporation is calculated on a daily basis and reported as the average of the daily observations.

The Bank's CPI exposure amounted to NIS 8,285 million as at December 31, 2015.

In general, the Bank's currency exposures are low (see the section on market risks). The Bank manages linkage exposures routinely. In the CPI-linked segment, both assets and liabilities are spread over the long term. In the unlinked shekel segment and in the foreign-currency segment, the Bank has many retail resources in short contractual average durations, which the Bank expects to retain over a long period, in addition to longer-term resources. Credit includes both short-term and long-term liabilities. A minor change in the CPI does not lead to material change in the exposure to the CPI as a result of optionality.

The Bank is in compliance with all regulatory and internal liquidity limits. These include, among others, short-term models such as the LCR and an internal thirty-day model, medium-term models such as the NSFR-like internal model (financing sources stable for over a year divided by financing needs stable for over a year, as defined at the Bank, in the vein of the recommendations of the Basel Committee), and limits that refer to the long term. The Bank holds consolidated liquid assets, after haircuts, for times of crisis, in the amount of NIS 92,896 million as at December 31, 2015, in addition to liquid bonds not recognized for the purposes of the calculation of liquid assets pursuant to Proper Conduct of Banking Business Directive 221. Part of the liquid assets are held at the Bank, and part are held at the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank, particularly banking subsidiaries overseas. Accordingly, some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company), according to need, and the Bank does not rely on these assets. In light of the assumptions regarding rollover of deposits in the ordinary course of business, and other assumptions, the Bank does not foresee liquidity problems that would necessitate the use of the liquid assets; however, it is prepared for all of the required scenarios. In order to comply with the regulatory limit for 2017, the Bank will need to increase the volume of its liquid assets, or decrease its net outgoing flow, such that the liquidity ratio is greater than 100% on January 1, 2017. The Bank is prepared to comply with this limit, in accordance with its business plan.

The Bank has varied sources of financing, primarily deposits from the public. The deposits are taken from a very large number of depositors, with no dependence on any single depositor or group of depositors. Most of the Bank's resources are raised from the public in Israel, particularly private customers. Resources in unlinked shekels mainly derive from these customers, though also to some extent from large institutional and business clients (some of which work directly with the Financial Management Segment). Resources in linked shekels are raised both from the general public and from institutional clients who invest in deposits with the Bank and in bonds and secondary capital issued by the Bank Group. The Bank accords high importance to raising resources that are stable and highly diversified. Note that the balance in money-market funds has decreased over the last two years, leading to lower concentration of banks' resources. Resources in foreign currency include deposits of private customers and business customers in Israel, non-residents, Global Private Banking customers, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, and issues of bonds abroad (through the subsidiary Hapoalim International).

Table 6-31: Balance of total deposits of the three largest groups* of depositors**

	2015	2014
	NIS millions	
Group A	**13,829**	11,672
Group B	**4,772**	3,162
Group C	**3,171**	2,815

* "Group" – A depositor, including a controlling party thereof (including others under its control), and a party under its control.

** The three largest groups of depositors at that report date.

For further information, see the Report on Risks. For information regarding assets and liabilities by linkage base and by term to maturity, see Note 32 to the Financial Statements, below.

6.5. Operational Risk

Operational risk is defined as the risk of loss resulting from failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputation risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including the Information Systems Security and Cyber Defense Unit, the Business Continuity Unit, the Compliance Officer Unit, and the Anti-Money Laundering and Terrorism Financing Prevention Unit, as well as comprehensive procedures and systems in the areas of banking activity, management of human resources, process controls, emergency operation, and more.

Management of Operational Risks

Operational risk management strategy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and rational treatment of operational risks to contribute to managerial decision-making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The goals of operational risk management are:

- To ensure effective supervision and management of operational risks in all units of the Group, including risk ownership and decision-making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the Group and the supporting units, with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.
- To establish an internal control structure, in order to promote appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital and economic capital for operational risks.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the Area managers and the managers of subsidiaries in the Bank Group. These activities are overseen by the Operational Risk Management Department in the Operational Risk and Market Risk Management Unit in the Risk Management Area. Routine activity is conducted in the Bank's units and in the Group by a network of operational risk controllers, based on the matrix management principle; controllers report organizationally to Area managers or CEOs of subsidiaries, and receive methodology guidance from the Operational Risk Management Department.

Operational risk management activity is supervised and directed by three forums:

1. The Board of Directors' Committee on Risk Management and Control;
2. The Board of Management Committee on Risk Management, headed by the CEO;
3. The Subcommittee on Operational Risk Management, headed by the Head of Risk Management.

The operational risk management policy was approved by the Board of Management and the Board of Directors of the Bank. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with the Basel 2 standards on Sound Practices. The Bank's activity in this area is conducted according to the rules of Proper Conduct of Banking Business Directive 206, "Capital Measurement and Adequacy – Operational Risk," which refers among other matters to regulatory capital allocation in respect of operational risks, and Proper Conduct of Banking Business Directive 350, "Operational Risk Management," which is congruent with the updated guidelines in the Basel document of June 2011 on sound practice for operational risk management.

The Bank has operated in accordance with the Basel 2 standardized approach and the corresponding requirements of the Proper Conduct of Banking Business Directives since 2010. The strategic plan for the coming years includes, among other matters, extension and expansion of some of the activities, and adjustment for updates of the relevant documents and regulatory guidelines. The following projects and activities, among others, are underway as part of the standardized approach:

1. Quarterly reports are part of the consolidated risk document, pursuant to the requirements of Proper Conduct of Banking Business Directive 310, "Risk Management." The reports are submitted to the Subcommittee on Operational Risk Management, the Board of Management Committee on Risk Management, the Board of Directors' Committee on Risk Management and Control, and the plenum of the Board of Directors. The reports include updates on the implementation of the standardized approach in the Group, work plans, the status of projects in progress, information about operational events, assessments of potential risks, trends, changes in the risk profile, and comparative external information.
2. Collection of information regarding operational events in the Bank Group. A database for this purpose was established in late 2002, and is used, among other things, to analyze events, trends, and patterns and to support the mapping and assessment of operational risks to which the Group is exposed.
3. Key risk indicators (KRIs) for operational risks have been specified, as part of the development of a monitoring and control infrastructure, with respect to products, processes, or institutional risks. The KRI is a metric that can be measured in quantitative terms, and may also include qualitative information indicating the presence of a particular factor or trend. Thresholds have been set for follow-up, escalation, and treatment, as relevant.
4. Lessons-learned processes applied to operational events; relevant information shared among units; organizational learning.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Bank and the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the Bank of Israel on this matter, including monitoring of the implementation of the recommendations. A comprehensive mapping process of operational risks in all units of the Group is performed every three years. Subsequently, the findings are maintained, updated, and expanded through additional analyses, depth analyses, and risk analyses regarding new products and activities.

The goal of this activity is to identify material risk areas, define risk ownership, assess existing risks (average and extreme) and controls, and differentiate low risks from material risks that require additional examination and action, based on cost-benefit considerations, according to the following main ways of coping with risks:

- Minimization of the risk through the application of additional controls.
- Transfer of the risk to a third party (e.g. insurance, outsourcing, etc.).
- Absorption of the risk, with appropriate quantification.
- Reduction of the activity that creates the risk.

Additional related activities:

- An automated operational risk management system (Basel 2 – PAMELA) has been implemented at the units of the Group. The system operates in the areas of collection of information regarding operational events, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reports.
- A comprehensive framework of principles and standards has been formulated for the implementation of a uniform control philosophy within the Bank Group. Within this framework, a periodic process is conducted to evaluate the effectiveness of controls.
- Launches of new products or activities, in accordance with the defined policy for the launch of a new product in the Bank Group, are accompanied by examination and analysis of the relevant operational risks involved in the product or activity.
- A methodology infrastructure has been defined for the management of operational risks in material IT processes.
- A special requirement has been established in the policy for advance examination prior to outsourcing of an activity, taking into consideration the risks unique to outsourcing.

The operational risk profile is monitored periodically in relation to the operational risk appetite established in policy, using various parameters. Parameters have been established at the level of the overall Group, and at the level of specific units and processes. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document. In addition, the operational risk environment is monitored using the quantitative metric described below, as defined in one of the comparative surveys of the Basel Committee.

Capital in respect of operational risk is examined in relation to the frequency of materialization of damages greater than EUR 100,000. At the time of the survey, in 2009, with respect to economic capital, this ratio stood at 16.9 on average at banks that apply advanced models, and at 28.9 on average at other banks. A higher ratio indicates a higher level of capital held relative to damages. At the Bank, this figure, calculated based on the Pillar 1 capital requirement in respect of operational risk as at December 31, 2015, stood at 21.

Information security and cyber incidents risks – Activity in the area of information security is conducted as required in the directives of the Bank of Israel, the Protection of Privacy Law, 1981, and other laws, as relevant, with the aim of protecting the information-technology system and minimizing information-security risks.

The goal of cyber attacks is to abuse computer systems and networks in technology-based organizations, to destabilize or damage computer-based systems, or to monitor the electronic activity of individuals without their consent. Such attacks can be carried out without the knowledge of the users, and can disrupt routine operations; damage computer services to the point of preventing them from functioning, shutting them down, or slowing them significantly; or collect intelligence and information.

The frequency and severity of cyber incidents to which the Bank is exposed has increased in recent years. There is a possibility that the Bank may incur costs and suffer negative consequences as a result of cyber attacks, such as disruption of the Bank's operations, theft of financial assets of the Bank or of its customers, or damage to reputation, affecting the confidence of customers or of investors. The Bank invests extensive (human and technological) resources to minimize and prevent this risk, but absolute protection cannot be ensured.

Proper Conduct of Banking Business Directive 361, "Cyber Defense Management," was issued in March 2015. This directive sets forth basic principles for cyber defense management. Upon publication of the directive, the Bank prepared an action plan for the integration of the requirements of the new directive, in addition to the other directives to which it is subject in this area, such as those concerning business continuity and risk management, all in accordance with the clarifications provided by the Bank of Israel with respect to the manner and dates of implementation.

Cloud computing risks – In June 2015, the Supervisor of Banks issued a letter concerning risk management in a cloud computing environment. The letter sets forth rules aimed at reducing the risks inherent in the use of cloud technology. The letter provides guidance regarding the use of cloud computing while hedging the inherent risks. Permission from the Bank of Israel is required when information is stored by a supplier. The Bank is examining the potential advantages of cloud computing and the appropriate way of coping with the concomitant operational risks, in congruence with regulatory guidelines and with the appropriate work processes.

Emergency preparedness – The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan), in accordance with the Bank of Israel's Directive 355, "Business Continuity Management"; Directive 357, "Information Technology Management"; and additional expansions. The Bank's preparedness is based on detailed action plans, working procedures, and periodic tests and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank conducted a lateral process to establish policies, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency (BIA), and update its action plans based on the prevalent methodologies globally. The action plan involves all Areas of the Bank, through Area-level business continuity officers and designated teams. The BCP is led by a specialized Business Continuity Management Unit, which reports to the Head of Business Continuity of the Bank and to the Head of the Emergency Committee of the Bank (the Head of Technology). The business continuity policy has also been adopted by the subsidiaries in Israel and globally, and at the Bank's overseas branches, with adjustments, based on the corporate governance policy and on the guidelines of the Bank of Israel.

In addition, the Bank holds periodic emergency drills covering operational scenarios as well as complex business scenarios, with the participation of the various units, from branches, regional managements, units, and Areas, to the Board of Management of the Bank. The Bank is establishing a new remote central IT site, to ensure the availability and protection of its central information systems. The setup of the site and the transfer of activity are being carried out in accordance with the established work plan, with ongoing management of the non-routine risks arising from the migration of the systems and data. The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of the international standard ISO 22301.

As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios. With respect to emergency scenarios that may cause the Bank to incur significant damage, red-alert systems are monitored and detailed business continuity contingency plans are in place. Extreme scenarios are reviewed and discussed periodically by the Committee on Extreme Scenarios and Risk Concentrations. The activation of a contingency plan is under the responsibility of the Board of Management or of the designated Board of Management committee responsible for the financial aspects of crisis situations; note that a charter for the establishment of such a committee is also part of the contingency plans.

Insurance – The Bank has a banking insurance policy to hedge risks, which includes: (1) banking insurance to cover damages that may arise from embezzlement by employees, loss of documents, forged documents, etc.; (2) professional liability insurance, to protect against claims filed by customers regarding damage caused by negligent banking actions; (3) computer crimes insurance, to cover damages to the Bank and to customers of the Bank as a result of malicious penetration of the Bank's computer systems. The banking insurance policies are subject to exclusions common in insurance policies of banking corporations in Israel (including an exclusion of damage arising from violation of the directives related to money laundering and terrorism financing).

In addition, the insurance structure of the Bank also includes property insurance, third-party insurance, employers' liability, directors' and officers' insurance, and additional insurance policies.

The liability limits in the policies were established by the Bank according to its needs, as part of its overall risk-management policy. Within the fulfillment of the Sound Practice requirements under the Basel guidelines, cooperation and exchanges of information are maintained between the Operational Risk Management Department and the unit that handles banking insurance.

For further information regarding the organizational culture and risk regime of the Group, see the Report on Risks.

6.6. Compliance Risk

Compliance risk is the risk involved in the failure of the Bank or any of its employees, in any place relevant to the activity of the Bank, to comply with legal or regulative directives. Compliance risk also includes the reputational risk that accompanies failure to comply with such directives.

Although compliance risk may materialize in any case of such noncompliance, and the Bank applies a policy of compliance with all legal and regulatory directives, for the purposes of risk management the main compliance risks against which the Bank endeavors to defend itself can be defined as the following:

- The risk of material damage arising from a regulatory order of any government agency due to noncompliance of the Bank or of any of its employees with directives concerning the prohibition of money laundering and terrorism financing, or deficiencies in processes designed to ensure such compliance, or the absence of such processes (including risk related to the correspondent activities of the Bank).
- The risk of material damage arising from a regulatory order of any government agency due to improper activity of the Bank or of any of its employees in relation to customers of the Bank, tax issues, or noncompliance with specific legal directives in this area.
- The risk of material damage arising from a regulatory order of any government agency due to noncompliance of the Bank or of any of its employees with securities laws.
- The risk of material damage arising from a class-action suit due to noncompliance with directives that regulate the relationship between the Bank and its customers.
- The risk of a criminal suit against the Bank or against its senior executives due to noncompliance in one of the areas noted above.

Risk indicators are used, among other means, to identify key areas of compliance risk and to monitor their development. The key risk areas and the magnitude of the risks stemming from these areas may change in accordance with changes in regulation, enforcement, customer activity, market developments, etc. The Bank uses quantitative and qualitative indicators to measure this risk. These include developments in regulation and enforcement, changes in customers and in certain products, findings of controls and audits, gap surveys, and more.

The Chief Compliance Officer of the Bank serves as the compliance officer pursuant to Proper Conduct of Banking Business Directive 308, the officer responsible for the duties set forth in the Prohibition of Money Laundering and Terrorism Financing Law, the supervisor of securities enforcement pursuant to the Law for More Efficient Enforcement Procedures at the Israel Securities Authority, and, beginning in March 2014, as the responsible officer pursuant to FATCA. The Chief Compliance Officer and Securities Enforcement Unit consists of the Anti-Money Laundering Department, the Securities Enforcement and Consumer Protection Directives Compliance Department, the International Compliance and Subsidiaries Department, the FATCA Department, and the Administrative Unit.

The mission of the Chief Compliance Officer Unit is to support the achievement of the strategic and business objectives of the Group, while minimizing exposure to compliance and reputation risks. The objectives of the Chief Compliance Officer Unit are:

- To attain full implementation of legislation at all units of the Bank, in Israel and worldwide, with an understanding of the needs of the business units and support for their activity;

- To promote the adoption of professional, values-driven, fair business conduct by the Bank's employees and managers;
- To provide maximum protection to the Bank, its managers, its employees, and its reputation, with full realization of the professional capabilities of the Bank's employees and enhancement of these abilities.

The responsibility for routine management of the compliance aspects of risk at the Bank and for the execution of activities aimed at minimizing this risk lies with the Area managers and the managers of subsidiaries in the Bank Group. Professional responsibility in this field rests with the Chief Compliance Officer Unit in the Risk Management Area. Routine activity is conducted at the Bank's units and in the Group by a network of compliance officers, based on the matrix management principle, with organizational subordination to Area heads or CEOs of subsidiaries, and guidance and control by the Chief Compliance Officer Unit.

The activity of the Chief Compliance Officer and Securities Enforcement Unit is supervised under corporate governance, through:

- The Board of Directors' Committee on Risk Management and Control and Basel 2 Implementation;
- The Board of Management Committee on Compliance, headed by the CEO;
- Quarterly and annual reports to the Board of Directors of the Bank, the CEO, and the Area managers.

The compliance policy of the Group sets rules regarding all of the component areas of the compliance issues described above. This policy includes rules regarding corporate governance and the interaction with subsidiaries and branches outside Israel, and is based on legislation and regulation in Israel. The Bank Group has established an infrastructure to oversee the disclosure requirements with respect to individuals and corporations in the context of FATCA, and is continuing to prepare to comply with the full range of requirements arising from this legislation and from the Israeli regulation in this area. As part of this process, in accordance with the FATCA requirements, the Bank and the relevant subsidiaries have registered on the IRS website, received a Global Intermediary Identification Number (GIIN), and appointed a FATCA officer, as is also required by the agreement between the states. In addition, adjustments were made to work processes and operational systems, and training sessions were provided to all ranks of managers and employees in units that manage customers' funds. The Bank is preparing for the reporting date required according to the agreement between Israel and the United States, subject to legislation and standards to be established in this area. The Bank has also established an overall policy of declared money, including with regard to all foreign-resident customers, aimed at ensuring that only reported funds exist in the accounts of foreign residents throughout the Bank Group.

Proper Conduct of Banking Business Directive 308 took effect on January 1, 2016. The directive expands the responsibilities of the compliance officer in connection with several additional matters, such as taxation of products and customers, protection of privacy, consulting for customers, and conflicts of interest, and requires the Bank to appoint a second-tier function responsible for the applicable legal and regulatory directives. The Bank is preparing for this directive; within this process, a new compliance policy has been established, a charter has been approved for the Compliance Officer, and a plan has been prepared for implementation of the directive.

The activity of the Bank with banks located in the Palestinian Authority requires compliance with various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority. In June 2006, the Bank decided to terminate services to banks operating within the territory of the Palestinian Authority. Following this decision, the Governor of the Bank of Israel and representatives of the Ministry of Finance asked the Bank to refrain from implementing the decision and to continue to provide certain services, subject to certain restrictions set by the Bank. Further to talks on this subject between the Bank, the Bank of Israel, and the Ministry of Finance, in November 2006 the Minister of Finance granted the Bank a permit pursuant to Section 9(D) of the Terrorism Financing Prohibition Law, the significance of which is that the directives of the Terrorism Financing Prohibition Law concerning the "prohibition of transactions in terrorism property" shall not apply to the transactions noted in the permit.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity. Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing such services. The Bank is conducting talks with the Bank of Israel and the Ministry of Finance on this subject.

6.7. Legal Risk

Risk to the Group's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Group, which may cause damage to the Group's profitability. The Group has a structure of internal and external legal counsel.

According to the Bank of Israel's definition, legal risk is "the risk of a loss due to the inability to enforce an agreement by legal actions." Risks of this kind in the Bank's activity may arise from a wide range of diverse circumstances. Thus, for example, risks may arise from the absence of written documentation of contractual engagements between the Bank and its customers, or between the Bank and its suppliers or others, deficient signatures, and/or a lack of details in written agreements; from improperly phrased agreements and/or agreements open to interpretation that does not reflect the Bank's intentions; or from agreements that are subject to cancellation (in full or in part) and/or that include unenforceable provisions or other legal flaws.

The Bank takes a broad approach towards legal risks, and includes in them risks arising from primary and secondary legislative and regulatory directives; rulings of courts, tribunals, and other entities with quasi-judicial authority; risks arising from actions that are not backed by legal counsel or from flawed legal counsel; and risks arising from legal proceedings.

Legal risks are naturally integrated with operational risks, as for example in the case of the possible absence of a full, written, legally signed agreement in a particular transaction, despite the fact that an agreement of the same type exists at the Bank and is used in the ordinary course of its business.

A legal risk management policy document has been approved at the Bank, emphasizing the following points:

- Identifying and addressing areas of material legal risk, and appointing the function responsible for implementing the directives.
- Preparing suitable agreements, guidelines, and procedures in order to ensure that risk-prevention measures are implemented.
- Examining the effect of legislative directives (including court rulings) and directives of government agencies, and their implications for the Bank's operation.
- Lesson learning from legislative changes (including court rulings) and applying those conclusions in the legal documents customarily used at the Bank; delivering legal opinions on such matters to the relevant units of the Bank.

With regard to subsidiaries in Israel and abroad, the document draws a general risk-management policy that each subsidiary must adapt and accommodate to its circumstances and operations; mechanisms for reporting to the Head of Legal Risk are also required of these subsidiaries.

Legal counsel submits a quarterly report to the Risk Management Committee of the Board of Management and to the Risk Management Committee of the Board of Directors regarding legal risks that have materialized, in comparison to prior estimates on this matter, as well as statistical information regarding the various types of legal proceedings opened or concluded during the relevant period.

6.8. Reputational Risk

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies. The reputational risk management policy of the Bank Group has been approved by the Board of Management and the Board of Directors, and is implemented by the units of the Group.

The reputational risk management strategy of the Bank Hapoalim Group states that reputational risks should be prevented, minimized, and controlled. Accordingly, the following objectives have been set at the level of the Group with respect to reputational risk:

- To ensure effective supervision and management of reputational risk.
- To ensure effective communication and identification of reputational risk, with the aim of establishing a reputation risk appetite, in accordance with the strategic goals approved for each unit.
- To establish an internal control structure, with the aim of promoting a culture and values of awareness, transparency, and effectiveness in coping with reputational risks.

The Board of Directors and the Board of Management are responsible for promoting high standards of ethics and integrity and for establishing a culture that emphasizes the importance of internal controls.

6.9. Economic Risk

Risk factors in the economic environment are identified by the Economic Department, which tracks current economic and financial data in Israel and worldwide and professionally evaluates the implications of the data. The department maps potential risks in the economy and in the financial markets, and reports to the relevant teams and committees. Concurrently, the department prepares a set of extreme scenarios with a low probability of future materialization, which in its opinion have significant economic and financial consequences for the economy and for the Bank. The extreme scenarios are updated annually, according to the risk map, and approved by the authorized parties, in accordance with procedures. Concurrently, the Economic Department examines a series of warning indicators that may signal an increase in the probability of an extreme scenario. Warning indicators are reported routinely to the Board of Management Committee on Risk Management. The Bank translates the market conditions in each scenario into an impact on its business activity, according to the various risk areas, and examines the effect on profitability, capital, and capital adequacy.

Economic Risk – Condition of the Israeli Economy

Risk to the Group's income and capital arising from a slowdown in economic activity or from geopolitical situations, which may have an adverse effect on the condition of some businesses, on income levels, and on unemployment in the Israeli economy. Such a process may cause deterioration in the condition of some of the Group's borrowers, leading to an adverse effect on the probability of collecting credit. Furthermore, a slowdown in economic activity may cause a decline in non-credit income, such as income from capital-market activity and foreign-trade activity, and may cause a change for the worse in the composition of financial resources, such as an increase in the cost of resources and a decrease in their availability.

Economic growth slowed to 2.3% in 2015; exports and investments in the sectors of the economy decreased. The labor market was stable, with 5.3% unemployment. The consumer price index was down by 1.0%, due to a decrease in energy prices and measures taken by the government to reduce the cost of living. We estimate that the negative inflation, for the second consecutive year, is not a risk factor at this stage. Prices of homes continued to rise, by 7.6% in the twelve months ended in November. The new government adopted a policy of stopping the increase in housing prices, within which the purchasing tax for buyers of second homes rose to 8%-10%, and the "Mechir Lamishtaken" program was announced, in which state land will be marketed at a significant discount relative to current prices. In the opinion of the Bank, the ongoing increase in prices of homes has increased the level of risk in this sector.

Economic Risk – Condition of the Global Economy

Risk to the Group's income and capital arising from a significant slowdown in economic activity in the global market, which may have an adverse effect on the condition of some businesses in Israel and on the volume of business activity. This could have a negative impact on the probability of collecting credit and/or reduce income from fees and/or from capital-market activity and/or from the Group's activity abroad and/or from the provision of services related to foreign-trade activity and/or from the activity of foreign investors and/or from the provision of services to Israeli customers with activity abroad.

Global growth decelerated over the last year, mainly due to slower growth in the emerging economies. Growth in the United States stabilized; in Europe, the condition of the high-debt countries showed substantial improvement, although unemployment rates remained high. The growth rate in China slowed from 7.3% to 6.9%, according to official figures. Other estimates point to substantially lower rates. Stock indices in China dropped sharply due to an outflow of capital, and the administration moderated the depreciation of the currency by buying local currency using its foreign-currency reserves. Among the emerging economies, those dependent on exports of commodities, especially oil, suffered. The recession in Russia deepened as the price of oil fell below USD 30 per barrel. Brazil also fell into recession, due to causes including the decline in commodity prices. The flight of capital from emerging markets and the financial destabilization in several countries pose a risk to economic and financial stability over the coming year.

2016 opened on a negative note in global capital markets. Prices of risky assets, such as companies' stocks and bonds, posted sharp declines. By contrast, demand emerged for government bonds, with a considerable decrease in yields to maturity in the long ranges. The continued deceleration of GDP growth in China, the deepening crisis in other emerging markets such as Brazil and Russia, the disappointment over macro-economic data in some Western countries, the continued global decline in oil prices, and the uncertainty surrounding the interest-rate policy of the Federal Reserve in the United States all weighed on the financial markets. The negative trend was notable in the financial sectors, particularly banking, in view of surprisingly negative performance from some of the largest and best-known commercial banks in Europe. This was reflected in a sharp drop in prices of bank shares, and in an increase in risk premiums priced in to the yields to maturity of bank bonds. The profitability of European banks was harmed by a combination of factors: tight regulation that restricted activity in certain segments, large fines imposed on banks, and the negative interest rates of central banks in Europe. Policymakers in Europe and in other Western countries are aware of the importance of maintaining the high credibility of the banking system in the eyes of the public, and in some cases issued declarations of support, in order to ensure continued recovery in the non-financial arena without shocks to the financial system. Accordingly, and in light of the condition of the Israeli economy, the Bank continues to monitor the risks and segments that may be affected by these changes, and adapt its policies and control activities as necessary. Among other factors, the Bank examines the securities in its investment portfolio in Israel and overseas, its exposure to foreign financial institutions, and risk areas in the credit portfolio that may be influenced by such developments. The Bank continuously complies with the liquidity requirements set in the supervisory directives.

6.10. Regulatory and Legislative Risk

Restrictions and Supervision of the Activity of the Banking Corporation

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.

In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity). Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc. Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.

The Bank's activity is subject to supervision and auditing by the Supervisor of Banks as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Antitrust Commissioner. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity. The Bank and its subsidiaries work to comply with the duties imposed upon them under the said legal provisions.

The legislation passed following the recommendations of an inter-ministerial committee headed by the Director General of the Ministry of Finance (the Bachar Committee) establishes the possibility, with regard to most of the laws applicable to the activity of the Bank, to impose monetary sanctions for violations of the directives of the laws and the secondary legislation (including circulars and guidelines) issued in the past or future under such laws.

Regulatory Risk Management Methods

Regulatory risk is risk to the Group's income and/or capital arising from legislative processes and/or draft directives of various regulatory agencies that cause changes in the Group's business environment. Such changes may occasionally influence the Group's ability to offer certain services and/or may obligate the Group to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services.

The Regulation Unit assesses and manages regulatory risks by monitoring, identifying, collecting information, assessing, reporting, conducting follow-ups, and applying controls with respect to regulatory developments, as they emerge. The department also supplies opinions, as relevant, with regard to the effect of the forthcoming regulation on the expected business conduct of the various units of the Bank. The unit operates in full cooperation with the relevant professional units of the Bank and at the subsidiaries and offices in Israel and overseas, in order to ensure that regulation is implemented fully and in an effective manner in business terms.

With regard to compliance with regulatory directives, see Compliance Risk, above. For details regarding notable regulatory initiatives, see Regulation Updates, below (section 6.14).

6.11. Strategic Risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology. Strategic risk is also a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

The strategic plan of the Bank is a three-year plan approved by the Board of Management and the Board of Directors, and examined and adjusted annually to changes in the business environment in Israel and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives. The process of formulating the strategic plan encompasses a general examination of the corporation's business and the relevant strategic risks, and a comprehensive planning process. The annual examination of the strategy of the Bank and of the Areas is designed to support the objectives of the Areas and of the Bank as a whole. Within the annual planning process, the Areas and the subsidiaries of the Bank carry out focused strategic projects as a part of their strategic plan.

The annual process of managing and assessing strategic risk is an important part of the annual strategic planning process. The annual strategic planning process consists of three main stages, each of which addresses a different aspect of strategic risk management and assessment:

Stage 1 – Identification of the strategic risks to the Bank in its competitive environment – examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank.

Stage 2 – Formulation of objectives and of a high-level work plan, adapted to the business environment and to the strategic trajectory.

Stage 3 – Construction of detailed plans for all Areas, examination of scenarios, and establishment of risk indicators. This stage involves determining the themes, strategic focus areas of the Bank, and strategic maps for the realization of each theme. In addition, strategic maps are created for the Areas, in congruence with the themes, and strategic risk indicators are established – goals and metrics are established for each map (at the process level and at the level of business results) derived from the strategy. This allows strategy to be translated into measurable steps for the various units, making it possible to identify the extent of the Bank's exposure to strategic risk.

Alongside the routine monitoring of developments in the Bank's business environment, the Bank monitors, measures, and applies controls to strategic risk through the Balanced Score Card (BSC) strategic control process. The Bank routinely monitors its achievement of the goals and objectives in the strategic maps created using the BSC methodology, concurrently with the extent to which it achieves its financial objectives. The Bank thereby ensures that the plan leads to the desired results from a business perspective. The BSC strategic control process is conducted by the Strategic Management Center.

6.12. Environmental Risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputation risk may also materialize as a result of the attribution to the Bank of an association with the cause of an environmental hazard.

Environmental risks related to large credit portfolios are monitored by the Corporate Banking Area. Environmental risk related to the Bank's own activity is under the responsibility of the Corporate Social Responsibility Division.

In recognition of its social responsibility, and based on an understanding of the importance of maintaining environmentally sustainable policies, the Bank has formulated a comprehensive, ordered environmental policy. This policy is implemented through an organizational structure and job descriptions, procedures, processes, and control systems. As part of the process of formalizing and controlling its environmental conduct, the Bank received certification under the ISO 14001 standard, which is revalidated annually, in a comprehensive review by a licensed international firm. Extensive description of activities in connection with the environment is presented in the Corporate Social Responsibility Report of Bank Hapoalim, published annually in accordance with the most advanced GRI standard.

The Bank has established policy, working procedures, and methodologies for the identification, specification, and management of environmental risks, in order to address the effect of environmental risk on the credit risk of major borrowers. During the formulation of the process of writing the policies and working procedures, prevalent methodologies at banks overseas were examined, and experts in this field were consulted. The methodology for identification of environmental risks includes, among other matters, reference to the potential environmental risk in an economic sector, as well as individual reference to environmental risks that may have a material effect on the corporation, based on its business activity. The management of environmental risks is part of the overall management of credit risks at the Bank; an assessment of environmental risk is included in evaluations of the quality of credit granted to customers by the Bank.

The Bank or any senior officer of the Bank were not a party, during the reported period, to any material legal or administrative proceeding related to the environment, as noted in Section 28 of the First Addendum to the Securities Regulations.

6.13. Legal Proceedings

(A) The Bank Group (the Bank and its consolidated subsidiaries) is a party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties, who deem themselves injured or harmed by the Bank Group's operations during the normal course of its business. The causes of the claims against the Bank Group are various and wide-ranging. In the opinion of the Bank's Board of Management, based on legal opinions with regard to the likely outcome of these claims, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from these claims, where such provisions are necessary.

For details regarding legal claims and petitions to certify class actions in material amounts to which the Bank Group is a party, see Note 26C to the Financial Statements.

(B) Other proceedings

1. Two petitions to certify derivative claims against the Bank were filed, on March 9, 2010, and on July 11, 2010, in which the court was asked to permit the petitioners to file a claim on behalf of the Bank against Mr. Dan Dankner; against those who served as members of the Board of Directors of the Bank during the relevant periods; against Tarshish Holdings and Investments Hapoalim Ltd. (hereinafter: "Tarshish"), a subsidiary of the Bank; and against RP Explorer Master Fund (hereinafter: "RP") (hereinafter, jointly: the "Defendants").

The certification of a derivative claim is requested in connection with the contractual engagement of Tarshish, in 2005, in an agreement for the acquisition of shares of the Turkish bank known as Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif") by Tarshish (hereinafter: the "Acquisition Agreement"), as well as the compensation paid to RP in 2008 in connection with the same agreement (hereinafter: the "Compensation").

On October 19, 2010, the President of the Supreme Court ruled to unify the proceedings in the two petitions. The petitioners filed a joint amended claim and petition to certify their claim as derivative (hereinafter, jointly: the "Unified Claim") with the District Court of Tel-Aviv-Jaffa. RP was not added as a respondent in the Unified Claim.

According to the petitioners, the Defendants, jointly and separately, caused the Bank damage in an amount ranging from approximately NIS 72 million to NIS 88 million (the amount of the Compensation), and they should compensate the Bank for this amount. The allegation against Mr. Dan Dankner is that the Acquisition Agreement and the payment of the aforesaid Compensation to RP were tainted by his personal interest and were not approved lawfully. Against the other directors, the allegation is that they failed to fulfill their duty of care towards the Bank.

In October 2012, Mr. Dan Dankner was indicted with respect to matters and facts central to the Unified Claim (hereinafter: the "Criminal Proceeding"). Subsequent to the indictment, the petitioners filed a consensual petition to postpone the hearing of the amended petition until a verdict was reached in the Criminal Proceeding. Following the verdict in the Criminal Proceeding, in October 2013, the proceedings in the Unified Claim were renewed.

On January 15, 2015, a petition was filed with the court to grant the status of a verdict to a settlement agreement signed by the parties, pursuant to which the officers' liability insurer of the Bank agreed, solely for settlement purposes and in order to save costs, to pay compensation to the Bank and to pay fees and a special recompense to the petitioners and their representatives, in a total amount of NIS 6 million. The insurer's consent to pay the amount of the settlement to the Bank was granted ex gratia, and does not constitute agreement or admission of any type or nature on the part of the insurer or on the part of any of the other parties to the Unified Claim with regard to any of the allegations specified therein. The Bank and the directors adamantly maintain their position that the directors acted appropriately, in good faith, and without fault, and that the Board of Directors of the Bank acted appropriately based on the information available to it, and that it acted solely in the Bank's best interests.

In accordance with the instructions of the court, on January 25, 2015, a notice was published in the newspapers regarding the outline of the settlement agreement, presenting the possibility of objecting to the agreement within 21 days of the publication. In addition, in accordance with the instructions of the court, the settlement agreement was submitted for perusal by the Supervisor of Banks, who also submitted the proposed settlement for perusal by the Ministry of Justice and the Israel Securities Authority.

The position of the Supervisor of Banks regarding the outline of the settlement agreement was submitted on April 16, 2015. The Supervisor of Banks' position refers the court to several matters in the proposed settlement agreement, including the large gap between the agreed amount of compensation and the damage to the Bank alleged in the petition for certification; the percentage of legal fees in the amount of compensation, which he argues is exceptionally high; and the attempt to apply an act of judgment, including towards parties who are not part of the referenced proceedings.

On June 18, 2015, a position of the Attorney General was submitted to the court, stating that Mr. Dan Dankner should not be granted a blanket exemption, as granted to the other officers, in light of his confession and conviction in the Criminal Proceeding, and that the exemption should be qualified to refer only to actions committed negligently, as distinguished from actions committed with intent. With regard to the other terms of the settlement agreement, the Attorney General did not find cause to add to the position of the Supervisor of Banks.

The petitioners, the Bank, and the other respondents (each separately) submitted a response to the court addressing the position of the Supervisor of Banks, in which they stated that the amount agreed upon in the settlement is reasonable and appropriate under the circumstances and in light of the difficulty of proving the existence of damage, and that the percentage of legal fees is reasonable; in view of the argument that the exemption granted is excessively broad, the parties agreed to a more limited phrasing.

With reference to the position of the Attorney General concerning the question of the exemption for Mr. Dan Dankner, Mr. Dan Dankner submitted his response, stating that in the Criminal Proceeding against him, it was established that the Bank incurred no damage as a result of the affair referenced in the proceeding, and that the determination that he had a conflict of interest does not necessarily indicate that he was aware of the damage claimed in the derivative claim. The Bank stated, in response to the position of the Attorney General, that it had no objection to a restriction of the exemption to be granted to Mr. Dan Dankner, in view of the position of the Attorney General.

In a ruling on July 22, 2015, the court rejected the proposed settlement agreement. Negotiations are underway between the parties to formulate an amended settlement.

2. On June 29, 2014, The Movement for Quality Government in Israel filed an appeal with the Supreme Court, in session as the High Court of Justice, for conditional orders against the Supervisor of the Bank and the Governor of the Bank of Israel; the court was asked to order the Supervisor of Banks to perform a comprehensive, systemic investigation regarding the credit granted by the banking system to the IDB Group, and to publish the results of this examination. The Bank and the other banks involved were added as formal respondents. At the appellant's request, on October 7, 2015, the court ruled to postpone the hearing of the appeal until after a verdict is given in an administrative appeal filed by the appellant on May 12, 2015, with the District Court of Jerusalem, in session as the Court for Administrative Matters, in which the court was asked to order the Bank of Israel, among other matters, to deliver to the appellant audit reports prepared by the Supervisor of Banks at several banking corporations, including the Bank, in connection with credit granted to companies in the Nochi Dankner group. The Bank has filed a petition to join the administrative appeal as a respondent; a ruling has not yet been given on this petition.

3. A petition to certify a derivative claim against the Bank and against several officers who served or serve during the years 2000-2015, or during part of that period, and against the external auditors of the Bank (hereinafter, jointly: the "Formal Respondents"), was filed with the District Court of Tel-Aviv-Jaffa on March 1, 2015.

The petitioner has petitioned the court to determine that the Formal Respondents must compensate, indemnify, and benefit the Bank in respect of damage they allegedly caused to the Bank by their actions and inactions, in a total amount of USD 228 million, which the petitioner estimates the Bank will be required to pay to American enforcement agencies in connection with the accounts of American clients at Bank Hapoalim Switzerland. The petitioner further alleges that the Bank failed to act and set aside appropriate accounting provisions in its financial statements, as required according to generally accepted accounting principles and according to the directives of the law, in respect of the anticipated payment. Within the derivative claim, the petitioner filed a petition for disclosure and perusal of documents related to the investigation, including investigation materials and correspondence between the Bank and law enforcement authorities in the United States.

The court has accepted the agreement reached in discussions between the parties, pursuant to which the hearing of the petition will be delayed until the proceedings in the investigation of the Bank being conducted by the United States authorities are completed, and the outcome of these proceedings becomes known.

4. On March 1, 2015, a petition was filed with the District Court of Tel-Aviv-Jaffa for the disclosure of documents prior to filing a derivative claim, in connection with the investigation by United States authorities of the activity of Bank Hapoalim Switzerland regarding American customers. The Bank filed a petition to dismiss the disclosure petition in limine, among other causes due to the fact that a previous petition on the same matter (described in Section 3 above) had already been filed with the court.

5. On May 10, 2015, a petition was filed with the District Court of Tel-Aviv-Jaffa to certify a derivative claim against the Bank and against eighteen officers (present and past) of the Bank. The petition concerns the petitioner's allegation that credit granted to the Israel Petrochemical Enterprises Ltd. group, at a volume of NIS 390 million, was approved in violation of the duty of care of the officers. After the Bank gave notice that it did not expect to incur damage as a result of default on the credit, the parties filed a consensual withdrawal petition. A ruling on this petition has not yet been given.

6. On May 13, 2015, a petition to certify a derivative claim against the Bank and against twenty officers (present and past) of the Bank was filed with the District Court of Tel-Aviv-Jaffa by an alleged shareholder of the Bank. The petition concerns credit granted to Tomahawk Investments Ltd. ("Tomahawk"), which is controlled by Mr. Nochi Dankner, in the alleged amount of NIS 150 million. The petitioner notes that he estimates Tomahawk will repay half of the debt, and the amount of the derivative claim was therefore set at NIS 75 million. The petition claims that the cause for the possible derivative claim on behalf of the Bank is the violation of the duty of care of the officers of the Bank in approving the aforesaid credit without collateral.

7. A petition to certify a derivative claim against the Bank and against seventeen officers of the Bank was filed with the Economic Department of the District Court of Tel-Aviv-Jaffa on November 8, 2015. The petition concerns the petitioner's allegation that loans and credit granted to Maariv Modiin Publishing House Ltd. and to Hachsharat Hayishuv Ltd., while both companies were under the control of the Nimrodi family, in a total amount of tens of millions of NIS, were granted in violation of the duty of care of the officers of the Bank.

6.14. Notable Material Regulatory Initiatives with an Effect on the Activity of the Bank in the Reported Period

Regulatory Reforms for Increased Competition in the Banking System

Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel; several additional regulatory initiatives are in the process of being generated.

During 2014-2015, as part of the effort to facilitate customers' transitions between banks, several directives were issued, including: a directive of the Bank of Israel concerning the opening and closing of accounts over the Internet, an option offered by the Bank since January 2015; a directive concerning the transfer of activity and closure of a customer's account; a directive concerning the delivery of detailed information to customers so that they can consider whether it is worthwhile to transfer and close their account; and additional directives concerning disclosure to customers of the cost of securities services, and disclosures to raise customers' awareness of the account management tracks. Directives were also issued by the Supervisor of Banks and by the Antitrust Commissioner with the aim of expanding the distribution and use of debit cards, and increasing competition in charge cards. In the area of account management for small businesses, the definition of a "small business" was changed, as of February 2015, leading to a reduction in bank fees paid by the businesses defined as small businesses.

Directives implemented in 2015 include:

- An amendment to the Money Laundering Prohibition Order, concerning non-bank TASE members of the stock exchange, allowing the establishment of a "closed system" in which securities and financial assets can be bought, sold, and held, and monetary deposits can be managed, in a parallel account with the non-bank TASE members, while the original account is at another banking corporation, based on identification performed at the banking corporation.
- Removal of the restriction on bond issuance by non-bank credit suppliers (the Nawi Law) – A bill amending the Banking Law was approved in November 2015. Pursuant to the law, the Minister of Finance is authorized to permit a non-banking corporation to issue debt certificates to the public at a volume of up to NIS 2.5 billion, in order to grant retail credit.

The Committee for Increasing Competition in Common Banking and Financial Services (the Strum Committee)

In June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed the Committee for Increasing Competition in Common Banking and Financial Services Provided to Households and Non-Large Businesses (the Strum Committee). The committee released its interim report on December 14, 2015. The report proposes separating credit-card companies from large banks only. These banks would be prohibited from issuing credit cards, with the exception of debit cards. Distribution of credit cards would be permitted for a limited number of years. The report further proposes taking measures to encourage institutional entities to begin selling retail credit; offering opportunities for the development of information-sharing applications by customers through Open API; setting up deposit insurance; and more.

Additional Key Reforms

- The Ministry of Finance and the Ministry of Justice are promoting an amendment to the Credit Data Service Law, 2002, which is under discussion in the Economics Committee, ahead of a second and third reading in the Knesset. The amendment proposes the establishment and management of a national credit database by the Bank of Israel, in accordance with the recommendations of the Committee for Improvement of the Credit Data Sharing System (the Dorfman Committee). The goal of the law is to promote sharing of credit data from a variety of sources of information, as specified in the law; retention of the data in a central database; and delivery of this information to credit bureaus for processing and transfer to credit providers, among other matters. As a result of this law, every citizen would have a credit rating; in credit applications, the credit provider would be notified of this rating, with the citizen's consent.
- In the third quarter of 2015, the Ministry of Finance issued a bill applying a comprehensive reform to bankruptcy laws: Bankruptcy and Economic Rehabilitation, 2015. The bill includes restriction of secured creditors (primarily banks) in exercising liens, while rechanneling the debtor's funds in order to maximize reimbursement of small creditors; expanded authority of the Official Receiver to grant exemptions to debtors; approval of fast tracks; and more.
- Draft Securities Regulations published by the Supervisor of the Capital Markets, Insurance, and Savings in the third quarter of 2015 seek, among other matters, to prohibit an institutional entity from contracting for trading services involving buying, selling, or custody of securities with a banking corporation that simultaneously provides the entity with operational services.
- The Fair Credit Law (Amendment 3 to the Law for Regularization of Non-Bank Loans) seeks to equalize the norms applied to non-institutional lenders with the norms applied to institutional lenders, including the banking system. In addition, the amendment seeks to adjust the interest ceiling for credit so that it also applies to banks, and so that it stands at the Bank of Israel interest rate + 20%. This proposal is under discussion in the Constitution, Law, and Justice Committee of the Knesset, to promote its preparation for a second and third reading.
- During 2015, the Bank prepared for the implementation of Proper Conduct of Banking Business Directive 425, Annual Statement for Customers of Banking Corporation, which constitutes the implementation of the recommendations of the Zaken Committee. Following the implementation of this directive, as of February 28, 2016, and annually, customers of banking corporations will begin to receive a Banking ID, presenting detailed information regarding all of their assets and liabilities at banks, in order to improve customers' ability to monitor activity in their accounts and their ability to compare different banking products and services.
- In addition to the foregoing, various private bills have been submitted to the twentieth Knesset, including proposals to cancel or reduce fees, proposals to implement updates of the Execution Law with direct implications for the activity of banking corporations, including discharges and exemptions from arrears interest for various debtors, and more.

These regulatory initiatives have an adverse effect on the revenues of the Bank, and may have an adverse effect on the business of the Bank Group in the future. At this stage, the Bank is reviewing the overall implications of the foregoing for the Bank's revenues, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

6.15. Risk Factor Table

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed have been mapped, taking the possible effects into account. The risk factors and the Board of Management's estimates regarding the risk level of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high):

Low severity level – The damage to annual profit due to an extreme event would be smaller than the average annual profit before tax in the ordinary course of business; in other words, the extreme event would not cause the Bank a shift to a loss.

Medium severity level – The damage to annual profit due to an extreme event would be larger than the average annual profit before tax in the ordinary course of business, and would therefore cause the Bank a shift to a loss in at least one of the years of occurrence of the event, and would cause a decrease in the Tier 1 capital ratio; however, the capital ratio would not fall below the Bank's risk capacity (6.5%).

High severity level – The damage to profit due to an extreme event would cause the Tier 1 capital ratio to fall below the risk capacity of the Bank.

In order to quantify the effect of the risk factors on the Bank's profit and capital ratio, systemic extreme scenarios and single-factor scenarios were examined for most of the risk factors, and the scenario with the more severe effect was used in the risk-factor table.

Note that this quantification refers to the effect on the capital of the Bank. Possible scenarios may involve a decrease in profit, or losses, with a non-negligible effect on the profitability of the Bank; however, the effect of these scenarios on capital adequacy is low, and they are therefore classified at a low level of severity.

Also, the opinion of a team of experts is taken into consideration if the team estimates that the quantitative indices do not sufficiently express the severity of the risk factor, or if it is not possible to determine the risk level of a particular risk factor using reliable quantitative methods.

Each risk factor listed in the table below was tested in its own right, under an assumption of independence of each risk factor relative to the other risk factors listed in the table. However, for the risk factors "condition of the global economy" and "condition of the Israeli economy" in the table, systemic scenarios were tested to estimate the effect on profit and on the capital ratio of the combination of a number of risk factors. Note that the risk scenarios simulate a situation in which unexpected damages materialize beyond the expected level of damage events in the regular course of the Group's business.

The Bank also assesses the level of risk using another method, based on expert evaluations of the inherent risk level and of the quality of risk management and the effectiveness of controls. The inherent risk is the aggregate risk inherent in the activity in which the Bank engages, and is defined as the potential loss from this activity. Inherent risk is evaluated from a forward-looking perspective as well as in view of the past, but without taking management and control processes into consideration. Inherent risk is affected by the following factors, among others:

- Past losses and estimated future losses;
- Strategic and business plans, including new products;
- Credit portfolio mix and composition;
- Complexity of the activity;
- Effect of external factors, including the economy, industry, legislation, and technology.

In order to estimate the residual risk, taking into account management and control processes, evaluations by content experts from the second line of defense were added to the model, addressing the quality of risk management and the effectiveness of controls. The combined estimate using the two methods for the overall assessment of residual risk is presented in the table below, on a scale of five levels of severity. The estimate is performed as an expert evaluation, reflecting the input of the content experts in the various areas, and is subject to all of the qualifications noted with respect to forward-looking information.

Table 6-32: Severity of Risk Factors

Number	Risk factor	Risk effect
Financial risks		
1.	Credit risk	Medium
1.1.	Risk in respect of the quality of borrowers and/or collateral	Medium
1.2.	Risk in respect of sectoral concentration	Medium
1.3.	Risk in respect of concentration of borrowers/borrower groups	Medium
2.	Market risk	Low-Medium
2.1.	Interest-rate risk	Low-Medium
2.2.	Inflation risk/exchange-rate risk	Low
2.3.	Share price and credit spread risk	Low-Medium
3.	Liquidity risk	Low-Medium
Operational and legal risks		
4.	Operational risk	Low-Medium
5.	Legal risk	Low
Other risks		
6.	Reputational risk	Low-Medium
7.	Strategic and competitive risk	Medium
8.	Regulatory and legislative risk	Medium
9.	Economic risk – condition of the Israeli economy	Medium
10.	Economic risk – condition of the global economy	Medium
11.	Compliance risk	Medium

Compliance risk also includes risks arising from the investigation by US authorities, as noted in Note 26E to the Financial Statements. At this stage, the US authorities have not addressed any concrete claims at the Bank; it is therefore not possible to estimate the exposure in this matter reliably.

7. Critical Accounting Policies and Estimates; Controls and Procedures

7.1. Critical Accounting Policies and Estimates

The financial statements of the Bank are prepared in accordance with accounting principles and rules, the main points of which are described in Note 1 to the Financial Statements. In implementing the accounting principles, the Board of Management of the Bank uses assumptions, estimates, and evaluations that affect the reported amounts of assets and liabilities (including contingent liabilities) and the results reported by the Bank. Actual future results may differ from such estimates and evaluations made when preparing the financial statements.

Some of these estimates and evaluations involve a considerable degree of uncertainty, and can be affected by possible future changes. Such estimates and evaluations in which changes may have a material effect on the financial results presented in the financial statements are considered by the Bank to be estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations applied during the preparation of the financial statements are fair, and were made to the best of its knowledge and professional judgment.

Allowance for Credit Losses

Pursuant to the directives of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, the Bank applies the American accounting standards on this subject (ASC 310) and the positions of the bank supervision agencies in the United States and of the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives.

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall fairness of the allowance for credit losses. For further details regarding the rules for examination of debts within the individual or collective allowance, and for details regarding the calculation of the allowance for credit losses in respect of housing loans, see Note 1E(4) to the Financial Statements concerning the allowance for credit losses.

The individual allowance for credit losses is made on the basis of the Board of Management's estimate of the losses inherent in the credit portfolio, including debts in off-balance sheet items. The Board of Management bases the evaluation process on numerous considerations and estimates.

For each individually examined borrower, when indications exist of a possible problem in the borrower's ability to repay credit granted, the Bank performs an evaluation of the amount that can be collected from the borrower, according to the relevant sources of repayment, which include sources of repayment from the borrower's business activities, sources of repayment from the borrower's private resources, the expected realizable value of collateral provided, and the expected realizable value of external guarantees that were given to support repayment of the credit, taking into consideration the relevant repayment and realization dates. The suitability of the classification of the debt and the collectible amount are approved by an officer one level above the officer authorized to grant the credit to the customer, with the necessary adjustments. After the collectible amount is determined, an individual allowance for credit losses is recorded, in every reporting period, representing the difference between the amount of credit given to the borrower and the total amount that can be collected from the borrower, discounted by the original interest rate of the debt, or the net fair value of the collateral provided against the debt.

In addition, the Bank is required to estimate the volume of debt that cannot be collected via prolonged collection efforts (defined in most cases as a period exceeding two years), and perform charge-offs in respect of such debt.

The collectible amount is based on various parameters, including expected cash flows from the borrower's business activities; the net realizable value of real-estate properties, production equipment, securities, and other assets of the borrower; the realizable value of third-party guarantees; and the realization dates of such amounts. Such information, which is based on estimates and evaluations, is naturally dependent upon economic variables that are not under the Bank's control, such as the condition of the Israeli economy and global markets, markets for companies' operations and products, interest rates, conditions in the capital market, prices of real estate and other assets, demand in the industry in Israel and worldwide, and more.

In determining the collectible amount, safety margins are taken into account in order to address cases of uncertainty regarding the ability to repay the debt and the value of collateral. However, because economic and other variables are involved, there is no certainty that the amounts actually received will be identical to the estimates established.

The collective allowance for credit losses is calculated in order to reflect allowances for impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of balance sheet and off-balance sheet credit risk evaluated on a collective basis is calculated based on historical rates of loss, by economic sector, and with a division between problematic and non-problematic credit, in the five-year range ended at the reporting date. The Bank uses rates of loss constituting the average rate of past losses in this range of years. In addition to the calculation of historical rates of loss in the various economic sectors, the Bank also considers relevant environmental factors in establishing the rate of the allowance, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the overall quality of credit in the economic sector, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration.

In this context, in accordance with the directives of the Supervisor concerning the collective allowance in respect of credit for the economic sector of private individuals, the Bank is required to take into consideration a qualitative adjustment rate of no less than 0.75% of the balance of unimpaired consumer credit. Credit risk arising from receivables in respect of bank credit cards without interest charges was excluded from this calculation.

The Bank developed a model, during 2015, for the calculation of the collective allowance, taking qualitative adjustment coefficients into account, as required in the directives. The model adopted also includes many estimates related to factors that affect the adjustment coefficient set for each economic sector, above the average losses of the last five years; these include trends in credit volumes in each sector, conditions in the sector, macro-economic data, evaluation of the general quality of credit in the sector, changes in the volume and trend of balances in arrears and impaired balances, effects of changes in credit concentration, and more. The adoption of this model had no material effect on the balance of the collective allowance in the financial statements for 2015.

In addition, pursuant to the instructions of the Supervisor of Banks, the amount of the collective allowance at the end of each reporting period shall not fall below the amount of the general and supplementary allowance that would have been calculated at that date according to Proper Conduct of Banking Business Directive 315, factoring in the rate of tax.

As the volume and rate of the collective allowance are based, among other factors, on the classification of the debt as problematic, in itself, and on the timing of this classification, in determining the amount of the collective allowance the Bank relies on the same estimates regarding the financial stability and repayment capability of the borrower that are the basis for the classification of the debt as problematic and for the timing of the classification.

The Bank has established procedures for the classification of credit and measurement of the allowance for credit losses, in order to maintain an allowance at an appropriate level to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank has established the necessary procedures in order to maintain an allowance in a separate liability account at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments, such as contractual engagements to provide credit, unutilized credit facilities, and guarantees.

Fair Value Measurements

Some of the financial instruments in which the Bank operates, including most of the securities in the available-for-sale portfolio, securities in the portfolio held for trading, and derivative financial instruments, are measured in the financial statements at fair value. The fair value of a financial instrument is defined as the price that would be obtained from the sale of an asset, or that would be paid to transfer a liability, in a routine transaction between willing participants in the market, i.e. in a transaction that is not a forced sale or a sale in the course of liquidation. Maximum use is made of observable inputs in assessing fair value. Observable inputs represent information available in the market and received from independent sources. When no observable inputs are available for the measurement of fair value, unobservable inputs are used. These data reflect the assumptions of the Bank, and include models that take the risk inherent in the financial instrument into consideration (market risk, credit risk, etc.).

These types of inputs form the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities.
- Level 2 data: Prices quoted in active markets for similar assets or liabilities; prices quoted in inactive markets for identical assets or liabilities; prices derived from evaluation models in which all significant inputs are observed in the market or supported by observed market data.
- Level 3 data: Unobservable inputs regarding the asset or liability, arising from evaluation models in which one or more of the significant inputs is unobservable.

Note that the Bank also uses accepted models and observable inputs for the measurement of financial instruments classified as Level 3. However, these instruments are classified into this level because the Bank uses internal data to assess the credit risk associated with the instruments.

The hierarchy requires the use of observable market inputs when such information is available. When possible, the Bank considers relevant observable market information in its evaluation. The volume and frequency of transactions, ask-bid spread, and size of the adjustment necessary in comparing similar transactions are all factors taken into consideration when determining the liquidity of markets and the relevance of prices observed in such markets.

The Bank exercises appropriate professional judgment in establishing fair values. Towards that end, the Bank has formulated a plan for the definition of a structured, ordered process for the establishment of fair value. The process encompasses four independent functions:

(1) The business function – The party responsible for the management of the financial instrument.

(2) The validation function – The party responsible for validating the models for the fair value calculation and validating the data and assumptions used in the calculation.

(3) The control function – The party responsible for applying routine controls to the process of establishing fair value.

(4) The supervision function – The party responsible for supervising the proper implementation of the process of establishing fair value.

In addition, the Bank routinely assesses and examines the risks involved in the process of establishing fair value. Within the aforesaid plan, the Bank defined a limit according to which the Bank shall not enter into a new type of financial instrument in a material amount, or increase the amount of an existing type, if no structured procedure exists for establishing its fair value at a reasonable degree of confidence (hereinafter: "Exceptional Instruments"). It was further established that in cases in which the volume of the Exceptional Instruments reaches 75% of the limit that has been set, the Board of Directors and the Board of Management Committee on Risk Management will be notified, and the committee will formulate a plan to reduce the volume of the Exceptional Instruments.

The fair value of some of the securities traded overseas is based on price quotes from international price suppliers, which are independent of the issuers and independent of the entities and governments marketing the securities. These suppliers are leading international companies that provide quoting and revaluation services to leading financial institutions worldwide. In addition, the fair value of some of the nonmarketable securities in Israeli currency is calculated using the method of the present value of future cash flows, based on the discount interest rate received from a quoting company (chosen by the Capital Market, Insurance, and Savings Division at the Ministry of Finance).
Following the implementation of ASC 820-10 (FAS 157), Fair Value Measurements, the Bank is required to reflect credit risk and nonperformance risk in assessing the fair value of debt, including derivative instruments, measured at fair value. Nonperformance risk includes the credit risk of the Bank, but is not limited to this risk alone. The Bank assesses credit risk in derivative instruments in the following manner:

- When sufficient liquid collateral exists in respect of the exposure, specifically securing the derivative instrument at a high degree of legal certainty, the Bank assumes that the credit risk inherent in the instrument is zero, and does not perform adjustments to fair value in respect of the quality of credit of the counterparty.
- When exposure in respect of the counterparty on a consolidated basis is material, the Bank performs a fair-value assessment based on indications of the quality of credit of the counterparty from transactions in an active market, insofar as such indications are available with reasonable effort. The Bank derives these indications, among other things, from prices of debt instruments of the counterparty traded in an active market, and from prices of credit derivatives the basis for which is the quality of credit of the counterparty. If no such indications exist, the Bank calculates the adjustments based on internal ratings (e.g. estimates of expected default rates and rates of credit losses in the event of default).

In addition, the Bank performs a feasibility test on the results obtained in the internal evaluation with respect to changes in spreads in the market, and performs necessary adjustments, as relevant.
Note that the Bank monitors the volume of activity in instruments measured at fair value. In the year ended on December 31, 2015, no significant decrease was observed in volumes of activity that could indicate a lack of liquidity in the market, requiring adjustment to the fair value of these instruments.

Table 7-1: Data regarding the adjustment of assets and liabilities in respect of derivative instruments

	December 31, 2015
	NIS millions
Assets in respect of derivative instruments	**12,946**
Adjustment for credit risk of assets in respect of derivative instruments	**149**
Liabilities in respect of derivative instruments	**13,837**
Adjustment for credit risk of liabilities in respect of derivative instruments	**17**

For further details, see Note 33 to the Financial Statements.

Employee Benefit Liabilities

Some of the provisions for the Bank's liabilities in connection with employee-employer relationships are based on actuarial calculations, among other factors. This refers to the liability for 25-year service grants to which employees are entitled when they have worked at the Bank for 25 years; liability for compensation in respect of unutilized sick days; post-retirement benefits; pension liabilities for payments to employees who retire before the legal retirement age; pension liabilities for payments to active employees expected to retire with preferred retirement terms, before the legal retirement age; and severance pay liabilities.

The liabilities, calculated based on actuarial estimates as at December 31, 2015, amounted to a total of approximately NIS 3,599 million. The liabilities are discounted at a real factor of 1.92% per annum, as stipulated by the Supervisor of Banks, based on the yield of government bonds in Israel, plus a margin equal to the difference between rates of yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of US government bonds, at the reporting date.

Actuarial calculations are mainly based on assumptions and estimates, which are based on the evaluations and resolutions of the Board of Management, past experience, and various statistics, such as mortality tables, employee departure rates, the rate of real change in wages over time, etc. These estimates and assumptions are reviewed regularly.

Changes in the various actuarial parameters would lead to different results from those obtained today. For example, a 1% increase in the discount rate would cause a reduction of the liabilities by a total of approximately NIS 282 million, and a 1% decrease in the discount rate would cause an increase of these liabilities by a total of approximately NIS 334 million. Further, an increase of 1% in the estimated rate of increase in annual wages would cause the aforesaid liabilities to increase by a total of approximately NIS 210 million. An increase of 1% in the annual estimate of rates of departure for early retirement would cause an increase of the liabilities by a total of approximately NIS 183 million, and a decrease of 1% in the annual estimated rate of departure for early retirement would cause the liabilities to decrease by a total of approximately NIS 192 million.

The actuary estimate for the period ended December 31, 2015, in respect of liabilities for employee benefits has been posted on the Magna website of the Israel Securities Authority, at www.magna.isa.gov.il.

For details regarding the adoption of US GAAP on employee benefits, see Note 1D(1) to the Financial Statements.

On January 12, 2016, the Supervisor of Banks issued a circular concerning operational efficiency in the banking system, requiring banks to examine and approve a multi-year efficiency plan for the coming five years and principles for a long-term improvement in efficiency. The circular includes eased requirements with regard to the effect of efficiency plans to be carried out in the context of compliance with capital-adequacy targets. In light of the circular of the Supervisor, the Bank is in the initial stages of analysis and evaluation based on the structural changes implemented recently. The formulation of the format for short-term and long-term efficiency is in a preliminary stage, and the Bank cannot estimate the timing, volume, or mix of departing employees at this time. Accordingly, any consequences of future efficiency plans were not taken into consideration in the update of actuarial assumptions for 2015.

Deferred Taxes

Deferred taxes are recorded for temporary differences and in respect of losses carried forward, only if it is more likely than not that tax savings will be generated in respect thereof at the reversal date. Accordingly, when recording deferred tax assets, the Bank is required to carry out evaluations and estimates regarding their possible realization in the future.

As at December 31, 2015, the amount of temporary differences for which deferred tax assets were recorded amounted to NIS 10,038 million; the amount of losses carried forward for which no deferred tax assets were recorded amounted to NIS 528 million; and the amount of losses carried forward for which deferred tax assets were recorded amounted to NIS 198 million.

For details regarding the circular of the Supervisor of Banks concerning the adoption of US GAAP on taxes on income, see Note 1F(5) to the Financial Statements.

Contingent Liabilities

The Bank Group is a party to legal proceedings taken against it by customers, by former customers, and by various third parties who believe they have suffered harm or damages resulting from the Bank Group's activity. The Bank's Board of Management has included sufficient provisions in the financial statements to cover possible damages arising from all such claims, based on legal opinions. In most legal proceedings, opinions are obtained from legal advisors external to the Bank Group, and reviewed by legal counsels employed by the Bank. These evaluations are based on the best judgment of the legal advisors, taking into consideration the stage at which the proceedings are at present and the legal experience accumulated on these matters in Israel and worldwide. However, it should be taken into account that no "certain" or "near certain" assessments can be made with regard to legal matters – not only in the initial stages of a claim, but until the verdict is handed down; the outcome of the proceedings may therefore differ from prior estimates. This is especially true in the case of class-action suits, due to factors including the lack of accumulated legal experience regarding the outcome of such suits in Israel. The Bank and its legal advisors therefore face greater difficulty than usual when estimating the outcome of legal proceedings involving class-action suits, most notably during the stage in which the court has not yet decided whether to accept or deny the petition to recognize the claim as a class action.

Impairment of Securities Available for Sale and of Securities Held to Maturity

Each reporting period, the Board of Management of the Bank determines whether declines in the fair value of securities classified into the available-for-sale portfolio and the held-to-maturity portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established at the Bank, primarily the following:

1. A determination whether the impairment is other than temporary, and the amount of the impairment:
   - Securities which, at the balance sheet date, the Bank does not intend to hold, or securities sold after the balance sheet date at less than cost, constitute securities in which other-than-temporary impairment has occurred.
   - Securities the value of which has decreased by more than 20% relative to their cost, with respect to equity instruments, or 15%, with respect to debt instruments, when the decline in value has persisted for more than six months, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
   - Securities the value of which has decreased by 40% or more of the cost of the security, with respect to equity instruments, or 30% with respect to debt instruments, at or after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
   - Debt instruments that have undergone a significant downgrade in rating constitute securities in which other-than-temporary impairment has occurred. For this purpose, the Bank defines a reduction of three notches or more, accompanied by a rating falling below Investment Grade, as a significant downgrade.
   - Debt instruments classified as problematic (impaired, substandard, under special supervision) by the Bank.
2. Watch list – a quantitative and qualitative examination is performed to identify and evaluate securities whose value has decreased, where other-than-temporary impairment may have occurred.
3. Specific examination – all securities on the watch list are examined specifically. This examination is based on the following considerations, among others:
   - The Bank's ability and intention to hold the security for a sufficient period to allow the value of the security to return to the level of its cost.
   - The value of collateral and safety cushions backing the security.
   - The rating of the security by international and local rating agencies, including developments in these ratings after the balance sheet date.

- The rate of impairment of the security relative to its total cost.
- The amount of time for which the fair value of the security is lower than its cost.
- The financial condition of the issuer and changes in its business environment, including an examination of whether the impairment reflects circumstances unique to the issuer or general market conditions.
- Events after the balance sheet date.

4. Documentation of the results of the examination, as required pursuant to the rules established at the Bank.
   When other-than-temporary impairment occurs in a security, the cost of the security is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss.

Impairment of Non-Financial Assets

The Bank tests for signs indicating impairment of non-financial assets owned by the Bank, in accordance with the principles detailed in International Accounting Standard 36, "Impairment of Assets."

Impairment of costs of the development of software for internal use – In addition to the foregoing, the Bank examines additional signs that may indicate impairment of software assets:

- The software intended for internal use is not expected to provide significant potential services.
- A material change has occurred in the manner or volume of use of the software or in the expected use of the software.
- A material change has been made to the software, or will be made in the future.
- The costs of development or upgrade of the software for internal use significantly exceed the planned costs.
- The development of the software is not expected to be completed and the software is not expected to be used.

The provision for impairment of non-financial assets, on December 31, 2015, amounted to approximately NIS 37 million.
The provision for impairment of non-financial assets recognized during the periods ended on December 31, 2015, amounted to NIS 14 million (of which NIS 13 million in respect of software assets).

7.2. Controls and Procedures

In accordance with the Public Reporting Directives of the Supervisor of Banks, the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank must each separately sign a declaration regarding their responsibility for the establishment and application of controls and procedures concerning disclosure and the Bank's internal control of financial reporting, including an assessment of the effectiveness of these controls, pursuant to the provisions of Sections 302 and 404 of the law known as the "Sarbanes-Oxley Act," enacted in the United States.
The provisions of these two sections of the law were consolidated by the Supervisor of Banks in a Proper Conduct of Banking Business Directive (Directive 309) in September 2008, and integrated into the Public Reporting Directives in June 2009.
These directives have been implemented at the Bank since their inception:

1. The directive in Section 302 regarding the responsibility for the establishment and application of controls and procedures concerning disclosure has been implemented quarterly as of the financial statements for June 30, 2005.
2. The directive in Section 404 regarding the responsibility for the Bank's internal control over financial reporting has been implemented at year end, as of the financial statements for December 31, 2008.

As part of the implementation of the directives of Section 404, the Bank, with the assistance of a consulting firm, mapped and documented all material control processes, based on the directives of the SEC (the Securities and Exchange Commission in the United States), using the prevalent methodologies, based on criteria established in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control over financial reporting, through an examination of the effectiveness of the main controls in practice.

During 2015, the Bank updated the documentation of the material control processes, according to the prevalent methodologies and the directives of Section 404, with the assistance of a consulting firm. The Bank also executed a current examination of the effectiveness of the procedures for internal control over financial reporting, through a renewed examination of the main controls for 2015, with adjustment of test samples to the outputs of the annually updated risk map.

Evaluation of Controls and Procedures Concerning Disclosure

The Board of Management of the Bank, in cooperation with the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank, has assessed the effectiveness of the controls and procedures concerning disclosure at the Bank as at December 31, 2015. Based on this assessment, the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant of the Bank have concluded that, as at the end of this period, the controls and procedures concerning disclosure at the Bank are effective in order to record, process, summarize, and report the information that the Bank is required to disclose in its financial report, in accordance with the Public Reporting Directives of the Supervisor of Banks, on the date stipulated in these directives.

Changes in Internal Control

During the quarter ended on December 31, 2015, there was no change in the Bank's internal control over financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Bank's internal control over financial reporting, with the exception of the adjustment of disclosure controls to the new structure of the financial statements, including the Review of Risks.

Yair Seroussi	**Zion Kenan**
Chairman of the Board of Directors	President & Chief Executive Officer

Tel-Aviv, February 28, 2016

Report of the Board of Directors and the Board of Management on the Internal Control of Financial Reporting

The Board of Directors and the Board of Management of Bank Hapoalim B.M. (hereinafter: the "Bank") are responsible for the establishment and application of adequate internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"). The system of internal control at the Bank was designed to provide a reasonable degree of assurance to the Board of Directors and the Board of Management of the Bank with regard to the adequate preparation and presentation of financial reports published in accordance with generally accepted accounting principles and the directives and guidelines of the Supervisor of Banks. Regardless of the quality of planning of the internal control systems, any such system has inherent limitations. Thus, even if these systems are found to be effective, such systems can provide only a reasonable degree of confidence with regard to the preparation and presentation of the financial reports.

The Board of Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls aimed at ensuring that transactions are executed in accordance with the Board of Management's authorizations, that assets are protected, and that accounting records are reliable. In addition, the Board of Management, under the supervision of the Board of Directors, applies measures to ensure that information and communication channels are effective and monitor performance, including the performance of internal control procedures.

The Board of Management of the Bank, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control of financial reporting as at December 31, 2015, based on the criteria established in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). Based on this assessment, the Board of Management believes that as at December 31, 2015, the Bank's internal control of financial reporting is effective.

The effectiveness of the Bank's internal control of financial reporting as at December 31, 2015 was audited by the Bank's external auditors, Ziv Haft Certified Public Accountants (Isr.) and Somekh Chaikin Certified Public Accountants (Isr.), as noted in their report on page 237. The auditors' report includes an unqualified opinion with regard to the effectiveness of the Bank's internal control of financial reporting as at December 31, 2015.

Yair Seroussi	**Zion Kenan**	**Yadin Antebi**	**Ofer Levy**
Chairman of the Board of Directors	President and Chief Executive Officer	Senior Deputy Managing Director, Chief Financial Officer	Senior Deputy Managing Director, Chief Accountant

Tel Aviv, February 28, 2016

CEO Declaration

I, Zion Kenan, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2015 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   - (A) We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   - (B) We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   - (C) We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   - (D) We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   - (A) Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   - (B) Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Zion Kenan
President & Chief Executive Officer

Tel Aviv, February 28, 2016

CFO Declaration

I, Yadin Antebi, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2015 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   (A) We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   (B) We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   (C) We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   (D) We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   (A) Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   (B) Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Yadin Antebi
Senior Deputy Managing Director,
Chief Financial Officer

Tel Aviv, February 28, 2016

Chief Accountant Declaration

I, Ofer Levy, declare that:

1. I have reviewed the annual report of Bank Hapoalim B.M. (hereinafter: the "Bank") for the year 2015 (hereinafter: the "Report").
2. Based on my knowledge, the Report contains no incorrect presentation of a material fact, and there is no presentation of a material fact missing from the Report that is necessary so that the presentations included therein, in light of the circumstances under which such presentations were included, are not misleading with regard to the period covered by the Report.
3. Based on my knowledge, the financial statements and other financial information included in the Report fairly reflect the financial condition, results of operations, changes in equity, and cash flows of the Bank, in all material aspects, for the dates and periods presented in the Report.
4. I, and others at the Bank making this declaration, are responsible for the establishment and application of controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning the "Board of Directors' Report"); furthermore:
   (A) We have established such controls and procedures, or caused such controls and procedures to be established under our supervision, aimed at ensuring that material information pertaining to the Bank, including its consolidated corporations, is brought to our knowledge by others at the Bank and at such corporations, in particular during the preparation of the Report;
   (B) We have established such internal control of financial reporting, or caused such internal control of financial reporting to be established under our supervision, intended to provide a reasonable degree of confidence with regard to the reliability of the financial reporting, and that the financial reports for external purposes are prepared in accordance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks;
   (C) We have assessed the effectiveness of the controls and procedures concerning disclosure at the Bank, and we have presented our findings with regard to the effectiveness of the controls and procedures concerning disclosure in the Report, as at the end of the period covered in the Report, based on our assessment; and
   (D) We have disclosed in the Report any change in the internal control of financial reporting at the Bank that occurred during the fourth quarter, and that had a material effect, or could reasonably be expected to have a material effect, on the internal control of financial reporting at the Bank; and
5. I, and others at the Bank making this declaration, have disclosed to the auditors, to the Board of Directors, and to the Audit Committee of the Board of Directors of the Bank, based on our most current assessment of the internal control of financial reporting:
   (A) Any significant deficiencies or material weaknesses in the establishment or application of internal control of financial reporting that can reasonably be expected to impair the Bank's ability to record, process, summarize, or report financial information; and
   (B) Any fraud, whether material or immaterial, in which the Board of Management was involved, or in which other employees were involved who have a significant role in the internal control of financial reporting at the Bank.

The aforesaid shall not detract from my responsibility, or from the responsibility of any other person, under any law.

Ofer Levy
Senior Deputy Managing Director,
Chief Accountant

Tel Aviv, February 28, 2016

2015

Bank Hapoalim

Financial Statements

Contents - Financial Statements

Auditors' Report to the Shareholders of Bank Hapoalim B.M. according to Public Reporting Directives of the Supervisor of Banks regarding Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Bank Hapoalim B.M. and its subsidiaries (hereinafter together - "the Bank") as at December 31, 2015, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material aspects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks. The internal control over financial reporting of a bank includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the bank (including their removal from its possession); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with Israeli GAAP and in accordance with directives and guidelines of the Supervisor of Banks, and that receipts and expenditures of the bank are being made only in accordance with authorizations of management and directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including removal from its possession) of the bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any current evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material aspects, effective control over financial reporting as at December 31, 2015, based on criteria established in Internal Control - Integrated Framework (1992) issued by the COSO.

We also have audited, in accordance with accepted auditing standards in Israel, and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the consolidated financial statements of the Bank as at December 31, 2015 and 2014 and for each of the years in the three-year period ended December 31, 2015, and our report dated February 28, 2015, expressed an unqualified opinion on the said financial statements as well as drawing attention to regarding exposure to class actions that were filed against the Bank Group and regarding the business of the Bank Group with American customers.

Somekh Chaikin
Certified Public Accountants (Isr)

Ziv Haft
Certified Public Accountants (Isr)

Tel Aviv, February 28, 2016

Auditors' Report to the Shareholders of Bank Hapoalim B.M.

We have audited the accompanying consolidated balance sheets of Bank Hapoalim B.M. (hereinafter: 'the Bank") as at December 31, 2015 and 2014 and the related consolidated statements of profit and loss, comprehensive income, changes in equity and cash flows, for each of the years in the three year period ended December 31, 2015. These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors Regulations (Manner of Auditor's Performance), 1973 and certain auditing standards that their application in the audit of banking corporations was prescribed in directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by the Management of the Bank, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit, the financial statements referred to above present fairly in all material aspects, the financial position of the Bank and its subsidiaries as at December 31, 2015 and 2014 and the results of operations, changes in equity and cash flows of the Bank and its subsidiaries for each of the years in the three year period ended December 31, 2015, in conformity with generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, these financial statements are prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our opinion, we draw attention to Note 26C(b) regarding exposure to class actions that were filed against the Bank Group and to Note 26E regarding the business of the Bank Group with American customers.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States, regarding audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the Bank's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report, dated February 28, 2016 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.

Somekh Chaikin Certified Public Accountants (Isr) **Ziv Haft** Certified Public Accountants (Isr)

Tel Aviv, February 28, 2016

Consolidated Statement of Profit and Loss

For the year ended December 31, 2015

NIS millions

	Note	**2015**	2014	2013
Interest income	2	**9,837**	10,673	12,961
Interest expenses	2	**(1,952)**	(2,905)	(5,018)
Net interest income		**7,885**	7,768	7,943
Provision for credit losses	30(A)(1)	**475**	425	874
Net interest income after provision for credit losses		**7,410**	7,343	7,069
Non-interest income				
Non-interest financing income	3	**1,044**	916	480
Fees	4	**5,287**	5,207	5,115
Other income	5	**146**	131	126
Total non-interest income		**6,477**	6,254	5,721
Operating and other expenses				
Salaries and related expenses	6	**4,934**	*5,343	*5,451
Maintenance and depreciation of buildings and equipment		**1,555**	1,539	1,544
Amortization and impairment of intangible assets and goodwill		**7**	12	12
Other expenses	7	**2,294**	2,289	2,034
Total operating and other expenses		**8,790**	*9,183	*9,041
Profit before taxes		**5,097**	*4,414	*3,749
Provision for taxes on profit	8	**2,097**	*1,713	*1,265
Profit after taxes		**3,000**	*2,701	*2,484
The Bank's share in profits of equity-basis investees, after taxes	15(B)	**19**	9	9
Net profit:				
Before attribution to non-controlling interests		**3,019**	*2,710	*2,493
Loss attributed to non-controlling interests		**63**	3	44
Attributed to shareholders of the Bank		**3,082**	*2,713	*2,537
Earnings per ordinary share in NIS:	1(E)(23), 9			
Basic earnings				
Net profit attributed to shareholders of the Bank		**2.32**	*2.05	*1.92
Diluted earnings				
Net profit attributed to shareholders of the Bank		**2.31**	*2.04	*1.90

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

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

Yair Seroussi	**Zion Kenan**	**Yadin Antebi**	**Ofer Levy**
Chairman of the Board of Directors	President and Chief Executive Officer	Senior Deputy Managing Director, Chief Financial Officer	Senior Deputy Managing Director, Chief Accountant

Tel Aviv, February 28, 2016

Consolidated Statement of Comprehensive Income

NIS millions

For the year ended December 31, 2015

	2015	2014	2013
Net profit before attribution to non-controlling interests	**3,019**	*2,710	*2,493
Net loss attributed to non-controlling interests	**63**	3	44
Net profit attributed to shareholders of the Bank	**3,082**	*2,713	*2,537
Other comprehensive income (loss) before taxes:			
Net adjustments for presentation of securities available for sale at fair value	**(750)**	383	81
Net adjustments from translation of financial statements**, after hedge effects***	**4**	2	(1)
Adjustments of liabilities in respect of employee benefits****	**49**	*(109)	*(57)
Net gains in respect of cash-flow hedges	**4**	5	10
Other comprehensive income (loss) before taxes	**(693)**	*281	*33
Effect of related tax	**210**	*(78)	*(32)
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(483)**	*203	*1
Net of other comprehensive loss (income) attributed to non-controlling interests	**2**	(1)	2
Other comprehensive income (loss) attributed to shareholders of the Bank, after taxes	**(481)**	*202	*3
Comprehensive income before attribution to non-controlling interests	**2,536**	*2,913	*2,494
Comprehensive loss attributed to non-controlling interests	**65**	2	46
Comprehensive income attributed to shareholders of the Bank	**2,601**	*2,915	*2,540

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

** Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

*** Hedges – net gains (losses) in respect of net hedges of investments in foreign currency.

**** Mainly reflects adjustments in respect of actuarial estimates at end of period, and deduction of amounts previously recorded in other comprehensive income.

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

Consolidated Balance Sheet

as at December 31, 2015

NIS millions

	Note	December 31 2015	2014
Assets			
Cash and deposits with banks	11	**64,976**	54,974
Securities[(1)(2)]	12, 27	**62,884**	58,778
Securities borrowed or purchased under agreements to resell		**119**	476
Credit to the public		**282,911**	268,160
Allowance for credit losses		**(4,414)**	(4,180)
Net credit to the public	30	**278,497**	263,980
Credit to governments	14	**2,564**	1,861
Investments in equity-basis investees	15	**143**	135
Buildings and equipment	16	**3,409**	3,475
Intangible assets and goodwill	17	**-**	7
Assets in respect of derivative instruments	28	**12,789**	16,244
Other assets[(1)]	18	**6,257**	*8,103
Total assets		**431,638**	*408,033
Liabilities and Capital			
Deposits from the public	19	**321,727**	297,230
Deposits from banks	20	**4,773**	4,322
Government deposits		**354**	455
Securities lent or sold under agreements to repurchase		**83**	42
Bonds and subordinated notes	21	**34,475**	33,671
Liabilities in respect of derivative instruments	28	**13,806**	16,777
Other liabilities (of which: 669, 672, respectively, allowance for credit losses in respect of off-balance sheet credit instruments)[(1)]	22	**23,201**	*24,320
Total liabilities		**398,419**	*376,817
Shareholders' equity	25	**33,032**	*30,966
Non-controlling interests		**187**	250
Total capital		**33,219**	*31,216
Total liabilities and capital		**431,638**	*408,033

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

(1) With regard to amounts measured at fair value, see Note 33B.

(2) For details regarding securities pledged to lenders, see Note 27.

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

Statement of Changes in Equity

For the year ended December 31, 2015

NIS millions

	Share capital and premium	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Cumulative other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2013	8,010	236	8,246	636	*17,679	*26,561	302	*26,863
Effect of initial implementation of US GAAP concerning employee benefits	-	-	-	*(259)	*6	*(253)	-	*(253)
Balance as at January 1, 2013, after initial implementation of the new rules	8,010	236	8,246	*377	*17,685	*26,308	302	*26,610
Net profit (loss) for the year	-	-	-	-	*2,537	*2,537	(44)	*2,493
Dividend	-	-	-	-	(276)	(276)	-	(276)
Buyback of shares	(127)	-	(127)	-	-	(127)	-	(127)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	102	102	-	-	102	-	102
Realization of options into shares	101	(114)	(13)	-	-	(13)	-	(13)
Net other comprehensive income (loss) after tax effect	-	-	-	*3	-	*3	(2)	*1
Increase in non-controlling interests	-	-	-	-	-	-	2	2
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(8)	(8)
Balance as at January 1, 2014	7,984	224	8,208	*380	*19,946	*28,534	250	*28,784
Net profit (loss) for the year	-	-	-	-	*2,713	*2,713	(3)	*2,710
Dividend	-	-	-	-	(448)	(448)	-	(448)
Buyback of shares	(85)	-	(85)	-	-	(85)	-	(85)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	45	45	-	-	45	-	45
Realization of options into shares	105	(100)	5	-	-	5	-	5
Net other comprehensive income after tax effect	-	-	-	*202	-	*202	1	*203
Increase in non-controlling interests	-	-	-	-	-	-	2	2
Balance as at January 1, 2015	8,004	169	8,173	*582	*22,211	*30,966	250	*31,216

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

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

Statement of Changes in Equity

For the year ended December 31, 2015
(continued)

NIS millions

	Share capital and premium**	Capital reserves from benefit due to share-based payment transactions	Total capital and capital reserves	Cumulative other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total capital
Balance as at January 1, 2015	**8,004**	**169**	**8,173**	***582**	***22,211**	***30,966**	**250**	***31,216**
Net profit (loss) for the year	**-**	**-**	**-**	**-**	**3,082**	**3,082**	**(63)**	**3,019**
Dividend	**-**	**-**	**-**	**-**	**(569)**	**(569)**	**-**	**(569)**
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	**-**	**30**	**30**	**-**	**-**	**30**	**-**	**30**
Realization of options into shares	**90**	**(86)**	**4**	**-**	**-**	**4**	**-**	**4**
Net other comprehensive loss after tax effect	**-**	**-**	**-**	**(481)**	**-**	**(481)**	**(2)**	**(483)**
Increase in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Balance as at December 31, 2015	**8,094**	**113**	**8,207**	**101**	*****24,724**	**33,032**	**187**	**33,219**

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).
** Excluding a balance of 7,970,392 treasury shares (December 31, 2014: excluding 14,168,419 treasury shares; December 31, 2013: excluding 16,801,221 treasury shares).
*** Includes a total of NIS 2,734 million that cannot be distributed as dividends.

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2015

NIS millions

	2015	2014	2013
Cash flows from operating activity			
Net profit for the year	**3,019**	*2,710	*2,493
Adjustments necessary to present cash flows from operating activity:			
The Bank's share in losses (profits) of equity-basis investees	**(19)**	(9)	(9)
Depreciation of buildings and equipment	**664**	638	674
Amortizations	**28**	29	31
Provision for credit losses	**475**	425	874
Gain from realization of securities available for sale and held to maturity	**(571)**	(379)	(541)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(29)**	(61)	(30)
Loss from realization, impairment, and change in holding rates of affiliates	**31**	(3)	-
Gain from realization of buildings and equipment	**(14)**	(5)	(11)
Change in benefit due to share-based payment transactions	**87**	115	100
Net change in liabilities in respect of employee benefits	**(122)**	*252	*362
Deferred taxes, net	**205**	*(454)	*(545)
Gain from sale of credit portfolios	**(3)**	-	(2)
Adjustments in respect of exchange-rate differences	**648**	(1,338)	2,115
Accumulation differentials included in investing and financing activities	**(1,017)**	(1,708)	(737)
Net change in current assets:			
Deposits with banks	**1,268**	(1,363)	(457)
Credit to the public	**(15,608)**	(12,741)	(3,631)
Credit to governments	**(718)**	(692)	(371)
Securities borrowed or purchased under agreements to resell	**346**	(411)	(18)
Assets in respect of derivative instruments	**3,461**	(5,564)	(1,043)
Securities held for trading	**(2,923)**	(1,321)	1,900
Other assets	**1,800**	(1,245)	(235)
Net change in current liabilities:			
Deposits from banks	**451**	(983)	(694)
Deposits from the public	**24,597**	20,588	5,591
Deposits from the government	**(101)**	(158)	(16)
Securities lent or sold under agreements to repurchase	**50**	(199)	(865)
Liabilities in respect of derivative instruments	**(2,960)**	4,640	(511)
Other liabilities	**(944)**	1,223	(58)
Net cash from operating activity	**12,101**	1,986	4,366

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

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

Consolidated Statement of Cash Flows

NIS millions

For the year ended December 31, 2015
(continued)

	2015	2014	2013
Cash flows for investing activity			
Acquisition of bonds held to maturity	**(137)**	(50)	(39)
Proceeds from redemption of bonds held to maturity	**241**	10	237
Acquisition of securities available for sale	**(26,045)**	(32,771)	(64,848)
Proceeds from sale of securities available for sale	**13,780**	16,504	28,342
Proceeds from redemption of securities available for sale	**11,345**	22,264	26,877
Acquisition of credit portfolios	**-**	-	(49)
Proceeds from sale of credit portfolios	**499**	2	203
Dividends received from equity-basis investees	**11**	19	5
Consideration from realization of investment in deconsolidated subsidiary (Appendix A)	**22**	-	-
Investment in equity-basis investees	**-**	(11)	(6)
Proceeds from realization of investments and repayment of loans in equity-basis investees	**-**	5	-
Acquisition of buildings and equipment	**(631)**	(702)	(700)
Proceeds from realization of buildings and equipment	**37**	26	30
Net cash from (for) investing activity	**(878)**	5,296	(9,948)
Cash flows from (for) financing activity			
Issuance of bonds and subordinated notes	**5,805**	3,758	1,834
Redemption of bonds and subordinated notes	**(4,520)**	(4,009)	(3,561)
Issue of shares and options	**4**	5	4
Dividend paid to shareholders of the Bank	**(569)**	(448)	(276)
Buyback of shares	**-**	(85)	(127)
Dividend paid to minority interests in consolidated companies	**-**	-	(8)
Net cash from (for) financing activity	**720**	(779)	(2,134)
Increase (decrease) in cash	**11,943**	6,503	(7,716)
Balance of cash at beginning of year	**51,823**	43,933	53,937
Effect of changes in exchange rates on cash balances	**(658)**	1,387	(2,288)
Balance of cash at end of year	**63,108**	51,823	43,933

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

Consolidated Statement of Cash Flows

NIS millions

For the year ended December 31, 2015
(continued)

	2015	2014	2013
Interest and taxes paid and/or received:			
Interest received	**11,695**	13,502	13,861
Interest paid	**(3,433)**	(5,237)	(5,679)
Dividends received	**56**	51	43
Income tax paid	**(1,930)**	(2,693)	(1,697)
Income tax received	**156**	491	46

Appendix A – Consideration from the Realization of an Investment in a Subsidiary Consolidated in the Past			
Assets and liabilities of the subsidiary consolidated in the past, as at the date of the sale:			
Cash subtracted	**80**	-	-
Assets	**174**	-	-
Liabilities	**(121)**	-	-
Assets and liabilities subtracted	**133**	-	-
Capital loss from realization of investments in subsidiary consolidated in the past	**(31)**	-	-
Consideration received from realization of investment	**102**	-	-
Cash subtracted	**(80)**	-	-
Cash flow from realization of investment in deconsolidated subsidiary	**22**	-	-

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

Note 1 Significant Accounting Policies

A. General

Bank Hapoalim B.M. (hereinafter: the "Bank") is a corporation incorporated in Israel. The consolidated financial statements of the Bank were prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with the Public Reporting Directives and guidelines of the Supervisor of Banks.

On most matters, these directives are based on generally accepted accounting principles for banks in the United States. On the remaining matters, which are less material, the directives are based on International Financial Reporting Standards (IFRS) and on Israeli GAAP. When the IFRS allow several alternatives, or do not specifically address a particular situation, specific implementation guidelines have been established in the directives, mainly based on GAAP for US banks.

The Bank has received approval from the Supervisor of Banks to publish the annual financial statements on a consolidated basis only. Note 36 presents the condensed stand-alone financial statements of the Bank, including the balance sheet, statement of profit and loss, and statement of cash flows.

The financial statements were approved for publication by the Board of Directors of the Bank on February 28, 2016.

B. Definitions

In these financial statements:

GAAP for US banks – Accounting principles that American banks traded in the United States are required to implement, in accordance with the hierarchy established in ASC 105-10 (FAS 168) (Codification) and in accordance with the guidelines and position statements of the Securities and Exchange Commission and of the bank supervision agencies in the United States.

International Financial Reporting Standards (IFRS) – Standards and interpretations adopted by the International Accounting Standards Board (IASB), including International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), as well as interpretations of these standards established by the International Financial Reporting Interpretations Committee (IFRIC) or interpretations established by the Standing Interpretations Committee (SIC), respectively.

Consolidated companies / subsidiaries – Companies whose financial statements are consolidated in full, directly or indirectly, with the financial statements of the Bank.

Equity-basis investees – Companies in which the Bank has substantial influence, excluding subsidiaries. These investments are measured on an equity basis.

Affiliates – Consolidated companies / subsidiaries and equity-basis investees of the Group.

Overseas offices – Representative offices, agencies, branches, or subsidiaries of the Bank outside Israel.

Functional currency – The currency of the principal economic environment of the Bank's operations.

CPI – The consumer price index as published by the Central Bureau of Statistics in Israel.

Adjusted amount – Nominal historical amount adjusted to the CPI for December 2003, in accordance with directives in the position statements of the Institute of Certified Public Accountants in Israel.

Reported amount – Amount adjusted as at December 31, 2003 (the "transition date"), plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.

Note 1 Significant Accounting Policies (continued)

Related parties and interested parties – As defined in Section 80 of the Public Reporting Directives.
Recorded debt balance – The balance of a debt, after deducting charge-offs, but before deducting the allowance for credit losses in respect of the debt.
Fair value – The price that would have been obtained from the sale of an asset or that would have been paid to extinguish a liability in an ordinary transaction between market participants at the date of the measurement.
Cost – Cost in the reported amount.
The Group – The Bank and its consolidated companies.

C. Basis for Preparation of the Financial Statements

(1) Reporting Principles

The financial statements of the Bank are prepared in accordance with the Public Reporting Directives and guidelines of the Supervisor of Banks. In preparing the financial statements, the Bank implements, among other matters, certain IFRS and GAAP for US banks, in the following manner:
On matters related to the core business of banking – The Bank implements the directives and guidelines of the Supervisor of Banks, and among other matters, in certain areas, also GAAP for US banks that have been adopted as part of the Public Reporting Directives of the Supervisor of Banks. According to the definition of the Supervisor of Banks, matters related to the core business of banking include, among others, hedge accounts, revenue recognition, allowance for credit losses, employee benefits, contingent liabilities and provisions, related party transactions, presentation of financial statements, and segment reporting.
On matters not related to the core business of banking – accounting treatment is in accordance with IFRS, as established in the Public Reporting Directives, and in accordance with Israeli GAAP.
International standards are implemented according to the following principles:
In cases in which there is no specific reference to material matters in the standards or interpretations, or there are several alternatives for the treatment of a material matter, the Bank acts according to specific implementation guidelines established by the Supervisor;
In cases in which a material issue arises that is not resolved in IFRS or in implementation instructions of the Supervisor, the Bank treats the issue according to GAAP for US banks specifically applicable to these matters;
Where an IFRS that has been adopted contains a reference to another IFRS adopted in the Public Reporting Directives, the Bank acts in accordance with the IFRS;
Where an IFRS that has been adopted contains a reference to another IFRS that has not been adopted in the Public Reporting Directives, the Bank acts in accordance with the Reporting Directives and with Israeli GAAP;
Where an IFRS that has been adopted contains a reference to a definition of a term defined in the Public Reporting Directives, a reference to the definition in the Directives replaces the original reference.

Note 1 Significant Accounting Policies (continued)

(2) Functional Currency and Presentation Currency

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates, and therefore constitutes the functional currency of the Bank. The financial statements are presented in NIS and rounded to the nearest million, unless otherwise noted. For information regarding the functional currency of a banking office overseas, see Note 1E(1), below.

(3) Measurement Base

The financial statements were prepared on the basis of historical cost, with the exception of the assets and liabilities listed below:

- Derivative financial instruments and other financial instruments measured at fair value through profit and loss;
- Financial instruments classified as available for sale;
- Liabilities in respect of share-based payment to be settled in cash;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in equity-basis investees.

The value of non-monetary assets and items of capital measured on the basis of historical cost was adjusted to changes in the CPI up to December 31, 2003, because the Israeli economy was considered a hyper-inflationary economy until that date. As of January 1, 2004, the Bank has prepared its financial statements in reported amounts.

(4) Use of Estimates

The preparation of the financial statements in conformity with Israeli GAAP and the directives and guidelines of the Supervisor of Banks requires the Board of Management of the Bank to exercise judgment and to use estimates, evaluations, and assumptions that affect the application of policies and the amounts of assets, liabilities, income, and expenses. It is hereby clarified that actual results may differ from such estimates.

In formulating the accounting estimates used in the preparation of the financial statements of the Bank, the Board of Management of the Bank is required to make assumptions with regard to circumstances and events that involve significant uncertainty. The Board of Management of the Bank bases its judgment in establishing these estimates on past experience, various facts, external factors, and reasonable assumptions, according to the circumstances, as appropriate for each estimate. The estimates and the underlying assumptions are reviewed routinely. Changes in accounting estimates are recognized in the period in which the estimates are amended and in every affected future period.

Note 1 Significant Accounting Policies (continued)

(5) Changes in Estimates

On January 19, 2015, the Supervisor of Banks issued a circular updating the Public Reporting Directives, including guidelines for calculation of the collective allowance. Pursuant to the circular, in establishing the allowance for credit losses, the Bank must, among other matters, take past losses into consideration, calculated according to the average past losses in the last five years, as well as adjustments in respect of environmental factors determined by the Supervisor of Banks.

During 2015, the Bank developed a model for calculation of the collective allowance, taking qualitative adjustment coefficients into account, as required in the directives. The model adopted includes estimates regarding factors that influence the establishment of the adjustment coefficient in each economic sector, above the average losses of the last five years, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the general quality of credit in the sector, changes in the volume and trend of balances in arrears and impaired balances, effects of changes in credit concentration, and more. The adoption of this model did not have a material effect on the balance of the collective allowance in the annual financial statements for 2015. For further details, see Note 1E(4), below.

D. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks

(1) Adoption of US GAAP on Employee Benefits and Share-Based Payment Transactions

On April 9, 2014, the Supervisor of Banks issued a circular concerning the adoption of US GAAP on employee benefits. The circular updates the recognition, measurement, and disclosure requirements regarding employee benefits in the Public Reporting Directives, according to GAAP for US banks. Pursuant to the circular, the amendments to the Public Reporting Directives apply beginning January 1, 2015. Upon initial implementation, comparative figures for periods beginning January 1, 2013 or later, shall be amended retrospectively, in order to comply with the requirements of the aforesaid rules.

In addition, on January 11, 2015, a circular was issued amending the Public Reporting Directives concerning employee benefits – discount rates, disclosure format, and transitional directives for initial implementation. The circular clarified that in accordance with US GAAP, banking corporations are required to establish the discount rate used to calculate liabilities in respect of employee benefits according to the rates at which the liability can be extinguished in practice. For that purpose, banking corporations are permitted, among other matters, to take into consideration the rates of return on investments in high-quality bonds traded in a deep market. The Bank of Israel notes in the circular that it has concluded that a deep market for high-quality corporate bonds does not exist in Israel. Accordingly, the discount rate for employee benefits is to be calculated based on the yield of government bonds in Israel, plus an average spread over corporate bonds rated AA (international) or higher at the reporting date. Due to practical considerations, it has been determined that the spread is to be established according to the difference between rates of yield to maturity, by maturity periods, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of United States government bonds, all at the reporting date.

Note 1 Significant Accounting Policies (continued)

With regard to the accounting treatment of actuarial profits and losses, it has been determined that:

- The actuarial loss as at January 1, 2013, arising from the difference between the discount rate for the calculation of reserves to cover employee benefits linked to the consumer price index, as established according to the temporary order in the Public Reporting Directives (4%), and the discount rates at that date of liabilities to employees linked to the consumer price index, which were established according to the new rules, as explained above, shall be included in accumulated other comprehensive income.
- Actuarial profits recorded from January 1, 2013, forward, as a result of current changes in discount rates during a reporting year, shall be recorded in accumulated other comprehensive income, and shall reduce the recorded loss balance, as noted above, until this balance reaches zero.
- Actuarial losses arising from current changes in discount rates during a reporting year and actuarial profits arising from current changes in discount rates during a reporting year after the recorded loss balance reaches zero, as noted above, shall be depreciated using the straight-line method over the average remaining term of service of the employees expected to receive benefits within the plan.
- Other actuarial profits and losses (that do not arise from changes in discount rates) as at January 1, 2013, and in subsequent periods, shall be included in cumulative other comprehensive income, and shall be depreciated using the straight-line method over the average term of service of employees expected to receive benefits within the plan.
- The effect of the initial implementation on other employee benefits, in which all changes are allocated on a current basis to profit and loss (such as 25-year service grants), shall be allocated to retained earnings.

The circular also updates the rules regarding accounting for employee benefits that arise from loans granted to employees, the fair value of which at the date of initial recognition is lower than the total loan granted to that employee, with the exception of loans granted for the purpose of acquiring shares of the banking corporation; and disclosure requirements concerning employee benefits and share-based payments, in accordance with GAAP for US banks.
A file of questions and answers on this subject was published on January 12, 2015. Among other matters, the file includes examples of the treatment of common benefits in the banking system according to US GAAP.

The following are some of the main points of the new directives regarding employee benefits:
Post-retirement benefits – pensions, severance pay, and other benefits – defined benefit plans

- The Bank recognizes amounts referring to pension plans and other post-retirement plans based on calculations that include actuarial assumptions and other assumptions, including discount rates, mortality, increases in wages, and departure rates.
- The Bank examines the actuarial assumptions periodically, updates the assumptions when necessary, and performs actuarial measurements on a quarterly basis.
- Changes in assumptions are generally recognized, subject to the directives noted above, initially in cumulative other comprehensive income, and depreciated to profit and loss in subsequent periods.

Note 1 Significant Accounting Policies (continued)

- The liability is accrued over the relevant period, determined according to the rules set forth in Topic 715 of the Codification.
- The Bank applies the guidelines of the Supervisor of Banks regarding internal control over the process of financial reporting on employee benefits, including with regard to the examination of "material obligation" to grant its employees benefits for increased severance pay and/or early pensions.

Post-retirement benefits – defined deposit plans

- A plan in which the Bank pays fixed payments to a separate entity, without a legal or implied obligation to make additional payments. The plan provides a personal account to each participant, and grants benefits usually based on the deposits and returns on investments. The Bank's obligation to deposit in a defined deposit plan is allocated as an expense to profit and loss, from the periods during which the employees provided related services.

Other long-term benefits for active employees – 25-year service grants

- The liability is accrued over the period granting entitlement to the benefit.
- The calculation of the liability takes discount rates and actuarial assumptions into account.
- All components of the cost of the benefit for the period, including actuarial profits and losses, are allocated immediately to the statement of profit and loss.

Absences eligible for compensation – vacation and sick days

- The liability for vacation days is measured on a current basis, without using discount rates or actuarial assumptions.
- The Bank does not accrue liabilities in respect of sick days to be used during current service.

Other post-employment benefits – grant for non-utilization of sick days

- The liability is accrued over the period granting eligibility for the benefit.
- Discount rates and actuarial assumptions are taken into consideration in the calculation of the liability.
- In general, and subject to the directives described above, changes in assumptions are initially recognized in accumulated other comprehensive income, and depreciated to profit and loss in subsequent periods.

Share-based payment transactions

- The Bank recognizes an expense in respect of share-based payments granted to its employees.
- Equity grants are measured based on fair value at the date of the grant.
- Liability grants are measured based on fair value at the date of the grant; the liability is measured anew for each reporting period, until the date of settlement.

Employee benefits arising from loans granted

- At the date of the grant to the employee, the Bank estimates the fair value of loans granted with preferred terms, in comparison to loans granted with ordinary terms.

NIS millions

Note 1 Significant Accounting Policies (continued)

- In cases in which, at the date of the grant, the fair value of the loan granted to the employee with preferred terms is lower than the fair value that would have been calculated according to market terms, the gap is treated as a wage benefit granted to the employee. Such benefits are reported as part of salary and related expenses. Concurrently, the effective interest rate in respect of the loan is adjusted according to the rate of interest that would have been paid under ordinary conditions.

Main areas in which changes have been made to accounting policies, relative to the policies applied in the past:
- A discount rate for employee benefits as noted above, as opposed to a discount rate of 4%.
- Actuarial profits and losses were previously allocated immediately to the statement of profit and loss.

For further information regarding the accounting policies applied by the Bank with regard to employee benefits, see Section E(17) below.
The Bank has implemented these directives retrospectively, and has restated comparative figures for periods beginning January 1, 2013, or later.

For the purpose of calculation of the capital requirements according to the Basel 3 directives, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, accumulated other comprehensive income or loss balances arising from adjustments in respect of employee benefits shall not be taken into account immediately, but shall be subject to transitional directives, such that the effect is distributed into equal installments, at 20% as of January 1, 2014, and 40% as of January 1, 2015, until full implementation as of January 1, 2018. The instructions for the transitional period also apply to the amount allocated directly to the balance of retained earnings as at January 1, 2013, in respect of the initial adoption of US GAAP on employee benefits.

Effect of retrospective implementation on balance sheet items:

	December 31, 2014			December 31, 2013		
	Before retrospective implementation	Effect of retrospective implementation	After retrospective implementation	Before retrospective implementation	Effect of retrospective implementation	After retrospective implementation
Other assets	7,864	239	8,103	6,305	181	6,486
Other liabilities	(23,686)	(634)	(24,320)	(22,144)	(481)	(22,625)
Retained earnings	(22,243)	32	(22,211)	(19,951)	5	(19,946)
Cumulative other comprehensive income	(945)	363	(582)	(675)	295	(380)
Shareholders' equity	(31,361)	395	(30,966)	(28,834)	300	(28,534)
Total capital	(31,611)	395	(31,216)	(29,084)	300	(28,784)

NIS millions

Note 1 Significant Accounting Policies (continued)

Effect of retrospective implementation on the statement of profit and loss:

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Before retrospective implementation	Effect of retrospective implementation	After retrospective implementation	Before retrospective implementation	Effect of retrospective implementation	After retrospective implementation
Salaries and related expenses	(5,300)	(43)	(5,343)	(5,434)	(17)	(5,451)
Profit before taxes	4,457	(43)	4,414	3,766	(17)	3,749
Provision for taxes on profit	(1,729)	16	(1,713)	(1,271)	6	(1,265)
Profit after taxes	2,728	(27)	2,701	2,495	(11)	2,484
Basic profit per share	2.07	(0.02)	2.05	1.93	(0.01)	1.92
Diluted profit per share	2.06	(0.02)	2.04	1.91	(0.01)	1.90

Effect of retrospective implementation on comprehensive income:

	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Before retrospective implementation	Effect of retrospective implementation	After retrospective implementation	Before retrospective implementation	Effect of retrospective implementation	After retrospective implementation
Net profit before attribution to non-controlling interests	2,737	(27)	2,710	2,504	(11)	2,493
Net profit attributed to shareholders of the Bank	2,740	(27)	2,713	2,548	(11)	2,537
Adjustments of liability for employee benefits	-	(109)	(109)	-	(57)	(57)
Effect of related tax	(119)	41	(78)	(53)	21	(32)
Comprehensive income before attribution to non-controlling interests	3,008	(95)	2,913	2,541	(47)	2,494
Comprehensive income attributed to shareholders of the Bank	3,010	(95)	2,915	2,587	(47)	2,540

(2) Reporting According to US GAAP for Distinguishing Liabilities from Equity

On September 30, 2014, the Supervisor of Banks issued a circular concerning reporting according to US GAAP on the examination of classification of financial instruments, including hybrid instruments, as equity or as liabilities. Pursuant to the circular, banking corporations are required to implement US GAAP, including, among other matters, the rules for presentation, measurement, and disclosure established in the following codification topics:

- ASC 480 – Distinguishing Liabilities From Equity;
- ASC 470-20 – Debt with Conversion and Other Options;
- ASC 505-30 – Treasury Stock.

Note 1 Significant Accounting Policies (continued)

A file of questions and answers on the subject of distinguishing equity from liabilities was published concurrently with the circular, according to which existing debt instruments with components of contingent conversion to shares, which are included in supervisory capital, should be classified as a liability measured at depreciated cost, without separating embedded derivatives.

The Bank has implemented these rules as of January 1, 2015. The implementation of these rules had no material effect on the financial statements.

(3) Disclosure of Interested and Related Parties

On June 10, 2015, the Supervisor of Banks issued the circular, "Disclosure of Interested and Related Parties." Pursuant to the circular, in light of the changes in Proper Conduct of Banking Business Directive 312, "Business of a Banking Corporation with Related Persons," and in light of the importance of the disclosure of interested and related parties, the need has arisen to update the Public Reporting Directives concerning the disclosure of interested and related parties. Following the amendment, information on this subject shall be provided with regard to each interested party under the Securities Regulations, each related person under Directive 312, and any other related party under GAAP for US banks, as detailed in Codification Topic 850, "Related Party Disclosures."

Banking corporations and credit-card companies shall implement the amendments to the Public Reporting Directives beginning with the annual financial statements for 2015. Disclosure has been provided prospectively, without retrospective presentation of comparative figures. The implementation of the circular had no material effect on the Bank, other than the update of the disclosure of related parties. See also Note 34, "Interested and Related Parties of the Bank and its Consolidated Companies."

(4) Update of the Structure of the Annual Report to the Public of Banking Corporations

A circular concerning an update of the structure of the annual report to the public of banking corporations was published on April 28, 2015. Among other matters, the goals of the guidelines in the circular are to improve the quality of reporting to the public, by making the information in the report to the public more useful and accessible; to increase uniformity in the manner of presentation of annual reports within the banking system; and to formulate a format for the annual report to the public based on leading presentation practices of leading banks in the United States and Europe. Among other matters, the circular addresses a change in the order of presentation in the financial statements: presentation of the statement of profit and loss before the balance sheet; presentation of notes regarding the statement of profit and loss before notes regarding the balance sheet; splitting the note on "credit risk, credit to the public, and allowance for credit losses" into a summary at the aggregate level by principal types of credit, and more extensive information to be included in the section on risks in the financial statements. The circular also contains a significant update of the format for disclosure in the board of directors' report and in the management review, and establishes requirements for extensive reporting on risks via the Internet. The guidelines in the circular are required to be implemented beginning with the financial statements for 2015. The circular had no material effect on the financial statements, other than on the manner of presentation and disclosure.

Note 1 Significant Accounting Policies (continued)

(5) Credit Risk by Economic Sector

A circular concerning credit risk by economic sector was published on April 9, 2014. The circular adopts the uniform classification of economic sectors of 2011, published by the Central Bureau of Statistics, which replaced the uniform classification of economic sectors of 1993. The Bank has implemented the amendments established in the circular as of January 1, 2015, and has reclassified comparative figures according to the new economic sectors. This change was also reflected in the process of establishing rates of collective allowance. The implementation of this directive had no material effect on the financial statements.

(6) Collective Allowance for Credit Losses

A circular concerning "The Collective Allowance in Respect of Credit to Private Individuals," amending the Public Reporting Directives, was published on January 19, 2015. Among other matters, the circular states that in establishing the collective allowance for credit losses in respect of credit to the public, banking corporations and credit-card companies should take into consideration past losses in the five-year period ended at the reporting date, as well as qualitative adjustments for environmental factors that reflect the quality of the credit and the probability of collection. Accordingly, the Bank is required to update its calculation method for the measurement of the rate of credit losses, such that the collective allowance coefficient for each group of debts is calculated based on the average rate of past losses in the last five years, plus an adjustment for environmental factors, reflecting, among other matters, trends in credit volumes in each sector, conditions in the sector, macro-economic data, a general evaluation of credit quality in the sector, changes in the volume and trend of balances in arrears and impaired balances, effects of changes in credit concentration, and more.

In addition, the circular states that in establishing the allowance for credit losses for private individuals, banking corporations and credit-card companies should ensure that the rate of adjustments in respect of environmental factors relevant to the probability of collection is no less than 0.75% of the balance of non-problematic credit to private individuals at that date, with reference to the average rates of loss in that timeframe. This excludes credit risk arising from debtors in respect of bank credit cards without interest charges.

As required in the circular, and as detailed in Section C(5) below, the Bank has developed a model for the calculation of the collective allowance, taking into consideration qualitative adjustment coefficients, as required in the directives. The new model was adopted through a change in estimates. The effect of the initial implementation was immaterial.

(7) Supervisory Activity Segments

A circular amending the Public Reporting Directives concerning supervisory activity segments was issued on November 3, 2014. The following are the main changes to the Public Reporting Directives:

- Addition of a disclosure requirement with regard to "supervisory activity segments," in accordance with the definitions of the Supervisor of Banks, which are mainly based on the classification of customers according to the customer's turnover. The format for disclosure of supervisory activity segments includes the following segments: private banking, households, microbusinesses and small businesses, mid-sized businesses, large businesses, institutional entities, and financial management.

Note 1 Significant Accounting Policies (continued)

- Addition of a requirement for separate disclosure of the "financial management" segment.
- The Bank's operations overseas will be presented separately, with a division into activity with private individuals and business activity.

The directives set forth in the circular apply beginning with the annual financial statements for 2015, with respect to balance sheet data. Other disclosure requirements will apply beginning with the financial statements for the first quarter of 2016, with the exception of the separate disclosure of the financial management segment, which will not apply in 2015 and 2016. Eased requirements were also established for classification into segments for the presentation of comparative figures. The initial implementation of the directives will have an effect on the presentation of the financial statements of the Bank.

Note 29A has been adapted to include the new disclosure, subject to the transitional directives, as noted above. Disclosure of the segments of activity in accordance with the Public Reporting Directives that were in effect prior to the inception of the circular is also required. In addition, the circular states that the Bank shall provide disclosure in accordance with GAAP for US banks (Codification Topic 280) of activity segments according to its management's approach, if a material difference exists between management's approach and the supervisory activity segments.

E. Accounting Policies Implemented in the Preparation of the Financial Statements

(1) Foreign Currency and Linkage

Transactions in Foreign Currency

Transactions in foreign currency are translated according to the exchange rate in effect at the dates of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated according to the exchange rate in effect at that date.

Non-monetary assets and liabilities denominated in foreign currencies and measured at fair value are translated into the functional currency according to the exchange rate in effect on the date on which the fair value is determined. Exchange-rate differences arising from translation are recognized in profit and loss, with the exception of differences arising from translation into the functional currency of non-monetary equity financial instruments classified as available for sale, or hedges of cash flows, which are recognized in other comprehensive income. Non-monetary items denominated in foreign currency and measured at historical cost are translated according to the exchange rate in effect on the date of the transaction.

Overseas Banking Offices

In accordance with the criteria established by the Supervisor of Banks, in determining the functional currency of overseas banking offices, the Bank is required to examine compliance/non-compliance with each of the following criteria:

- The primary environment in which the office generates and expends cash is foreign currency, whereas the office's activity in NIS is marginal;
- Autonomous recruitment of customers by the office – the activity of the office with customers of the Bank and/or closely affiliated parties thereof and/or parties referred to the office by the Bank is not significant;

Note 1 Significant Accounting Policies (continued)

- The activity of the office with the Bank and/or with its related parties is not significant. In addition, the office is not significantly dependent upon financing sources from the Bank and/or its related parties;
- The activity of the office is independent in essence and stands in its own right, and is not an extension or supplement to the local activity of the Group. In addition, the office conducts its activities with a significant degree of autonomy.

Clear non-compliance with one of the aforesaid criteria is an indication that the office should be treated as a foreign operation whose functional currency is the NIS. In other situations, the determination shall be made based on an examination of the criteria in aggregate. In accordance with these criteria, the Bank classifies its overseas offices as foreign operations whose functional currency is the NIS, with the exception of Bank Hapoalim Switzerland, which is classified as a foreign operation whose functional currency is the Swiss franc.

Foreign Operation with a Functional Currency Other than the NIS

Assets and liabilities of foreign operations, including goodwill and adjustments to fair value created in an acquisition, were translated into NIS at the exchange rates in effect at the reporting date. Income and expenses of foreign operations were translated into NIS at the average monthly exchange rate according to the date of execution of the transactions. Exchange-rate differences in respect of translation are recognized in other comprehensive income and presented in equity under "translation adjustments." Upon the realization of a foreign operation leading to a loss of control or material influence, the amount accumulated in the translation reserve arising from the foreign operation is reclassified to profit and loss, as part of the profit or loss from the realization.

Hedge of Net Investment in a Foreign Operation

The Bank applies hedge accounting to exchange-rate differences between the functional currency of Bank Hapoalim Switzerland and the functional currency of the Bank (NIS). Exchange-rate differences in respect of the effective part of the hedge resulting from the translation of the financial liability hedging the net investment in Bank Hapoalim Switzerland are allocated to other comprehensive income and presented in equity under "translation adjustments." The non-effective part of the hedge is allocated to profit and loss.

CPI-Linked Assets and Liabilities Not Measured at Fair Value

Assets and liabilities linked to the CPI are included according to the linkage terms established for each balance.

Note 1 Significant Accounting Policies (continued)

CPI and Exchange Rates

Set out below are details regarding the CPI and representative exchange rates of the major currencies, and rates of change thereof:

	2015	2014	2013	**2015**	2014
		Points		Change in % for the year	
Consumer price index:					
November CPI ("known")	**101.2**	102.1	102.2	**(0.9)**	(0.1)
		NIS			
Exchange rate as at December 31:					
USD exchange rate (in NIS per 1 USD)	**3.902**	3.889	3.471	**0.3**	12.0
GBP exchange rate (in NIS per 1 GBP)	**5.784**	6.064	5.742	**(4.6)**	5.6
EUR exchange rate (in NIS per 1 EUR)	**4.247**	4.725	4.782	**(10.1)**	(1.2)
CHF exchange rate (in NIS per 1 CHF)	**3.925**	3.929	3.897	**(0.1)**	0.8
TRY exchange rate	**1.339**	1.666	1.606	**(19.6)**	3.7

	2015	2014	2013
As at December 31:			
Bank of Israel interest rate	**0.10%**	0.25%	1.00%

(2) Investments in Affiliates

(A) Consolidated Financial Statements and Non-controlling Interests

When the Bank is exposed to or owns rights to variable returns as a result of its involvement in an investee entity, and it has the ability to affect such returns using its influence, the Bank has control of the entity and it is classified as a subsidiary. Tangible interests held by the Bank and by others are taken into consideration in determining control.

The consolidated financial statements present the financial statements of the Group as a single economic entity, from the date of attainment of control to the date of cessation of control. Accordingly, mutual balances and transactions between these entities and unrealized profits from sales between the entities are cancelled in full.

Accounting policies of consolidated companies were changed when necessary for congruence with the accounting policies adopted by the Bank.

Non-controlling interests represent the share of the capital of a subsidiary that cannot be directly or indirectly attributed to the Bank. Non-controlling interests are presented as a separate item within the capital of the Bank.

Non-controlling interests that are instruments granting a current ownership interest, and that grant the holder a share of the net assets in the event of liquidation (e.g. common shares), are measured at the date of the business combination at fair value. Other instruments that meet the definition of non-controlling interests (e.g. common share options) are measured at fair value or according to the directives of other relevant IFRS.

Profit or loss and any component of other comprehensive income are attributed to the shareholders of the Bank and to non-controlling interests. Total profit or loss and other comprehensive income are attributed to the shareholders of the Bank and to non-controlling interests, even if as a result the balance of the non-controlling interests is negative.

Note 1 Significant Accounting Policies (continued)

Transactions between the Group and non-controlling interests that do not lead to a loss of control are treated as equity-level transactions.

(B) Treatment of Variable Interest Entities

A variable interest entity (VIE) is an entity that complies with one or more of the tests specified in ASC 810-10 (FAS 167, FIN46(R)): (1) the equity investment at risk is not sufficient to permit the entity to finance its activities without needing additional subordinated financial support provided by involved parties, including shareholders; or (2) the investors in equity, as a group, do not have the power to direct activities with a highly significant effect on the economic performance of the entity, through voting rights or similar rights, or they are not obligated to absorb their proportional share of the expected losses, or of the expected residual profits, of the entity.

The Bank shall be considered the primary beneficiary and the VIE shall be consolidated in the financial statements if the Bank has the power to direct activities with a highly significant effect on the economic performance of the VIE, and if the Bank has the right to receive benefits from the VIE or an obligation to absorb its losses, which could potentially be significant for the VIE. The Bank has other variable interests in VIEs which are not consolidated because the Bank is not the primary beneficiary. The Bank monitors all VIEs in order to determine whether an event has occurred that may cause a change in the identity of the primary beneficiary. Such events include, among others:

- Additional acquisitions or sales of variable interests by the Bank or by an unrelated third party, causing the overall ownership of variable interests of the Bank to change;
- Changes in contractual arrangements that redesignate expected losses or residual profits among the holders of the variable interests; and
- Provision of support to the entity leading to a significant variable interest.

For further details regarding variable interest entities, see Note 26H.

(C) Investment in Equity-Basis Investees

Equity-basis investees are entities in which the Bank has material influence over financial and operational policy, but has not attained control. The assumption is that a stake of 20% to 50% in an affiliate grants material influence. In examining the existence of material influence, potential voting rights available for immediate realization or conversion into shares of the affiliate are taken into consideration.

Investments in equity-basis investees are accounted for using the equity method, and are recognized for the first time at cost. The cost of the investment includes transaction costs. When the Bank obtains material influence, for the first time, in an investment treated as an asset available for sale until the date of attainment of material influence, the equity method is applied retrospectively, pursuant to rules established on this matter in GAAP for US banks. The financial statements include the Bank's share of income and expenses, profit or loss, and other comprehensive income of affiliated entities accounted for using the equity method, after adjustments required in order to adjust the entity's accounting policy to the policy of the Bank, from the date on which material influence is obtained until the date on which material influence ceases. It is hereby clarified that the Bank does not carry out adjustments to accounting policies referring to the core business of banking (on matters regarding which IFRS have not yet been adopted in the Public Reporting Directives) implemented by a non-financial equity-basis investee.

Note 1 Significant Accounting Policies (continued)

Loss of Material Influence

The Bank discontinues the use of the equity method as of the date of the loss of its material influence, and treats the investment as a financial asset or as a subsidiary, as relevant. At that date, the Bank measures any remaining investment in the former equity-basis investee, at fair value, and recognizes, in profit or loss, under the item "non-interest financing income," any difference between the fair value of any remaining investment and any consideration from the realization of part of the investment in the equity-basis investee, and the book value of the investment at that date. Amounts recognized in capital reserves through other comprehensive income in respect to that equity-basis investee are reclassified into profit and loss or retained earnings.

Change in Rates of Holdings in Equity-Basis Investees with the Retention of Material Influence

In an increase in the rate of holdings in an equity-basis investee accounted for using the equity method, when material influence is retained, the Bank applies the acquisition method only in respect of the additional percentage of holdings, with no change to the preexisting holding. In a decrease in the rate of holdings in an equity-basis investee accounted for using the equity method, when material influence is retained, the Bank subtracts a relative share of its investment, and recognizes profit or loss from the sale in the item "non-interest financing income." The cost of the interests sold for the purpose of the calculation of profit or loss from the sale is established according to a weighted average.

(D) Business Combinations

The Bank applies the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. The Bank recognizes goodwill at the acquisition date according to the fair value of the consideration transferred, including amounts recognized in respect of any interests that do not grant control of the acquiree, and the fair value at the acquisition date of equity interests in the acquiree previously held by the acquirer, with the deduction of the net amount attributed in the acquisition to identifiable assets acquired and liabilities undertaken.

(3) Basis for Recognition of Revenues and Expenses

As a rule, income and expenses are included in the statement of profit and loss on an accrual basis. The Bank accounts for the income and expense items noted below as established in the directives and guidelines of the Supervisor of Banks, as follows:

(A) Interest accrued on problematic debts classified as nonperforming debts is recognized as income on a cash basis, when there is no doubt regarding the collection of the remaining recorded balance of impaired debt. In such situations, the amount collected at the expense of the interest to be recognized as interest income is limited to the amount that would have accrued during the reporting period on the remaining recorded balance of the debt, at the contractual interest rate. Interest income on a cash basis is classified in the statement of profit and loss within interest income under the relevant item. When the collection of the remaining recorded balance is in doubt, all payments collected are used to reduce the principal of the loan. In addition, interest on amounts in arrears in respect of housing loans is recognized in the statement of profit and loss based on actual collection.

Note 1 Significant Accounting Policies (continued)

(B) Fees charged for credit origination, with the exception of fees in respect of loans for a period of up to three months, are not recognized immediately as income in the statement of profit and loss; instead, they are deferred and recognized over the life of the loan as an adjustment of the return. Income from such fees is allocated according to the effective interest rate method, and reported as part of interest income.

(C) Credit allocation fees are treated according to the probability of realization of the commitment to grant the credit. If the probability is remote, the fee is recognized on a straight-line basis over the period of the commitment. Otherwise, the recognition of income from such fees is deferred until the realization of the commitment or until it expires, whichever is earlier. If the commitment is realized, the fees are recognized by adjustment of the return over the life of the loan, as noted above. If the commitment expires without being realized, the fees are recognized at the date of expiration and reported within income from fees. For this purpose, the Bank assumes that the probability of realization of the commitment is not remote.

(D) In the case of refinancing or restructuring of non-problematic debts, it is necessary to determine whether the change in the terms of the loan is minor or otherwise. In cases where the change is not minor, all unamortized fees as well as early repayment fees collected from the customer in respect of changes in the terms of the credit are recognized in profit and loss. Otherwise, the aforesaid fees are included as part of the net investment in the new loan, and recognized as an adjustment of return, as noted above. According to the transitional directives issued by the Supervisor of Banks, this examination is to be performed using reasonable estimates and safety margins to ensure that the accounting treatment is cautious. Otherwise, the determination should be that the change is minor, and the fees should be recognized as an adjustment of return. For this purpose, the Bank assumes that the changes in the terms of the debt are minor.

(E) Early repayment fees charged for early repayments executed prior to January 1, 2014, and not yet amortized are recognized over a period of three years, or the remaining period of the loan, whichever is shorter. Fees charged for early repayments executed after January 1, 2014, are recognized immediately within interest income.

(F) Income from fees in respect of the delivery of services (e.g. from activity in securities and derivative instruments, credit cards, account management, conversion differences, and foreign trade) is recognized in profit and loss when the Bank gains the entitlement to receive it. Certain fees, such as fees in respect of guarantees and certain fees in respect of project financing, are recognized proportionally over the period of the transaction.

(G) Securities – see Section E(5) below.

(H) Derivative financial instruments – see Section E(6) below.

Note 1 Significant Accounting Policies (continued)

(4) Impaired Debts, Credit Risk, and Allowance for Credit Losses

Pursuant to the directive of the Supervisor of Banks regarding the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, as of January 1, 2011, the Bank has implemented the American accounting standard ASC 310 and the positions of the bank supervision agencies in the United States and the Securities and Exchange Commission in the United States, as adopted in the Public Reporting Directives and in the position statements and guidelines of the Supervisor of Banks. In addition, as of that date, the Bank has implemented the directives of the Supervisor of Banks regarding the treatment of problematic debts. As of January 1, 2013, the Bank has also implemented the directives of the Supervisor of Banks concerning the update of the disclosure of credit quality of debts and of the allowance for credit losses. In addition, pursuant to the circular of the Supervisor of Banks of January 19, 2015, the Bank implements the guidelines of the Supervisor of Banks concerning the calculation of the collective allowance for non-housing credit losses, in particular with respect to credit to private individuals, as noted below.

Application of the Directives

The directives apply to all debt balances, such as deposits with banks, bonds, securities borrowed or purchased in agreements to resell, credit to the public, credit to the government, etc. Credit to the public and other debt balances for which no specific rules have been established in the Public Reporting Directives regarding the measurement of the allowance for credit losses (such as credit to the government, deposits with banks, etc.) are reported in the books of the Bank according to the recorded debt balance. The recorded debt balance is defined as the balance of the debt, after deducting charge-offs, but before deducting the allowance for credit losses in respect of that debt. The recorded debt balance does not include unrecognized accrued interest, or interest recognized in the past and later cancelled.

Classification of Problematic Credit

Pursuant to the directives of the Bank of Israel, the Bank has established procedures for the identification of problematic credit, and for the classification of debts and of items of off-balance sheet problematic credit as impaired, substandard, or under special supervision.

Impaired Credit

Credit risk is classified as impaired when, based on current information and events, the Bank expects to be unable to collect the full amounts owed to it according to the original contractual terms with the client. The decision to classify credit as impaired is based, among other factors, on the arrears of the debt; an assessment of the financial condition and repayment capability of the borrower; the existence and condition of collateral; the financial condition of guarantors, if any, and their commitment to support the debt; and the borrower's ability to obtain third-party financing. In any case, debt assessed on an individual basis is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more.

Note 1 Significant Accounting Policies (continued)

In addition, any debt the terms of which have been changed in the course of troubled debt restructuring is classified as impaired debt, unless a minimum allowance for credit losses was recorded before and after the restructuring, according to the method of the extent of arrears, pursuant to the appendix to Proper Conduct of Banking Business 314 concerning proper assessment of credit risks and proper measurement of debts.
Impaired debts return to unimpaired status only when there are no components of principal or interest in respect of the debt that have become due but have not yet been paid, and the Bank expects repayment of the remaining principal and interest, in their entirety, in accordance with the terms of the contract.

Substandard Credit
Substandard credit risk includes balance sheet and off-balance sheet credit risk that is insufficiently protected by the current established value and repayment capability of the debtor or of the collateral pledged, if any. The classification of credit risk in this category requires the presence of well-defined weaknesses that jeopardize the realization of the debt, such that there is a clear possibility that the Bank may incur a certain loss if the deficiencies are not remedied. Off-balance sheet credit risk is classified as substandard if there is at least a possibility that the contingent liability in respect of the off-balance sheet item will be realized, and in addition, the debts that may be acquired as a result of the realization of the contingent liability fit the classification of substandard debts. Credit not examined individually, in respect of which an allowance for credit losses on a collective basis has been recognized, is classified as substandard when it becomes a debt in arrears of 90 days or more.

Credit Under Special Supervision
Credit risk under special supervision includes balance sheet and off-balance sheet credit risk with potential weaknesses that should be given special attention by management. If not addressed, these potential weaknesses could result in deterioration of the probability of settlement of the credit or of the status of the Bank as a creditor at a certain future date. Off-balance sheet credit risk is classified as under special supervision if there is at least a possibility that the contingent liability in respect of the off-balance sheet item will be realized, and in addition, the debts that may be acquired as a result of the realization of the contingent liability fit the classification of debts under special supervision.

In the context of the classification of problematic credit, debt in arrears is debt in which principal or interest have not been paid on time, in reference to the contractual repayment terms. A current account or a current drawing account shall be reported as a debt in arrears when the account remains continuously at a negative balance (in the absence of an approved credit facility), or in deviation from the approved credit facility, for 30 days or more; or if, within the credit facility, amounts are credited to the account that are lower than the negative balance and the credit facility, for a period of 180 days. Loans shall be reported as debt in arrears when the principal or interest have not been paid after 30 days have elapsed from the scheduled date of payment according to the contractual repayment terms of the debt.

Note 1 Significant Accounting Policies (continued)

Allowance for Credit Losses

The Bank is required to maintain an allowance for credit losses at an appropriate level in order to cover estimated credit losses with respect to its credit portfolio. In addition, the Bank is required to maintain an allowance at an appropriate level to cover estimated credit losses related to off-balance sheet credit instruments, such as contractual engagements to grant credit, unutilized credit facilities, and guarantees.

The allowance to cover estimated credit losses with respect to the credit portfolio is assessed by one of two methods: "individual allowance" and "collective allowance." The Bank also examines the overall fairness of the allowance for credit losses.

Individual Allowance

The Bank has chosen to identify debts for individual examination in which the total contractual balance (without deducting charge-offs, unrecognized interest, allowance for credit losses, or collateral) aggregated at the level of the customer is more than NIS 1 million (at the consolidated credit-card company, more than NIS 500 thousand), as well as debts of customers undergoing troubled debt restructuring. An individual allowance for credit losses is considered for every debt classified as impaired.

The individual allowance for credit losses is assessed based on expected future cash flows, discounted at the original interest rate of the debt. When it has been determined that repayment of the debt is contingent upon collateral, or when the Bank determines that seizure of an asset is expected, the individual allowance is assessed based on the fair value of the collateral pledged to secure the debt, following the application of cautious, consistent coefficients that reflect, among other factors, the volatility of the fair value of the collateral, the time that will elapse until the actual date of realization, and the expected costs of selling the collateral. The individual allowance required in respect of off-balance sheet credit instruments is assessed in accordance with the rules established in ASC 450, Contingencies.

Collective Allowance

The collective allowance for credit losses is calculated in order to reflect allowances for impairment in respect of credit losses not individually identified inherent in large groups of small debts with similar risk attributes, and in respect of debts examined individually and found to be unimpaired. The allowance for credit losses in respect of debts evaluated on a collective basis is calculated in accordance with the rules stipulated in ASC 450, and in accordance with the directive of the Supervisor of Banks, based on historical rates of loss, in a breakdown by economic sector and by problematic and non-problematic credit, in the five-year period ended at the reporting date. The Bank uses a rate of losses constituting the average rate of past losses in this range of years. In addition to the calculation of a range of historical losses in the various economic sectors, the Bank takes relevant environmental factors into consideration in determining the rate of the allowance, including trends in the volume of credit in each sector, conditions in the sector, macro-economic data, evaluation of the overall quality of credit in the economic sector, changes in volumes and trends of balances in arrears and impaired balances, and the effects of changes in credit concentration.

Note 1 Significant Accounting Policies (continued)

In this context, pursuant to the directives of the Supervisor concerning the collective allowance in respect of credit for the economic sector of private individuals, the Bank is required to take into account a qualitative adjustment rate of no less than 0.75% of the balance of unimpaired consumer credit. An exclusion from the aforesaid was established for credit risk arising from debts in respect of bank credit cards without interest charges.
In addition, pursuant to the guidelines of the Supervisor of Banks, the amount of the collective allowance at the end of each reporting period shall not be less than the amount of the general and supplementary allowance that would have been calculated at that date under Proper Conduct of Banking Business Directive 315, grossed up by the tax rate.

Allowance in Respect of Housing Loans
A minimum allowance in respect of housing loans is calculated according to a formula established by the Supervisor of Banks, taking the extent of arrears into consideration, such that the rate of the allowance increases with greater arrears. Pursuant to directives in the appendix to Proper Conduct of Banking Business Directive 314 concerning proper assessment of credit risks and proper measurement of debts, calculation of the allowance according to the formula based on the extent of arrears is to be performed, if necessary, for all housing loans, with the exception of loans not repaid in periodic installments and loans used to finance activities of a business nature.
The Bank has formulated a policy designed to ensure that the balance of its collective allowance for credit losses in respect of housing loans does not fall below 0.35% of the balance of such loans at the reporting date.

In accordance with the guidelines of the Supervisor of Banks, the collective allowance required in respect of off-balance sheet credit risk is based on the rates of allowance established for balance sheet credit (as detailed above), taking into consideration the expected rate of realization as credit of the off-balance sheet credit risk. The rate of realization as credit is calculated based on credit conversion coefficients, as detailed in Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy – Credit Risk – The Standardized Approach, with certain adjustments. The balance of this allowance is not deducted from the item "credit to the public," and is included in the item "other liabilities" in the balance sheet.
The Bank examines the overall fairness of its allowance for credit losses. This evaluation of fairness is based on the judgment of the Board of Management, which takes the risks inherent in the credit portfolio into consideration.

Note 1 Significant Accounting Policies (continued)

Revenue Recognition

Upon classification of a debt as impaired, the Bank stops accruing interest income in respect of the debt (including CPI linkage differentials for debts classified as impaired). In addition, upon classification of the debt as impaired, the Bank cancels all uncollected accrued interest income that has been recognized as income in the statement of profit and loss. The debt continues to be classified as debt that does not accrue interest income, as long as its classification as an impaired debt is not cancelled. However, a debt that has undergone formal troubled debt restructuring is treated as an impaired debt accruing interest income, based on the following cumulative conditions: (1) the debt is expected to be paid in full, according to the new amortization schedule of the loan; (2) in the case of an amortization schedule involving continuous monthly principal and interest payments, at least six monthly payments have been made, or in the case of an amortization schedule without continuous monthly principal and interest payments, at least six months have elapsed from the origination of the loan, and at least 20% of the balance of the principal has been paid; (3) the customer has not been assigned an alert for a debt in arrears; (4) all of the customer's debt restructurings are accruing. In addition, in the event of collection in cash, when the recorded balance of the debt is expected to be settled in full, financing income can be recognized in the amount of the interest income that would have accrued, during the reporting period, on the remaining recorded balance of the debt according to the contractual rate. Any balance received in cash beyond this amount that is not recorded as a reduction of the remaining recorded balance shall be recorded as recovery of previous charge-offs. When the collection of the remaining recorded balance of an impaired debt is doubtful, all payments received shall be used to reduce the recorded balance, to the extent necessary in order to remove such doubt.

With regard to debts not examined individually, for which allowances have been made on a collective basis, in arrears of 90 days or more, the Bank does not stop accruing interest income until a charge-off is performed.

Troubled Debt Restructuring

A debt that has undergone formal troubled debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to financial difficulties of the borrower, the Bank has granted a concession, in the form of a change in the terms of the debt, in order to ease the burden of cash payments for the borrower in the near term (reduction or postponement of cash payments required of the borrower), or in the form of the acceptance of other assets as partial or full settlement of the debt.

In order to determine whether a debt arrangement executed by the Bank constitutes troubled debt restructuring, the Bank performs a qualitative examination of all of the terms of the arrangement and the circumstances under which it was executed, with the aim of determining whether the debtor is in financial difficulties and whether the Bank granted the debtor a concession within the arrangement. In order to make this determination, the Bank examines the ability to collect from the customer and considers whether there are signs indicating that the borrower is in difficulties at the time of the arrangement, or that there is a reasonable probability that the borrower would fall into financial difficulties without the arrangement.

Note 1 Significant Accounting Policies (continued)

The Bank does not classify debt as having undergone troubled debt restructuring if the debtor is granted a postponement of payments within the arrangement that is not material considering the frequency of payments, the contractual term to maturity, and the expected average duration of the original debt. In this context, if several arrangements involving changes in the terms of the debt have been executed, the Bank takes the cumulative effect of the previous restructurings into consideration in order to determine whether the postponement of payments is immaterial.

Restructured debts, including those which prior to the restructuring were not examined on an individual basis, are classified as impaired debt, and are evaluated on an individual basis, in order to record an allowance for credit losses or a charge-off. Because debts that have undergone troubled debt restructuring are not repaid according to their original contractual terms, the debts continue to be classified as impaired debts, even after the debtor resumes repayment under the new terms.

Charge-Offs

The Bank performs charge-offs for any debt or part of a debt evaluated on an individual basis which is thought to be uncollectible and is of such low value that its retention as an asset is unjustified, or debt in respect of which the Bank has carried out prolonged collection efforts (defined in most cases as a period exceeding two years). In cases of debts contingent upon collateral in respect of which the individual allowance is assessed based on the fair value of the collateral, the Bank performs a charge-off for any debt balance exceeding the fair value of the collateral, deducting realization costs. With regard to debts not evaluated on an individual basis, charge-off rules were established based on the period of arrears (in most cases more than 150 consecutive days) and other problematic indicators. It is hereby clarified that charge-offs do not entail a legal waiver, and serve to reduce the reported balance of the debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books. Notwithstanding the foregoing, with regard to debts examined on a collective basis that have undergone troubled debt restructuring which has failed, the need for an immediate charge-off is examined. In any case, charge-offs are performed with respect to such debts no later than the date when the debt becomes a debt in arrears of 60 days or more, in reference to the terms of the restructuring.

Foreclosed Assets

In cases of troubled debt restructuring in which the Bank receives assets as full or partial settlement of the debt, such as rights to capital, third-party receivables, or other assets to be sold at a later date, these assets shall be recognized, at the fair value of the assets, at the date of the foreclosure. If the assets received constitute full settlement of the debt, and at the foreclosure date the recorded debt balance exceeds the fair value of the assets, the Bank recognizes an allowance for credit losses. In any event, if the assets received are sold a short time after the foreclosure (usually up to 90 days), as long as no material change has occurred in the estimated fair value, the Bank replaces the estimated fair value with the price received in the sale, deducting selling costs, and adjusts the allowance for credit losses.

Note 1 Significant Accounting Policies (continued)

(5) Securities

(A) Securities in which the Bank invests are classified into the following three portfolios:

- Bonds held to maturity – Bonds that the Bank has the intention and ability to hold until their maturity date, with the exception of bonds that allow early repayment or settlement in another manner such that the Bank does not cover substantially all of its recorded investment. Bonds held to maturity are stated in the balance sheet at cost, plus interest and accrued linkage and exchange-rate differentials, taking into account the proportional part of the premium or discount, less losses in respect of other-than-temporary impairment.
- Securities held for trading – Securities acquired and held with the aim of selling them in the near future, with the exception of shares for which no fair value is available. Securities held for trading are stated in the balance sheet at fair value on the reporting date. Profits and losses from adjustments to fair value are allocated to the statement of profit and loss, in the item of non-interest financing income from trading activity.
- Securities available for sale – Securities not classified as bonds held to maturity or as securities held for trading. Shares for which a fair value is available and bonds are included in the balance sheet at their fair value on the reporting date. Shares for which no fair value is available are measured in the balance sheet at cost. Unrealized profits or losses from adjustments to fair value are not included in the statement of profit and loss, and are reported net, deducting an appropriate reserve for tax, in a separate item of equity within cumulative other comprehensive income. Realized profits or losses are stated in the item of non-interest financing income from non-trading activity.

(B) Income from dividends, interest accrual, linkage and exchange-rate differentials, premium reduction or discounts (according to the effective interest-rate method), and losses from other-than-temporary impairment are allocated to the statement of profit and loss.

(C) The Bank's investments in venture-capital funds are accounted for at cost, net of losses from other-than-temporary impairment. Profit from venture-capital investments is allocated to the statement of profit and loss upon realization of the investment.

(D) With regard to the calculation of fair value, see Section E(7) below.

(E) With regard to the treatment of other-than-temporary impairment, see Section E(8) below.

(6) Derivative Financial Instruments, Including Hedge Accounting

(A) The Bank holds derivative financial instruments for the purpose of hedging foreign-currency risks and interest-rate risks, as well as derivatives not used for hedging, including embedded derivatives.

(B) At the date of creation of the hedge, the Bank formally documents the hedging relationship between the hedging instrument and the hedged item, including the risk-management goal and strategy of the Bank in performing the hedge, and the manner in which the Bank plans to evaluate the effectiveness of the hedging relationship. The Bank evaluates the effectiveness of the hedging relationship both at the beginning of the hedge and on an ongoing basis, in accordance with its risk management policy.

Note 1 Significant Accounting Policies (continued)

(C) Hedges of cash flows

When a derivative is designated as a hedging instrument for exposure to changes in expected future cash flows, which can be attributed to a particular risk attributed to a recognized asset or liability or to a probable expected transaction that may affect profit and loss, changes in its fair value in respect of the effective hedging portion are allocated directly to other comprehensive income. Changes in fair value in respect of the non-effective portion are allocated to profit and loss.

The amount recognized in other comprehensive income is reclassified to the statement of profit and loss in the period in which the cash flows affect the statement of profit and loss, and presented within the same section of the statement of profit and loss as the hedged item.

If the hedged instrument no longer fulfills the criteria for an accounting hedge, or if it expires or is sold, cancelled, or realized, or the Bank cancels the designation of the cash-flow hedge, treatment according to hedge accounting is discontinued. Profit or loss accumulated in other comprehensive income and previously stated in capital remains in capital until the expected transaction is executed or until it is almost certain that the expected transaction will not take place. If it is almost certain that the expected transaction will not take place, the cumulative profit or loss in respect of the hedging instrument recognized in other comprehensive income is reclassified to profit and loss.

(D) Hedges of fair value

Changes in the fair value of a derivative financial instrument designated for hedging fair value are allocated to the statement of profit and loss. The hedged item is also stated at fair value, with reference to the hedged risks, and the changes in fair value are allocated to the statement of profit and loss. The effective part is recognized in the item of interest income/expenses, consistently with the classification of the income/expenses in respect of the hedged item. The non-effective part is recognized in non-interest financing income.

If the hedged instrument no longer fulfills the criteria for an accounting hedge, or if it expires or is sold, cancelled, or realized, or the Bank cancels the designation of the fair-value hedge, treatment according to hedge accounting is discontinued. When a hedged firm commitment no longer fulfills the definition of a firm commitment, any asset or liability recorded according to the recognition of the firm commitment is cancelled and recognized concurrently in the statement of profit and loss, in a current manner, in loss or profit.

(E) Economic hedges

Hedge accounting is not applied to derivative instruments used as part of the asset and liability management (ALM) system of the Bank. Changes in the fair value of these derivatives are recognized in profit and loss as they arise.

(F) Hedging of the net investment in a foreign operation – see Section E(1) above.

(G) Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are allocated immediately to profit and loss.

Note 1 Significant Accounting Policies (continued)

(H) Embedded derivatives

Embedded derivative instruments are separated from the host contract and treated separately if: (a) there is no clear and close connection between the economic characteristics and risks of the host contract and of the embedded derivative instrument, including credit risks arising from certain embedded credit derivatives; (b) a separate instrument with the same terms as the embedded derivative instrument would fulfill the definition of a derivative; and (c) the hybrid instrument is not measured at fair value through profit and loss.

An embedded derivative that has been separated is presented in the balance sheet together with the host contract. Changes in the fair value of embedded derivatives that have been separated are allocated immediately to profit and loss.

In certain cases (such as cases in which the Bank is unable to separate an embedded derivative from its host contract), in accordance with ASC 815-15 (FAS 155), Accounting for Certain Hybrid Financial Instruments, the Bank chooses not to separate the embedded derivative, and to measure the hybrid financial instrument as a whole at fair value, while reporting changes in fair value in the statement of profit and loss upon formation. This choice is made at the time of acquisition of the hybrid instrument, or when certain events occur in which the instrument is subject to remeasurement (remeasurement events), e.g. as a result of business combinations or material changes in the debt instruments. The choice of such fair value is irreversible.

(7) Establishing the Fair Value of Financial Instruments

Pursuant to ASC 820-10 (FAS 157), fair value is defined as the price that would be obtained from the sale of an asset, or that would be paid to extinguish a liability, in an ordinary transaction between market participants at the date of measurement. In order to assess fair value, the standard requires the maximum possible use of observable inputs, and minimum use of unobservable inputs. Observable inputs represent information available in the market and received from independent sources, whereas unobservable inputs reflect the assumptions of the Bank. ASC 820-10 specifies a hierarchy of measurement techniques, based on whether the inputs used to establish fair value are observable or unobservable. These types of inputs create the following fair-value hierarchy:

- Level 1 data: Prices quoted (unadjusted) in active markets for identical assets or liabilities, accessible to the Bank at the measurement date.
- Level 2 data: Prices quoted in active markets for similar assets or liabilities; prices quoted in inactive markets for identical assets or liabilities; prices derived from evaluation models in which all significant inputs are observed in the market or supported by observed market data.
- Level 3 data: Unobservable inputs regarding the asset or liability, arising from evaluation models in which one or more of the significant inputs is unobservable.

The hierarchy requires the use of observable market inputs, when such information is available. When possible, the Bank considers relevant observable market information in its evaluation. The volume and frequency of transactions, bid-ask spread, and size of the adjustment necessary in comparing similar transactions are all factors taken into consideration when determining the liquidity of markets and the relevance of prices observed in such markets.

Note 1 Significant Accounting Policies (continued)

Fair-value measurements of financial instruments are performed without taking a blockage factor into consideration, both for financial instruments evaluated according to Level 1 data and for financial instruments evaluated according to Level 2 or 3 data, with the exception of situations in which a premium or discount would be taken into account in the fair-value measurement by market participants in the absence of Level 1 data.

Securities

The fair value of securities held for trading and of securities available for sale is determined based on market prices quoted in the primary market. When the security is traded in several markets, the evaluation is performed according to the market price quoted in the most effective market. In such cases, the fair value of the Bank's investment in the securities is the number of units multiplied by the quoted market price. The quoted price used to determine fair value is not adjusted for the size of the Bank's holding or for the size of the position relative to the trading volume (the blockage factor). If no quoted market price is available, the fair-value estimate is based on the best available information, with maximum use of observable inputs, taking into consideration the risks inherent in the financial instrument (market risk, credit risk, non-tradability, etc.).

Derivative Financial Instruments

Derivative financial instruments with an active market were evaluated according to the market value established in the primary market, or in the absence of a primary market, according to the market price quoted on the most effective market. Derivative financial instruments that are not traded were evaluated using models that take the risks inherent in the derivative instrument into consideration (market risk, credit risk, etc.). For further details, see the methodology for assessment of credit risk and nonperformance risk, below.

Assessment of Credit Risk and Nonperformance Risk

FAS 157 (ASC 820) requires the Bank to reflect credit risk and nonperformance risk in measuring the fair value of debt, including derivative instruments, issued by the Bank and measured at fair value. Nonperformance risk includes the credit risk of the Bank, but is not limited to this risk alone. The Bank assesses credit risk in derivative instruments in the following manner:

- When sufficient liquid collateral exists in respect of the exposure, specifically securing the derivative instrument at a high degree of legal certainty, the Bank assumes that the credit risk inherent in the instrument is zero, and does not record adjustments to fair value in respect of the quality of credit of the counterparty.
- When exposure in respect of the counterparty on a consolidated basis is material, the Bank performs a fair-value assessment based on indications from transactions in an active market of the quality of credit of the counterparty, insofar as such indications are available with reasonable effort. The Bank derives these indications, among other things, from prices of debt instruments of the counterparty traded in an active market, and from prices of credit derivatives the basis for which is the quality of credit of the counterparty. If no such indications exist, the Bank calculates the adjustments based on internal ratings.

Note 1 Significant Accounting Policies (continued)

- When the exposure in respect of the counterparty on a consolidated basis is immaterial, the Bank calculates the aforesaid adjustment based on internal ratings.

For further details regarding the main methods and assumptions used to estimate the fair value of financial instruments, see Note 33 below concerning balances and fair-value estimates of financial instruments.

(8) Impairment of Financial Assets

(A) Credit to the public and debt balances – see Section D(4) above.

(B) Securities

Each reporting period, the Board of Management of the Bank examines whether impairments in the fair value of securities classified into the available-for-sale portfolio and the held-to-maturity portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established by the Bank, primarily the following:

1. A determination whether the impairment is other than temporary, and the amount of the impairment:
   - Securities which, at the balance sheet date, the Bank does not intend to hold, or securities sold after the balance sheet date at less than cost, constitute securities in which other-than-temporary impairment has occurred.
   - Securities the value of which has decreased by more than 20% relative to their cost, with respect to equity instruments, or 15%, with respect to debt instruments, when the decline in value has persisted for more than six months, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
   - Securities the value of which has decreased by 40% or more of the cost of the security, with respect to equity instruments, or 30% with respect to debt instruments, at or after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred, unless it can be demonstrated that special circumstances prevailed.
   - Debt instruments that have undergone a significant downgrade in rating constitute securities in which other-than-temporary impairment has occurred. For this purpose, the Bank defines a reduction of three notches or more, accompanied by a rating falling below Investment Grade, as a significant downgrade.
   - Debt instruments classified as problematic (impaired, substandard, under special supervision) by the Bank.
2. Watch list – a quantitative and qualitative examination is performed to identify and evaluate securities whose value has decreased, where other-than-temporary impairment may have occurred.
3. Specific examination – all securities on the watch list are examined specifically. This examination is based on the following considerations, among others:
   - The Bank's ability and intention to hold the security for a sufficient period to allow the value of the security to return to the level of its cost.
   - The value of collateral and safety cushions backing the security.
   - The rating of the security by international and local rating agencies, including developments in these ratings after the balance sheet date.
   - The rate of impairment of the security relative to its total cost.

Note 1 Significant Accounting Policies (continued)

- The amount of time for which the fair value of the security is lower than its cost.
- The financial condition of the issuer and changes in its business environment, including an examination of whether the impairment reflects circumstances unique to the issuer or general market conditions.
- Events after the balance sheet date.

4. Documentation of the results of the examination, as required pursuant to the rules established by the Bank.

When other-than-temporary impairment occurs in a security, the cost of the security is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss. Appreciation in value in subsequent periods is recognized in a separate item of capital within cumulative other comprehensive income, and is not allocated to profit and loss.

(9) Offsetting Financial Assets and Liabilities

The Bank applies the rules established in the circular of the Supervisor of Banks of December 12, 2012, which updates the Public Reporting Directives of the Supervisor of Banks concerning offsetting of assets and liabilities. The amendments set forth in the circular are aimed at adjusting Section 15A of the Public Reporting Directives to US GAAP. According to the directives, the Bank will offset assets and liabilities arising from the same counterparty and present the net balance thereof in the balance sheet, under the following cumulative conditions:

- With respect to such liabilities, a legally enforceable right exists to offset the liabilities against the assets;
- The Bank intends to settle the liability and realize the assets on a net basis or simultaneously;
- The Bank and the counterparty owe one another determinable amounts.

It was further determined that the Bank will offset deposits where the repayment to the depositor is contingent upon the extent of collection from credit and credit granted from such deposits, when the Bank has no risk of loss from the credit.

The Bank does not offset assets in respect of derivative instruments against liabilities in respect of derivative instruments, unless all of the cumulative conditions listed above are fulfilled. However, the directives state that in certain cases a bank may offset fair-value amounts recognized in respect of derivative instruments and fair-value amounts recognized in respect of the right to demand the return of collateral in cash (receivables) or the commitment to return collateral in cash (payables) arising from derivative instruments executed with the same counterparty under a master netting arrangement.

However, the Bank is not permitted to offset amounts in the balance sheet without the advance approval of the Supervisor of Banks. The Bank therefore continues to present exposures in respect of transactions in a gross amount in its financial statements.

(10) Transfers and Servicing of Financial Assets and Extinguishment of Liabilities

The Bank implements the measurement and disclosure rules set forth in the American accounting standard ASC 860-10, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with regard to the accounting treatment of transfers of financial assets and extinguishment of liabilities.

Note 1 Significant Accounting Policies (continued)

Pursuant to these rules, transfers of financial assets are accounted for as sales if, and only if, all of the following conditions are met: (1) the financial asset transferred is isolated from the transferring party, including in situations of bankruptcy or other receivership; (2) any recipient (or, if the recipient is an entity whose sole purpose is to engage in securitization or in asset-backed financing activity, and that entity is barred from pledging or exchanging the financial assets which it receives – any third party holding beneficiary rights) may pledge or exchange the assets (or the beneficiary rights) received, and there is no condition that also restricts the recipient (or the third party holding beneficiary rights) from exercising the right to pledge or exchange, and grants the transferring party a benefit that is greater than a trivial benefit; (3) the transferring party, or consolidated companies included in its financial statements, or its agents, do not retain effective control of the financial assets or of the beneficiary rights referring to the transferred assets.

The assessment of effective control focuses on contractual rights and contractual obligations of the transferor, and therefore does not take into consideration: (1) a criterion requiring the transferor to have the ability to acquire the transferred securities even in the event of default by the transferee, or (2) instructions regarding collateral requirements in connection with the aforesaid criterion.

In transactions for the transfer of financial assets, the Bank determines that the transferor retains effective control of the transferred assets (and the transfer of the assets will therefore be treated as a secured debt) if all of the following conditions are fulfilled:

- The assets to be repurchased or redeemed are identical or essentially identical to the assets transferred;
- The agreement is to repurchase or redeem the assets before the maturity date, at a fixed or fixable price; and
- The agreement is executed simultaneously with the transfer.

In addition, in order for the transfer of part of a financial asset to be considered a sale, the transferred part must comply with the definition of participatory rights. Participatory rights must meet the following criteria: the right must represent proportional rights relative to the full financial asset; all cash flows obtained from the assets are distributed among the participatory rights in a manner proportional to their share of the ownership; the rights are not subordinated to other rights; there is no right of return to the transferring party or to other holders of participatory rights (except in cases of the breach of representations or commitments, current contractual commitments to service a financial asset in its entirety and manage the transfer contract, and contractual commitments to share the offsets of any benefits received by any holder of participatory rights); and the transferring party and the holder of participatory rights have no right to pledge or exchange the financial asset in its entirety, unless all of the holders of participatory rights agree to pledge or exchange the financial asset in its entirety.

If the transaction complies with the conditions for treatment of a transaction as a sale, the transferred financial assets or the participatory right are subtracted from the balance sheet of the Bank. If the conditions for a sale are not met, the transfer is considered a secured debt. The sale of part of a financial asset that is not a participatory right is treated as a secured debt; i.e., the transferred assets continue to be recorded in the balance sheet of the Bank, and the consideration from the sale is recognized as a liability of the Bank.

Securities sold under repurchase conditions or purchased under reselling conditions, where the Bank has not lost control of the transferred asset or has not gained control of the asset received, are treated as secured debt.

Note 1 Significant Accounting Policies (continued)

Pursuant to the guidelines of the Supervisor of Banks, certain securities sold to the Bank of Israel under repurchase conditions are treated as secured debt. Financial instruments transferred in such transactions are measured according to the same measurement principles implemented prior to the transfer. Thus, such securities are not subtracted from the balance sheet, and the deposit, the return of which the securities were pledged to secure, is presented against them, under the item "securities lent or sold under agreements to repurchase." Securities received in such transactions are recorded according to the amount of cash received by the Bank, under the item "securities borrowed or purchased under agreements to resell." The Bank monitors the fair value of securities borrowed and lent, and of securities transferred in repurchase and resale agreements, and issues a demand for supplementary collateral in relevant cases. The Bank implements specific directives established in the Public Reporting Directives for the treatment of securities lending or borrowing transactions in which the loan is executed against the general credit quality and the general collateral of the borrower, when the borrower does not transfer liquid instruments, which the lender is entitled to sell or pledge, to the lender, as collateral referring specifically to the securities lending transaction. Such lending and borrowing are treated as credit or deposits measured at the fair value of the relevant security. The Bank subtracts liabilities only when the liability is extinguished. Extinguishment of a liability may be performed through payment to the lender or through judicial release.

(11) Fixed Assets

Recognition and Measurement

Fixed-asset items are measured at cost, with the deduction of accrued depreciation and losses from impairment. Cost includes expenses directly attributable to the acquisition of the asset. The cost of assets created in-house includes cost of materials and direct labor wages, as well as any additional cost directly attributable to bringing the asset to the location and condition necessary in order for it to operate in the manner intended by management.

Costs of acquired software that constitute an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. In addition, pursuant to the Public Reporting Directives, the Bank classifies costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed in-house for internal use under the item "buildings and equipment."

When significant parts of a fixed asset (including costs of significant periodic tests) have different lifetimes, they are treated as separate items (significant components) of the fixed asset.

Profit or loss from the disposal of a fixed-asset item are determined by comparing the consideration from the disposal of the asset with its book value, and recognized as a net amount under the item "other income" in the statement of profit and loss.

Note 1 Significant Accounting Policies (continued)

Subsequent Costs

The cost of replacing part of a fixed-asset item and other subsequent costs are recognized as part of the book value of fixed assets, if the future economic benefits inherent therein are expected to flow to the Group, and if the cost thereof is reliably measurable. The book value of the replaced part of a fixed-asset item is subtracted. Costs of routine maintenance of fixed-asset items are allocated to profit and loss upon formation.

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or another amount substituted for the cost, with the deduction of the residual value of the asset.

Depreciation is allocated to the statement of profit and loss using the straight-line method, over the estimated useful life of each part of the fixed-asset items, because this method best reflects the forecast pattern of consumption of the future economic benefits inherent in the asset. Leased assets are depreciated over the shorter of the period of the lease and the period of use of the assets. Land owned by the Bank is not depreciated. Improvements to rented properties are depreciated over the shorter of the period of the lease or the period of use of the property.

Estimates related to the depreciation method, useful life, and residual value are reexamined at least at the end of each fiscal year, and adjusted when necessary.

Software Costs

Software acquired by the Bank is measured at cost, with the deduction of amortization and losses from impairment. Costs related to software development or adaptation for in-house use are capitalized if, and only if: the development costs can be measured reliably; the software is technically and commercially feasible; future economic benefits are expected; and the Bank has the intention and sufficient resources to complete the development and use the software. Costs recognized as an asset include direct costs of materials and services and direct labor wages for workers. Overhead costs that cannot be directly attributed to the development of the software and research costs are recognized as expenses when incurred.

In addition, the Bank has implemented the guidelines of the Supervisor of Banks concerning capitalization of software costs, pursuant to which a materiality threshold of NIS 1 million has been set for capitalization. Any software development project the total costs of which are lower than the established materiality threshold is allocated as an expense in the statement of profit and loss. Further, for deliverables with total capitalizable costs not lower than the materiality threshold, a capitalization coefficient lower than 1 has been established for hours of labor, in order to take into account the potential for inefficiency and common deviations in software development projects. The rank of employees whose costs are capitalized to assets has been restricted to the level of manager of the software project. Capitalizable software development costs of all development employees are recorded through individual hour reports, rather than proportional cost allocation.

Note 1 Significant Accounting Policies (continued)

Amortization

Amortization is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life, starting on the date when the software is available for use. Software in development is not depreciated systematically as long as it is not available for use. Accordingly, a test of impairment is performed at least once a year, until it becomes available for use.

(12) Leases

Leases, including leases of land from the Israel Land Administration or from other third parties, in which the Bank materially bears all of the risks and returns from the asset, are classified as finance leases. At initial recognition, leased assets are measured at an amount equal to the lower of the fair value and the present value of the minimum future leasing fees. Future payments for the exercise of an option to extend the term of the lease from the Israel Land Administration are not recognized as part of the asset and the related liability, as they constitute contingent leasing fees, which are derived from the fair value of the land at the future renewal dates of the leasing agreement. After initial recognition, the asset is treated in accordance with the accounting policy customarily applied to that asset.

Other leases are classified as operational leases, while the leased assets are not recognized in the balance sheet of the Bank. Payments for operating leases are allocated to profit and loss using the straight-line method, over the period of the lease.

(13) Intangible Assets and Goodwill

This item includes intangible assets recognized in business combinations and goodwill.

Goodwill

For information regarding the measurement of goodwill upon initial recognition, see Section E(2) above. In subsequent periods, goodwill is measured at cost, with the deduction of accrued losses from impairment.

Amortization

Amortization is allocated to the statement of profit and loss, using the straight-line method, over the estimated useful life of intangible assets, starting on the date when the assets are available for use. Goodwill and intangible assets with an indefinite lifetime are not amortized systematically, but are examined for impairment at least once a year.

(14) Investment Property

Investment property is property (land or buildings, or part of a building, or both) held (by the Bank as an owner or through a financing lease) for the purpose of generating rent income or for equity appreciation or both, and not for the purpose of use in manufacturing or delivery of goods or services for administrative purposes, or sale during the ordinary course of business. Investment property is measured for the first time at acquisition cost, plus transaction costs. In subsequent periods, investment property is measured at cost, with the deduction of accrued depreciation and losses from impairment.

Note 1 Significant Accounting Policies (continued)

(15) Impairment of Non-Financial Assets

In each reporting period, an examination is conducted in order to determine whether indications of impairment exist with respect to the non-financial assets of the Bank, excluding deferred tax assets and including investments accounted for using the equity method. If such indications exist, an estimate of the recoverable amount of the asset is calculated. In addition, for each cash-generating unit to which goodwill is attributed, or to which intangible assets with an indeterminate lifetime or assets unavailable for use are attributed, an estimate of the recoverable amount is performed once annually, on a fixed date, even if there are no indications of impairment, or more frequently if indications of impairment exist. The recoverable amount of an asset or of a cash-generating unit is the higher of the use value and the net sale value (fair value net of selling expenses).

In determining use value, the Bank discounts the estimated future cash flows according to a pretax discounting rate reflecting market estimates regarding the time value of the money and the specific risks related to the asset. For the purpose of examining impairment, assets that cannot be examined individually are aggregated into the smallest group of assets that generates cash flows from ongoing use, which are essentially non-dependent on other assets and groups (a "cash-generating unit"). For the purposes of examining impairment of goodwill, cash-generating units to which goodwill is allocated are aggregated such that the level at which the impairment is examined reflects the lowest level at which goodwill is monitored for internal reporting purposes, but is not larger than a segment of activity (before the aggregation of similar segments).

Assets of the headquarters of the Bank do not generate separate cash flows, and serve more than one cash-generating unit. Some headquarters assets are allocated to cash-generating units, on a reasonable and consistent basis, and are examined for impairment as part of the examination of impairment in respect of the cash-generating units to which they are allocated.

Other headquarters assets that cannot be allocated to cash-generating units in a reasonable and consistent manner are allocated to a group of cash-generating units, if there are indications that impairment has occurred in an asset belonging to the headquarters of the Bank, or when there are indications of impairment in the group of cash-generating units. In such cases, the recoverable amount of the group of cash-generating units served by headquarters is determined.

Losses from impairment are recognized when the book value of the asset or of the cash-generating unit to which the asset belongs exceeds the recoverable amount, and are charged to profit and loss. Losses from impairment recognized with regard to cash-generating units are first allocated to the depreciation of the book value of the goodwill attributed to such units, and subsequently to the depreciation of the book value of the other assets in the cash-generating unit, proportionally. With regard to cash-generating units that include goodwill, loss from impairment is recognized when the book value of the cash-generating unit, after the gross-up of the goodwill, exceeds its recoverable amount. Loss from impairment is allocated between owners of the company and non-controlling interests, according to the same basis of allocation as profit or loss.

Note 1 Significant Accounting Policies (continued)

Loss from the impairment of goodwill is not cancelled. With regard to other assets, losses from impairment recognized in previous periods are reexamined each reporting period, in order to test for signs that the losses have decreased or no longer exist. Losses from impairment are cancelled if a change has occurred in the estimates used to determine the recoverable amount, only if the book value of the asset, after cancellation of the loss from impairment, does not exceed the book value net of amortization or depreciation that would have been determined if no loss from impairment had been recognized.

Impairment of In-House Software Development Costs

In addition to the indications of impairment established in IAS 36, Impairment of Assets, tests of impairment of in-house software development costs shall also be performed when the indications listed in GAAP for US banks, SOP 98-1: Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40), are present:

(A) The software is not expected to provide significant potential services;
(B) The manner or volume of use or expected use of the software has changed substantially;
(C) The software has been or will be substantially changed;
(D) Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;
(E) The development of the software is not expected to be completed and the software is not expected to be used.

If one or more of the indications listed above exists, an examination for impairment must be performed, in accordance with the rules set forth in IAS 36, Impairment of Assets.

(16) Non-Current Assets Held for Sale and Discontinued Operations

Non-current assets (or realization groups consisting of assets and liabilities) expected to be recovered primarily through sale or distribution, rather than through ongoing use (except assets seized in respect of impaired debts), are classified as assets held for sale or distribution.

Immediately before classification as held for sale or distribution, the assets are measured in accordance with the accounting policies of the Bank. Subsequently, the assets are measured according to the lower of the book value and the fair value, net of selling costs.

In subsequent periods, depreciable assets classified as held for sale or distribution are not depreciated periodically, and investments in equity-basis investees classified as held for sale are not accounted for using the equity method.

Note 1 Significant Accounting Policies (continued)

(17) Employee Benefits

Pursuant to the law, agreements, and common practice, banking corporations are required to pay retirement benefits to employees, including payments in accordance with defined benefit plans in respect of pensions (e.g. pension allowances, severance pay, and retirement compensation); post-retirement payments according to other plans (e.g. holiday gifts, and other well-being and health payments paid to or in respect of retirees); and payments in accordance with defined deposit plans (e.g. payments to provident funds or pension funds, pursuant to Section 14 of the Severance Pay Law, 1963). In addition, pursuant to directives of the Supervisor of Banks, a banking corporation that expects a group of employees to be paid benefits beyond their contractual terms should take into account the percentage of employees expected to leave (including employees expected to retire under voluntary retirement programs or upon receiving other preferred terms) and the benefits that they are expected to receive upon departure.

Liabilities of the banking corporation for severance pay to employees of the banking corporation, pursuant to Section 14 of the Severance Pay Law, are treated as a defined deposit plan. The banking corporation recognizes the net cost of the pension for the period, according to the deposit required for that period.

Liabilities of the banking corporation for severance pay, pensions, and other benefits, other than pursuant to Section 14 of the Severance Pay Law; other long-term benefits; and other post-employment benefits are treated as a defined benefit plan and calculated on an actuarial basis, taking probabilities into consideration, based on past experience. The discount rate for employee benefits is calculated based on the yield of Israeli government bonds, plus the average spread of corporate bonds rated AA (international) or higher at the reporting date. Due to practical considerations, it has been determined that the spread is to be established according to the difference between rates of yield to maturity, by maturity periods, of corporate bonds rated AA or higher in the United States, and rates of yield to maturity for the same maturity periods of United States government bonds, all at the reporting date. The mortality rate is based on current directives of the Supervisor of the Capital Market, Insurance, and Savings, as detailed in Circular 2013-1-2 (New Tables for Insurance Companies). The future rate of increase in wages is estimated by the Board of Management.

Service cost, interest cost, return on plan assets, amortization of net actuarial profit or loss, amortization of cost or credit in respect of prior service, and amortization of a net asset or liability in respect of the transition to American standards included in accumulated other comprehensive income are allocated to profit and loss in respect of the aforesaid benefits.

Actuarial profit or loss is the change in value of a liability in respect of a forecast benefit, or of plan assets, due to a difference between actual experience and estimates, or due to a change in an actuarial assumption. Actuarial profits and losses that do not result from changes in the discount rate as at January 1, 2013, and in subsequent periods, are included in accumulated other comprehensive income, and depreciated using the straight-line method over the average remaining service period of the employees expected to receive benefits according to the plan.

Cost or credit in respect of prior service is depreciated as a component of the net pension cost for the period, in a straight line, over the average remaining service period of the employees expected to receive benefits according to the plan.

Short-term employee benefits (such as labor wages, vacations, and bonuses) are measured on an uncapitalized basis, and the expense is allocated when the related service is rendered.

For further details regarding employee benefits, see Section D(1) above.

Note 1 Significant Accounting Policies (continued)

(18) Share-Based Payment

Share-based payment transactions with employees of the banking corporation are treated in accordance with Codification Topic 718 (ASC 718, Compensation – Stock Compensation). These transactions encompass services received from employees in consideration for the issuance of shares of the banking corporation, stock options, or other equity instruments. These transactions also include liabilities to employees, given one of the two following conditions: 1) the amount is based, at least in part, on the share price of the banking corporation, or on another equity instrument of the banking corporation; 2) the grant requires, or may require, settlement through issuance of shares of the banking corporation or other equity instruments of the banking corporation. In general, the Bank recognizes an expense in respect of share-based payments that it grants to its employees.

With regard to share-based payment transactions classified as equity grants, the value of the benefit is measured at the date of the grant, with reference to the fair value of the equity instruments granted. The value of the benefit is recognized in profit and loss as a salary expense, against a corresponding increase in equity. For the purpose of the recognition of the expense and its attribution over the appropriate service periods of the employees, the Bank takes service conditions and execution conditions (which are not market conditions) into consideration, such that the recognition of the expense is based on the number of instruments for which the service conditions and the execution conditions are expected to be fulfilled. An execution target that can be achieved after the service period is treated as an execution condition.

Liability grants are measured based on fair value at the date of the grant. The Bank remeasures the fair value of the liability at the end of each reporting period, and at the date of extinguishment. Any changes in the fair value are recognized in profit and loss for the period, against the liability. Transactions including a liability to be extinguished through the issuance of a variable number of shares of the Bank based on a fixed monetary value are classified as liabilities. For further details regarding the adoption of US GAAP on employee benefits and share-based payment transactions, see Section D(1) above.

(19) Treasury Shares

When the Bank buys its own shares, the amount of the consideration paid, including direct costs, is deducted from equity. The shares that have been bought back are classified as treasury shares. When treasury shares are sold or reissued, the amount of the consideration received is recognized as an increase in equity, and the surplus or deficit arising from the transaction is allocated to the balance of the premium.

Note 1 Significant Accounting Policies (continued)

(20) Contingent Liabilities

The financial statements include sufficient provisions for legal claims, according to the assessment of the Board of Management and based on the opinions of its legal advisors. The disclosure is in the format set forth in the directives of the Supervisor of Banks, so that the claims filed against the Bank Group are classified into three groups:

- Probable risk – the probability of realization of the exposure to risk is over 70%. Provisions are included in the financial statements in respect of claims in this risk group.
- Reasonably possible risk – the probability of realization of the exposure to risk is between 20% and 70%. No provision is included in the financial statements in respect of claims in this risk group, but disclosure is given.
- Remote risk – the probability of realization of the exposure to risk is under 20%. No provision is included in the financial statements in respect of claims in this risk group and no disclosure is given.

An expected loss from contingent liabilities is accrued if the following two conditions are fulfilled: (a) the value of an asset (or liability) is expected to decrease at the reporting date; (b) the amount of the loss is measurable in a reasonable manner. If any amount within the range of the loss constitutes the best estimate in the range at that date, the aforesaid amount is accrued. If there is no amount within the range that constitutes a better estimate than any other amount, the minimum amount in the range is accrued.

Legal claims regarding which the Supervisor of Banks has determined that the Bank is required to pay reimbursement are classified as probable, and a provision is made in respect of the claim commensurate with the amount that the Bank is required to reimburse.

In rare cases, the Bank has determined that in the opinion of the Bank's Board of Management, based on the opinion of its legal advisors, the probability of realization of the exposure to risk in respect of an ordinary claim or in respect of a claim certified as a class action cannot be estimated, in cases in which the Bank has not yet published four financial statements since the first inclusion of the claim, and therefore no provision has been made.

Note 26(D) contains disclosure of every claim in an amount greater than 1% of the capital of the Bank. With regard to claims the outcome of which cannot be estimated at this stage, disclosure is given for every claim in an amount greater than 0.5% of capital.

(21) Expenses for Taxes on Income

Expenses for taxes on income include current and deferred taxes. Current and deferred taxes are allocated to the statement of profit and loss, unless the tax arises from a transaction or event recognized directly in equity. In such cases, the expense for taxes on income is allocated to equity. Current tax is the amount of tax expected to be paid (or received) on the taxable income for the year, calculated according to the applicable tax rates under laws enacted or substantively enacted at the balance sheet date, including changes in tax payments referring to previous years.

The provision for taxes on the income of the Bank and its consolidated companies which are financial institutions for the purposes of value-added tax includes a profit tax imposed on income under the Value Added Tax Law. The value-added tax applied to wages at financial institutions is included in the statement of profit and loss under the item, "salaries and related expenses."

Note 1 Significant Accounting Policies (continued)

The Bank recognizes deferred taxes with reference to temporary differences between the book value of assets and liabilities for the purposes of financial reporting and their value for tax purposes. However, the Bank does not recognize deferred taxes with respect to the following temporary differences: first-time recognition of goodwill; first-time recognition of assets and liabilities in a transaction that does not constitute a business combination and does not affect accounting profit or profit for tax purposes; and differences arising from investments in subsidiaries and equity-basis investees, if they are not expected to be reversed in the foreseeable future, either through realization of the investment or through dividend distribution in respect of the investment. The deferred taxes are measured according to the tax rates expected to apply to the temporary differences at the date when they are realized, based on laws enacted or substantively enacted at the balance sheet date. The Bank offsets deferred-tax assets and liabilities in the event that an enforceable legal right exists for the offsetting of current tax assets and liabilities, and they are attributed to the same taxable income item taxed by the same tax authority for the same taxed company, or in different companies in the Group that intend to settle current tax assets and liabilities on a net basis, or the tax assets and liabilities are settled simultaneously.
A deferred-tax asset shall be recognized in respect of losses carried forward and in respect of temporary differences when it is more likely than not that tax savings will be created in respect thereof at the reversal date. The creation of net deferred tax assets shall not exceed the current taxes in the accounting period, except in special cases in which taxable income is expected to exist in the future against which they can be used.
The Bank may be obligated to add taxes in the case of dividend distribution in respect of affiliates. This added tax is not included in the financial statements, due to the policy of the affiliates not to cause dividend distribution involving added taxes for the Bank in the foreseeable future. In cases in which an affiliate is expected to distribute dividends from profits involving added taxes for the Bank, the Bank creates a reserve for tax in respect of the added tax which it is likely to incur.
Deferred taxes in respect of intercompany transactions in the consolidated report are recorded according to the tax rate applicable to the acquiring company.
The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or by the court. Recognized tax positions are measured according to the maximum amount with a probability of realization greater than 50%. Changes in recognition or measurement are reflected in the period during which the changes in circumstances occurred that led to the change in the decision.

(22) Capitalization of Borrowing Costs

IAS 23, Borrowing Costs, requires the capitalization of borrowing costs attributable directly to the acquisition, construction, or production of a qualifying asset. A qualifying asset is an asset that requires a substantial period of time to prepare for its designated use or sale, including, among other matters, fixed assets, software assets, and other assets where a long period is necessary in order to bring the assets to a condition in which they can fulfill their designated function or be sold.

Note 1 Significant Accounting Policies (continued)

However, it has been clarified in the directives of the Supervisor of Banks that banking corporations shall not capitalize borrowing costs unless they have established clear policy, procedures, and controls with regard to the criteria for recognition of qualifying assets and of capitalized borrowing costs. Accordingly, the Bank does not capitalize borrowing costs of qualifying assets.

(23) Earnings Per Share

The Bank presents data on basic and diluted earnings per share with respect to its ordinary share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to holders of the ordinary shares of the Bank by the weighted average number of ordinary shares outstanding during the period, after adjustment for shares in treasury. Diluted earnings per share are determined by adjusting the profit or loss (such as adjustments in respect of the effect of dividends after tax, any financing costs, and other changes) attributed to the holders of ordinary shares and adjusting the weighted average of ordinary shares in circulation, after adjustment for shares in treasury and for the effects of all potentially dilutive ordinary shares, which include share options and share options granted to employees.

(24) Reporting on Activity Segments

Activity Segments -

A segment of activity is a component of the Bank engaged in activities from which it is likely to derive income and bear expenses, the results of operations of which are regularly examined by the Board of Management and the Board of Directors in order to make decisions regarding resource allocation and evaluate performance, and with regard to which separate financial information exists. The format for reporting on the segments of activity of the Bank is established in the Public Reporting Directives of the Supervisor of Banks.

The division into segments at the Bank is based on characteristics of customer segments. These segments also include banking products. The results of products that cannot be attributed to the relevant customer segments are included in "Others and Adjustments."

Supervisory Activity Segments (according to the new circular of the Supervisor of Banks) -

In addition, the Bank reports on supervisory activity segments, according to a uniform comparable format established by the Supervisor of Banks. Supervisory activity segments are primarily defined based on customer classifications. Private customers are classified, based on the volume of their financial assets, into the household segment and the private-banking segment. Customers other than private individuals are classified primarily based on turnover into the business segments (separated into microbusinesses and small businesses, mid-sized businesses, and large businesses), institutional entities segment, or financial management segment. The format for reporting on the supervisory activity segments of the Bank was also established according to the Public Reporting Directives of the Supervisor of Banks. This reporting format was implemented for the first time in the annual report for 2015, subject to eased requirements and transitional directives established by the Supervisor of Banks. For further details, see Note 1D(7).

Note 1 Significant Accounting Policies (continued)

(25) Related Party Disclosures

Information regarding balance sheet and off-balance sheet balances and information regarding business results with interested and related parties is provided in accordance with the Public Reporting Directives, with respect to all persons defined as interested or related parties, based on the definitions in Section 1 of the Public Reporting Directives, or as a related person according to the definitions in Proper Conduct of Banking Business Directive 312, "Business of a Banking Corporation with Related Persons." In addition to the disclosure requirements in the Public Reporting Directives, the banking corporation also applies the disclosure requirements arising from the implementation of Codification Topic 850, Related Party Disclosures.

(26) Transactions with Controlling Parties

The Bank implements US GAAP for accounting for transactions between a banking corporation and its controlling party or a company controlled by the bank. In situations where these rules do not address the treatment method, the Bank applies the rules established in Standard 23 of the Israel Accounting Standards Board, Accounting Treatment of Transactions between an Entity and its Controlling Party.

Assets and liabilities regarding which a transaction has been executed with a controlling party are measured at fair value at the date of the transaction. Because a transaction on the equity level is involved, the Group allocates the difference between the fair value and the consideration from the transaction to equity.

Loans, Including Deposits

On initial recognition, the loan granted to the controlling party or the deposit received from the controlling party is presented in the financial statements of the Bank at its fair value as an asset or liability, as relevant. The difference between the amount of the loan granted or deposit received and the fair value thereof on initial recognition is allocated to equity. In reporting periods subsequent to initial recognition, the aforesaid loans or deposits are presented in the financial statements of the Bank at their depreciated cost, with implementation of the effective interest method.

F. New Accounting Standards and New Directives of the Supervisor of Banks in the Period Prior to Implementation

(1) Adoption of GAAP for US Banks

In June 2009, the Supervisor of Banks issued a letter concerning reporting by banking corporations and credit-card companies in Israel in accordance with IFRS, which establishes the expected manner of adoption of IFRS by banking corporations. In accordance with the circular, IFRS concerning matters not related to the core business of banking were adopted gradually during 2011 and 2012, with the exception of IAS 19, Employee Benefits, the implementation of which was postponed to a later date. With regard to matters related to the core business of banking, the Supervisor of Banks has clarified that a final decision will be reached, taking into consideration the schedule to be established in the United States and the progress of the convergence process between international and American standards.

In January 2014, the Supervisor of Banks clarified that banking corporations would not be required to adopt the IFRS rules; instead, they would fully adopt the rules of the American accounting standards applied by banks in the United States.

Note 1 Significant Accounting Policies (continued)

(2) Recognition of revenue from contracts with customers

A circular concerning the adoption of an update of GAAP for US banks regarding revenue from contracts with customers was issued on January 11, 2015. The circular updates the Public Reporting Directives, in light of the publication of ASU 2014-09, which adopts a new standard on revenue recognition in US GAAP. The standard states that revenue shall be recognized in the amount expected to be received in consideration for the transfer of goods or provision of services to a customer.

Banks are required to implement the amendments to the Public Reporting Directives beginning January 1, 2018. Upon initial implementation, it will be possible to choose the option of retrospective implementation with restatement of comparative figures, or the option of prospective implementation, with allocation of the cumulative effect to equity at the initial implementation date. Among other matters, the new standard does not apply to financial instruments and interests or to contractual liabilities covered by Codification Topic 310.

The Bank has not yet started to examine the effect of the standard on its financial statements, and has not yet chosen an option for implementation of the transitional directives.

(3) Adoption of US GAAP on business combinations, consolidation of financial statements, and investments in affiliates

On June 10, 2015, the Supervisor of Banks issued a circular pursuant to which banking corporations and credit-card companies will be required to adopt GAAP for US banks on business combinations, the consolidation of financial statements, and investments in affiliates, and among other matters, the rules for presentation, measurement, and disclosure established in the directives on these topics. In addition, it was clarified that the accounting treatment established in the directives of the Supervisor of Banks with regard to non-current assets held for sale, according to IFRS 5, would not apply to investments in equity-basis investees.

The directives set forth in the circular will apply from January 1, 2016, forward. Initial implementation is required to comply with the transitional directives established on these topics in US GAAP, with the necessary changes. This includes the retrospective amendment of comparative figures, if required according to these topics.

According to the estimates of the Bank, the effect of the adoption of the aforesaid directives on the financial statements is not expected to be material.

(4) Adoption of US GAAP on intangible assets

The circular, "Reporting by Banking Corporations and Credit-Card Companies in Israel According to US GAAP on Intangible Assets" was issued on October 22, 2015. Pursuant to the circular, banking corporations and credit-card companies are required to adopt GAAP for US banks on intangible assets, including, among other matters, the presentation, measurement, and disclosure rules set forth in the directives of Codification Topic 350, Intangibles – Goodwill and Others, including the rules concerning impairment of internal-use software assets. In this context, the accounting treatment of goodwill, including examination of impairment thereof, was updated, in accordance with the circular of February 8, 2015, "Reporting by Banking Corporations and Credit-Card Companies in Israel According to US GAAP on Business Combinations and the Consolidation of Financial Statements."

Note 1 Significant Accounting Policies (continued)

The directives established according to the circular will apply from January 1, 2016, forward. Upon initial implementation, banking corporations shall act according to the transitional directives established on these topics, with the necessary changes. This includes retrospective amendment of comparative figures, if required according to the topics.
According to the Bank's estimates, the effect of the adoption of these directives on the financial statements is not expected to be material.

(5) Adoption of US GAAP on income taxes

The circular, "Reporting by Banking Corporations and Credit-Card Companies in Israel According to US GAAP on Income Taxes" was issued on October 22, 2015. Pursuant to the circular, banking corporations and credit-card companies are required to adopt GAAP for US banks on income taxes, including, among other matters, the presentation, measurement, and disclosure rules set forth in the directives in Codification Topic 740, Income Taxes, and in Codification Topic 830-740, Foreign Currency Matters – Income Taxes.
The directives established in the circular will apply to banking corporations and credit-card companies from January 1, 2017, forward. Upon initial implementation, banking corporations shall act according to the transitional directives established on these topics, with the necessary changes. This includes retrospective amendment of comparative figures, if required according to the topics.
The Bank is examining the implications of the implementation of these directives. According to the Bank's estimates, the implementation of these rules will lead to an increase in liabilities in respect of deferred taxes; however, due to the complexity of implementing the aforesaid directives, and in view of the differences in US tax laws and their incompatibility with the tax environment in Israel, at this stage the Bank cannot estimate the scope of the effect on the financial statements.

(6) Draft regarding amendment of US standards on repurchase-to-maturity transactions and repurchase financings

On July 15, 2015, the Supervisor of Banks issued a draft entitled, "FASB Codification Amendment 2014-11 Concerning Repurchase-to-Maturity Transactions and Repurchase Financings." Among other matters, the amendment clarifies that repurchase-to-maturity transactions and repurchase financings are to be accounted for as secured debt, in consistency with the accounting treatment of other repurchase transactions. In addition, the amendment clarifies the accounting treatment of repurchase financings, in which one party transfers a financial asset to a counterparty, and simultaneously contracts with the counterparty to purchase and resell the financial asset; certain disclosure requirements are also included.
These amendments will be implemented from January 1, 2016, forward, in accordance with the transitional directives established in the United States, with the necessary changes. According to the estimates of the Bank, the effect of the adoption of the aforesaid directives on the financial statements is not expected to be material.

NIS millions

Note 2 Interest Income and Expenses

	2015	2014	2013
A. Interest income**			
From credit to the public	**9,044**	*9,628	11,390
From credit to governments	**41**	32	21
From deposits with banks	**117**	108	105
From deposits with the Bank of Israel and from cash	**26**	71	192
From securities borrowed or purchased under agreements to resell	**2**	-	1
From bonds	**604**	834	1,236
From other assets	**3**	*-	16
Total interest income	**9,837**	10,673	12,961
B. Interest expenses**			
On deposits from the public	**(830)**	(1,428)	(2,792)
On deposits from the government	**(12)**	(12)	(23)
On deposits from banks	**(40)**	(63)	(116)
On securities lent or sold under agreements to repurchase	**(2)**	(10)	(15)
On bonds and subordinated notes	**(1,058)**	(1,361)	(2,065)
On other liabilities	**(10)**	(31)	(7)
Total interest expenses	**(1,952)**	(2,905)	(5,018)
Total net interest income	**7,885**	7,768	7,943
C. Details of net effect of hedging derivative instruments on interest income and expenses***			
Interest income	**(211)**	(221)	(154)
Interest expenses	**(6)**	10	13
D. Details of interest income from bonds on a cumulative basis			
Held to maturity	**13**	27	46
Available for sale	**571**	780	1,131
Held for trading	**20**	27	59
Total included in interest income	**604**	834	1,236

* Reclassified.
** Including the effective component in hedges.
*** Details of the effect of hedging derivative instruments on subsections A and B.

NIS millions

Note 3 Non-Interest Financing Income

A. Non-interest financing income (expenses) in respect of non-trading activities

	2015	2014	2013
1. From activity in derivative instruments			
Non-effective part of hedges (see C below)[1]	**19**	(5)	23
Net income (expenses) in respect of ALM derivative instruments[2]	**550**	1,918	(993)
Total from activity in derivative instruments	**569**	1,913	(970)
2. From investment in bonds			
Gains from sale of bonds available for sale[3]	**525**	284	449
Losses from sale of bonds available for sale[3][4]	**(33)**	-	(4)
Total from investment in bonds	**492**	284	445
3. Net exchange-rate differences	**(161)**	(1,496)	818
4. Gains (losses) from investment in shares			
Gains from sale of shares available for sale[3]	**264**	164	172
Losses from sale of shares available for sale[3][5][6]	**(185)**	(69)	(76)
Dividend from shares available for sale	**45**	36	38
Profit from sale of shares of affiliates	**-**	3	-
Loss from sale of shares of affiliates	**(31)**	-	-
Total from investment in shares	**93**	134	134
5. Net gains (losses) in respect of securitization transactions	**-**	-	-
6. Net gains in respect of loans sold	**3**	-	2
Total non-interest financing income in respect of non-trading activities	**996**	835	429

(1) Excluding the effective component of hedges.
(2) Derivative instruments constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
(3) Reclassified from cumulative other comprehensive income.
(4) Including provisions for impairment in the amount of NIS 21 million for the year ended December 31, 2015 (2014: NIS 0 million; 2013: NIS 0 million).
(5) Including provisions for impairment in the amount of NIS 113 million for the year ended December 31, 2015 (2014: NIS 69 million; 2013: NIS 75 million).
(6) Including a loss in the amount of NIS 72 million, due to a ruling of August 2015 concerning arrears interest charged for credit secured by shares, previously classified as securities, profit from the sale of which was recorded within this item in the past.

NIS millions

Note 3 Non-Interest Financing Income (continued)

B. Non-interest financing income in respect of trading activities*

	2015	2014	2013
Net income in respect of other derivative instruments	**19**	20	21
Net realized and unrealized gains from adjustments to fair value of bonds held for trading(1)	**28**	59	24
Net realized and unrealized gains from adjustments to fair value of shares held for trading(2)	**1**	2	6
Total non-interest financing income in respect of trading activities**	**48**	81	51
Total non-interest financing income	**1,044**	916	480
Details of non-interest financing income in respect of trading activities, by risk exposure:			
Interest rate exposure	**28**	60	24
Foreign currency exposure	**4**	5	6
Share exposure	**16**	16	21
Total	**48**	81	51

C. Non-effective part of hedges – further details***

1. Fair value hedges			
Non-effectiveness of hedges	**4**	(11)	2
2. Cash flow hedges			
Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**15**	6	21
Total	**19**	(5)	23

* Includes exchange-rate differences arising from trading activity.
** With regard to interest income from investment in bonds held for trading, see Note 2.
*** For a disclosure of the net effect of hedging derivative instruments on interest income and expenses, see Note 2.
(1) Of which, the part of gains (losses) associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS (1) million (2014: NIS 12 million; 2013: NIS 6 million).
(2) Of which, the part of gains (losses) associated with shares held for trading still held at the balance sheet date, in the amount of approximately NIS 0 million (2014: NIS (1) million; 2013: NIS 0 million).

NIS millions

Note 4 Fees

Composition:

	2015	2014	2013
Account management	**987**	980	968
Credit cards	**1,725**	1,674	1,597
Securities activity	**1,032**	1,047	911
Financial product distribution fees[(1)]	**219**	218	188
Management, operation, and trust for institutional entities[(2)]	**45**	45	50
Credit handling	**205**	173	342
Conversion differences	**293**	277	275
Foreign trade activity	**114**	124	116
Net income from credit portfolio service	**41**	40	33
Management fees and fees from life insurance and home insurance	**44**	46	49
Financing transaction fees	**548**	545	529
Other fees	**34**	38	57
Total fees	**5,287**	5,207	5,115

(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds.

Note 5 Other Income

Composition:

	2015	2014	2013
Income from computer services to a former consolidated company	**60**	60	36
Capital gains from sale of buildings and equipment	**14**	5	11
Others	**72**	66	79
Total other income	**146**	131	126

NIS millions

Note 6 Salaries and Related Expenses

Composition:

	2015	2014*	2013*
Salaries	**3,141**	3,067	3,233
Expense incurred from share-based payment transactions(2)	**87**	115	159
Other related expenses, including study funds, vacation, and sick days	**645**	652	610
Long-term benefits	**33**	55	25
National insurance and wage tax	**748**	746	789
Pension expenses (including severance pay and allowances)	**255**	317	130
Other post-employment benefits	**25**	36	21
Efficiency plan expenses	**-**	355	484
Total salaries and related expenses	**4,934**	5,343	5,451
(1) Of which: salaries and related expenses abroad	**513**	489	491
(2) Of which: expenses arising from transactions treated as share-based payment transactions settled in capital instruments	**20**	50	90

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

Note 7 Other Expenses

Composition:

	2015	2014	2013
Marketing and advertising	**356**	323	308
Communications	**234**	231	226
Computers*	**419**	370	352
Office	**135**	143	138
Insurance	**19**	21	24
Professional services	**265**	210	216
Wages and reimbursement of expenses to members of the Board of Directors	**18**	20	15
Training and further education	**38**	34	39
Fees	**253**	247	228
Contribution to the community	**43**	47	46
Others	**514**	643	442
Total other expenses	**2,294**	2,289	2,034

* Excluding salaries, depreciation, and amortizations.

NIS millions

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss)

A. Composition:

	2015	2014	2013
Current taxes:			
In respect of current year	**1,932**	1,736	1,773
In respect of previous years	**(40)**	431	37
Total current taxes	**1,892**	2,167	1,810
Additions (deductions):			
Deferred taxes:			
In respect of current year	**85**	*(72)	*(544)
In respect of previous years	**120**	(382)	(1)
Total deferred taxes	**205**	*(454)	*(545)
Total provision for taxes[(1)]	**2,097**	*1,713	*1,265
(1) Of which: provision for taxes for tax authorities abroad	**87**	21	41

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

B. Reconciliation between the theoretical amount of tax for which the Bank would have been liable at the statutory tax rate, and the provision for taxes on profit, as recorded in the statement of profit and loss:

	2015	2014	2013
Rate of tax applicable to the Bank in Israel (%)	**37.58**	37.71	36.22
Amount of tax based on statutory tax rate	**1,915**	*1,665	*1,358
Added (deducted) tax expenses (tax savings) in respect of:			
Different statutory tax rate	**(72)**	(87)	(113)
Other non-deductible expenses	**87**	116	41
Income of consolidated companies abroad	**15**	30	29
Translation differences in respect of consolidated companies abroad	**50**	(39)	88
Adjustment differences for depreciation and capital gain	**1**	-	(1)
Exempt income and income taxable at limited rates	**(16)**	(17)	(24)
Timing differences for which deferred taxes were not recorded	**6**	(7)	-
Losses for tax in respect of which no deferred taxes were recorded	**(16)**	3	(1)
Taxes in respect of previous years	**80**	49	36
Change in balance of deferred taxes due to change in tax rate	**47**	-	(148)
Provision for taxes on profit	**2,097**	*1,713	*1,265

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

C.1. Balances of deferred tax assets and deferred tax liability

	December 31			
	2015	2014	**2015**	2014
	Balance in NIS millions		Average tax rate in %	
Deferred tax assets:				
From allowance for credit losses	**1,942**	**1,972	**37.0**	37.2
Surplus funding for severance payments and retirement	**1,360**	*1,454	**36.9**	37.4
From the provision for vacation and grants	**350**	356	**36.7**	37.0
From losses and deductions carried forward for tax purposes	**48**	56	**24.2**	27.7
From other monetary items	**21**	**11	**28.0**	33.7
Non-monetary assets	**27**	**50	**36.5**	37.6
Total deferred tax assets	**3,748**	*3,899	**36.6**	37.0
Deferred tax liability:				
From investments in affiliates	**59**	33	**17.0**	11.4
From other monetary items	**10**	**63	**37.0**	27.7
From the adjustment of non-monetary assets	**158**	**94	**29.3**	25.9
Total deferred tax liability	**227**	190	**24.8**	21.6

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).
** Reclassified.
Utilization of the balance of deferred tax assets, net, is contingent upon the existence of taxable income in the appropriate amount in future years.
Deferred tax is calculated on the basis of the expected future tax rate.

NIS millions

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

C.2. Change in deferred tax assets and liabilities

	Allowance for credit losses and interest on credit**	Interest and securities**	Investments in affiliates	Tax asset from non-monetary items**	Adjustments of non-monetary assets**	Employee benefits*	Losses for tax and deductions carried forward	Total
Net deferred tax as at December 31, 2012	1,332	(47)	(31)	84	(144)	1,228	69	2,491
Effect of initial implementation of US GAAP concerning employee benefits	-	-	-	-	-	154	-	154
Balance as at January 1, 2013, after initial implementation of the new rules	1,332	(47)	(31)	84	(144)	1,382	69	2,645
Change:								
Changes allocated to profit and loss	201	2	(2)	6	36	175	(19)	399
Changes allocated to equity	(4)	(7)	-	-	3	31	-	23
Effect of change in tax rate allocated to profit and loss	72	-	-	4	7	63	-	146
Net deferred tax as at December 31, 2013	1,601	(52)	(33)	94	(98)	1,651	50	3,213
Change:								
Changes allocated to profit and loss	371	-	-	(44)	(1)	122	6	454
Changes allocated to equity	-	-	-	-	5	37	-	42
Net deferred tax as at December 31, 2014	1,972	(52)	(33)	50	(94)	1,810	56	3,709
Change:								
Changes allocated to profit and loss	(4)	14	(26)	(23)	(57)	(55)	(7)	(158)
Changes allocated to equity	-	49	-	-	(7)	(24)	(1)	17
Effect of change in tax rate allocated to profit and loss	(26)	-	-	-	-	(21)	-	(47)
Net deferred tax as at December 31, 2015	**1,942**	**11**	**(59)**	**27**	**(158)**	**1,710**	**48**	**3,521**
Deferred tax asset as at December 31, 2015	**1,942**	**21**	**-**	**27**	**-**	**1,710**	**48**	**3,748**
Deferred tax liability as at December 31, 2015	**-**	**(10)**	**(59)**	**-**	**(158)**	**-**	**-**	**(227)**

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).
** Balances in respect of previous years were reclassified.

NIS millions

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

C.3. Taxes on income recognized directly in equity

	2015			2014			2013		
	Before tax	Tax expenses (benefit)	Net of tax	Before tax	Tax expenses (benefit)	Net of tax	Before tax	Tax expenses (benefit)	Net of tax
Net profits in respect of net hedges of investments in foreign currency	**7**	**2**	**5**	(13)	(5)	(8)	68	25	43
Cash-flow hedges	**4**	**2**	**2**	5	2	3	10	3	7
Financial assets available for sale	**(748)**	**(238)**	**(510)**	382	122	260	83	25	58
Employee benefits	**49**	**24**	**25**	*(109)	*(41)	*(68)	*(57)	*(21)	*(36)
Share-based payments	**6**	**3**	**3**	14	5	9	(26)	(11)	(15)
Total taxes recognized in equity	**(682)**	**(207)**	**(475)**	*279	*83	*196	*78	*21	*57

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

D. Tax Assessments

The Bank has final tax assessments up to and including 2012. Its subsidiaries have final tax assessments for 2010-2013. In December 2013 and in December 2015, the Tax Assessment Officer issued wage tax assessments for the Bank in respect of 2008-2010, charging the Bank wage tax in respect of salaries and benefits paid by the Bank to local employees at the Bank's overseas branches. The tax assessments are in the amount of approximately NIS 69 million, excluding interest and linkage. The Bank disputes these tax assessments and has therefore filed an objection. The tax authorities have obtained orders with regard to the tax assessments disputed by the Bank in the District Court. If the Bank's position is not accepted, the Bank will be exposed to similar demands with regard to the subsequent years. In the opinion of the legal advisors of the Bank, it is reasonably possible that the claim will materialize.

E. Losses in Respect of Which No Deferred Tax Assets Were Included

The Bank and certain consolidated companies have losses and other deductions established for tax purposes, in respect of which no deferred-tax assets were included, in the amount of approximately NIS 528 million (December 31, 2014: approximately NIS 514 million). It will be possible to use these amounts in the future, if the companies in respect of which the amounts were recorded have taxable income in the future.

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

F. Legislative Amendments

Income Tax

The rate of corporation tax was 26.5% in 2014 and in 2015. Pursuant to the Income Tax Ordinance Amendment Law (No. 216), 2016, published January 5, 2016, corporation tax will decrease to 25% from 2016 forward. Accordingly, the Bank will record a decrease in the amount of approximately NIS 121 million in the balance of deferred-tax assets, and a concurrent increase in the provision for taxes on profit in the same amount, in its financial statements for 2016.

Value Added Tax Law, 1975

The Bank is defined as a financial institution for the purposes of the Value Added Tax Law, which imposes a wage tax and a profit tax on such institutions. Profit is defined as taxable income, as defined in the Income Tax Ordinance, before offsetting losses from tax years preceding the tax year in which the income was received, and after deducting wage tax, excluding income from dividends received from a financial institution, and including income from interest or dividends or the sale or redemption of a unit or profit distribution to a unit owner for which an exemption from income tax has been granted under any law.

The rate of profit tax was 18% in 2014. On September 10, 2015, the Minister of Finance signed an order lowering the rate of VAT for transactions and for imports of goods by 1%, to 17%, beginning October 1, 2015. The order became final on September 24, 2015. On October 12, 2015, the Knesset plenum passed the Value Added Tax Order (Rate of Tax on Non-Profit Organizations and Financial Institutions) (Amendment), 2015, which stated that the rate of profit tax and wage tax applied to financial institutions would be reduced to 17%, beginning October 1, 2015. This order applied in the tax year 2015 to wages paid for labor from October 2015 forward; profit tax applied based on the relative share of the profit for this tax year, and therefore stands at 17.75%.

As a result of this change, in its financial statements for 2015, the Bank included a decrease in the amount of approximately NIS 50 million, against an increase in the provision for tax in the amount of NIS 47 million and a decrease in capital reserves in the amount of NIS 3 million, in the balance of deferred-tax assets, and a decrease in the amount of approximately NIS 33 million in the balance of liabilities for employee benefits, before the effect of related tax, most of which was allocated to other comprehensive income.

As a result of these changes, the statutory tax rate applicable to the Bank changed, as detailed in the table below.

Combined Tax Rates

Taxes paid on profits of banking corporations include corporation tax, pursuant to the Income Tax Ordinance, and profit tax, pursuant to the Value Added Tax Law, as explained above. Accordingly, the combined tax rates are as follows:

	Profit tax rate	Income tax rate	Combined tax rate	
Year				
2013	17.58%	25.00%	36.22%	As a result of the increase in value-added tax, to 18%, as of June 2, 2013
2014	18.00%	26.50%	37.71%	As a result of the increase in corporation tax as of January 1, 2014
2015	17.75%	26.50%	37.58%	As a result of the decrease in value-added tax, to 17%, as of October 1, 2015
2016 forward	17.00%	25.00%	35.90%	As a result of the decrease in corporation tax as of January 1, 2016

Note 8 Provision for Taxes (Tax Benefit) on Profit (Loss) (continued)

G. Provision for Credit Losses

On January 1, 2011, the banking system adopted the new directive of the Supervisor of Banks concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses. As a result, agreements were signed between the banking industry, including the Bank, and the Tax Authority, to establish rules with regard to the manner of recognition of the provision for credit losses for tax purposes.

An agreement of principles was signed on February 29, 2012, between the Bank and the Tax Assessment Officer, concerning the method of recognition for tax purposes of the allowance for credit losses in respect of allowances for impaired debts recorded as of January 1, 2011. With respect to allowances recorded and permitted up to December 31, 2010, the calculation according to the arrangement that was in effect until that date shall apply.

Main points of the agreement:

Large impaired debts examined individually (customer debts greater than NIS 1 million)

Allowances for individually examined impaired debts shall be deductible as an expense for tax purposes in the year in which the provision is recorded in the financial statements of the Bank. In a tax year in which the balance of the allowance for impaired debts is reduced (other than as a result of "charge-offs" or "debt forgiveness"), an additional tax shall be added to the Bank's tax indebtedness, leading to collection of the additional tax that would have been collected if the deductible allowance had not been recognized originally.

Impaired debts not examined individually for tax purposes (customer debts less than NIS 1 million)

Allowances for impaired debts not examined individually shall not be deductible as an expense for tax purposes in the year in which the provision is included in the financial statements of the Bank. Expenses in respect of such allowances shall be deductible for tax purposes in the amount of the net "charge-off" (offset by recoveries in the same year), half of which shall be deductible for tax purposes in the first tax year following the year in which the charge-off is recorded, and half of which shall be deductible in the second tax year following the year in which the charge-off is recorded. This directive applies to provisions recorded beginning January 1, 2011.

Note 9 Earnings per Ordinary Share

Composition:

	For the year ended December 31		
	2015	2014	2013
Basic earnings			
Net profit attributed to the ordinary shareholders of the bank, in NIS millions	**3,082**	*2,713	*2,537
Weighted average number of ordinary shares			
In shares of par value NIS 1			
Balance as at January 1 of issued and paid-up share capital	**1,323,208,692**	1,320,575,890	1,319,693,645
Effect of options exercised into shares	**3,262,618**	3,557,991	1,850,709
Effect of shares purchased during the period	**-**	(2,925,479)	(2,324,263)
Weighted average number of ordinary shares used in the calculation of basic earnings per share as at December 31	**1,326,471,310**	1,321,208,402	1,319,220,091
Diluted earnings			
Net profit attributed to the ordinary shareholders of the bank, in NIS millions	**3,082**	*2,713	*2,537
Weighted average number of ordinary shares (diluted)			
In shares of par value NIS 1			
Weighted average number of ordinary shares used in the calculation of basic earnings per share	**1,326,471,310**	1,321,208,402	1,319,220,091
Effect of share options	**7,030,704**	10,824,108	12,655,301
Weighted average number of ordinary shares used in the calculation of diluted earnings per share as at December 31	**1,333,502,014**	1,332,032,510	1,331,875,392
Earnings per ordinary share in NIS			
Basic earnings			
Net earnings per share	**2.32**	*2.05	*1.92
Diluted earnings			
Net earnings per share	**2.31**	*2.04	*1.90

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

NIS millions

Note 10 Accumulated Other Comprehensive Income (Loss)

A. Changes in accumulated other comprehensive income (loss), after tax effect***

	Other comprehensive income before attribution to non-controlling interests					Other comprehensive income attributed to non-controlling interests	Other comprehensive income attributed to shareholders of the Bank
	Adjustments for presentation of securities available for sale at fair value	Net adjustments from translation* after hedge effects**	Net gains (losses) in respect of cash-flow hedges	Adjustments in respect of employee benefits	Total		
Balance as at January 1, 2013	646	9	(16)	-	639	3	636
Effect of initial implementation of US GAAP concerning employee benefits	-	-	-	(259)	(259)	-	(259)
Balance as at January 1, 2013, after initial implementation of the new rules	646	9	(16)	(259)	380	3	377
Net change during the year	56	(26)	7	(36)	1	(2)	3
Balance as at January 1, 2014	702	(17)	(9)	(295)	381	1	380
Net change during the year	261	7	3	(68)	203	1	202
Balance as at January 1, 2015	**963**	**(10)**	**(6)**	**(363)**	**584**	**2**	**582**
Net change during the year	**(512)**	**2**	**2**	**25**	**(483)**	**(2)**	**(481)**
Balance as at December 31, 2015	**451**	**(8)**	**(4)**	**(338)**	**101**	**-**	**101**

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

** Net gains (losses) in respect of net hedging of investments in foreign currency.

*** The Bank has implemented US GAAP on accounting for employee benefits as of January 1, 2015. The new rules were implemented retrospectively, beginning January 1, 2013. Comparative figures for previous periods have been restated. For information regarding the cumulative effect of the initial adoption of US GAAP regarding employee benefits, see Note 1D(1).

NIS millions

Note 10 Accumulated Other Comprehensive Income (Loss) (continued)

B. Changes in components of accumulated other comprehensive income (loss), before and after tax effect***

	For the year ended								
	December 31, 2015			December 31, 2014			December 31, 2013		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Changes in components of other comprehensive income (loss) before attribution to non-controlling interests:									
Adjustments for presentation of securities available for sale at fair value									
Net unrealized gains (losses) from adjustments to fair value	**(227)**	**58**	**(169)**	655	(183)	472	372	(122)	250
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss(1)	**(523)**	**180**	**(343)**	(272)	61	(211)	(291)	97	(194)
Net change during the year	**(750)**	**238**	**(512)**	383	(122)	261	81	(25)	56
Adjustments from translation*:									
Adjustments from translation of financial statements	**(3)**	**-**	**(3)**	15	-	15	(69)	-	(69)
Hedges**	**7**	**(2)**	**5**	(13)	5	(8)	68	(25)	43
Net change during the year	**4**	**(2)**	**2**	2	5	7	(1)	(25)	(26)
Cash-flow hedges:									
Net (gains) losses in respect of cash-flow hedges reclassified to the statement of profit and loss(1)	**4**	**(2)**	**2**	5	(2)	3	10	(3)	7
Net change during the year	**4**	**(2)**	**2**	5	(2)	3	10	(3)	7
Employee benefits:									
Net actuarial profit (loss) for the year	**16**	**(12)**	**4**	(121)	46	(75)	(59)	22	(37)
Net (gains) losses reclassified to the statement of profit and loss(2)	**33**	**(12)**	**21**	12	(5)	7	2	(1)	1
Net change during the year	**49**	**(24)**	**25**	(109)	41	(68)	(57)	21	(36)
Total net change during the year	**(693)**	**210**	**(483)**	281	(78)	203	33	(32)	1
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:									
Total net change during the year	**(2)**	**-**	**(2)**	1	-	1	(2)	-	(2)
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank:									
Total net change during the year	**(691)**	**210**	**(481)**	280	(78)	202	35	(32)	3

* Adjustments from the translation of financial statements of a foreign operation whose functional currency differs from the functional currency of the Bank.

** Net gains (losses) in respect of net hedging of investments in foreign currency.

*** The Bank has implemented US GAAP on accounting for employee benefits as of January 1, 2015. The new rules were implemented retrospectively, beginning January 1, 2013. Comparative figures for previous periods have been restated. For information regarding the cumulative effect of the initial adoption of US GAAP regarding employee benefits, see Note 1D(1).

(1) The amount before tax is reported in the statement of profit and loss, under the item "non-interest financing income." For further details, see Note 3 – Non-Interest Financing Income.

(2) The amount before tax is reported in the statement of profit and loss, under the item "salaries and related expenses."

NIS millions

Note 11 Cash and Deposits with Banks

Composition:

	December 31	
	2015	2014
Cash and deposits with central banks	**59,573**	46,397
Deposits with commercial banks	**5,403**	8,577
Total*,**	**64,976**	54,974
* Of which: cash, deposits with banks, and deposits with central banks for an original period of up to three months	**63,108**	51,823
** Excluding collective allowance for credit losses in the amount of	**3**	4

Note:
With regard to liens, see Note 27.

NIS millions

Note 12 Securities

	December 31, 2015				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures:					
Financial institutions in Israel	**405**	**405**	**4**	**-**	**409**
Foreign others	**9**	**9**	**2**	**-**	**11**
Total bonds held to maturity	**414**	**414**	**6**	**-**	**420**

	Balance sheet value	Depreciated cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	**37,351**	**36,981**	**410**	**(40)**	**37,351**
Foreign governments	**5,615**	**5,612**	**27**	**(24)**	**5,615**
Financial institutions in Israel	**229**	**217**	**12**	**-**	**229**
Foreign financial institutions	**4,681**	**4,709**	**15**	**(43)**	**4,681**
Others in Israel	**2,045**	**2,028**	**43**	**(26)**	**2,045**
Foreign others	**3,588**	**3,637**	**20**	**(69)**	**3,588**
Total bonds and debentures available for sale	**53,509**	**53,184**	**527**	**(202)**	**53,509**
Shares:					
Others	**2,486**	**2,198**	**311**	**(23)**	**(1)2,486**
Total securities available for sale	**55,995**	**55,382**	**(2)838**	**(2)(225)**	**(1)55,995**

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 643 million.
(2) Included in equity in the item "adjustments for presentation of securities available for sale at fair value" within other comprehensive income.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

NIS millions

Note 12 Securities (continued)

	December 31, 2015				
	Balance sheet value	Depreciated cost (in shares-cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Bonds and debentures:					
Israeli government	**6,291**	**6,292**	**-**	**(1)**	**6,291**
Foreign governments	**7**	**7**	**-**	**-**	**7**
Foreign financial institutions	**56**	**55**	**1**	**-**	**56**
Others in Israel	**3**	**3**	**-**	**-**	**3**
Foreign others	**70**	**71**	**-**	**(1)**	**70**
Total bonds and debentures held for trading	**6,427**	**6,428**	**1**	**(2)**	**6,427**
Shares:					
Others	**48**	**52**	**-**	**(4)**	**48**
Total securities held for trading	**6,475**	**6,480**	**(2)1**	**(2)(6)**	**6,475**
Total securities(3)	**62,884**	**62,276**	**845**	**(231)**	**(1)62,890**

4) Information regarding impaired bonds	
Recorded debt balance of:	
Impaired bonds accruing interest income	**23**

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 643 million.
(2) Charged to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 9.7 billion were pledged to lenders. See Note 27.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

NIS millions

Note 12 Securities (continued)

	December 31, 2015							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position								
Bonds and debentures:								
Israeli government	**11,886**	**(32)**	**-**	**(32)**	**211**	**(8)**	**-**	**(8)**
Foreign governments	**3,878**	**(21)**	**-**	**(21)**	**182**	**(3)**	**-**	**(3)**
Foreign financial institutions	**2,456**	**(33)**	**-**	**(33)**	**630**	**(10)**	**-**	**(10)**
Others in Israel	**631**	**(19)**	**-**	**(19)**	**147**	**(7)**	**-**	**(7)**
Foreign others	**1,635**	**(53)**	**-**	**(53)**	**404**	**(16)**	**-**	**(16)**
Total bonds and debentures available for sale	**20,486**	**(158)**	**-**	**(158)**	**1,574**	**(44)**	**-**	**(44)**
Shares:								
Others	**734**	**(23)**	**-**	**(23)**	**-**	**-**	**-**	**-**
Total securities available for sale	**21,220**	**(181)**	**-**	**(181)**	**1,574**	**(44)**	**-**	**(44)**

NIS millions

Note 12 Securities (continued)

	December 31, 2014				
	Balance sheet value	Depreciated cost	Unrecognized gains from adjustments to fair value	Unrecognized losses from adjustments to fair value	Fair value*
1) Bonds held to maturity					
Bonds and debentures:					
Financial institutions in Israel	509	509	26	-	535

	Balance sheet value	Depreciated cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	37,049	36,268	793	(12)	37,049
Foreign governments	3,498	3,447	62	(11)	3,498
Financial institutions in Israel	819	801	18	-	819
Foreign financial institutions	5,083	5,051	42	(10)	5,083
Others in Israel	2,284	2,215	87	(18)	2,284
Foreign others	3,454	3,432	37	(15)	3,454
Total bonds and debentures available for sale	52,187	51,214	1,039	(66)	52,187
Shares:					
Others	2,563	2,170	418	(25)	(1)2,563
Total securities available for sale	54,750	53,384	(2)1,457	(2)(91)	(1)54,750

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 612 million.
(2) Included in equity in the item "adjustments for presentation of securities available for sale at fair value" within other comprehensive income

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

NIS millions

Note 12 Securities (continued)

	December 31, 2014				
	Balance sheet value	Depreciated cost (in shares-cost)	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value*
3) Securities held for trading					
Bonds and debentures:					
Israeli government	2,871	2,867	5	(1)	2,871
Foreign governments	43	42	2	(1)	43
Financial institutions in Israel	-	-	-	-	-
Foreign financial institutions	354	353	2	(1)	354
Others in Israel	20	19	1	-	20
Foreign others	181	176	9	(4)	181
Total bonds and debentures held for trading	3,469	3,457	19	(7)	3,469
Shares:					
Others	50	55	1	(6)	50
Total securities held for trading	3,519	3,512	(2)20	(2)(13)	3,519
Total securities(3)	58,778	57,405	1,503	(104)	(1) 58,804

4) Information regarding impaired bonds	
Recorded debt balance of:	
Impaired bonds accruing interest income	34

* Fair value data are usually based on stock exchange prices, which do not necessarily reflect the price that would be obtained from a large-volume sale of securities.
(1) Including shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 612 million.
(2) Charged to the statement of profit and loss.
(3) Of which: securities in the amount of approximately NIS 9.4 billion were pledged to lenders. See Note 27.

Notes:
A. For details of the results of activity in investments in bonds and in shares, see Note 2 and Note 3.
B. Israeli bonds and foreign bonds are differentiated according to the country of residence of the issuing entity.

NIS millions

Note 12 Securities (continued)

	December 31, 2014							
	Less than 12 months				12 months or more			
	Fair value	Unrealized losses		Total	Fair value	Unrealized losses		Total
		0-20%	20-40%			0-20%	20-40%	
5) Fair value and unrealized losses, by duration and rate of impairment, of securities available for sale in an unrealized loss position								
Bonds and debentures:								
Israeli government	1,878	(7)	-	(7)	226	(5)	-	(5)
Foreign governments	887	(1)	-	(1)	191	(10)	-	(10)
Foreign financial institutions	1,715	(9)	-	(9)	115	(1)	-	(1)
Others in Israel	393	(18)	-	(18)	-	-	-	-
Foreign others	1,062	(14)	-	(14)	44	(1)	-	(1)
Total bonds and debentures available for sale	5,935	(49)	-	(49)	576	(17)	-	(17)
Shares:								
Others	321	(21)	-	(21)	373	(4)	-	(4)
Total securities available for sale	6,256	(70)	-	(70)	949	(21)	-	(21)

Merger of Visa Europe and Visa Inc.

The Bank holds shares of Visa Europe. On December 21, 2015, Visa Inc. announced its intention to acquire Visa Europe. Upon closing of the transaction, towards the end of the second quarter of 2016, the Bank will transfer its holdings in Visa Europe, in consideration for a total of approximately EUR 20-25 million, to be received in cash and in restricted shares of Visa Inc. In addition, when four years have elapsed from the closing date, subject, among other matters, to compliance with future revenue tests and additional conditions, the Bank may receive contingent proceeds in the amount of approximately EUR 6-7 million in cash, if the Bank remains a Principal Member when the four years have elapsed. Upon the legal closing of the share exchange transaction, towards the end of the second quarter of 2016, the Bank is expected to recognize pretax income in the amount of approximately EUR 20-25 million. This profit is subject to changes that may result from appeals filed by other members of Visa Europe with regard to their share of the consideration. The recognition of profit in respect of the contingent proceeds will be postponed until such time as the amount in cash is determined, or can be determined.

NIS millions

Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses

1. Debts*, credit to the public, and allowance for credit losses

	2015					
	Credit to the public				Banks and governments	Total
	Commercial***	Housing	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	142,300	-	3,159	145,459	26,801	172,260
Debts examined on a collective basis(1)	25,697	61,120	50,635	137,452	-	137,452
(1) Of which: according to the extent of arrears	6,126	60,863	-	66,989	-	66,989
Total(2)	167,997	61,120	53,794	282,911	26,801	309,712
(2) Of which:						
Debts in restructuring	1,852	-	585	2,437	-	2,437
Other impaired debts	2,788	-	111	2,899	-	2,899
Total impaired debts	4,640	-	696	5,336	-	5,336
Debts in arrears of 90 days or more	133	640	84	857	-	857
Other problematic debts	3,251	-	252	3,503	-	3,503
Total problematic debts	8,024	640	1,032	9,696	-	9,696
Allowance for credit losses in respect of debts**						
In respect of debts examined on an individual basis	2,856	-	126	2,982	3	2,985
In respect of debts examined on a collective basis(3)	375	392	665	1,432	-	1,432
(3) Of which: according to the extent of arrears****	61	392	-	453	-	453
Total(4)	3,231	392	791	4,414	3	4,417
(4) Of which: in respect of impaired debts	985	-	111	1,096	-	1,096

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For details regarding the initial implementation of the directives of the Supervisor of Banks concerning the collective allowance for credit losses, see Note 1D(6).

*** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 6,126 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2014: NIS 5,599 million).

**** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 235 million (December 31, 2014: NIS 215 million).
Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 28 million (December 31, 2014: NIS 24 million).

NIS millions

Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

1. Debts**, credit to the public, and allowance for credit losses (continued)

	2014					
	Credit to the public				Banks and governments	Total
	Commercial	Housing*	Other private	Total		
Recorded debt balance						
Debts examined on an individual basis	137,840	-	3,584	141,424	34,046	175,470
Debts examined on a collective basis(1)	23,325	56,515	46,896	126,736	-	126,736
(1) Of which: according to the extent of arrears	5,599	56,196	-	61,795	-	61,795
Total(2)	161,165	56,515	50,480	268,160	34,046	302,206
(2) Of which:						
Debts in restructuring	2,047	-	568	2,615	-	2,615
Other impaired debts	3,544	-	122	3,666	-	3,666
Total impaired debts	5,591	-	690	6,281	-	6,281
Debts in arrears of 90 days or more	152	724	75	951	-	951
Other problematic debts	4,532	-	209	4,741	-	4,741
Total problematic debts	10,275	724	974	11,973	-	11,973
Allowance for credit losses in respect of debts***						
In respect of debts examined on an individual basis	2,682	-	163	2,845	4	2,849
In respect of debts examined on a collective basis(3)	244	387	704	1,335	-	1,335
(3) Of which: according to the extent of arrears*,****	58	387	-	445	-	445
Total(4)	2,926	387	867	4,180	4	4,184
(4) Of which: in respect of impaired debts	794	-	139	933	-	933

* Restated.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** For details regarding the initial implementation of the directives of the Supervisor of Banks concerning the collective allowance for credit losses, see Note 1D(6).

**** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 235 million (December 31, 2014: NIS 215 million).
Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 28 million (December 31, 2014: NIS 24 million).

NIS millions

Note 13 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

2. Change in allowance for credit losses

	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses as at December 31, 2012	3,356	358	969	4,683	5	4,688
Provision for credit losses	635	108	130	873	1	874
Charge-offs	(892)	(44)	(544)	(1,480)	-	(1,480)
Recoveries of debts charged off in previous years	331	-	175	506	-	506
Net charge-offs	(561)	(44)	(369)	(974)	-	(974)
Adjustments from translation of financial statements	-	-	(1)	(1)	-	(1)
Allowance for credit losses as at December 31, 2013	3,430	422	729	4,581	6	4,587
Provision for credit losses	138	(37)	326	427	(2)	425
Charge-offs	(897)	(3)	(476)	(1,376)	-	(1,376)
Recoveries of debts charged off in previous years	859	5	356	1,220	-	1,220
Net charge-offs	(38)	2	(120)	(156)	-	(156)
Allowance for credit losses as at December 31, 2014	3,530	387	935	4,852	4	4,856
Provision for credit losses	**291**	**5**	**180**	**476**	**(1)**	**475**
Charge-offs	**(918)**	**-**	**(586)**	**(1,504)**	**-**	**(1,504)**
Recoveries of debts charged off in previous years	**958**	**-**	**318**	**1,276**	**-**	**1,276**
Net charge-offs	**40**	**-**	**(268)**	**(228)**	**-**	**(228)**
Others	**(14)**	**-**	**(3)**	**(17)**	**-**	**(17)**
Allowance for credit losses as at December 31, 2015	**3,847**	**392**	**844**	**5,083**	**3**	**5,086**
Of which: in respect of off-balance sheet credit instruments						
December 31, 2013	563	-	75	638	-	638
December 31, 2014	604	-	68	672	-	672
December 31, 2015	**616**	**-**	**53**	**669**	**-**	**669**

NIS millions

Note 14 Credit to Governments

Composition:

	December 31	
	2015	2014
Credit to the government of Israel	**813**	560
Credit to foreign governments	**1,751**	1,301
Total credit to governments	**2,564**	1,861

Note 15 Investments in Equity-Basis Investees

A. Composition:

	2015	2014
	Equity-basis investees	
Investment in shares stated on an equity basis	**103**	96
Other investments		
Investment in owner loans	**40**	39
Total investments	**143**	135
Of which:		
Accrued post-acquisition profits, net	**102**	83
Details of the book value and market value of marketable investments:		
Book value	**20**	21
Market value	**43**	40

B. Share in the profits of equity-basis investees, net

	2015	2014	2013
The Bank's share in net profits of equity-basis investees	**19**	9	9

Note 15 Investments in Equity-Basis Investees (continued)

C. Details of principal subsidiary and affiliated companies

	Share in capital granting the right to receive profits		Share in voting rights		Investment in shares on an equity basis[(1)]	
	December 31					
	2015	2014	**2015**	2014	**2015**	2014
Consolidated companies:						
Bank Hapoalim (Switzerland) Ltd., a commercial bank in Switzerland	**100%**	100%	**100%**	100%	**1,676**	1,645
Bank Pozitif Kredi ve Kalkinma Bankasi A.S., a commercial bank in Turkey	**69.8%**	69.8%	**69.8%**	69.8%	**328**	495
Isracard Ltd., credit-card services	**98.2%**	98.2%	**98.2%**	98.2%	**2,412**	2,172
Poalim Capital Markets - Investment House Ltd.	**100%**	100%	**100%**	100%	**853**	863
Diur B. P. Ltd., asset management	**100%**	100%	**100%**	100%	**599**	585
Tarshish Holdings and Investments Poalim Ltd., financial company	**100%**	100%	**100%**	100%	**4,611**	4,601
Opaz Ltd., investments and holdings	**100%**	100%	**100%**	100%	**377**	406
Continental Poalim Ltd., financial company	**100%**	100%	**100%**	100%	**530**	530
Hapoalim Nechasim (Menayot) Ltd., holding company	**100%**	100%	**100%**	100%	**1,170**	1,197
Poalim Sahar Ltd., securities operation and trading	**100%**	100%	**100%**	100%	**550**	539
Zohar Hashemesh Investments Ltd.	**100%**	100%	**100%**	100%	**1,649**	1,637

(1) Including the balance of attributed surplus costs, goodwill, and capital notes, net of cumulative losses for decline in value.
(2) Including adjustments in respect of the presentation of certain securities of affiliates at fair value.

D. Sale of a subsidiary

On October 20, 2015, Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi (hereinafter: "Bank Pozitif"), which is incorporated and operates in Turkey and is controlled by the Bank, entered into an agreement for the sale of 100% of the share capital of JSC Bank Pozitiv Kazakhstan (hereinafter: the "Sold Company"), a wholly owned subsidiary of Pozitif incorporated in Kazakhstan, to Eurasian Bank JSC. The sale was completed on December 30, 2015, after the terms of the agreement were fulfilled and the required regulatory approvals were received. The Bank recorded a loss of approximately NIS 22 million as a result of this sale in the item of "non-interest financing income" in its financial statements.

NIS millions

	Goodwill balance and other intangible assets		Contribution to net profit attributed to shareholders of the Bank		Dividend recorded		Other items accrued in equity[(2)]		Guarantees for the company in favor of entities outside the Group	
	December 31									
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	-	7	**42**	85	**-**	-	**(11)**	23	**-**	-
	-	-	**(162)**	(20)	**-**	-	**(5)**	2	**-**	-
	-	-	**240**	282	**-**	-	**-**	(8)	**-**	-
	-	-	**(10)**	43	**-**	-	**-**	2	**-**	-
	-	-	**16**	(24)	**-**	-	**(2)**	2	**-**	-
	-	-	**130**	68	**-**	-	**(120)**	63	**-**	-
	-	-	**2**	2	**-**	-	**(31)**	34	**-**	-
	-	-	**-**	2	**-**	(65)	**-**	1	**-**	-
	-	-	**19**	17	**-**	-	**(46)**	(44)	**-**	-
	-	-	**11**	13	**-**	(15)	**-**	-	**-**	-
	-	-	**38**	18	**-**	-	**(26)**	30	**-**	-

NIS millions

Note 16 Buildings and Equipment

A. Composition:

	Buildings and land (including installations and improvements to rented properties)	Equipment, including computers, furniture, and vehicles	Software[(1)]	Total
Cost of assets:				
Balance as at December 31, 2013	3,891	2,009	3,643	9,543
Additions	227	161	314	702
Subtractions	(29)	(21)	(36)	(86)
Adjustments from translation of financial statements	-	-	1	1
Balance as at December 31, 2014	4,089	2,149	3,922	10,160
Additions	160	169	302	631
Subtractions	(25)	(13)	(123)	(161)
Adjustments from translation of financial statements	-	-	-	-
Balance as of December 31, 2015*	**4,224**	**2,305**	**4,101**	**10,630**
Depreciation and losses from impairment:				
Balance as at December 31, 2013	1,960	1,499	2,652	6,111
Annual depreciation	156	146	336	638
Subtractions	(22)	(18)	(25)	(65)
Adjustments from translation of financial statements	-	-	1	1
Balance as at December 31, 2014	2,094	1,627	2,964	6,685
Annual depreciation	139	178	333	650
Loss from impairment	1	-	13	14
Cancellation of loss from impairment	-	-	-	-
Subtractions	(14)	(10)	(104)	(128)
Adjustments from translation of financial statements	-	-	-	-
Other	-	-	-	-
Balance as at December 31, 2015	**2,220**	**1,795**	**3,206**	**7,221**
Book value				
Balance as at December 31, 2013	1,931	510	991	3,432
Balance as at December 31, 2014	1,995	522	958	3,475
Balance as at December 31, 2015	**2,004**	**510**	**895**	**3,409**
Weighted average depreciation rate, in %, as at December 31, 2014	5.1	14.4	20.0	
Weighted average depreciation rate, in %, as at December 31, 2015	**4.7**	**13.0**	**20.0**	

* Balance of fully depreciated assets included in balance of cost of assets: Buildings and land, including installations and improvements to rented properties: NIS 1,196 million.
Equipment, including computers, furniture, and vehicles: NIS 1,255 million; software costs: NIS 2,325 million.

(1) Of which: capitalized costs of software developed in house with a net balance sheet balance in the amount of NIS 707 million (December 31, 2014: NIS 810 million; December 31, 2013: NIS 897 million).

Note 16 Buildings and Equipment (continued)

B. Additional details regarding depreciation:

The depreciation method and the main depreciation rates implemented by the Bank for the various groups of assets are set out below.

Buildings - 2% per year in a straight line.

Land leased from the Israel Land Administration - according to the term of the lease.

Installations and improvements to rental properties - according to the rental period, taking into consideration the Bank's intention to exercise the option to extend the rental period, if such an option exists.

Computers - 20% per year in a straight line.

Office equipment and furniture - 6-15% per year in a straight line.

Software - 20% per year in a straight line.

C. The Bank holds rights in the form of rental or leases in buildings and equipment, for a period not exceeding 49 years from the balance-sheet date, in the amount of NIS 163 million (December 31, 2014: NIS 176 million).

D. The balance sheet balance of buildings available for sale, in the amount of NIS 22 million (December 31, 2014: NIS 12 million), is presented after deduction of the provision for impairment. No loss is expected from the realization of the buildings up for sale, beyond the provisions recorded in respect thereof.

E. Rights to land in the amount of NIS 73 million (December 31, 2014: NIS 74 million) have not yet been recorded at the Israel Land Registry Bureau, mainly due to delays in the unification of lots, or the rights are in the process of being recorded.

F. The balance sheet balance of buildings not in use by the Bank, mainly rented buildings, totaled NIS 25 million (December 31, 2014: NIS 25 million), representing investment property rented to others, in both periods.

G. The balance sheet balance of buildings and equipment under construction totaled NIS 189 million (December 31, 2014: NIS 142 million). Costs recorded in the books as additions to the cost of a building totaled NIS 49 million.

NIS millions

Note 17 Intangible Assets and Goodwill

	Goodwill	Customer relationships	Total
Cost			
Balance for 2013-2015	**237**	**134**	**371**
Depreciation and losses from impairment			
Balance as at December 31, 2013	237	115	352
Annual depreciation	-	12	12
Balance as at December 31, 2014	237	127	364
Annual depreciation	-	7	7
Balance as at December 31, 2015	**237**	**134**	**371**
Book value			
Balance as at December 31, 2013	-	19	19
Balance as at December 31, 2014	-	7	7
Balance as at December 31, 2015	**-**	**-**	**-**

NIS millions

Note 18 Other Assets

Composition:

	December 31	
	2015	2014
Deferred tax assets, net**	**3,604**	*3,838
Current taxes - excess of advances paid over current liability for income tax	**149**	52
Assets received in respect of credit settled	**66**	72
Expenses for issuance of bonds and subordinated notes	**86**	81
Income receivable	**296**	280
Prepaid expenses***	**258**	273
Assets in respect of activity in the Maof market(1)	**1,189**	2,183
Other receivables and debit balances	**609**	1,324
Total other assets	**6,257**	*8,103

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).
** See also Note 8D.
*** Includes prepaid expenses in the amount of NIS 15 million in respect of operating leases in which the Bank is the lessee (2014: NIS 18 million).
(1) Stated at fair value.

NIS millions

Note 19 Deposits from the Public

A. Types of deposits, by location of deposit taking and by type of depositor

	December 31	
	2015	2014
In Israel		
On demand		
Non-interest bearing	**97,188**	67,330
Interest bearing	**68,176**	53,760
Total on demand	**165,364**	121,090
Fixed term	**124,564**	148,349
Total deposits from the public in Israel*	**289,928**	269,439
Outside Israel		
On demand		
Non-interest bearing	**9,992**	9,029
Interest bearing	**9,723**	10,172
Total on demand	**19,715**	19,201
Fixed term	**12,084**	8,590
Total deposits from the public outside Israel	**31,799**	27,791
Total deposits from the public	**321,727**	297,230
* Of which:		
Deposits of private individuals	**150,219**	138,568
Deposits of institutional entities	**37,250**	**35,189
Deposits of corporations and others	**102,459**	**95,682

** Reclassified.

B. Deposits from the public by size

	December 31	
	2015	2014
Deposit ceiling		
Up to 1	**108,213**	100,968
Over 1 up to 10	**81,091**	73,445
Over 10 up to 100	**53,447**	48,097
Over 100 up to 500	**33,994**	30,682
Over 500	**44,982**	44,038
Total	**321,727**	297,230

NIS millions

Note 20 Deposits from Banks

Composition:

	December 31	
	2015	2014
In Israel		
Commercial banks:		
On demand deposits	**2,885**	2,105
Fixed term deposits	**220**	673
Acceptances	**473**	371
Outside Israel		
Commercial banks:		
On demand deposits	**140**	171
Fixed term deposits	**627**	665
Acceptances	**2**	1
Central banks:		
On demand deposits	**-**	336
Fixed term deposits	**426**	-
Total deposits from banks	**4,773**	4,322

Note 21 Bonds and Subordinated Notes

A. Composition:

	December 31			
	2015			2014
	Average duration[1]	Internal rate of return[2]	NIS millions	
Bonds and subordinated notes not convertible into shares:				
In Israeli currency[3]				
Unlinked	**1.8**	**5.5%**	**6,090**	6,105
Linked to the CPI	**3.9**	**2.6%**	**21,702**	20,163
In foreign currency[4]				
USD	**2.1**	**3.2%**	**1,668**	1,784
Other	**0.4**	**11.4%**	**281**	648
Bonds and subordinated notes convertible into shares[5]:				
In Israeli currency[3]				
Unlinked	**-**	**0.0%**		
CPI-linked	**3.3**	**5.9%**	**4,734**	4,971
Total bonds and subordinated notes*	**3.3**	**3.6%**	**34,475**	33,671
Of which: subordinated notes				
Included in Tier 1 capital	**-**	**-**	**1,709**	1,954
Included in Tier 2 capital	**-**	**-**	**10,678**	12,204
Others not included in capital	**-**	**-**	**7,498**	7,719
Total subordinated notes	**3.3**	**4.7%**	**19,885**	21,877

* According to the conditions of the issue, under certain circumstances, the bonds are eligible for early redemption.
In order to guarantee bonds issued by consolidated companies, liens were recorded on the companies' assets. For further details, see Note 27 below.

(1) The average duration is the average maturity period, weighted by the cash flow discounted at the internal rate of return.

(2) The internal rate of return is the interest rate that discounts the expected flow of payments to the balance sheet balance included in the financial statements.

(3) Of which: listed on the Tel-Aviv Stock Exchange in the amount of NIS 28,656 million (December 31, 2014: NIS 27,142 million), and the remaining amount not listed.

(4) Of which: Listed on the stock exchange abroad, in the amount of NIS 867 million (December 31, 2014: NIS 1,237 million).

(5) As of January 1, 2015, banks are required to implement the guidelines in the circular with regard to reporting according to US GAAP on distinguishing liabilities from equity. For further information, see Note 1D(2).

NIS millions

Note 21 Bonds and Subordinated Notes (continued)

B. Additional details regarding subordinated notes:

(1) Subordinated capital notes (Series B) issued in February 2004 and subordinated capital notes (Series C) issued in November 2007 and September 2008 for a period of 99 years, which can be redeemed early beginning in the fifteenth year from their issue. Subordinated capital notes (Series D) issued in September 2009 for a period of 49 years, which can be redeemed early beginning in the tenth year from their issue. In accordance with the terms of the issue, when certain events occur, the capital notes will be converted to ordinary shares of the Bank. The subordinated capital notes have been approved by the Supervisor of Banks as "hybrid capital instruments" that are included in the Bank's Tier 1 capital.

(2) Subordinated capital notes (Series A) issued in 2001 for a period of 99 years, which can be redeemed early beginning in the fifteenth year from their issue. Subordinated capital notes Series 1 issued in June 2009 for a period of 50 years, which can be redeemed early beginning in the eleventh year from their issue. In accordance with the terms of the issue, when certain events occur, the capital notes will be converted to ordinary shares of the Bank. The subordinated capital notes have been approved by the Supervisor of Banks as "hybrid capital instruments" included in the Bank's Tier 2 capital. The aforementioned capital notes are listed for trading on the Tel Aviv Stock Exchange.

Note 22 Other Liabilities

Composition:

	December 31	
	2015	2014
Deferred tax liability, net***	**83**	129
Current taxes - surplus current income-tax liability over advances paid	**46**	89
Income in advance	**401**	406
Employees, in respect of salaries	**1,238**	*1,069
Provision for severance pay, retirement compensation, and pensions.****	**3,681**	*3,866
Expenses payable	**541**	**424
Creditors in respect of credit-card activity	**14,341**	13,897
Allowance for credit losses in respect of off-balance sheet credit risk	**669**	672
Liabilities in respect of activity in the Maof market(1)	**1,189**	2,183
Other creditors and credit balances	**1,012**	**1,585
Total other liabilities	**23,201**	*24,320

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).
** Reclassified.
*** See also Note 8D.
**** See also Note 23.
(1) Stated at fair value.

Note 23 Employee Benefits

The employees of the Bank include:

- Permanent and temporary employees – Employees whose terms of employment are established in a collective manner, in collective agreements and arrangements formulated from time to time between the Bank and the Employee Union at the Bank;
- Employees under personal contract – Employees whose terms of employment are established in personal contracts, such that the collective agreements and arrangements do not apply to them;
- Employees under executive personal contract – Certain employees within the management stratum of the Bank (including members of the Board of Management), whose terms of employment are established in personal contracts such that the collective agreements and arrangements do not apply to them.

On January 5, 2014, the Bank published its remuneration policy for officers pursuant to Amendment 20 to the Companies Law, 1999 (the "Companies Law"), and in accordance with Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks of November 19, 2013 ("Banking Corporation Remuneration Policy Directive") and the additional comments received from the Supervisor of Banks (the "Remuneration Policy"). The Remuneration Policy was adopted by the general meeting of shareholders of the Bank on February 11, 2014. The Bank adopted a general remuneration policy for its senior executives and employees (this policy, together with the Remuneration Policy, shall be referred to as the "Remuneration Policy"), and a corresponding remuneration plan (the "2014 Plan"), on June 22, 2014.

Pursuant to the Banking Corporation Remuneration Policy Directive, the subsidiaries of the Bank have reported to the Bank that they completed the procedure of adopting a remuneration policy by the date established by law, as noted above. The Bank is in the process of completing the application of the principles of its Remuneration Policy to its subsidiaries overseas and branches overseas as well, with certain adjustments, and to the subsidiaries thereof, if any.

On August 13, 2015, the Supervisor of Banks published an amendment to the Banking Corporation Remuneration Policy Directive, primarily concerning the duty to recover variable remuneration paid to a key employee (clawback) and remuneration of the chairperson of the board of directors of a banking corporation. The Bank is currently working to update its remuneration policy in accordance with this amendment.

The terms of employment of the employees of the Bank are set out below:

A. Terms of Employment of Permanent and Temporary Employees

The principal benefits, beyond the regular salary components, to which the aforesaid employees of the Bank are entitled are set out below:

1. Annual bonuses

The annual bonus is determined by the rate of return of net profit on equity. The basic threshold for the distribution of this bonus is a rate of return of 7.5%. The average annual bonus is in the amount of up to three monthly salaries; part of the bonus is distributed uniformly to all employees, while the remainder is distributed differentially, based on employee performance.

Note 23 Employee Benefits (continued)

2. Share-based compensation

Pursuant to the wage agreement signed in March 2013 by the Board of Management of the Bank and the Employee Union of the Bank for 2013-2017, on March 6, 2013, the Bank adopted a plan for the allocation of phantom shares to employees, in 2013 to 2017, to be exercised into cash during 2017 to 2021, at terms similar to those of the option notes allocated to permanent employees of the Bank under the collective agreement that was in effect until 2013. For further information regarding the terms of the phantom shares, see Note 24 below.

3. Wage agreement

Pursuant to the wage agreement of March 2013, among other matters: (1) the Bank paid its employees a one-time bonus in the amount of one monthly salary; (2) employees' combined wages increased, differentially, based on pay grades; (3) along with the adjustment of certain related terms, certain post-employment benefits were canceled; (4) the Bank granted phantom shares to its employees, instead of options, as noted above; and (5) the method and volume of ranking of Bank employees, the seniority mechanism, and the annual bonus will remain similar to the format used until the wage agreement was signed.

B. Terms of Employment of Employees under Personal Contracts

The customary terms of remuneration for these employees usually include a basic salary, share-based compensation (as noted above), employer contributions to a pension arrangement and study fund, an annual bonus, and other benefits.

C. Terms of Employment of Employees under Executive Personal Contracts

The following are the main benefits, in addition to regular salary components, to which employees under executive personal contracts are entitled during the period of their employment, subject to the directives of the Remuneration Policy of the Bank, including the directives regarding the inception and application of the Remuneration Policy. On March 6, 2013, the Remuneration Committee and the Board of Directors resolved to approve the request by the Chairman of the Board, the Chief Executive Officer, and the members of the Board of Management of the Bank to reduce their wages by 5%. In addition, at the request of certain senior employees (who are not officers of the Bank), their wages were reduced by 2.5%.

1. Fixed remuneration

Pursuant to the 2014 Plan, employees of the Bank employed under executive personal contracts are entitled to fixed remuneration that does not entitle them to social benefits, in an amount dependent upon the executive's rank and position (the amount of the fixed remuneration reflects the reduction in wages of the members of the Board of Management of the Bank and of the senior executives, as described at the end of this Section C, above). Executives who are part of the supervision and control functions are entitled to additional fixed annual remuneration that does not entitle them to social benefits. Members of the Board of Management are also entitled, in addition to these two components, to annual equity compensation in a fixed monetary amount, used to purchase shares of the Bank on the Tel Aviv Stock Exchange.

Note 23 Employee Benefits (continued)

Employees of the Bank employed under executive personal contracts that end by December 31, 2016, are not subject to the 2014 Plan, and are entitled to an annual signing bonus during the period of their employment. This bonus is paid once annually. In cases in which the bonus is not conditional upon continued employment, the liability is calculated based on the current value of the payments over the term of the agreement, and the expense is recorded upon signing the contract.

2. Risk-adjusted performance-based annual bonus and share-based compensation

Employees of the Bank employed under executive personal contracts are entitled to an annual bonus, as detailed in Section F below. Such employees whose employment agreements are in effect until December 31, 2016, also receive share-based payment (in accordance with the 2010 Plan, as defined in Section F below). With regard to retirement compensation and pensions, see Section E below.

D. Other Benefits

In addition to the benefits described above, employees of the Bank are entitled to additional benefits, during and after the period of their employment, primarily the following:

1. Vacation

Bank employees are entitled, by law and according to labor agreements, to annual vacation days. The provision was calculated based on employees' most recent salaries and the number of vacation days accumulated, with the addition of the required related expenses. The balance of the provision as at the balance sheet date totals NIS 61 million (December 31, 2014: NIS 79 million).

2. 25 year service grant

Employees are entitled to a grant at the end of 25 years of employment at the Bank. This liability is calculated based on actuarial calculations, taking into account real salary gains for active employees, depending on the employee's age, and capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread that has been determined (the gap between the yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States and rates of yield to maturity for the same maturity periods of United States government bonds).

3. Other post-employment benefits

After retirement or after taking early retirement, Bank employees are entitled to a grant in respect of unutilized sick days, benefits for holiday gifts, and participation in well-being costs. These liabilities are calculated based on actuarial calculations that take into account, as relevant, among other things, a real salary increment, and are capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread that has been determined (the gap between the yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States and rates of yield to maturity for the same maturity periods of United States government bonds).

Note 23 Employee Benefits (continued)

E. Retirement Compensation and Pensions

1. General

The pension rights of employees reaching retirement age are covered by the amounts accumulated in pension funds and in allowance-based provident funds. Employees who retire or who take early retirement are not entitled to severance pay.

2. Pensions for employees taking early retirement

Employees who retire on an allowance-based track are entitled to a monthly pension, until the date established in the retirement agreement. The provision is based on an actuarial calculation, and is capitalized according to the yield of CPI-linked government bonds in Israel, plus a spread that has been determined (the gap between the yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States and rates of yield to maturity for the same maturity periods of United States government bonds).

3. Early retirement of active employees

In addition to the rights described above, in its actuarial calculation of the liability in respect of employee benefits, the Bank includes a liability in respect of employees who the Board of Management of the Bank expects to take early retirement or to depart with other preferred terms.

The liability was calculated based on an actuarial calculation taking the following into consideration, among other factors:

(1) A real wage increment for active employees, according to the employee's age.

(2) Rates of departure with enlarged severance pay and early retirement, according to the experience of the Bank, taking into consideration factors including the age and gender of the employee. These rates reflect the expectations of the Board of Management and its decisions regarding employee retirement with preferred terms.

(3) A real discount rate calculated according to the yield of CPI-linked government bonds in Israel, plus a spread that has been determined (the gap between the yield to maturity, by maturity period, of corporate bonds rated AA or higher in the United States and rates of yield to maturity for the same maturity periods of United States government bonds) in accordance with the directives of the Supervisor of Banks.

(4) A mortality and disability rate based on current mortality tables published by the Chief Actuary of the Ministry of Finance.

4. Personal contracts - employees of the bank

(A) Members of the Board of Management, including the CEO, and a group of senior employees (hereinafter: the "Senior Employees") are employed under personal contracts, according to which in the event that the Bank decides on its own initiative to dismiss one of the Senior Employees or to terminate his/her employment at the end of the period of the agreement, the Senior Employee shall be entitled to severance pay at a rate of 250%.

Note 23 Employee Benefits (continued)

(B) In addition, with regard to some of the Senior Employees, in cases in which the Bank decides on its own initiative to dismiss one of them, or when the Senior Employee reaches the date on which the sum of his/her age and his/her period of employment at the Bank exceeds 75 years (for a member of the Board of Management serving at least seven years in his/her position, the number of years of service on the Board of Management shall be added as additional years of employment for the purpose of the accrual of 75 years, as described above), the member of the Board of Management or the Senior Employee shall be entitled to early retirement, and may choose between enlarged severance compensation at a rate of 250% of his/her last monthly salary multiplied by the number of years of employment at the Bank, or a monthly pension at varying rates, to be paid from the date of his/her early retirement until he/she reaches the retirement age specified by law. The rate of the pension for a member of the Board of Management is 2.67% per year for the first 15 years of work, 2% per year for each additional year in which he/she did not serve as a member of the Board of Management, and 2.5% for each year in which he/she served as a member of the Board of Management, up to a maximum rate of 70% of the salary that entitles him/her to the pension. With regard to Senior Employees, as noted above, who are not members of the Board of Management, the rate of the pension is 2.55% for the first 15 years of work, 1.5% per year for each additional year until the date of the signing of the start of their employment under personal contract, and 2% per year for each additional year, up to a maximum rate of 70% of the salary that entitles the employee to the pension. A member of the Board of Management or a Senior Employee who has reached the age of 62 may choose a monthly allowance only. The CEO is entitled to an adjustment period of six months. The Bank has recorded a full provision for this obligation.

(C) The Chairman of the Board of Directors is entitled to receive severance pay, in any event, at a rate of 250%. In addition, at the end of his term of service, he is entitled to receive payment from the Bank of his full wages and all payments, provisions, and rights to which he was entitled during his service, for an adjustment period of six months. The Bank has recorded a full provision for this obligation.

5. Efficiency plan

The efficiency plan supporting the Bank's multi-year strategy continued in 2015. Over the coming years, the efficiency plan will lead to savings on human-resource costs as well as on other costs, as a result of reduced area at the head office and branches of the Bank. Among other matters, the efficiency plan encompasses structural changes, a reduction in standard positions, and training of employees for assignment to new business activities initiated by the Bank. These initiatives include expansion of the Bank's activity in certain sectors, in which the Bank has identified growth potential and expansion opportunities.

On January 12, 2016, the Supervisor of Banks issued a circular concerning operational efficiency in the banking system, requiring banks to examine and approve a multi-year efficiency plan for the coming five years and principles for a long-term improvement in efficiency. The circular includes eased requirements with regard to the effect of efficiency plans to be carried out in the context of compliance with the capital-adequacy targets set by the Supervisor of Banks. In light of the circular of the Supervisor, the Bank is in the initial stages of analysis and evaluation based on the structural changes implemented recently. The formulation of the format for short-term and long-term efficiency is in a preliminary stage, and the Bank cannot estimate the timing, volume, or mix of departing employees at this time. Accordingly, any consequences of future efficiency plans were not taken into consideration in the update of actuarial assumptions for 2015.

Note 23 Employee Benefits (continued)

F. Remuneration Plan for Employees under Senior Personal Contracts - Bonuses and Equity Compensation

2010 Plan and 2014 Plan

In August 2010, the Audit Committee and the Board of Directors of the Bank approved a remuneration plan (as amended from time to time) for the Chairman of the Board, the CEO of the Bank, the members of the Board of Management of the Bank (who are officers of the Bank), and the group of senior executives at the Bank (who are not officers of the Bank) (jointly, the "Executives"), applicable from January 1, 2010 forward (subject to adjustments in special cases) (the "2010 Plan").

The 2010 Plan encompasses two methods of remuneration (in addition to wages and other benefits at the Bank): a risk-adjusted performance-based annual bonus, and equity compensation in the form of a restricted phantom share plan, which was replaced in 2012 by a secondary plan for the grant of restricted stock units (RSU).

Pursuant to the transitional directives in the Remuneration Policy and in Directive 301A, executives' remuneration shall transition gradually from the 2010 Plan to the 2014 Plan adopted by the Bank on June 22, 2014, in accordance with the directives of the Bank's Remuneration Policy, such that no later than 2017, all remuneration of executives and employees of the Bank shall be based on the 2014 Plan. With regard to the 2014 Plan, see the first paragraph of this note, above.

The following are the main points of the 2010 Plan and the 2014 Plan (together, the "Plans"):

(A) Members of management

1. Risk-adjusted performance-based annual bonus

1.1. Establishment of the bonus budget for members of management (excluding the Chief Internal Auditor, the Chief Risk Officer, and the Chief Accountant ("Control and Supervision Functions"))

Pursuant to the Plans, the bonus budget for members of management in any given year (the "Management Members' Bonus Budget") is based on the difference between net return on equity in that year (as it appears in the annual financial statements), net of the following amounts: (a) profit/loss arising from a change in holdings in a subsidiary or equity-basis investee, or sale of buildings in a cumulative amount exceeding NIS ten (10) million annually; and (b) amounts allocated as bonuses for the senior officers of the Bank (i.e. officers and executives who have signed a personal employment contract considered a senior contract by the Board of Management of the Bank) (the "Actual ROE") and the required cost of capital (the "ROE Difference"). The required cost of capital refers to the cost of capital of the Bank (in terms of the ROE rate) for the purposes of payment of bonuses according to the relevant plan (the "Required Cost of Capital") (the Required Cost of Capital was set at 7.89% for 2014, 6.395% for 2015, and 6.805% for 2016). Notwithstanding the foregoing, a lower threshold of 8% was established for the 2010 Plan (and 8.5% for the Chairman and CEO of the Bank), and a lower threshold of 7.5% was established for the 2014 Plan.

Note 23 Employee Benefits (continued)

According to the 2010 Plan, the bonus budget can be positive or negative, and is calculated as follows:

Positive bonus budget – In a year in which the actual ROE Difference is positive, the total positive bonus budget for members of management shall be calculated in accordance with the actual ROE Difference, the average shareholders' equity of the Bank, and the average monthly salary of a member of management. The bonus budget is calculated according to a progressively rising scale of the actual ROE Difference, from an actual ROE Difference of 0.5% to a ceiling of 6%. In a year in which the actual ROE Difference is in the range of 0% to 0.5%, the Board of Directors, based on a recommendation by the CEO of the Bank, may approve an annual bonus in a positive amount equal to up to two (2) monthly salaries.

Negative bonus budget – In a year in which the actual ROE Difference is negative, the total negative bonus budget for the members of management shall be calculated as a negative amount, in accordance with the actual ROE Difference, the average shareholders' equity of the Bank, and the average monthly salary of a member of management, from a negative actual ROE Difference of 0.5% to a negative ceiling of 6.5%.

The Board of Directors is authorized to increase or reduce the (positive or negative) Management Members' Bonus Budget by up to 10%. In the event that the bonus budget in respect of a certain year is negative due to special external circumstances that affect the entire banking system in Israel in that year, the Board of Directors may reduce or cancel the negative Management Members' Bonus Budget in respect of that year.

According to the 2014 Plan, the bonus budget is calculated as follows:

In a year in which the actual ROE Difference is not negative, the total Management Members' Bonus Budget shall be calculated according to the actual ROE Difference, the average shareholders' equity of the Bank, and the average monthly salary of a member of management. In a year in which there is no actual ROE Difference, members of management are entitled to a basic bonus (the "Basic Bonus"). In a year in which the actual ROE Difference is positive, members of management are entitled to a bonus based on a progressively rising scale of the actual ROE Difference, from an actual ROE Difference of 0.5%, to a ceiling of 3%. In a year in which the actual ROE Difference is negative, the Board of Directors may, according to the recommendation of the Bank's CEO, approve an annual bonus equal to up to two (2) monthly salaries.

1.2. Distribution of the bonus budget among the members of management (excluding Control and Supervision Functions)

Pursuant to the Plans, each year, the (positive or negative – in the 2010 Plan) bonus budget shall be distributed to the members of management in respect of the previous year, proportionally to the personal grade of each management member (which shall be adjusted to the salary of the member of management relative to the salaries of the other members of management). Part of the personal grade shall be fixed and shall be assigned to each member of management. Part of the personal grade shall be assigned to each member of management according to the assessment by the Bank's CEO of the management member's achievement of predefined performance targets. Part of the personal grade shall be assigned to each member of management according to the recommendation of the Bank's CEO, based on his judgment and subject to the applicable legal directives, including the Remuneration Policy of the Bank. The division of the bonus budget among the members of management and the establishment of the annual bonus for each member of management shall in any event be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law).

Note 23 Employee Benefits (continued)

The positive annual bonus for an individual member of management shall in any event not exceed an amount equal to eighteen monthly salaries of that member of management, according to the 2010 Plan; and the lower of (a) NIS 2.67 million, linked to the known consumer price index on February 11, 2014 and (b) the cost of fixed remuneration of the member of the management in the bonus year (subject to the Remuneration Policy of the Bank; in special cases, the Board of Directors may approve a bonus exceeding this ceiling, up to 200% of the fixed remuneration), according to the 2014 Plan. The negative annual bonus for a member of management pursuant to the 2010 Plan shall in any event not exceed an amount equal to ten monthly salaries of the member of management. In any event, a management member's bonus account shall not have a negative balance in an amount exceeding three monthly salaries of the member of management.

1.3. Annual bonus for the members of management responsible for Control and Supervision Functions

According to the directives of the 2010 Plan, the (positive or negative) annual bonus of each member of management in the Control and Supervision Functions shall comprise the following amounts:

(1) A sum (positive or negative, as relevant) constituting a certain percentage of the representative budget for members of management (this rate was set at 55% for 2015), adjusted to the salary of the member of management belonging to the Control and Supervision Functions relative to the average salary of all members of management.

(2) An additional sum in the amount of up to two monthly salaries of the member of management, which shall be determined proportionally to the personal grade assigned to the member of management according to the achievement of performance targets.

(3) An additional sum in the amount of up to two monthly salaries of the member of management, to be determined according to an opinion of the supervisors of the member of management.

The components of the bonus listed above may be offset against one another. The establishment of the annual bonus for members of management responsible for Control and Supervision Functions shall in any event be subject to approval by the Board of Directors (and any committee of the Board of Directors as required by law). The positive annual bonus of a member of management as aforesaid shall in any event not exceed an amount equal to thirteen monthly salaries of the member of management, while the negative annual bonus of a member of management shall in any event not exceed an amount equal to eight monthly salaries of the member of management. In any event, a management member's bonus account shall not have a negative balance in an amount exceeding three monthly salaries of the member of management.

Note 23 Employee Benefits (continued)

According to the directives of the 2014 Plan, the annual bonus of each member of management in the Control and Supervision Functions shall comprise the following amounts:

(1) In a year in which the actual ROE Difference is not negative, the representative bonus budget for members of management in the Control and Supervision Functions shall be calculated according to the actual ROE Difference, the average shareholders' equity of the Bank, and the average monthly salary of a member of management. In a year in which there is no actual ROE Difference, a member of management in the Control and Supervision Functions shall be entitled to a basic bonus (the "Basic Bonus"). In a year in which the actual ROE Difference is positive, a member of management in the Control and Supervision Functions shall be entitled to a bonus based on a progressively rising scale of the actual ROE Difference, from an actual ROE Difference of 0.5%, to a ceiling of 3%. The representative budget for a member of management responsible for Control and Supervision Functions in respect of any bonus year shall in any event not exceed NIS 2 million, linked to the known consumer price index on February 11, 2014.

(2) An additional (positive or negative) amount at a volume of up to 20% of the representative budget for a member of management responsible for Control and Supervision Functions shall be determined proportionally to the personal grade assigned to the member of management, based on achievement of performance objectives and work plans in respect of the bonus year, such that if a member of management receives the maximum personal grade, he/she shall be entitled to an additional amount of 20% of the representative budget for a member of management responsible for the Control and Supervision Functions, and if he/she receives the minimum personal grade, the representative budget for a member of management responsible for Control and Supervision Functions shall be reduced by up to 20%. If the member of management receives a grade in the range between the maximum and minimum grades, he/she shall receive a bonus proportional to his/her grade.

The annual bonus for a member of management responsible for Control and Supervision Functions shall not exceed the lower of: (a) NIS 2.4 million, linked to the known consumer price index on February 11, 2014; and (b) the cost of fixed remuneration of the member of the management in the bonus year (in special cases, the Board of Directors may approve a bonus exceeding this ceiling, up to 200% of the fixed remuneration).

The annual bonus for members of management is subject to the directives of Amendment 20 to the Companies Law and Directive 301A, including with regard to the judgment component in determining the bonus.

Note 23 Employee Benefits (continued)

1.4. Payment mechanism – spreading of the annual bonus and the annual payment according to the 2010 Plan – each year, the amount of the (positive or negative) annual bonus determined in respect of the preceding year shall be added to or subtracted from the bonus account of each member of management (the "Annual Deposit"), and a payment shall be made in an amount equal to 50% of the balance in the bonus account after the Annual Deposit in respect of the preceding year (assuming that the bonus account balance is positive) (the "Annual Payment"). If, in a certain year, the Bank has a net loss for the year or is in material deviation from the required capital-adequacy ratios, the next Annual Payment shall be performed only after the release of annual financial statements of the Bank (or quarterly financial statements, pursuant to a decision by the Board of Directors) presenting a net profit, or the cessation of the material deviation from the required capital-adequacy ratios, as relevant. According to the directives for transition from the 2010 Plan to the 2014 Plan, any remaining balance in the bonus account at the end of the bonus year in which the executive transfers to the 2014 Plan shall be paid such that 50% of the balance is paid one year after the end of the transition year, and the remainder is paid one year later. This payment is subject to the condition described above regarding the capital-adequacy ratio.

According to the 2014 Plan, 50% of the total annual bonus of the members of management shall be paid in cash, and 50% of the total annual bonus shall be deferred and spread over three (3) years through the allocation of performance-dependent RSU, as detailed below. Notwithstanding the aforesaid, in a year in which the variable remuneration for a member of management does not exceed 1/6 (one sixth) of the fixed remuneration for the member of management in the bonus year, the aforesaid variable remuneration in respect of the bonus year shall be paid in cash, in full (100%). If, in the most recent financial statements of the Bank released before the date of the Annual Payment in any year, the Bank is in material deviation from the required capital-adequacy ratios, the payment in respect of the annual bonus shall not be performed at the date described above; instead, the payment shall be performed only after the publication of annual financial statements presenting cessation of the material deviation in capital-adequacy ratios. The Remuneration Committee and the Board of Directors are authorized to determine that the aforesaid payment should be deferred, even in the event of a non-material deviation in capital-adequacy ratios.

1.5. Termination of employment – according to the 2010 Plan, for the year in which the day of termination of employment occurs, the proportional share of the (positive or negative) annual bonus for that year shall be added to or subtracted from the bonus account (as relevant). In the following year, except in certain cases (such as death or disability), as a substitute for the Annual Payment, shares of the Bank shall be purchased for the member of management (by a trustee appointed for that purpose) on the stock exchange in the amount of the balance of the bonus account, after deduction at source of income tax and other mandatory payments applicable by law, and provided that the aforesaid balance is positive. Shares purchased in the aforesaid manner shall be restricted and cannot be sold or transferred until 24 months have elapsed from the date of the termination of employment.

According to the 2014 Plan, the member of management shall be entitled to the proportional share of the annual bonus in respect of the bonus year in which the day of termination of employment occurs, based on the duration of his/her employment in the bonus year as a percentage of the total bonus year (calculated by day).

Note 23 Employee Benefits (continued)

1.6. Bonus in respect of special profits – pursuant to the Plans, in respect of any year in which special profits (as defined in the Plans) are generated, an additional amount shall be determined, which shall be added to the representative budget established for the entire group of members of management (the "Additional Budget Amount"). The Additional Budget Amount shall be determined by the Remuneration Committee and the Board of Directors, and in any event shall not exceed an amount equal to four monthly salaries of the member of management for a given year. Pursuant to the 2014 Plan, similarly, a negative bonus in respect of special losses may also apply, to be subtracted from the representative budget.

1.7. With regard to members of management in the Control and Supervision Functions, an amount equal to the Additional Budget Amount shall be added to the average annual bonus according to the 2010 Plan, or the representative budget according to the 2014 Plan, for these executives in respect of the bonus year in which the special profits were generated. Pursuant to the 2014 Plan, similarly, a negative bonus in respect of special losses may also apply, to be subtracted from the representative budget.

1.8. Pursuant to the Remuneration Policy of the Bank and the 2014 Plan: recovery of bonus amounts in the event of revision of financial statements – in the event of revision of the audited financial statements of the Bank for any year, such that the executive would have received an annual bonus in a different amount based on the revision, the executive shall reimburse the Bank for the difference in the amount of the bonus, provided that, if the executive has left the Bank, no more than three years have elapsed from the date of termination of the executive's employment.

1.9. According to the 2014 remuneration plan, the Remuneration Committee and the Board of Directors are authorized to reduce the annual bonus of a member of management by up to 50%, in cases in which the financial or business condition of the Bank makes it necessary, and/or due to reasons related to the performance of the member of management, and due to reasons for which they shall provide justification.

2. Equity compensation – restricted stock units (RSU)

Executives of the Bank are granted restricted stock units ("RSU"), under the "Bank Hapoalim B.M. Secondary Plan for the Grant of Restricted Stock Units (RSU) to Senior Executives 2011" (as amended), which represents the implementation of certain directives of the 2010 Plan and the 2014 Plan, and is an integral part thereof. RSU are units of restricted shares, which upon fulfillment of the appropriate vesting conditions are automatically exercised into ordinary shares of the Bank, which are held by the Bank as dormant shares, without the payment of any exercise price. The RSU are allocated according to the capital-gains track pursuant to Section 102(B)(2) of the Income Tax Ordinance [New Version], 1961.

RSU According to the 2010 Remuneration Plan

2.1. Grant of RSU – In accordance with the 2010 Plan, until 2014, each member of management was granted a number of non-contingent RSU, based on the result obtained by dividing the amount of the benefit established in the Plan (NIS 3.3 million for a member of management at the highest rank, as it was at that date (excluding the CEO), for an employment contract period of three years) by the average closing price of the Bank's share in the last 90 days of the calendar year preceding the year in which the RSU were granted. Adjustments were performed in the case of an employment contract for a period other than three years.

Note 23 Employee Benefits (continued)

Vesting dates – The RSU vest in three equal installments, after 12, 24, and 36 months respectively from the commencement date of the agreement of the member of management, according to the 2010 Plan. These dates shall be adjusted to the actual term of the contract. RSU granted under the 2010 Plan and not vested by the date of the executive's transition to the 2014 Plan expired in 2015.

2.2. Grant of contingent RSU – According to the 2010 Plan, each member of management was granted a number of contingent RSU (according to the rank of the management member; up to 60,000 RSU in respect of an employment contract period of three years for the highest rank, as it was at that time (excluding the CEO)), at the date of the commencement of the employment contract of the management member, in respect of the three years of the employment contract of the management member at the Bank. Shortly following the publication of the annual financial statements of the Bank in respect of each of the years of the Plan, a quantity of contingent RSU shall vest, out of the installment of RSU assigned to that year, to be calculated in a proportional manner, based on the attainment of an actual ROE Difference over the cost of capital in the relevant grant year in the range of 0.5% to 2%, such that in the event of an actual ROE Difference of 0.5%, one-quarter of the installment of contingent RSU relevant to that grant year will vest, and in the event of an actual ROE Difference of 2%, the entire installment of contingent RSU relevant to that grant year will vest. If, in the Bank's annual financial statements for a given year, the Bank has a net loss from its regular activity and/or the Bank is in material deviation from the required capital-adequacy ratios, the contingent RSU in respect of that grant year shall not vest, the RSU in respect of that grant year shall not be granted, and the contingent RSU in respect of the relevant grant year shall be forfeited. RSU granted under the 2010 Plan that did not vest by the date of the executive's transition to the 2014 Plan expired in 2015.

2.3. Exercise method and consideration – If all of the conditions for the exercise of the RSU are fulfilled, the RSU shall be exercised automatically by the Bank into shares of the Bank, and shall be transferred to the trustee, with no need for any notification by the executive, provided that: (a) at the vesting date, the Bank has held dormant shares acquired for the purposes of the plan (which will be transferred to the trustee, as noted) for at least eighteen months from the acquisition date, subject to the directives of the tax ruling received by the Bank from the Israeli tax authorities on this matter; and (b) there are no other regulatory restrictions (such as legal restrictions on holdings of securities by the holder of an investment advisor's license) that restrict the ability of the executive to hold shares of the Bank (or of the trustee to hold the shares on behalf of the executive) (the "Exercise Date"). If, at the vesting date of the RSU, the Bank has not held the exercise shares for at least eighteen months from the date of the acquisition thereof by the Bank, or if other regulatory restrictions apply, as noted above, the Exercise Date of the RSU shall be postponed, until the aforesaid eighteen-month period has elapsed, or until the restriction period has ended, as relevant

2.4. Restriction period according to the 2010 Plan – The ordinary RSU in each installment shall be restricted for an additional period of twelve months from the vesting date of that installment. The contingent RSU shall be restricted for a period of four years from the end of the relevant grant year.

Note 23 Employee Benefits (continued)

2.5. Termination of employment – Upon termination of the management member's employment at the Bank, the RSU granted to him/her under the 2010 Plan and not yet vested shall be cancelled, proportionally to the period of employment.

2.6. Dividend distribution – In the event that the Bank distributes a dividend prior to the Exercise Date of the RSU, the member of management shall be entitled to a payment in cash in an amount (gross) equal to the amount of the dividend that would have been paid to the member of management, had the member of management held, on the date of distribution of the dividend, a number of ordinary shares of the Bank equal to the number of RSU as aforesaid, less the applicable tax.

2.7. Adjustments – The plan includes directives regarding adjustments to be made to the exercise shares upon changes to the Bank's share capital or upon changes to the Bank's structure due to a merger or sale of the Bank.

RSU According to the 2014 Remuneration Plan

2.8. Grant of RSU (performance dependent) – According to the 2014 Plan, each member of management is granted RSU in a number equal to the result obtained by dividing the amount of 50% of the annual bonus in respect of the grant year (as detailed in Sections 1.1 to 1.4 above) by the average closing price of the Bank's share on the Tel Aviv Stock Exchange Ltd. in the thirty trading days preceding the date of publication of the Bank's financial statements for the grant year.

2.9. Vesting dates and vesting conditions – RSU shall vest in three equal installments, after 12, 24, and 36 months, respectively, from the beginning of the year following the grant year. With respect to RSU installments for each grant year over the course of three years, the quantity of RSU to vest, of each such RSU installment, at the end of each vesting year, if any, depends on the difference between the Actual ROE and the Required Cost of Capital (at a negative actual ROE Difference of -5%, there shall be no entitlement to RSU; in a year in which the negative actual ROE Difference is between -2% and -5%, the shares shall be exercised proportionally, calculated on a linear basis, provided that the Bank is not in material deviation from the required capital-adequacy ratios in that year; and in a year in which the negative actual ROE Difference is not less than -2%, the entire deferred annual installment shall vest into shares, provided that the Bank is not in material deviation from the required capital-adequacy ratios in that year).

2.10. Exercise method and consideration – If all of the conditions for the exercise of the RSU are fulfilled, the RSU shall be exercised automatically by the Bank into shares of the Bank, and shall be transferred to the trustee, with no need for any notification by the executive, provided that: (a) at the vesting date, the Bank has held dormant shares acquired for the purposes of the plan (which will be transferred to the trustee, as noted) for at least eighteen months from the acquisition date, subject to the directives of the tax ruling received by the Bank from the Israeli tax authorities on this matter; and (b) there are no other regulatory restrictions (such as legal restrictions on holdings of securities by the holder of an investment advisor's license) that restrict the ability of the executive to hold shares of the Bank (or of the trustee to hold the shares on behalf of the executive) (the "Exercise Date").

Note 23 Employee Benefits (continued)

If, at the vesting date of the RSU, the Bank has not held the exercise shares for at least eighteen months from the date of the acquisition thereof by the Bank, or if other regulatory restrictions apply, as noted above, the Exercise Date of the RSU shall be postponed, until the aforesaid eighteen-month period has elapsed, or until the restriction period has ended, as relevant.

2.11. Dividend distribution – In the event that the Bank distributes a dividend prior to the Exercise Date of the RSU, the member of management shall be entitled to a payment in cash in an amount (gross) equal to the amount of the dividend that would have been paid to the member of management, had the member of management held, on the date of distribution of the dividend, a number of ordinary shares of the Bank equal to the number of RSU as aforesaid, less the applicable tax.

2.12 Adjustments – The plan includes directives regarding adjustments to be made to the exercise shares upon changes to the Bank's share capital or upon changes to the Bank's structure due to a merger or sale of the Bank.

(B) Senior executives

The plans shall also apply to the Bank's senior executives (who are not officers, as noted above) according to principles similar to those specified above, but at different volumes, including with regard to the identity of the officials who set targets and assess the attainment thereof, the weight of each factor in calculating the personal grade for the senior executive, and the identity of the officials who approve the bonus distribution budget and the bonus for each executive. The Basic Bonus of senior executives is not subject to the grade assigned to them. In addition, senior executives who are on assignment overseas for the Bank shall be granted restricted phantom shares instead of RSU, at similar terms to those of the RSU, which will be settled in cash.

(C) Chairman of the Board and CEO of the Bank

The plan was adopted by the Audit Committee and the Board of Directors separately in relation to the Chairman of the Board and in relation to the CEO of the Bank. As noted above, the compensation for the Bank's Chairman of the Board was also approved by the general meeting of shareholders of the Bank. As of 2015, only the 2010 Remuneration Plan applies to the Chairman of the Board of the Bank and to the CEO of the Bank.

Note 23 Employee Benefits (continued)

1. Risk-adjusted performance-based annual bonus

1.1. Determination of the bonus budget – The bonus budget shall be calculated each year (separately for each executive), as follows:

Positive bonus budget – In a bonus year in which the actual ROE Difference is positive, the bonus budget shall be calculated according to the actual ROE Difference and the average shareholders' equity of the Bank. The bonus budget shall be calculated in a linear manner, in the range from an actual ROE Difference of 0.5% to an actual ROE Difference of 4%.

Negative bonus budget – In a bonus year in which the actual ROE Difference is negative, the bonus budget shall be determined as a negative amount and shall be calculated in a linear manner, in the range from a negative actual ROE Difference of 0.5% to a negative actual ROE Difference of 6.5%. The aforesaid notwithstanding, the Board of Directors shall be entitled to reduce or cancel the negative bonus budget in respect of a particular bonus year, due to special external circumstances, following approval by the Remuneration Committee.

1.2. Determination of the amount of the bonus for each executive – Each year, the bonus amount shall be determined, for each executive, out of their bonus budget in respect of the bonus year, so that 65% of the bonus budget shall be granted/deducted (as the case may be), for each executive, and up to 35% of the bonus budget shall be granted/deducted (as the case may be), for each executive, at the discretion of the Board of Directors, to be determined according to the executive's achievement of the formulation and/or establishment and/or leadership of the implementation of the Bank's work plan, as well as development, implementation, and promotion of the Bank's short-term and long-term vision and strategy.

1.3. Bonus ceiling – The positive annual bonus added to the bonus account of an executive in respect of any bonus year shall in any event not exceed an amount equal to NIS 4 million. The negative annual bonus subtracted from the bonus account of an executive in respect of any bonus year shall in any event not exceed an amount equal to NIS 3.3 million. The aforesaid notwithstanding, the bonus account of an executive shall in any event not have a negative balance in an amount exceeding NIS 1.3 million.

1.4. Payment mechanism – The annual bonus and the Annual Payment shall be spread in a manner similar to the provisions of Section F(A)1.4 above concerning the plan for members of management (mutatis mutandis), but a payment shall be made to each executive each year in an amount equal to 45% of the balance in the bonus account after the Annual Deposit in respect of the previous year.

1.5. Bonus in respect of special profits – The Board of Directors shall be entitled to establish, in respect of any year, at its sole discretion, a bonus in respect of special profits in an amount equal to up to eight monthly salaries of the executive.

1.6. Termination of employment – Similar principles to those applicable to the termination of employment of a member of management, as explained above, shall apply.

Note 23 Employee Benefits (continued)

2. Share purchase bonus

For each bonus year, the executive shall be entitled to a bonus in the sum of NIS 2 million, which shall be used for the purchase of shares of the Bank for the executive on the stock exchange (the "Share Purchase Bonus"), provided that the Actual ROE in the year for which the bonus is granted is at least equal to the Required Cost of Capital (in 2015: 8.5%). The shares purchased for the executive shall be restricted for a period commencing on January 1 of the year in which the shares are purchased and ending when four years have elapsed from that date (in this section, the "Restriction Period"). In addition to the aforesaid, in certain cases the Restriction Period shall be extended, as described in Section F(A)2.3 above with regard to the remuneration for members of management. In the event of termination of employment, shares of the Bank shall be purchased in respect of the year in which the termination of employment occurs, representing the proportional share of the Share Purchase Bonus according to the period of employment of the executive out of that year.

3. Equity compensation – restricted stock units

3.1. The terms of the RSU are similar to the directives applicable to members of management, as described above, with the exceptions detailed below.

3.2. Granting of contingent RSU – Each executive, separately, shall be granted a quantity of contingent RSU in respect of each year, out of a maximum quantity equal to: (a) NIS 2 million divided by (b) the average closing price of the Bank's share on the stock exchange in the last sixty trading days of the relevant year; the quantity of contingent RSU granted, subject to the provisions specified below, shall be calculated on a proportional and linear basis according to the achievement of an actual ROE Difference between 4% and 6%, such that at an actual ROE Difference of 4% the executive shall be granted 1,250 contingent RSU, and at an actual ROE Difference of 6% the entire quantity of contingent RSU relevant to that grant year shall be granted (the "Contingent RSU").

Of the Contingent RSU, 65% shall be granted to the executive in any event, and up to 35% shall be granted to the executive according to the decision of the Board of Directors. The Contingent RSU shall be vested at the date of the grant.

3.3. Loss or deviation from capital-adequacy ratios – If in the Bank's annual financial statements published immediately after the vesting date of the relevant installment, the Bank has a net loss and/or the Bank is in material deviation from the required capital-adequacy ratios, the RSU and the Contingent RSU of that installment shall be forfeited. Until 2015, the actual ROE Difference did not surpass the minimum threshold; the Contingent RSU for these years therefore were not granted.

Note 23 Employee Benefits (continued)

4. Employment Agreement – CEO of the Bank

An employment agreement with the CEO for a period of five years, beginning January 1, 2013, was approved by the Audit Committee on September 2, 2012, and by the Board of Directors of the Bank on September 12, 2012 and on October 18, 2012. Pursuant to the employment agreement, a ceiling applies to the total remuneration for each year of the employment agreement, such that the expense recorded in the books of the Bank in respect of the total remuneration in any calendar year shall not exceed NIS 11 million (linked to the consumer price index). Reduction of the annual remuneration due to this limit shall not exceed the amount of NIS 2 million annually. Pursuant to the employment agreement, the restriction period of the shares to be purchased using the bonus for share purchases is four years.

5. Employment Agreement – Chairman of the Board of Directors of the Bank

An employment agreement with the Chairman of the Board for a period of five years, beginning January 1, 2013, was approved by the Audit Committee on September 2, 2012; by the Board of Directors of the Bank on September 12, 2012 and October 18, 2012; and by the special general meeting of shareholders of the Bank on October 25, 2012. The employment agreement applies a ceiling to the total remuneration for each year of the employment agreement, such that the expense recorded in the books of the Bank in respect of the total remuneration in any calendar year shall not exceed NIS 10 million (linked to the consumer price index). Reduction of the annual remuneration due to this limit shall not exceed the amount of NIS 2 million annually. Pursuant to the agreement, the restriction period of the shares to be purchased using the bonus for share purchases is four years. Although the employment agreement covers a period of five years, the equity compensation and bonuses to which the Chairman of the Board of Directors is entitled, out of the total remuneration pursuant to the employment agreement, were approved by the general meeting for the first three years only, until December 31, 2015. Pursuant to a resolution of the Board of Directors of the Bank of October 18, 2012, the equity compensation and bonuses for 2016-2017 shall be presented for further approval by the general meeting in late 2015. However, due to the amendment to the Banking Corporation Remuneration Policy Directive of August 13, 2015, which concerns the remuneration of a chairperson of the board of directors of a banking corporation, among other matters, the equity compensation and bonuses for 2016-2017 will not be presented for approval by the general meeting of the Bank. The Bank is currently working to adjust its remuneration policy to the aforesaid amendment.

NIS millions

Note 23 Employee Benefits (continued)

G. Employee Benefits

	December 31	
	2015	2014
Early retirement and severance pay		
Amount of liability	**6,778**	**7,007
Fair value of plan assets	**(4,098)**	**(4,219)
Surplus liability over plan assets (included in other liabilities)	**2,680**	**2,788
Grant for non-utilization of sick days		
Amount of liability	**383**	389
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**383**	389
25-year service grant		
Amount of liability	**37**	37
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**37**	37
Other benefits at end of employment and post-employment		
Amount of liability	**589**	621
Fair value of plan assets	**-**	-
Surplus liability over plan assets (included in other liabilities)	**589**	621
Total		
Surplus liabilities in respect of employee benefits over plan assets included in the item "other liabilities"*	**3,689**	**3,835
* Of which: in respect of benefits for employees overseas	**51**	55

** Restated.

NIS millions

Note 23 Employee Benefits (continued)

H. Post-Retirement Benefit Plan

(1) Commitments and financing status

a. Net change in commitment in respect of forecast benefit**,***

	For the year ended December 31	
	2015	2014
Net commitment in respect of forecast benefit at beginning of period	**3,798**	*3,463
Service cost	**108**	113
Interest cost	**112**	107
Actuarial loss (profit)	**(16)**	121
Changes in foreign currency exchange rates	**(1)**	1
Benefits paid	**(349)**	(362)
Expense in respect of efficiency plan	**-**	355
Net commitment in respect of forecast benefit at end of period	**3,652**	*3,798
Net commitment in respect of cumulative benefit at end of period	**3,489**	*3,641

* Restated.
** Includes post-retirement benefits, including a sick day grant paid at retirement.
*** The amounts presented are net of plan assets. For further details, see Section (4) below.

b. Amounts recognized in the consolidated balance sheet

	December 31	
	2015	2014
Amounts recognized in the item "other assets"	**-**	-
Amounts recognized in the item "other liabilities"	**3,652**	*3,798

* Restated.

NIS millions

Note 23 Employee Benefits (continued)

H. Post-Retirement Benefit Plan (continued)

(1) Commitments and financing status (continued)

c. Amounts recognized in cumulative other comprehensive income (loss), before tax effect

	December 31	
	2015	2014
Net actuarial loss	**530**	*258
Net liability in respect of transition	**4**	325
Net cost in respect of prior service	**-**	-
Closing balance in cumulative other comprehensive income	**534**	*583

* Restated.

d. Plans in which the commitment in respect of the cumulative and forecast benefit exceeds the plan assets

	December 31	
	2015	2014
Commitment in respect of forecast benefit	**7,749**	*8,017
Commitment in respect of cumulative benefit	**7,587**	*7,860
Fair value of plan assets	**(4,098)**	*(4,219)

* Restated.

NIS millions

Note 23 Employee Benefits (continued)

H. Post-Retirement Benefit Plan (continued)

(2) Expense for the period

a. Components of net benefit cost recognized in profit and loss

	For the year ended December 31	
	2015	2014
Service cost	**108**	113
Interest cost	**112**	107
Subtraction of unrecognized amounts:		
Net actuarial loss	**33**	12
Other	**-**	355
Net total benefit cost	**253**	587

b. Changes in plan assets and in benefit commitments recognized in other comprehensive income (loss), before tax effect

	For the year ended December 31	
	2015	2014
Net actuarial loss (profit) for the period	**(16)**	121
Subtraction of actuarial loss	**(33)**	*(12)
Changes in foreign currency exchange rates	**-**	1
Total recognized in other comprehensive income	**(49)**	*110
Net total benefit cost	**253**	587
Total recognized in net benefit cost for the period and in other comprehensive income	**204**	*697

* Restated.

Note 23 Employee Benefits (continued)

H. Post-Retirement Benefit Plan (continued)

(2) Expense for the period (continued)

c. Estimate of amounts included in cumulative other comprehensive income and expected to be subtracted from cumulative other comprehensive income to the statement of profit and loss as an expense (as income) in 2016, before tax effect

	NIS millions
Net actuarial loss	**39**
Total expected to be subtracted from cumulative other comprehensive income	**39**

(3) Assumptions*

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit

1. Principal assumptions used to determine the commitment in respect of the benefit

	December 31	
	2015	2014
Capitalization rate	**1.92%**	1.96%
Rate of increase in the CPI	**2.0%**	2.0%
Rate of increase in remuneration	**0.5%-7.5%**	0.5%-7.5%

* The assumptions refer to the standalone data of the Bank.

Departure rates - Rates of departure with increased severance pay and early retirement were determined based on the Bank's experience, taking into consideration the employee's age, gender, and departure rates reflecting the expectations and resolutions of the Board of Management with regard to employee retirement with preferred terms, and are based on research conducted among employees of the Bank, encompassing departure data beginning in 1997. Current departure rates were updated based on a study of Bank employee departures.

Note 23 Employee Benefits (continued)

H. Post-retirement benefit plan (continued)

(3) Assumptions* (continued)

a. Assumptions based on a weighted average used to determine the commitment in respect of the benefit and to measure the net cost of the benefit (continued)

2. Principal assumptions used to measure net benefit cost for the period

	For the three months ended December 31		For the three months ended September 30		For the three months ended June 30		For the three months ended March 31		For the year ended December 31
	2015	2014	2015	2014	2015	2014	2015	2014	2014
Capitalization rate	**2.1%**	1.8%	2.0%	1.6%	1.1%	1.7%	1.9%	2.4%	1.6%
Rate of increase in remuneration	**0.5%-7.5%**	0.5%-7.5%	0.5%-7.5%	0.5%-7.5%	0.5%-7.5%	0.5%-7.5%	0.5%-7.5%	0.5%-7.5%	0.5%-7.5%

b. Effect of a one percentage point change on the commitment in respect of the forecast benefit, before tax effect

	One percentage point increase		One percentage point decrease	
	December 31		December 31	
	2015	2014	**2015**	2014
	NIS millions			
Capitalization rate	**(282)**	(279)	**334**	346
Rate of increase in CPI	**(33)**	(33)	**41**	41
Departure rate	**183**	186	**(192)**	(202)
Rate of increase in remuneration	**210**	220	**(179)**	(175)

* The assumptions refer to the standalone data of the Bank.

(4) Plan assets

The Bank's liability for employee benefits is calculated based on an actuarial calculation. Among other factors, this calculation takes into account the probability of early retirement with beneficial terms, in each of the relevant tracks (increased severance pay or early retirement); the amounts of the liability at retirement; and the value of amounts funded at that date. In addition, in light of the existing labor agreements at the Bank and the nature of the retirement agreements at the Bank, the Bank's exposure to (positive or negative) changes in the value of amounts funded is limited, due to Section 14 of the Severance Pay Law, pursuant to which in the event of an employee's departure, reaching the retirement age established by law, or taking early retirement, the Bank is not required to supplement amounts funded, and customarily does not do so, if their value has decreased or does not cover the increase that has occurred in wages. The Bank's liability for severance compensation to its employees is primarily covered by amounts funded deposited in severance pay funds in the employees' names.

NIS millions

Note 23 Employee Benefits (continued)

H. Post-retirement benefit plan (continued)

(4) Plan assets (continued)

Balances of the liability for severance pay and amounts funded for severance pay:

	December 31	
	2015	2014
Liability for severance pay	**3,902**	4,008
Amounts funded for severance pay	**(3,798)**	(3,914)
Net liability	**104**	94

It is emphasized that the net liability exposure of the Bank to changes in the value of amounts funded, weighted by the probability of retirement in a severance pay track, is immaterial. Thus, for example, in the case of a 10% decrease in the fair value of the amounts funded for severance pay, the net liability would increase by a total of approximately NIS 20 million, in light of the fact that the probability of retirement in an increased severance-pay track is low. Amounts funded for severance pay are deposited in severance pay funds in the employees' names. Approximately 45% of the total balances of amounts funded for severance pay are deposited with the Central Retirement Fund of Histadrut Workers Ltd. ("KGM"). The remaining amounts are deposited with a large number of severance pay provident funds, according to employees' choice.

I. Cash Flows

(1) Deposits

	Forecast	Actual deposits	
		For the year ended December 31	
	****2016**	**2015**	2014
Deposits	**197**	**173**	*167

* Restated.
** Estimated deposits which the Bank expects to pay to pension plans for a defined benefit during 2016.

(2) Future benefit payments expected by the Bank

Year	
2016	**579**
2017	288
2018	288
2019	270
2020	254
2021-2025	991
2026 forward	1,888
Total	4,558

Note 24 Share Based Payment Transactions

A. Details of Share-Based Payment Transactions

Set out below are details regarding share-based payment arrangements that existed at the Bank during the period ended December 31, 2015.

(1) Share-Based Payment for Employees of the Bank

(A) 2010-2012 Plan for Employees of the Bank

On September 30, 2009, as part of the wage agreement signed between the Employee Union and the Bank, the Board of Directors of the Bank approved an allocation to permanent employees of the Bank and employees under non-executive personal employment contracts of options to purchase shares of the Bank, at a price of NIS 1 per option. The aforesaid option notes were allocated, at no cost, in three installments, in each of the years from 2010 to 2012, at a total volume of approximately 12.7 million options. Each allocation of options had a vesting period of four years from the beginning of the year in which the options were allocated, and each allocation could be exercised for a period of one year after the end of the vesting period. The option notes will be converted into shares from a pool of shares to be purchased by the Bank for that purpose.

The allocation of all option notes under this plan was completed in February 2012. The remaining balance of option notes allocated to employees of the Bank under the plan and not yet exercised as at December 31, 2015 amounted to 4,232,582 option notes.

(B) 2013-2017 Plan for Employees of the Bank

Further to the wage agreement described in Note 23, on March 6, 2013, the Board of Directors of the Bank approved a plan for the grant of phantom shares. Under the plan approved, employees of the Bank will be granted 22.5 million phantom shares, at no cost, with no exercise price. The phantom shares will be granted in five equal annual allocations of 4.5 million phantom shares each, starting in 2013. Accordingly, from 2013 to 2017, 4.5 million phantom shares will be allocated each year to the employees of the Bank. All of the phantom shares will be automatically exercised into cash by the Bank following a vesting period of four years from the date on which each allocation was granted. Phantom shares allocated to employees of the Bank pursuant to this plan and not yet exercised or expired as at December 31, 2015, amounted to 12,791,138 phantom shares.

(2) Restricted Stock Units Pursuant to the 2010 Plan and Pursuant to the 2014 Plan

The Bank grants members of management and senior executives restricted stock units ("RSU") (for details, see Note 23F(A)2). RSU are units of restricted shares, which upon fulfillment of the appropriate vesting conditions are automatically exercised into ordinary shares of the Bank, which are held by the Bank as dormant shares, without the payment of any exercise price. The RSU are allocated according to the capital-gains track pursuant to Section 102(B)(2) of the Income Tax Ordinance [New Version], 1961.

The grant of RSU pursuant to the 2010 Plan was performed in accordance with the terms of the 2010 Plan, in addition to the annual bonus, and divided into grants of ordinary RSU and performance-dependent RSU; the quantity allocated was based on each executive's position and rank.

The grant of RSU pursuant to the 2014 Plan is in the amount of 50% of the annual bonus (the deferred portion), as detailed in Section 23F(A)2.

Note 24 Share Based Payment Transactions (continued)

The Bank granted phantom shares, at no cost, to several senior executives who are on assignment for the Bank overseas, at similar terms to those of the RSU granted pursuant to the directives of the 2010 Plan, or the 2014 Plan, as relevant.

(3) RSU and Contingent RSU for the Chairman of the Board of Directors of the Bank and the CEO of the Bank

Pursuant to the resolution of the Board of Directors of February 28, 2012, the Bank granted 133,332 RSU to the Chairman of the Board and the CEO of the Bank, separately for each executive, in accordance with the 2010 Plan. The RSU were granted at no cost. The shares arising from the vested RSU shall be restricted for one additional year from the end of the relevant vesting period (see Note 24A2 above). Additional RSU have been granted as part of the employment agreement of the Chairman of the Board of Directors and of the CEO of the Bank. For details, see Note 23F(C).

B. Estimates of Fair Value of Capital Instruments Granted

(1) Option Notes for Employees of the Bank

The fair value of option notes granted to employees of the Bank under the plan for 2010-2012 is measured as a liability, up to the date of approval of the buyback by the Supervisor of Banks; after that date, it is measured as a grant settled in capital instruments.

The fair value is calculated using the Black-Scholes model. The expected exercise date used to calculate fair value is the end of the vesting period, because, given the minimal exercise supplement and the lack of a mechanism for adjustment for dividends, it is likely that employees will tend to exercise the options as early as possible in order to receive the dividends distributed to the shares.

Details of the central assumptions used to estimate the fair value of grants to employees:

	Options granted in		
	2012	2011	2010
Risk-free interest rate(1) (%)	3.7%	3.4%	3.1%
Expected lifetime (years)	5.1	4.1	3.1
Expected volatility(2) (%)	35.0%	36.1%	39.3%
Dividend yield per share (%)	4.7%	4.6%	4.1%
Exercise price (NIS)	1	1	1
Share price on date of grant (NIS)	16.9	16.9	16.9
Fair value per option note (NIS)	12.4	13.1	13.9

(1) The risk-free interest rate was estimated using a forecast NIS yield curve based on unlinked government bonds.
(2) The expected volatility of the share was estimated by examining the historical volatility of daily prices of the share over a period equivalent to the period of the grant.

Note 24 Share Based Payment Transactions (continued)

(2) Share-Based Payment Transactions Settled in Capital Instruments Granted to Senior Executives
The fair value of RSU and contingent RSU that have been granted and are to be settled in capital instruments is equal to the price of the Bank's share on the day of the grant, due to the fact that the exercise increment in respect thereof is equal to zero, and they include adjustments for dividend distribution. The Bank has adjusted the quantity of contingent RSU expected to vest, according to the forecast ROE Difference over the cost of capital.

C. Additional Information Regarding Share-Based Payment Transactions Settled in Capital Instruments

1. Share-based payment transactions – options for shares of the Bank granted to employees:

	December 31					
	2015		2014		2013	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at start of year	**8,354,409**	**1**	12,401,308	1	16,705,915	1
Granted during the year(1)	**-**	**1**	-	1	-	1
Forfeited during the year	**(28,710)**	**1**	(44,347)	1	(74,994)	1
Exercised during the year(2)	**(4,093,117)**	**1**	(4,002,552)	1	(4,229,613)	1
Outstanding at end of year(3)	**4,232,582**	**1**	8,354,409	1	12,401,308	1

(1) The weighted average fair value of the share options granted during 2012 at the measurement date was NIS 12.38 per option note (2011: NIS 13.09, 2010: NIS 13.90).
(2) The weighted average share price at the exercise date of the share options exercised during the year was NIS 19.17 (2014: NIS 19.43, 2013: NIS 17.90).
(3) Share options outstanding at year end are divided into sections by exercise price*:

	December 31		
	2015	2014	2013
Exercise price range in NIS	**1**	1	1
Number of options	**4,232,582**	8,354,409	12,401,308
Weighted average exercise price (in NIS)	**1**	1	1
Weighted average balance of contractual lifetime (in years)	**1.0**	1.5	2.0
Of which exercisable:			
Number of options	**-**	-	-
Weighted average exercise price (in NIS)	**1**	1	1

* The exercise price of all options issued within the plans is NIS 1.

Note 24 Share Based Payment Transactions (continued)

C. Additional Information Regarding Share-Based Payment Transactions Settled in Capital Instruments (continued)

2. Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2015:

	Number of units									
	Senior executives		Members of management		CEO		Chairman		Key employees	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at start of year	**1,649,276**	**352,602**	**518,021**	**106,411**	**533,333**	**-**	**266,666**	**-**	**-**	**-**
Granted during the year[(1)]	**-**	**525,402**	**-**	**169,992**	**-**	**-**	**-**	**-**	**-**	**74,871**
Forfeited during the year	**(102,022)**	**(50,838)**	**-**	**(7,233)**	**-**	**-**	**-**	**-**	**-**	**-**
Exercised during the year[(2)]	**(1,020,807)**	**(415,067)**	**(453,051)**	**(145,924)**	**(133,334)**	**-**	**(133,334)**	**-**	**-**	**(24,957)**
Expired during the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Outstanding at end of year[(3)]	**526,447**	**412,099**	**64,970**	**123,246**	**399,999**	**-**	**133,332**	**-**	**-**	**49,914**
(1) Average weighted fair value of shares granted during the year at the date of measurement, in NIS		**17.63**		**17.63**		**-**		**-**	**17.63**	
(2) Average weighted share price at the exercise date of the units exercised during the year, in NIS		**19.94**		**19.92**		**18.27**		**18.27**	**20.10**	
(3) Shares outstanding at year end:										
Exercise price range (in NIS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Number of shares	**526,447**	**412,099**	**64,970**	**123,246**	**399,999**	**-**	**133,332**	**-**	**-**	**49,914**
Weighted average exercise price (in NIS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Weighted average balance of contractual lifetime (in years)	**0.38**	**1.43**	**0.50**	**1.46**	**1.00**	**-**	**0.50**	**-**	**-**	**1.50**
Of which exercisable:										
Number of shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Weighted average exercise price (in NIS)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 24 Share Based Payment Transactions (continued)

C. Additional Information Regarding Share-Based Payment Transactions Settled in Capital Instruments (continued)

2. Share-based payment transactions settled in capital instruments granted to senior executives as at December 31, 2014:

	Number of units							
	Senior executives		Members of management		CEO		Chairman	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at start of year	3,556,202	823,224	2,078,199	510,752	666,667	-	400,000	-
Granted during the year[(1)]	89,116	21,200	-	-	-			
Forfeited during the year	(195,064)	(196,739)	(747,574)	(282,955)	-	-		-
Exercised during the year[(2)]	(1,800,978)	(295,083)	(812,604)	(121,386)	(133,334)	-	(133,334)	-
Expired during the year	-	-	-	-	-	-	-	-
Outstanding at end of year[(3)]	1,649,276	352,602	518,021	106,411	533,333	-	266,666	-
(1) Average weighted fair value of shares granted during the year at the date of measurement, in NIS		18.61		-		-		-
(2) Average weighted share price at the exercise date of the units exercised during the year, in NIS		19.58		19.42		20.00		20.00
(3) Shares outstanding at year end:								
Exercise price range (in NIS)	-	-	-	-	-	-	-	-
Number of shares	1,649,276	352,602	518,021	106,411	533,333	-	266,666	-
Weighted average exercise price (in NIS)	-	-	-	-	-	-	-	-
Weighted average balance of contractual lifetime (in years)	0.84	1.21	0.73	1.09	1.50	-	0.50	-
Of which exercisable:								
Number of shares	-	-	-	-	-	-	-	-
Weighted average exercise price (in NIS)	-	-	-	-	-	-	-	-

Note 24 Share Based Payment Transactions (continued)

D. Liabilities Arising from Share-Based Payment Transactions Settled in Cash

1. Further details regarding phantom shares granted to employees as at December 31, 2015

Exercise price range in NIS	**-**
Number of phantom units granted but not yet exercised	**21,791,138**
Of which: exercisable	**-**
Average years to expiration	**3**

Further details regarding phantom shares granted to employees as at December 31, 2014, are set out below:

Exercise price range in NIS	-
Number of phantom units granted but not yet exercised	22,078,823
Of which: exercisable	-
Average years to expiration	4

2. Further details regarding restricted phantom shares and contingent restricted phantom shares for senior executives settled in cash as at December 31, 2015

	Restricted	Contingent	Total
Exercise price range in NIS	**-**	**-**	**-**
Number of phantom units granted but not yet exercised	**92,117**	**52,957**	**145,074**
Of which: exercisable	**-**	**-**	**-**
Average years to expiration	**0.95**	**2.98**	**1.69**

Further details regarding restricted phantom shares and contingent restricted phantom shares for senior executives settled in cash as at December 31, 2014, are set out below:

	Restricted	Contingent	Total
Exercise price range in NIS	-	-	-
Number of phantom units granted but not yet exercised	172,111	37,957	210,068
Of which: exercisable	-	-	-
Average years to expiration	1.39	4.73	2.00

3. Additional details are set out below regarding the total liability arising from share-based payment transactions and regarding the internal value of liabilities in respect of which the counterparty's right to cash vested by the end of the year:

	December 31	
	2015	2014
	NIS millions	
Total liabilities arising from share-based payment transactions	**204**	137
Internal value of liabilities in respect of which the counterparty's right to cash or other assets vested by the end of the year	**3**	3

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity

A. Share Capital

	December 31		December 31	
	2015	2014	**2015**	2014
	Registered		Issued and paid-up*	
	Amount in NIS			
Ordinary shares of NIS 1 par value	**4,000,000,000**	4,000,000,000	**1,329,406,719**	1,323,208,692

* Issued capital after the deduction of 7,970,392 ordinary shares (December 31, 2014: 14,168,419 ordinary shares) purchased by the Bank, as detailed below. The shares are registered for trading on the Tel Aviv Stock Exchange.

B. Transactions in the Capital of the Corporation

The Bank received approval from the Supervisor of Banks for a buyback of 39,250,000 ordinary shares of the Bank ("Treasury Shares"), for the purpose of the remuneration of employees and senior executives of the Bank, within the Bank's remuneration plan. The shares are used as a pool for the conversion of options and RSU. As at December 31, 2015, the balance of shares acquired amounted to 25,153,853 shares, at a cost of approximately NIS 408 million. For details regarding transactions of share-based payment to employees, see Note 24, above.

C. Dividends

On July 10, 2013, the Board of Directors of the Bank resolved to update the Bank's dividend distribution policy. Pursuant to the dividend distribution policy established by the Board of Directors, up to 30% of net operating profits will be distributed. This policy will be in effect until the Bank meets the capital targets set by the Supervisor of Banks and adopted by the Board of Directors.

Dividend Payments

In accordance with the dividend distribution policy of the Bank, following approval by the Supervisor of Banks for the distribution of a quarterly dividend at a rate of 20% of net profits beginning in 2015, the Board of Directors resolved on February 28, 2016, to distribute a dividend in respect of the profits of the fourth quarter of 2015, in the amount of approximately NIS 117 million, or 8.804 agorot per share of par value NIS 1. The Board of Directors set the record date for payment of the dividend at March 8, 2016, and the date of payment at March 16, 2016.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

Details of dividends paid:

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		Agorot	NIS millions
November 15, 2015	**December 9, 2015**	**12.080**	**160**
August 19, 2015	September 8, 2015	13.350	177
May 19, 2015	June 10, 2015	12.180	162
March 9, 2015	March 31, 2015	5.262	70
November 23, 2014	December 15, 2014	8.830	117
August 13, 2014	September 3, 2014	9.000	119
May 21, 2014	June 12, 2014	8.000	106
March 19, 2014	April 10, 2014	8.000	106

D. The Basel 3 Directives

The Bank applies the measurement and capital-adequacy directives based on the Basel 2 and 3 directives, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives," in order to make it possible to comply with the new requirements regarding supervisory capital within the process of implementation of Basel 3 and establish a transitional period until full implementation. Among other matters, the transitional directives concern supervisory adjustments and deductions from capital, as well as capital instruments ineligible for inclusion in supervisory capital according to the new criteria established in the Basel directives. Specifically, pursuant to the transitional directives, the supervisory adjustments and deductions from capital, as well as non-controlling interests ineligible for inclusion in supervisory capital, shall be deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. From January 1, 2015, to December 31, 2015, the rate of deductions from supervisory capital is 40%, and the ceiling for instruments eligible as supervisory capital is 70%.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

E. Capital Adequacy in Consolidated Data

	December 31, 2015	December 31, 2014
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital	**33,246**	(1)31,482
Additional Tier 1 capital	**1,709**	1,954
Total Tier 1 capital	**34,955**	(1)33,436
Tier 2 capital	**14,593**	16,041
Total overall capital	**49,548**	(1)49,477
2. Weighted balances of risk-adjusted assets		
Credit risk	**317,891**	(1) 311,329
Market risks	**4,562**	5,269
Operational risk	**22,671**	22,275
Total weighted balances of risk-adjusted assets	**345,124**	(1)338,873
	%	
3. Ratio of capital to risk-adjusted assets		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**9.63%**	(1)9.29%
Ratio of Tier 1 capital to risk-adjusted assets	**10.13%**	(1)9.87%
Ratio of total capital to risk-adjusted assets	**14.36%**	(1) 14.60%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(2)9.07%**	(2)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(2)12.57%**	(2) 12.50%

(1) As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1). If the adoption had been carried out in 2014, the common equity Tier 1 capital ratio would have been 9.25% as at December 31, 2014, and the total capital ratio would have been 14.56%.

(2) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively. With regard to the balance of housing loans, see Note 30A(2).

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

E. Capital Adequacy in Consolidated Data (continued)

	December 31, 2015	December 31, 2014
	%	
4. Significant subsidiaries		
Isracard		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**19.94%**	*18.85%
Ratio of Tier 1 capital to risk-adjusted assets	**19.94%**	*18.85%
Ratio of total capital to risk-adjusted assets	**20.96%**	*19.79%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(1)9.00%**	(1)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(1)12.50%**	(1)12.50%
Bank Hapoalim Switzerland		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**24.11%**	21.09%
Ratio of Tier 1 capital to risk-adjusted assets	**24.11%**	21.09%
Ratio of total capital to risk-adjusted assets	**24.20%**	21.17%
Minimum common equity Tier 1 capital ratio required by local regulation	**8.00%**	8.00%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%
	Basel 2(2)	
Bank Pozitif		
Ratio of Tier 1 capital to risk-adjusted assets	**16.34%**	17.51%
Ratio of total capital to risk-adjusted assets	**17.10%**	18.15%
Minimum total capital ratio required by local regulation	**12.00%**	12.00%

* Retrospective implementation of guidelines of the Supervisor of Banks concerning capitalization of software costs.
(1) Minimum capital ratio required according to the directives of the Supervisor of Banks as of January 1, 2015.
(2) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

F. Components of Capital for the Purpose of Calculating the Capital Ratio

	December 31, 2015	December 31, 2014
	NIS millions	
Common equity Tier 1 capital		
Total capital	**33,219**	31,611
Differences between total capital and common equity Tier 1 capital	**160**	[(1)](26)
Total common equity Tier 1 capital before supervisory adjustments and deductions	**33,379**	[(1)]31,585
Supervisory adjustments and deductions:		
Goodwill and intangible assets	**-**	7
Deferred taxes receivable	**108**	[(1)]88
Investments in capital of financial corporations not consolidated in the reports to the public	**-**	-
Other supervisory adjustments and deductions – common equity Tier 1 capital	**25**	8
Total supervisory adjustments and deductions – common equity Tier 1 capital	**133**	[(1)]103
Total common equity Tier 1 capital after supervisory adjustments and deductions	**33,246**	[(1)]31,482
Additional Tier 1 capital		
Additional Tier 1 capital – instruments, before deductions	**1,709**	1,954
Additional Tier 1 capital – total deductions	**-**	-
Total additional Tier 1 capital, after deductions	**1,709**	1,954
Total Tier 1 capital after supervisory adjustments and deductions	**34,955**	[(1)]33,436
Tier 2 capital		
Tier 2 capital – instruments, before deductions	**10,678**	12,204
Tier 2 capital – allowances for credit losses, before deductions	**3,915**	3,837
Total Tier 2 capital, before deductions	**14,593**	16,041
Deductions:		
Total deductions – Tier 2 capital	**-**	-
Total Tier 2 capital	**14,593**	16,041
Total overall capital	**49,548**	[(1)]49,477

(1) As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1).

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

G. Effect of the transitional directives on the common equity Tier 1 capital ratio

	December 31, 2015	December 31, 2014
	%	
Ratio of capital to risk-adjusted assets		
Ratio of common equity Tier 1 capital to risk-adjusted assets before the effect of the transitional directives in Directive 299	[(1)]**9.50%**	[(1)]8.97%
Effect of the transitional directives	[(1)]**0.13%**	[(1)]0.32%
Ratio of common equity Tier 1 capital to risk-adjusted assets	**9.63%**	9.29%

(1) Including the effect of the initial adoption of US GAAP concerning employee benefits. For further details, see Note 1D(1).

H. Housing Loans

Proper Conduct of Banking Business Directive 329, Limits on Housing Loans (hereinafter: the "Directive"), consolidates the guidelines and limits concerning housing loans into a single binding document. The Directive redefines the term "payment as a percentage of income. "The Directives states that housing loans with payment as a percentage of income exceeding 50% shall not be approved or executed. In cases in which payment as a percentage of income exceeds 40%, the loan shall be assigned a risk weight of 100%. In addition, the Directive limits the amount of loans for which a reduced risk weight may be assigned, pursuant to Section 72 of Proper Conduct of Banking Business Directive 203, to NIS 5 million. Loans in an amount greater than NIS 5 million shall be weighted at 100%. When the amount of a loan is lower than NIS 5 million, the risk weight may be reduced, in accordance with Section 72 of Directive 203, based on the LTV ratio as calculated when the loan was granted.

In addition, beginning January 1, 2015, banking corporations are permitted to reduce the risk weight for floating-rate leveraged loans granted between October 26, 2010 and December 31, 2012, from 100% to 75%. The effect is a reduction of risk-adjusted assets as at December 31, 2015, by a total of approximately NIS 463 million, an increase of approximately 0.01% in the common equity Tier 1 capital ratio, and an increase of approximately 0.02% in the total capital ratio.

I. Capital Adequacy Target

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations concerning minimum capital ratios, as part of the process of preparation for implementation of the Basel 3 directives. Pursuant to the circular, all banking corporations are required to maintain a minimum common equity Tier 1 capital ratio of 9% by January 1, 2015. In addition, a banking corporation of significant importance whose total consolidated balance sheet assets constitute at least 20% of the total balance sheet assets in the banking system in Israel will be required to maintain a minimum common equity Tier 1 capital ratio of 10% by January 1, 2017.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

The Supervisor also determined that minimum total capital ratios of all banking corporations shall stand at 12.5% beginning January 1, 2015, and that in addition, minimum total capital ratios of banking corporations of significant importance shall stand at 13.5% beginning January 1, 2017. The Bank meets the conditions for the definition of a banking corporation of significant importance.

The Supervisor of Banks issued an additional directive on September 28, 2014; pursuant to this directive and the transitional directives for 2014, a capital requirement at a rate representing 1% of the balance of housing loans at the reporting date is added to minimum capital ratios as of January 1, 2015. This requirement is being implemented gradually, over eight quarters, until January 1, 2017. The total effect of this directive, based on the balance of housing loans at the date of the Financial Statements, is estimated at approximately 0.2%.

Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as at January 1, 2017, on a consolidated basis, based on data at the reporting date, will stand at 10.2% and 13.7%, respectively.

On April 20, 2015, the Board of Directors of the Bank resolved to increase the planned common equity Tier 1 capital ratio of the Bank, such that it will stand at 10.75% beginning December 31, 2017.

J. Capital Requirements in Respect of Exposure to Central Counterparties

On October 22, 2015, the Supervisor of Banks issued the circular, Capital Requirements in Respect of Exposure to Central Counterparties (hereinafter: the "Circular"). The Circular amends Proper Conduct of Banking Business Directives 203 and 204, with the aim of adjusting these directives to the recommendations of the Basel Committee, in all matters related to capital requirements in respect of exposures of banking corporations to central counterparties. The Circular details the new guidelines that will apply to exposures to central counterparties caused by OTC derivatives, transactions in marketable derivatives on the stock exchange, and securities financing transactions. The guidelines draw a distinction between unqualified central counterparties and qualified central counterparties, and set reduced capital requirements for the latter. Among other matters, the guidelines address the following types of exposures:

- Exposures of a banking corporation that is a member of a clearing house to a central counterparty. In general, these exposures should be assigned a risk weight of 2% (versus an exposure value of zero prior to the amendment).
- Exposures of a banking corporation to a client active on the stock exchange. Pursuant to the amendment, the capital requirement for such exposures should be calculated as though referring to a bilateral transaction, including an allocation of capital in respect of CVA risk. The calculation method used pursuant to the directive up to this point – calculation according to the rules of the stock exchange – will be discontinued.
- Exposures of a banking corporation to a client operating through a clearing-house member.
- Transfers by a banking corporation that is a clearing-house member to a risk fund.
- Collateral deposited by a banking corporation with a clearing-house member or with a central counterparty.
- Exposures to an unqualified central counterparty shall be weighted according to the relevant risk weight for the counterparty, while transfers to a risk fund shall be weighted at 1,250%.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

The Circular will apply as of July 1, 2016. The Tel Aviv Stock Exchange can be treated as a qualified central counterparty until June 30, 2017. The Bank is working to update its method of calculating capital ratios and the leverage ratio in accordance with the aforesaid update of the directive. The Bank is also examining the effect of this update on its capital planning, capital targets, and leverage target. These directives may raise the Bank's capital requirements in respect of such exposures, although at this stage the Bank is preparing for the implementation of the directive and examining the effect of the implementation thereof.

K. Improving Operational Efficiency

In January 2016, the Supervisor of Banks issued a letter on the subject, "Improving the operational efficiency of the banking system in Israel" (hereinafter: the "Letter"). Pursuant to the Letter, the board of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the Letter will be granted a concession allowing them to spread the effects of the plan over five years in a straight line, for the purposes of the calculation of capital adequacy.

L. Leverage Ratio

On April 28, 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 218, Leverage Ratio (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which will serve as a reliable measurement complementary to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items. In general, the measurement is consistent with accounting values, and risk weights are not taken into account. In addition, physical or financial collateral, guarantees, or other credit risk mitigation techniques cannot be used to reduce the exposure measurement, unless otherwise noted in the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Proper Conduct of Banking Business Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, exposure in respect of derivatives is calculated in accordance with Appendix C to Proper Conduct of Banking Business Directive 203; exposures in respect of off-balance sheet items are calculated by converting the notional amount of the items using credit conversion coefficients, as established in Proper Conduct of Banking Business Directive 203.

Pursuant to the Directive, banking corporations shall comply with a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system shall comply with a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank will be 6%.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

Banking corporations are required to maintain this leverage ratio as of January 1, 2018. Banking corporations that comply with the applicable minimum leverage ratio requirement at the date of publication of the Directive shall not lower the ratio below the threshold established in the Directive. The leverage ratio of the Bank and of its significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, Leverage Ratio. The leverage ratio of banking subsidiaries overseas is presented according to the regulatory directives and required ratios in each jurisdiction, if any.

Leverage Ratio

	December 31, 2015
	NIS millions
A. Consolidated data	
Tier 1 capital	**34,955**
Total exposures	**492,192**
	%
Leverage ratio	**7.10%**
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**
B. Significant subsidiaries	
Isracard	
Leverage ratio	**12.11%**
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**
Bank Hapoalim Switzerland*	
Leverage ratio	**10.00%**
Bank Pozitif	
Leverage ratio	**12.60%**
Minimum required leverage ratio according to local regulation	**3.00%**

* Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

M. Liquidity Coverage Ratio

On September 28, 2014, the Supervisor of Banks issued a circular adding Proper Conduct of Banking Business Directive 221, Liquidity Coverage Ratio, which adopts the recommendations of the Basel Committee with regard to the liquidity coverage ratio (LCR) in the banking system in Israel. The LCR refers to a horizon of thirty days, in a stress scenario, and is aimed at ensuring that banking corporations maintain a supply of high-quality liquid assets that cover the corporation's liquidity needs during that timeframe, in accordance with the scenario described in the directive. The directive establishes the method of calculation of the LCR, including a definition of characteristics and operational requirements for the "supply of high-quality liquid assets" (the numerator) and the applicable safety margins, and defines the net expected outgoing cash flow in the stress scenario defined in the directive for the coming thirty calendar days (the denominator). This flow includes, among other matters, some withdrawal of various types of deposits, in accordance with the coefficients in the scenario, some utilization of credit facilities provided by the Bank, and more, with the deduction of repayment during the month of credit granted by the Bank, at certain coefficients, etc. Classifications of bonds, types of deposits, types of credit facilities, etc., and the applicable coefficients were established in the directive. Accordingly, a change in the volume or composition of liquid assets, a change in the volume of any of the types of deposits defined in the directive, changes in the volume of credit facilities and guarantees subject to a liquidity requirement, etc., may lead to a change in the ratio.

Pursuant to the transitional directives, a minimum requirement of 60% has been established, beginning April 1, 2015, increasing to 80% on January 1, 2016 and to 100% from January 1, 2017, forward. However, during times of financial stress, banking corporations will be permitted to fall below these minimum requirements. Separate requirements apply in total currencies and in foreign currency, at the level of the standalone banking corporation and consolidated, and the ratio is calculated accordingly. A banking corporation that does not comply with the ratio is required to report immediately to the Supervisor of Banks; after three days of deviation, the corporation must submit a plan for compliance with the minimum requirement.

The standalone ratio for the banking corporation is calculated daily, and reported as an average of daily observations. The consolidated ratio and the ratio for the significant banking subsidiaries is calculated on a monthly basis, in accordance with the transitional directives, and reported as the average of three monthly observations. Credit-card companies are exempt from independent calculations, but are included in the consolidated data.

Note 25 Capital, Capital Adequacy, Leverage, and Liquidity (continued)

M. Liquidity Coverage Ratio (continued)

	For the three months ended December 31, 2015
	%
A. Consolidated data(1)	
Liquidity coverage ratio	**99%**
Minimum liquidity coverage ratio required by the Supervisor of Banks*	**60%**
B. Data of the Bank (2)	
Liquidity coverage ratio	**92%**
Minimum liquidity coverage ratio required by the Supervisor of Banks*	**60%**
C. Significant subsidiaries**	
Bank Hapoalim Switzerland	
Liquidity coverage ratio according to local regulation	**149%**
Minimum required liquidity coverage ratio according to local regulation***	**60%**

* The minimum liquidity coverage ratio required by the Supervisor of Banks will rise gradually, from 60% on April 1, 2015, to 80% on January 1, 2016, and to 100% from January 1, 2017, forward.

** At this stage, credit-card companies are not required to comply with the circular, and shall continue to fulfill the requirements of Proper Conduct of Banking Business Directive 342. At a later date, credit-card companies will be required to comply with a supervisory quantitative model adapted to the characteristics of their operations. In addition, Bank Pozitif is not subject to the liquidity coverage ratio directive in Turkey.

*** The minimum required liquidity coverage ratio according to local regulation is increasing by 10% annually, up to 100% in 2019.

(1) The consolidated ratio is calculated, in accordance with the transitional directives, on a monthly basis, and reported as the average of three monthly observations.

(2) The standalone ratio of the banking corporation is calculated on a daily basis, and reported as the average of the daily observations.

NIS millions

Note 26 Contingent Liabilities and Special Commitments

A. Off-balance sheet commitment in respect of activity, by the extent of collection[(1)] at year end

	December 31	
	2015	2014
Credit balance from deposits by extent of collection[(2)]		
Israeli currency unlinked	**36**	37
Israeli currency linked to the CPI	**2,164**	3,009
Foreign currency	**237**	213
Total	**2,437**	3,259

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with margin or collection fee (instead of margin).
(2) Standing loans and government deposits granted in respect thereof, in the amount of NIS 133 million (2014: NIS 184 million), were not included in this table.

Flows in respect of collection fees and interest margin in respect of this activity, by extent of collection[(1)]

	December 31, 2015							December 31, 2014
	Up to 1 year	Over 1 year up to 3 years	Over 3 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total	Total
CPI-linked segment[(2)]								
Future contractual flows	**19**	**35**	**29**	**26**	**8**	**1**	**118**	164
Expected future flows after management's estimate of early repayments	**19**	**32**	**23**	**17**	**4**	**-**	**95**	127
Capitalized expected flows after management's estimate of early repayments[(3)]	**19**	**31**	**23**	**16**	**3**	**-**	**92**	124

Information on loans granted during the year at mortgage banks:

	December 31	
	2015	2014
Loans from deposits, by extent of collection	**4**	18
Standing loans	**7**	10

(1) Credit and deposits from deposits the repayment of which to the depositor is contingent on the collection of the credit (or deposits), with margin or collection fee (instead of margin).
(2) Including the foreign-currency segment.
(3) The capitalization rate was 0.34% (2014: 0.49%).

NIS millions

Note 26 Contingent Liabilities and Special Commitments (continued)

B. Other contingent liabilities and special commitments

	December 31	
	2015	2014
(1) Commitment to purchase securities	**363**	240
(2) Construction and acquisition of buildings and equipment	**7**	45
(3) Long-term rent contracts – rent for buildings and equipment in agreements to be paid in future years:		
First year	**162**	165
Second year	**158**	157
Third year	**152**	144
Fourth year	**142**	139
Fifth year	**102**	131
Over five years	**506**	578
Total rent on buildings and equipment	**1,222**	1,314

(4) Credit selling activity

The following table summarizes the credit selling activity of the Bank:

	For the year ended December 31		
	2015	2014	2013
Book value of credit sold	**496**	2	201
Consideration received in cash	**499**	2	203
Total net profit from sale of credit	**3**	-	2

Note 26 Contingent Liabilities and Special Commitments (continued)

B. Other Contingent Liabilities and Special Commitments (continued)

(5) The Bank guarantees, to some members of provident funds that were formerly under its management and have been sold to insurance companies and investment houses, the payment on the date of entitlement of at least the nominal amount of the fund's receipts in the member's account, less deductions permitted by law to cover the fund's expenses, tax deductions, and any amount that the fund is obligated to repay to the member's employer, all subject to the relevant item in the approved articles of association of each fund. The balance of nominal amounts for which the Bank is a guarantor amounted at the balance sheet date to NIS 2,113 million, and the balance of members' accounts amounted at the balance sheet date to NIS 8,876 million. It is emphasized that the "fair value" of the Bank's liability in respect of the aforesaid guarantees as at December 31, 2015, is immaterial.

As part of the sale of the funds, the matter of the Bank's guarantee was formalized with each of the buyers of the funds for which the Bank was a guarantor. With regard to provident funds sold to insurance companies and/or to companies under their control, the guarantee was assigned immediately, on the date of completion of the transaction, with the approval of the Supervisor of the Capital Market, Insurance, and Savings (hereinafter: the "Supervisor"), and the Bank is no longer a guarantor to the funds' members. With regard to provident funds acquired by investment houses, for which the Bank was a guarantor, the following trajectory has been established:

- For a limited period, up to the first two years from the date of completion of the transaction, the Bank will continue to serve as a guarantor for some of the members of the provident funds, as was the case when the funds were under its ownership.
- Following the end of the limited period established, the Bank will continue to serve as a guarantor for some of the members of the provident funds, only with respect to the balance accumulated until seven years have elapsed from the date of completion of the transaction.
- The buyers undertook a commitment to transfer the Bank's guarantee to an insurer or other party approved by the Supervisor when seven years have elapsed from the date of completion of the transaction, in a manner such as to grant the Bank final and absolute release from its guarantee.

Some of the sale agreements between the Bank and the provident funds address the obligation of the provident funds to indemnify the Bank for the Bank's guarantee, up to the amount noted in the agreement. Pursuant to the agreements, the Bank's guarantee expired during 2014, with the exception of a guarantee for members of some of the provident funds managed by Psagot; the Bank's guarantee for these members expires on June 30, 2016. It is clarified that the trajectory described above has been formalized in detail in each of the agreements. The articles of the funds state that as long as the Supervisor has not approved the replacement or assignment of the Bank's guarantee, the Bank's guarantee for some of the members of the provident funds shall remain in effect. The Bank's guarantee for some members of the provident funds managed by Meitav-Dash ended on July 20, 2015.

(6) On February 18, 2016, the general meeting of shareholders of the Bank, in accordance with the recommendation of the Remuneration Committee and of the Board of Directors, approved the Bank's commitment to indemnify directors and officers of the Bank who serve and/or may serve from time to time, in whose indemnification letters the controlling shareholder of the Bank may be considered an interested party, for a fixed period ending December 31, 2024, as recommended by the Audit Committee of the Board of Directors of the Bank.

Note 26 Contingent Liabilities and Special Commitments (continued)

B. Other Contingent Liabilities and Special Commitments (continued)

The Bank's commitment pursuant to the indemnification letters will also apply to events that occurred prior to the issuance and renewal of the letters. The indemnification letters for these officers are identical in terms to the indemnification letters given to the other directors and officers of the Bank, including the CEO of the Bank, approved by the general meeting of shareholders of the Bank on January 3, 2012 (hereinafter: the "General Meeting"), in whose indemnification letters the controlling shareholder of the Bank does not have a personal interest; at the report date, they hold such indemnification letters not limited in duration.

The General Meeting of the Bank determined that the amount of the indemnity to be provided by the Bank under the aforesaid commitment to each of its officers, in aggregate, in respect of one or more of the indemnity events shall not exceed 25% of the Bank's shareholders' equity according to its most recent financial statements published prior to the date of the actual indemnity. The Bank has also undertaken a commitment to indemnify subsidiaries, in order to comply with the limits of the Proper Conduct of Banking Business Directives (the ratio of capital to risk-adjusted assets and the limits on indebtedness of a single borrower and of related persons), and in order to receive an exemption from implementation of Proper Conduct of Banking Business Directives 201-211, Capital Measurement and Adequacy. This indemnification will expire automatically, without the need for any action to be taken by any of the parties, when the Bank ceases to hold any means of control in the company, on its own or through companies under its full ownership

(7) Hapoalim Hanpakot Ltd., which is a consolidated company and an "auxiliary corporation" as defined in the Banking (Licensing) Law, 1981 (hereinafter: "Hapoalim Hanpakot"), and which is engaged in the issuance of subordinated notes and bonds to the public, in accordance with shelf offer reports published based on a shelf prospectus, for the purpose of depositing the proceeds at the Bank, has undertaken to indemnify directors and officers (hereinafter: "Indemnification Recipients") in connection with various prospectuses published by Hapoalim Hanpakot since 1998 in respect of monetary indebtedness to be imposed upon them due to actions they performed in the capacity of providing services to the company; and with regard to subordinated notes and bonds issued as of 2001, also due to monetary indebtedness imposed upon them in favor of another person in accordance with a court ruling, including a ruling issued in a compromise or an arbitrator's ruling approved by a court, and in respect of reasonable litigation expenses, including lawyers' fees, expended by them or charged to them by a court in a proceeding filed against them by the company or on its behalf or by another person, or in a criminal indictment in which they are acquitted, or in a criminal indictment in which they are convicted of an offense that does not require proof of mens rea; and with regard to Subordinated Notes (Series I-P) and Subordinated Capital Notes (Series 1) issued based on prospectuses dated from December 21, 2005 to May 23, 2011, also for reasonable litigation expenses, including lawyers' fees, expended by the Indemnification Recipients due to an investigation or proceeding conducted against them by the government agency authorized to conduct the investigation or proceeding, and which concluded without an indictment, and without any financial obligation imposed as a substitute for a criminal proceeding, or which concluded without an indictment, but with the imposition of a financial obligation as a substitute for a criminal proceeding, for an offense that does not require proof of mens rea, as these terms are defined in the Companies Law, 1999, all provided that the financial obligation and/or expenses are not covered in practice by an insurance policy.

Note 26 Contingent Liabilities and Special Commitments (continued)

B. Other Contingent Liabilities and Special Commitments (continued)

The cumulative indemnification ceiling for all Indemnification Recipients was established as a maximum amount not to exceed the amount of the overall limit stipulated in each prospectus; with respect to Subordinated Notes (Series I-P), a maximum amount not to exceed 10% of the total limit established for the issue under the aforesaid prospectus.

(8) Under an agreement, a contingent liability exists between the TASE Clearing House and the members of the Tel-Aviv Stock Exchange Ltd. (including the Bank) with regard to mutual indemnification among the members of the TASE Clearing House to pay money, in full or in part, or securities cleared, in full or in part, which one of the members of the TASE is obligated to pay or deliver, or if the Clearing House has paid the said unpaid moneys or purchased the undelivered cleared securities and delivered them to the designated recipient to which they are owed.

Each member's share of the indemnification is equivalent to the ratio of the member's financial turnover to the total financial turnover of all of the members responsible for payment to the Clearing House for the loss, for a period of twelve months ending on the last day of the month preceding the month in which the event that caused the loss occurred.

(9) Consolidated companies of the Bank act as trustees for holders of bonds, and are required to monitor compliance with the terms of the bonds as undertaken by the issuing companies and by law. These companies also engage in trust services for the benefit of various beneficiaries who own money, rights, and other assets, to be held and managed in accordance with the instructions of the owners.

(10) (A) Isracard has undertaken a commitment to indemnify directors and other officers of the company, as they may be from time to time. The letter of indemnity approved by the general meeting on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, has been adjusted to changes in legislation. The cumulative amount of the indemnification to be provided by Isracard under this obligation to all insured parties of the company in respect of one or more indemnification events shall not exceed 30% of its equity according to its most recent (annual or quarterly) known financial statements prior to the actual payment.

(B) Poalim Express has undertaken a commitment to indemnify directors and other officers of the company, as they may be from time to time. The letter of indemnity approved by the general meeting on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, has been adjusted to changes in legislation. The cumulative amount of the indemnification to be provided by the company under this obligation to all insured parties of the company in respect of one or more indemnification events shall not exceed 50% of its equity according to its most recent (annual or quarterly) known financial statements prior to the actual payment.

(C) Europay has undertaken a commitment to indemnify directors and other officers of the company, as they may be from time to time. The letter of indemnity approved by the general meeting on February 12, 2012, with the approval of the Audit Committee and the Board of Directors, has been adjusted to changes in legislation. The cumulative amount of the indemnification to be provided by the company under this obligation to all insured parties of the company in respect of one or more indemnification events shall not exceed 30% of its equity according to its most recent (annual or quarterly) known financial statements prior to the actual payment.

Note 26 Contingent Liabilities and Special Commitments (continued)

B. Other Contingent Liabilities and Special Commitments (continued)

(D) Pursuant to an arrangement between Isracard and the credit-card companies Leumi Card and CAL, which was approved by the Antitrust Tribunal on March 7, 2012 (hereinafter: the "Arrangement"), the average issuer fee stood at 0.735% as of July 1, 2013, and the average issuer fee stands at 0.7% from July 1, 2014, to the end of the period of the Arrangement (December 31, 2018). The agreement signed by the parties, detailing the terms for the operation of the joint technical interface, has been submitted to the Commissioner in order to obtain an exemption from approval of a restrictive arrangement.

C. Legal Claims

The Bank Group (the Bank and its consolidated subsidiaries) is party to legal proceedings, including petitions to certify class actions, taken against it by its customers, former customers, and various third parties, who deem themselves injured or harmed by the Bank Group's operations during the normal course of its business. The causes of the claims against the Bank Group are various and wide-ranging.

The additional exposure in respect of claims filed against the Bank Group on various matters, as at December 31, 2015, that have a "reasonably possible" probability of materialization amounts to approximately NIS 67 million.

(A) Set out below are details of the claims, including petitions to certify and administer claims as class actions, in material amounts, as at the date of filing (claim amounts listed below are the amounts noted in the claim statements). In the opinion of the Bank's Board of Management, based on legal opinions with regard to the likely outcome of these claims, the financial statements include sufficient provisions, where necessary, in accordance with generally accepted accounting principles, to cover possible damages resulting from these claims:

1. An arbitration proceeding is underway between the former controlling shareholders of JSC Ukrainian Innovation Bank (hereinafter: the "Petitioners" and "JSB", respectively) and Tarshish Holdings and Investments Hapoalim Ltd., a wholly owned subsidiary of the Bank (hereinafter: "Tarshish"), and the Bank, at the request of the Petitioners, before the London Court of International Arbitration.

The Petitioners allege that the Bank and Tarshish violated their commitment, pursuant to the agreement of December 2007 between the Petitioners and Tarshish (and its subsequent amendments), to acquire 75% of the share capital of JSB from the Petitioners. The Petitioners claim that they incurred damage in the amount of approximately USD 136 million due to the failure to complete the transaction, and additional damage due to the failure to execute advisory agreements related to the transaction. The Bank and Tarshish reject the Petitioners' claims, among other factors because the failure to complete the aforesaid transaction at the time resulted from the cancellation, in October 2008, of the permit granted for the transaction by the Governor of the Bank of Israel.

A ruling was given in the arbitration proceeding on February 12, 2016, dismissing all of the arguments of the Petitioners

Note 26 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims (continued)

2. A claim and a petition to certify and administer the claim as a class action against several credit-card companies, including Isracard Ltd. and Poalim Express Ltd., both of which are subsidiaries of the Bank, and against Leumi Card Ltd., were filed with the District Court of Tel-Aviv-Jaffa on July 7, 2014. The amount of the class-action suit has been set at a total of NIS 200 million against all of the defendants.

The claimants allege that the respondents perform conversions into NIS of transactions executed in foreign currency in an inappropriate manner, which constitutes an additional fee not properly disclosed to customers, and that they thereby violate the directives of various laws.

Several petitions to certify class actions on matters similar to the claims described above have been filed over the years against various respondents (the "Additional Petitions"), and petitions to consolidate the cases have been filed by some of the petitioners. On October 25, 2015, the court ruled to consolidate this claim with some of the Additional Petitions, including the claim described in Section (B)8 below.

3. A claim and a petition to certify and administer the claim as a class action against the Bank were filed with the Central District Court on January 12, 2014. The amount of the class-action suit noted in the claim statement is NIS 546 million. According to the petitioners, the Bank entered into an arrangement with the Isracard Group to issue bank credit cards for its customers, but the terms established in the arrangement caused the customers of the Bank to pay the highest card fee to the Isracard Group compared to the fees paid by customers of other banks that contracted with the Isracard Group for the issuance of bank credit cards. According to the petitioners, the Bank is acting in a conflict of interest and preferring the interests of the Bank and of the Isracard Group over the interests of the customers of the Bank.

4. A claim and a petition to certify the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa, in 2012, against Psagot Provident and Pension Funds Ltd. (hereinafter: "Psagot"), in its capacity as manager of the provident fund Gadish. The amount of the class-action suit was set at approximately NIS 3,840 million. The petition was approved by the court. The petitioner's arguments concern the management of money in the accounts of deceased members. Among other matters, the petitioner alleges alleges that Psagot does not make a sufficient effort to inform beneficiaries of the existence of the fund; that Psagot imposes difficulties on beneficiaries who seek information about the fund; and that Psagot raised management fees in the accounts of deceased members without sending notification in advance. Psagot has notified the Bank that to the extent that causes emerge during the investigation of the claim that pertain to the manner of management of the Gadish fund while it was managed by Gadid Poalim Ltd., formerly Gad-Gmulim Provident Fund Management Company Ltd., which is a subsidiary of the Bank (hereinafter: "Gadid"), during the period prior to March 24, 2008 (the date of completion of the sale of the management rights of the provident fund Gadish by Gad-Gmulim to Psagot Gemel), Psagot retains its rights to indemnification by Gadid, backed by the Bank, in accordance with the sale agreement signed by the parties.

5. A claim statement and a petition to certify and administer the claim as a class action were filed with the Central District Court against three banks, including the Bank (hereinafter: the "Respondent Banks") on September 21, 2011. The claim against all of the Respondent Banks is in a total amount of NIS 927 million, while the share of the Bank is in the amount of NIS 280 million.

Note 26 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims (continued)

The cause of the claim, according to the petitioners, is excessive collection allegedly deriving from prohibited collection of "compound interest" in housing loans taken by the petitioners from the Respondent Banks, and the Respondent Banks' interest calculations that disregard the fact that the interest has already been paid and that previous payments also repaid part of the principal.

The position submitted by the Supervisor of Banks at the request of the court supported the banks' position, according to which in cases where the interest rate in a housing loan agreement is established in annual terms and the loan is repaid in monthly payments, the annual interest established in the loan agreement should be divided by 12.

A ruling was handed down on August 16, 2015, in which the petition for certification was dismissed. The petitioners filed an appeal of the verdict with the Supreme Court on August 16, 2015.

6. On August 16, 2010, a claim was filed with the US Bankruptcy Court of the Southern District of New York (hereinafter: the "Bankruptcy Court") against Bank Hapoalim (Switzerland) Ltd., a wholly-owned subsidiary of the Bank (hereinafter: "Hapoalim Switzerland"), and against others. The claimant, Fairfield Sentry Limited, through its liquidators (hereinafter: the "Fund"), was a fund in which customers of Hapoalim Switzerland invested. This claim has been amended and expanded. The amount of the claim stands at approximately USD 27 million.

The claim against Hapoalim Switzerland is one of many similar claims filed by the Fund, in which various defendants are required to return to the Fund all redemptions that they withdrew from the Fund during the several years preceding its liquidation (hereinafter: the "Fairfield Claims").

A ruling of the court in the British Virgin Islands (where the Fund is incorporated) in September 2011 determined that the Fund received fair consideration for redemptions withdrawn from the Fund at the time. An appeal of this decision filed with the Eastern Caribbean Court of Appeals was denied. A petition for permission to appeal, filed by the Fund with the Privy Council in England, was also denied. At this stage, the hearing of the Fairfield Claims by the Bankruptcy Court has been delayed.

In addition, in September 2011, the Federal Court of New York ruled that the Bankruptcy Court does not have material jurisdiction to discuss the Fairfield Claims. However, in a discussion of a similar recovery claim related to the Madoff affair, the Federal Court of New York ruled in January 2013 that the Bankruptcy Court has the authority to recommend proposed factual findings and juridical conclusions.

In addition to the aforesaid claim, on March 29, 2012, Attorney Irving Pickard, liquidator of Bernard L. Madoff Investment Securities LLC (hereinafter: "Madoff"), filed a claim with the Bankruptcy Court against the Bank and against Hapoalim Switzerland. The claim is in the amount of approximately USD 27.5 million, of which approximately USD 26 million against Hapoalim Switzerland. The claim demands that the defendants reimburse the Madoff liquidation fund for redemptions withdrawn from the Fund and from the Kingate Fund during the period preceding Madoff's bankruptcy. This refers to funds in which customers of the Bank and of Hapoalim Switzerland invested at the time, which in turn invested in Madoff.

It should be noted that a substantial part of the amount of the reimbursement demanded in this claim (approximately USD 22 million of the total USD 27.5 million) corresponds to the amounts claimed by the Fund in the claim described above; therefore, there does not seem to be a risk of double payment in respect of the corresponding amounts.

Note 26 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims (continued)

7. On April 1, 2007, a claim and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against two banks, including the Bank. The amount stated in the claim statement is approximately NIS 386 million, against all of the defendants.
According to the claimants, the claim concerns losses caused to themselves and to the other members of the group as a result of the fact that the defendants, who are TASE members, unlawfully charged mutual-fund managers brokerage fees at a higher rate than should have been charged, thereby increasing economic costs, reducing the value of the fund's assets, reducing the value of each participatory unit, and, as a consequence of all of the above, reducing the profit (or increasing the loss) of each investor.

8. On November 23, 2006, a claim and a petition to certify and administer the claim as a class action against three banks, including the Bank (hereinafter: the "Respondent Banks") were filed with the District Court of Jerusalem. The aggregate amount of the class-action suit against all of the Respondent Banks, as specified in the claim statement, is approximately NIS 5.6 billion. The claimants note in their claim that according to a different method of calculation, the amount claimed is at least NIS 5.2 billion.
The claimants, who present themselves as citizens who maintain households and who received credit from the Respondent Banks, allege in the claim that they were charged excessive interest payments without economic or commercial justification. The claimants further allege that the interest rate was determined while exploiting the Respondent Banks' standing in the households banking market, while reducing competition and causing damage to the public and/or while creating an illegal restrictive arrangement. The claimants further allege that the interest rate was determined while misinforming them with regard to the usual price of credit services for the households sector, in violation of the Consumer Protection Law, 1981. The claimants allege that this resulted in damage to the claimants and to the other customers of the Respondent Banks comprising the households sector.
On May 5, 2014, the court unified the hearing of this case with the hearing of the claim described in Section 9 below. Following an appeal filed with respect to a declaration pursuant to Section 43(A)(1) of the Restrictive Trade Practices Law, 1988, issued by the Antitrust Commissioner on April 26, 2009, entitled "Regarding: Restrictive arrangements between Bank Hapoalim, Bank Leumi, Discount Bank, Mizrahi Bank, and FIBI concerning the transfer of information pertaining to fees" (hereinafter: the "Declaration"), a consensual order was given, which was approved by the Antitrust Tribunal. Pursuant to the consensual order, the banks agreed to pay compensation to the state treasury, and were given the option of paying this sum as compensation in settlement agreements to be signed with petitioners in various petitions to certify class actions filed against the banks on matters related to the Commissioner's Declaration. As part of the implementation of the consensual order, in December 2014, the parties to the claim described in Section 9 below, the hearing of which has been unified with the hearing of the claim described herein, as noted, filed a consensual petition to approve a settlement agreement in the claim, and to apply it to this claim as well, despite the fact that the parties in this claim had not reached an agreed settlement. A ruling has not yet been given on the petition, or on the question whether the proposed settlement will also apply to this claim. The possibility that the proceedings in this claim will continue separately is also being considered.

Note 26 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims (continued)

9. On September 12, 2006, a claim statement and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against three banks, including the Bank (hereinafter: the "Respondent Banks"). The amount of the claim noted in the claim statement against all of the Respondent Banks in aggregate is NIS 7 billion; the claimant notes that she reserves the right to amend the amount of the claim.

The claimant alleges that she was charged excessive and unreasonable interest payments by the Bank, as well as payments for added risk, credit allocation fees, and account management fees in a current drawing business account which, she claims, were uniform among all of the Respondent Banks. According to the claimant, the Bank acted in coordination with the other respondents, under a restrictive arrangement among them, and as a result of the uniformity in interest rates competition among them was averted or reduced, thereby increasing the interest spread in the unlinked shekel segment in current accounts, and allegedly creating substantial profits for the Respondent Banks while causing damage to the public and to the economy.

On May 5, 2014, the court unified the hearing of this case with the hearing of the claim described in Section 8 above. As part of the implementation of the consensual order regarding the Declaration, as defined in Section 8 above, in December 2014, the parties filed a consensual petition to approve a settlement agreement in the claim, and to apply it to the claim described in Section 8 above as well. Because the parties to the claim described in Section 8 above have not reached an agreed settlement, the Respondent Banks were granted an extension in order to decide whether to approve the settlement in this claim, even without applying it to the claim in Section 8 above.

(B) Also pending against the Bank Group are claims, including petitions to certify class actions, as detailed below. In the opinion of the Bank's Board of Management, based on legal opinions, at this stage it is not possible to assess the probability of success of these legal proceedings; accordingly, no provision has been made in respect thereof:

1. A claim and a petition to certify and administer the claim as a class action against five banks, including the Bank (hereinafter: the "Respondent Banks"), were filed with the District Court of Tel-Aviv Jaffa on February 11, 2016. The amount of the claim stated in the claim statement against all of the Respondent Banks in aggregate is NIS 219 million. According to the petitioner, the claim concerns alleged prohibited discrimination based on age, practiced by the Respondent Banks when they set a maximum age for receiving student benefits. According to the petitioner, registration for the various benefit plans offered by the Respondent Banks to students is conditional, in addition to the applicant's student status, also on belonging to a particular age group, which varies from one bank to another. The petitioner alleges that the Respondent Banks thereby violate the Amendment to the Law for the Prohibition of Discrimination in Products, Services, and Entrance to Entertainment Venues and Public Places, 2000, and the directives of the Banking (Service to Customers) Law, 1981.

Note 26 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims (continued)

2. A claim and a petition to certify and administer the claim as a class action were filed against two banks, including the Bank, with the District Court of Tel-Aviv-Jaffa on August 23, 2015. The amount of the claim was estimated by the petitioners at approximately NIS 160 million, or alternatively approximately NIS 367 million, or possibly more. The petitioners allege that the respondents, through investment advisors acting on their behalf, gave investment advice to their customers with regard to the purchase and/or sale of index certificates, although they did not possess automated systems supporting such an investment decision, which prevented the investment advisors from matching the investment to the needs and wishes of the customer, as required by law, in violation of the duty of trust, the duty of fidelity, and the duty of care conferred upon them under various laws and under the explicit directions of the Israel Securities Authority.

3. A claim and a petition to certify and administer the claim as a class action were filed against the Bank with the District Court of Tel-Aviv-Jaffa on June 24, 2015. The amount of the claim noted in the claim statement is approximately NIS 500 million. The petition concerns the allegation that customers of the Bank who were, or who are, entitled to be included in the category of a "small business," as defined in the Banking Rules (Service to Customers) (Fees), 2008, paid fees that were not in accordance with the fee list applicable to small businesses, and the Bank did not notify these customers that the possibility of classifying them as small businesses existed.

4. A claim and a petition to certify and administer the claim as a class action were filed against the Bank with the District Court of Tel-Aviv-Jaffa on June 16, 2015. The amount of the claim noted in the claim statement is approximately NIS 225 million. The petitioners allege that during the period relevant to the claim (2008-2011), no fee was established in the Bank's fee list for cash withdrawals from automated teller machines, yet the Bank collected a cash withdrawal fee from its customers who withdrew cash from automatic teller machines (at the branches of the Bank or at branches of other banks) during that period.

5. On March 30, 2015, two different petitioners filed two petitions to certify and administer a claim as a class action against Isracard Ltd., which is a subsidiary of the Bank (hereinafter: "Isracard"), concerning the deletion of Stars within the gift program ended several years ago. One claim was filed with the District Court of Tel-Aviv-Jaffa, in the amount of approximately NIS 159 million, and the second claim was filed with the Central District Court, in the amount of approximately NIS 41 million. The petitioners allege that the cancellation of the program and the period of time granted to Isracard customers to organize and realize their accumulated points were unlawful. Representatives of the petitions in the two claims have reached agreement with regard to cooperation between them. On November 29, 2015, a consolidated, amended petition for certification was filed by all of the petitioners, in a total amount of NIS 162 million.

Note 26 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims (continued)

6. On March 10, 2015, a claim and a petition to certify and administer the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa, against the Bank, against officers of the Bank, and against Arison Investments Ltd. The claim does not state an amount. The petition concerns the allegation that the Bank, in violation of the directives of the Securities Law, 1968, and the regulations enacted under the power thereof, avoided disclosing material information to the investing public regarding the investigation underway against the Bank and against its subsidiary Hapoalim Switzerland by the United States authorities. Among other matters, it is alleged that the respondents avoided publishing the fact that provisions at a volume of hundreds of millions of NIS were set aside in the financial statements of the Bank, due to its exposure to future fines in connection with the investigation, and that the amounts of the provisions were not disclosed. It is further alleged that investors who purchased securities of the Bank were not aware of the aforesaid material information, and were not aware that the Supervisor of Banks had imposed the provisions in these amounts on the Bank.

7. A claim and a petition to certify and administer the claim as a class action against three credit-card companies, including Isracard Ltd., which is a subsidiary of the Bank (hereinafter: "Isracard"), were filed with the Central District Court on April 28, 2014. The amount of the class-action suit against all of the defendants has been set at a total of approximately NIS 1.7 billion.

The claimants allege the three credit-card companies are parties to a restrictive arrangement that has not been approved as required by law, in which, in debit and prepaid transactions, they unlawfully delay funds owed to the merchants after the funds have already been drawn from the cardholder's account, and they charge the merchants an inappropriate fee for such transactions, as the fee is calculated based on the interchange fee, as is the practice for deferred-payment transactions. It is further alleged that sections of the merchant agreement constitute depriving conditions in a uniform contract.

In July 2015, a withdrawal petition filed by the petitioners was approved, and the court ordered that the withdrawal should be published, and that any interested person should be allowed to replace the petitioners for representation The court also ordered the petition for certification and the petition for withdrawal to be sent to the Attorney General, the Supervisor of Banks, and the Antitrust Commissioner.

Two requests to appoint substitute petitioners and representatives were filed on October 17, 2015. Pursuant to the orders of the court, each group submitted a document describing its qualifications and the manner in which it intends to continue to conduct the claim. The court has not yet decided which of the groups will be the representative in the petition for certification, and an amended certification petition has not yet been filed.

8. A claim and a petition to certify and administer the claim as a class action against five banks, including the Bank, and against the Supervisor of Banks, the Governor of the Bank of Israel, and the Antitrust Commissioner as formal respondents, were filed with the District Court of Tel-Aviv-Jaffa on August 28, 2013. The total amount of the claim against all of the banks was set at approximately NIS 10.5 billion. The claimants alleged that the defendant banks collect a fee, unlawfully and without due disclosure to customers, in connection with foreign currency conversion and delivery. According to the claimants, a customer who executes a transaction for the conversion of foreign currency pays a fee for the conversion services, in addition to the fee listed in the bank's fee list, which according to the allegation is the difference between the rate at which the banks buy foreign currency on the interbank market and the rate at which they sell foreign currency to customers, without due disclosure and unlawfully. It is further alleged that in performing this activity, the respondent banks maintain a mutual restrictive arrangement.

Note 26 Contingent Liabilities and Special Commitments (continued)

C. Legal Claims (continued)

After the original claim was filed, the claim was amended several times, at the request of the petitioners. An amended certification petition was filed on February 4, 2014, in which, among other matters, an argument was added pursuant to which foreign-currency conversion transactions according to an "order rate" are "future transactions," and the Bank allegedly violated the directives of the law in connection with such transactions; the amount of the original claim was also amended, to approximately NIS 11 billion (the "Amended Claim"). Later, on April 23, 2015, pursuant to a ruling of the court, the petitioners filed an amended, abridged petition for certification of a class action (the "Abridged Petition"). Over the years, various petitioners have filed a number of petitions for recognition of class actions on matters similar to the arguments described above, against various respondents (the "Additional Petitions"), and petitions for consolidation of the cases have been filed by some of the petitioners. On October 25, 2015, the court ruled to consolidate the Abridged Petition with some of the Additional Petitions, including the claim described in Section (A)2 above.

D. Contingent Liabilities and Other Special Commitments

On April 26, 2009, the Antitrust Commissioner issued a declaration pursuant to Section 43(A)(1) of the Restrictive Trade Practices Law, 1988, entitled "Regarding: Restrictive arrangements between Bank Hapoalim, Bank Leumi, Discount Bank, Mizrahi Bank, and FIBI concerning the transfer of information pertaining to fees" (hereinafter: the "Declaration"). For details and information regarding the Declaration, see Note 19C(11) to the Financial Statements as at December 31, 2013.

On March 27, 2014, a consensual order was signed between the Antitrust Commissioner and the five banks referenced in the Declaration, in which the parties reached an agreement pursuant to which the Declaration would be canceled and the five major banks would pay NIS 70 million to the state treasury. The Bank's share, pursuant to the consensual order, was in the amount of approximately NIS 21.5 million. The banks have the option of paying this amount as compensation in settlement agreements with petitioners in various petitions to certify class actions filed against the banks on matters related to the Declaration of the Commissioner.

On June 15, 2014, the Antitrust Tribunal approved the consensual order submitted by the Antitrust Commissioner. The tribunal dismissed the objections to the consensual order and accepted the position of the Commissioner, including all parts thereof.

The amount of the payment established in the settlement agreement with the Antitrust Commissioner was transferred by the Bank to a trust account. Concurrently, the banks are negotiating with the petitioners in various petitions to certify class actions filed against the banks on matters related to the Declaration of the Commissioner, in order to reach settlement agreements with the petitioners.

Note 26 Contingent Liabilities and Special Commitments (continued)

E. Over the course of 2011, the Swiss authorities notified Bank Hapoalim (Switzerland) Ltd. (hereinafter: "Hapoalim Switzerland") that several Swiss banks, including Hapoalim Switzerland, were being investigated by the US authorities, seemingly in connection with suspicions or concerns of assisting American clients in evading US tax. No details or circumstances relating to Hapoalim Switzerland specifically were provided in connection with this investigation.

Pursuant to a request by the Swiss authorities, these banks submitted statistical information with regard to their transactions with American clients to the Swiss authorities, which the Swiss authorities were to convey to the US authorities. In this context, during the second half of 2011, Hapoalim Switzerland submitted statistical information to the Swiss authorities, without submitting identifying information regarding the clients, such as the names of the clients. Hapoalim Switzerland has cooperated and continues to cooperate with the Swiss authorities, and is acting in accordance with the legal directives to which it is subject.

On August 29, 2013, it was announced that the US and Swiss authorities had reached an arrangement (the "Swiss Arrangement"), pursuant to which Swiss banks that choose to join the Swiss Arrangement and meet its conditions (including the payment of a fine and the submission of extensive information regarding the accounts of their American clients, funds received from other banks, and more) will not be brought to trial in the United States in connection with matters covered by the arrangement. The Swiss Arrangement defines "Category 2" as a category that refers to banks that are not under investigation, and can join the arrangement and sign an agreement in which they will not be brought to trial (Non-Prosecution Agreement). The US Department of Justice announced that the Swiss Arrangement would not apply to 14 Swiss banks, the activity of which is being investigated. Thus, Hapoalim Switzerland is not included in the Swiss Arrangement and, on August 29, 2013, the US Department of Justice sent a letter notifying the representative of Hapoalim Switzerland that it would not be included in the Swiss Arrangement, as it is subject to investigation. The aforementioned letter did not specify any claims or demands whatsoever.

From 2011 until the end of 2014, excluding a few telephone conversations between representatives of the US authorities, the Bank's representatives, and the Bank's US counsel, no meetings or discussions were conducted between representatives of the US authorities and the Bank or the Bank's counsel in connection with the investigation against Hapoalim Switzerland and/or the banking activities of other entities in the Bank Group with American clients.

Note 26 Contingent Liabilities and Special Commitments (continued)

In early 2015, the Bank's representatives held several meetings with representatives of the New York Department of Financial Services (NYDFS) and representatives of the United States Department of Justice (DOJ) in Washington. They also met with representatives of the Federal Reserve in New York. In these meetings, the American authorities notified the representatives of the Bank of an investigation underway against the Bank Group, and delivered orders to disclose documents and various requests for information and materials. Additional requests for the collection and submission of information and additional materials were received during 2015 and in January and February 2016. The Bank, through its representatives, submitted and continues to submit information and various materials to the DOJ and the NYDFS with regard to the activity of the Bank Group with American clients. The Bank, through its representatives, continues to communicate and cooperate with the them, and representatives of the Bank are expected to continue to meet with representatives of the authorities. Since 2011, the Bank Group has been assisted by outside counsel from the United States, Switzerland, and Israel, and internal reviews have been conducted regarding banking activities with American clients. The Bank is continuing, and is expected to continue, to conduct internal reviews, among other matters, in order to complete the collection of the information and materials demanded in the past and demanded from time to time by the US authorities, to the extent possible and within the bounds of the law. The Bank estimates that most of the material that the Bank has been asked to submit up to this point was transferred to the American authorities, and that it is likely that discussions with these authorities with regard to the materials will be held during the course of this year.

On January 27, 2016, the US Department of Justice announced that the last agreement had been signed with banks included in Category 2 within the Swiss Arrangement. In the announcement, the US Department of Justice further noted that a total of approximately eighty agreements had been signed with Swiss banks in Category 2 of the Swiss Arrangement. The variation among the Swiss banks, the agreements that they signed with the US Department of Justice, and the charges and fines imposed by these agreements is extensive, as indicated by the public announcements of the US Department of Justice in this connection. Over time, the US Department of Justice also signed arrangements with banks that are not included in Category 2. These arrangements are also different from one another, and were also announced publicly by the US Department of Justice. Some of the banks also paid fines to other American government agencies.

At this stage, taking into account the fact that, as of the date of this report, the US authorities have not directed any specific claims against the Bank, and taking into account that the Bank Group is not conducting any negotiations with the US authorities and that one cannot draw an analogy with the arrangements signed by various banks with the US Department of Justice, as noted above (including the events and results of Bank Leumi LeIsrael B.M. in this context, which differ from those of the Bank), and in light of legal opinions and the uncertainty resulting from all of the above, the Bank cannot assess the scope of the exposure in this matter.

Note 26 Contingent Liabilities and Special Commitments (continued)

Notwithstanding the above, the Supervisor of Banks, after inspecting the circumstances and for conservative accounting reasons, ordered the Bank, during 2014, to include a provision in its financial statements with respect to the aforementioned (which would not have been included in the financial statements if not for the Supervisor of Banks' order, for the reasons noted above), and later ordered the disclosure of this provision in the Annual Report for 2014. Accordingly, the financial statements include a provision in an amount in NIS equal to approximately USD 50 million. In accordance with the directive of the Supervisor of Banks, the amount of this provision was calculated on the basis of the estimated sum that Hapoalim Switzerland would probably have paid to the US authorities according to the formula established in the Swiss Arrangement, if Hapoalim Switzerland had been included in Category 2 within the Swiss Arrangement, despite the fact that the aforementioned provision refers to the Bank Group as a whole. It is possible, in view of the existing uncertainty, as noted above, that the eventual outcome will differ materially from the amount of the provision ordered by the Supervisor of Banks.

F. On May 27, 2015, the United States Department of Justice announced the existence of an indictment filed with the Federal Court in New York against 14 senior officials of the Fédération Internationale de Football Association (FIFA) in connection with suspected offenses of bribery, fraud, and related offenses. According to the indictment, some of the defendants maintained accounts with the Bank Group. Under these circumstances, the Bank Group is conducting internal examinations of the accounts pertaining to the investigation. In September 2015, the Bank was informed that the US authorities were also investigating the involvement of various banks, including the Bank Group, in this matter. The Bank is in contact with these authorities and is cooperating with them in the investigation, while submitting information and documents, in accordance with the relevant laws. At this preliminary stage, the Bank cannot estimate the extent of its exposure in connection with this matter.

G. Variable Interest Entities (VIE)

The Bank supplies liquidity lines to securitization entities in which third parties serve as the sponsors. The lines supplied by the Bank constitute a relatively small share of the total liquidity lines of these securitization entities. The Bank does not supply credit reinforcement to these entities. The total liquidity lines supplied to securitization entities, as described above, as at December 31, 2015, amounted to NIS 195 million (USD 50 million), compared with NIS 194 million (USD 50 million) at the end of 2014. No withdrawals were performed on any of these lines up to December 31, 2015. Taking into consideration the fact that the Bank usually supplies a relatively small share of the total liquidity lines to these securitization entities and does not provide them with other types of support, the Bank has determined that it does not hold variable interests that would make it the primary beneficiary in any VIE of these securitization entities.

Note 27 Liens

A. Bonds and subordinated notes issued by consolidated companies, totaling NIS 403.0 million as at December 31, 2015 (December 31, 2014: NIS 2.3 billion), are secured mainly by current liens on the companies' assets.

B. Securities in foreign currency held by the Bank Group abroad, with a balance in the amount of NIS 2.8 billion as at December 31, 2015 (December 31, 2014: NIS 3.0 billion), were pledged mainly to secure deposits from the public (through the FDIC), in accordance with the directives of government authorities in the US, and in respect of monetary loans received from central banks in those countries.

C. The Bank is a member of the Euroclear clearing house, which is a clearing system for securities traded in international markets. For its securities activity through this clearing house and as collateral for a credit line established by the clearing-house operator in the Bank's favor, the Bank pledged cash and securities with a total balance of USD 60 million (NIS 234 million) as at December 31, 2015 (December 31, 2014: approximately USD 60 million (NIS 233 million)).

D. Bonds with a balance in the amount of NIS 83 million as at December 31, 2015 (December 31, 2014: NIS 42 million) were pledged to secure deposits received within sale transactions of assets under repurchase agreements.

E. The Bank is a member of the Maof Clearing House Ltd. and the TASE Clearing House Ltd. For the purpose of the operation of these clearing houses in securing transactions under the Bank's responsibility, the Bank has pledged bonds in accounts opened for that purpose at these clearing houses.

The balance of bonds pledged as at December 31, 2015 totaled NIS 6.6 billion (maximum balance NIS 6.6 billion).
The balance of bonds pledged as at December 31, 2014 totaled NIS 5.6 billion (maximum balance NIS 5.6 billion).
In addition to the collateral detailed above, the Bank deposited collateral in cash in the amount of NIS 16 million (December 31, 2014: NIS 23 million) in favor of the risk fund of the TASE Clearing House, and in the amount of NIS 168 million (December 31, 2014: NIS 255 million) in favor of the risk fund of the Maof Clearing House.
The amount of collateral that clearing-house members are required to deposit is updated from time to time, in accordance with the clearing houses' code of rules.

F. The Bank and its consolidated companies have CSA (Credit Support Annex) agreements with banks, aimed at minimizing the mutual credit risks that arise between banks in the course of derivatives trading. Under these agreements, the value of the inventory of derivatives transactions executed between the parties is periodically measured, and if the net exposure of one of the parties exceeds a predetermined threshold, that party provides deposits to the other party, through liens, until the date of the next measurement.

As at December 31, 2015, the Bank Group provided deposits to banks at a value of USD 693 million (December 31, 2014: USD 912 million).

G. In July 2008, an agreement was signed between the Bank and the Bank of Israel in which the Bank of Israel made a commitment to provide the Bank with a credit line of up to a total amount of NIS 1 billion, for the purpose of fulfilling the Bank's commitment as a liquidity supplier in NIS for CLS Bank International.

NIS millions

Note 27 Liens (continued)

As a condition for the provision of the loans, the Bank signed a bond in which it applied a first-rank floating lien in favor of the Bank of Israel on its rights to receive monetary amounts and charges in NIS owed at present and/or owed to the Bank in the future from time to time by its customers that are corporations incorporated under the laws of the State of Israel (hereinafter: the "Indebted Customers") and whose repayments to the Bank of any credit received from the Bank are not in arrears, in respect of credit in NIS, where the average duration of each credit does not exceed three years, granted and/or to be granted by the Bank to the Indebted Customers, up to a total amount of NIS 1.1 billion.

H. Sources of securities received as at December 31, 2015, which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets:

	December 31, 2015	December 31, 2014
Sources of securities received which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets:		
Securities purchased under agreements to resell	**119**	476
Applications of securities received as collateral and of securities of the Bank, at fair value, before the effect of offsets:		
Securities sold under repurchase agreements	**83**	42
Details of securities pledged to lenders:		
Securities available for sale	**266**	714

These securities were provided as collateral to lenders, who are entitled to sell or pledge them.

I. Bonds under lien as detailed above, which the lenders are not permitted to sell or pledge:

	December 31, 2015	December 31, 2014
Available for sale portfolio	**9,463**	8,672

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates

A. Nominal amount of derivative instruments

	December 31, 2015					
	Interest contracts		Foreign-currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	**-**	**-**	**3,306**	**-**	**-**	**3,306**
Swaps	**-**	**9,125**	**-**	**-**	**-**	**9,125**
Total hedging derivatives	**-**	**9,125**	**3,306**	**-**	**-**	**12,431**
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	**-**	**8,608**	**-**	**-**	**-**	**8,608**
2. ALM derivatives*,**						
Future contracts	**-**	**11,027**	**-**	**-**	**-**	**11,027**
Forward contracts	**13,766**	**32,612**	**155,109**	**7**	**402**	**201,896**
Option contracts traded on the stock exchange:						
Options bought	**-**	**-**	**-**	**6**	**-**	**6**
Other option contracts:						
Options written	**-**	**79,800**	**17,495**	**3,421**	**428**	**101,144**
Options bought	**-**	**79,491**	**18,542**	**1,276**	**415**	**99,724**
Swaps	**6,542**	**384,505**	**46,139**	**9,893**	**-**	**447,079**
Total ALM derivatives	**20,308**	**587,435**	**237,285**	**14,603**	**1,245**	**860,876**
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	**5,581**	**184,958**	**-**	**-**	**-**	**190,539**

* Excluding credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

A. Nominal amount of derivative instruments (continued)

	December 31, 2015					
	Interest contracts		Foreign-currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
3. Other derivatives*						
Option contracts traded on the stock exchange:						
Options written	-	-	**5,682**	**11,593**	-	**17,275**
Options bought	-	-	**5,682**	**11,593**	-	**17,275**
Swaps	-	**135**	-	-	-	**135**
Total other derivatives	-	**135**	**11,364**	**23,186**	-	**34,685**
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	**68**	-	-	-	**68**
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	**137**	**137**
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	**50**	**50**
Foreign currency spot swap contracts	-	-	**16,512**	-	-	**16,512**
Total nominal amount	**20,308**	**596,695**	**268,467**	**37,789**	**1,432**	**924,691**

* Excluding credit derivatives and foreign currency spot swap contracts.

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

A. Nominal amount of derivative instruments (continued)

	December 31, 2014					
	Interest contracts		Foreign-currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	-	-	3,299	-	-	3,299
Swaps	-	9,069	-	-	-	9,069
Total hedging derivatives	-	9,069	3,299	-	-	12,368
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	5,871	-	-	-	5,871
2. ALM derivatives*,**						
Future contracts	-	7,825	-	-	-	7,825
Forward contracts	13,241	109,136	164,525	1	404	287,307
Option contracts traded on the stock exchange:						
Options written	-	-	201	-	-	201
Options bought	-	-	979	-	-	979
Other option contracts:						
Options written	-	45,486	32,872	3,101	241	81,700
Options bought	-	43,022	31,274	833	281	75,410
Swaps	5,829	349,819	42,563	8,771	-	406,982
Total ALM derivatives	19,070	555,288	272,414	12,706	926	860,404
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	4,757	164,837	-	-	-	169,594

* Excluding credit derivatives and foreign currency spot swap contracts.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

A. Nominal amount of derivative instruments (continued)

	December 31, 2014					
	Interest contracts		Foreign-currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
3. Other derivatives*						
Option contracts traded on the stock exchange:						
Options written	-	-	2,723	18,250	-	20,973
Options bought	-	-	2,723	18,250	-	20,973
Swaps	790	-	-	-	-	790
Total other derivatives	-	790	5,446	36,478	-	42,714
Of which: interest-rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	71	-	-	-	-	71
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	136	136
Credit derivatives for which the banking corporation is a beneficiary	-	-	-	-	50	50
Foreign currency spot swap contracts	-	-	16,707	-	-	16,707
Total nominal amount	19,070	565,147	297,866	49,184	1,112	932,379

* Excluding credit derivatives and foreign currency spot swap contracts.

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

B. Gross fair value of derivative instruments

	December 31, 2015					
	Interest contracts		Foreign-currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Positive gross fair value	-	**9**	-	-	-	**9**
Negative gross fair value	-	**451**	**43**	-	-	**494**
2. ALM derivatives*,**						
Positive gross fair value	**470**	**7,765**	**3,475**	**160**	**94**	**11,964**
Negative gross fair value	**596**	**7,928**	**3,732**	**155**	**95**	**12,506**
3. Other derivatives*						
Positive gross fair value	-	-	**98**	**722**	-	**820**
Negative gross fair value	-	-	**98**	**722**	-	**820**
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	-	-	-	-	**4**	**4**
Total positive gross fair value(3)	**470**	**7,774**	**3,573**	**882**	**98**	**12,797**
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments(1)	**470**	**7,774**	**3,573**	**882**	**98**	**12,797**
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	**83**	**322**	**992**	**833**	**47**	**2,277**
Total negative gross fair value(4)	**596**	**8,379**	**3,873**	**877**	**95**	**13,820**
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments(2)	**596**	**8,379**	**3,873**	**877**	**95**	**13,820**
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	-	**194**	**1,402**	**802**	**35**	**2,433**

* Excluding credit derivatives.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
*** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy.
(3) Of which, positive gross fair value of embedded derivative instruments in the amount of NIS 8 million.
(4) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 14 million.

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

B. Gross fair value of derivative instruments (continued)

	December 31, 2014					
	Interest contracts		Foreign-currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Positive gross fair value	-	9	98	-	-	107
Negative gross fair value	-	451	114	-	-	565
2. ALM derivatives*,**						
Positive gross fair value	415	8,341	6,136	191	168	15,251
Negative gross fair value	547	8,464	5,987	204	168	15,370
3. Other derivatives*						
Positive gross fair value	-	1	62	830	-	893
Negative gross fair value	-	1	62	820	-	883
4. Credit derivatives						
Credit derivatives for which the banking corporation is a guarantor:						
Positive gross fair value	-	-	-	-	4	4
Total positive gross fair value(3)	415	8,351	6,296	1,021	172	16,255
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments(1)	415	8,351	6,296	1,021	172	16,255
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	111	333	2,756	872	127	4,199
Total negative gross fair value(4)	547	8,916	6,163	1,024	168	16,818
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments(2)	547	8,916	6,163	1,024	168	16,818
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	2	352	1,775	876	3	3,008

* Excluding credit derivatives.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.
*** For this purpose, a netting arrangement is an arrangement that meets the legal and operational conditions established with regard to offsets in Appendix C to Proper Conduct of Banking Business Directive 203, Capital Measurement and Adequacy.
(3) Of which, positive gross fair value of embedded derivative instruments in the amount of NIS 11 million.
(4) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 41 million.

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

C. Credit risk in respect of derivative instruments, by contract counterparty

	December 31, 2015					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	**462**	**6,784**	**1,697**	**-**	**3,854**	**12,797**
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	**-**	**(6,081)**	**(1,502)**	**-**	**(1,257)**	**(8,840)**
Credit risk mitigation in respect of cash collateral received	**-**	**(455)**	**(116)**	**-**	**-**	**(571)**
Net total assets in respect of derivative instruments	**462**	**248**	**79**	**-**	**2,597**	**3,386**
Off-balance sheet credit risk in respectof derivative instruments(2)	**3**	**3,836**	**1,172**	**81**	**4,260**	**9,352**
Total credit risk in respect of derivative instruments	**465**	**10,620**	**2,869**	**81**	**8,114**	**22,149**
Balance sheet balance of liabilities in respect of derivative instruments(3)	**462**	**7,856**	**2,376**	**70**	**3,056**	**13,820**
Gross amounts not offset in the balance sheet:	**-**	**-**	**-**	**-**	**-**	**-**
Financial instruments	**-**	**(6,081)**	**(1,502)**	**-**	**(1,257)**	**(8,840)**
Net total liabilities in respect of derivative instruments	**462**	**1,775**	**874**	**70**	**1,799**	**4,980**

(1) Of which, positive gross fair value of embedded derivative instruments in the amount of NIS 8 million (December 31, 2014: NIS 11 million).
(2) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(3) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 14 million (December 31, 2014: NIS 41 million).

NIS millions

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

C. Credit risk in respect of derivative instruments, by contract counterparty (continued)

	December 31, 2014					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments[1]	555	8,108	1,953	-	5,639	16,255
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(7,247)	(1,990)	-	(1,009)	(10,246)
Credit risk mitigation in respect of cash collateral received	-	(531)	-	-	(23)	(554)
Net total assets in respect of derivative instruments	555	330	(37)	-	4,607	5,455
Off-balance sheet credit risk in respect of derivative instruments[2]	-	3,768	1,107	75	4,464	9,414
Total credit risk in respect of derivative instruments	555	11,876	3,060	75	10,103	25,669
Balance sheet balance of liabilities in respect of derivative instruments[3]	555	9,615	2,992	71	3,585	16,818
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(7,247)	(1,990)	-	(1,009)	(10,246)
Net total liabilities in respect of derivative instruments	555	2,368	1,002	71	2,576	6,572

(1) Of which, positive gross fair value of embedded derivative instruments in the amount of NIS 8 million (December 31, 2014: NIS 11 million).
(2) Off-balance sheet credit risk in respect of derivative instruments (including derivative instruments with negative fair value) as calculated for the purpose of restrictions on the indebtedness of a borrower.
(3) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 14 million (December 31, 2014: NIS 41 million).

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

D. Details of maturity dates (nominal value amounts)

	December 31, 2015				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
Interest contracts					
NIS-CPI	**1,672**	**3,981**	**11,276**	**3,379**	**20,308**
Other	**91,116**	**211,961**	**179,854**	**113,764**	**596,695**
Foreign-currency contracts	**168,343**	**53,158**	**32,696**	**14,270**	**268,467**
Share-related contracts	**24,815**	**8,224**	**4,348**	**402**	**37,789**
Commodity and other contracts (including credit derivatives)	**614**	**473**	**345**	**-**	**1,432**
Total	**286,560**	**277,797**	**228,519**	**131,815**	**924,691**

	December 31, 2014				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
Total	376,462	212,223	225,329	118,365	932,379

E. Derivative Financial Instruments – Risk Control

(1) The Bank executes transactions in derivative financial instruments as part of its financial risk management (linkage base, interest rate, and liquidity exposures) and as a service to its customers. From time to time, the Bank designates some of the derivative instruments as hedging instruments in fair-value hedges or cash-flow hedges. The hedging derivative instruments are measured according to the rules detailed in Note 1(E)(6).

(2) The principal types of transactions in which the Bank operates are:

- Forwards

  A contract between two parties for the purchase and sale of a defined quantity of commodities, currencies, interest rates, or other financial instruments (hereinafter: underlying assets), to be transacted at a future date and at a predefined price.
- Futures

  Future contracts traded on stock markets, for the purchase or sale of a quantity of standard units of underlying assets, to be transacted at a future date and at a predefined price.
- Swaps

  A contract for the exchange at the time of the transaction of a defined quantity of underlying assets, with a mutual obligation to re-exchange the exchanged items at a future date.

Note 28 Activity in Derivative Instruments - Volume, Credit Risks, and Maturity Dates (continued)

E. Derivative Financial Instruments – Risk Control (continued)

- Options

  A contract that confers, for the payment of a premium, the right to purchase (call) or sell (put) underlying assets at a price, quantity, and time denoted in advance.
- Spots

  An exchange transaction between two currencies on the basis of a pre-agreed rate, for transaction within two days.

(3) Activity in derivative financial instruments involves a number of risks, as detailed below:

Credit risk – The maximum amount of loss to the Bank if the counterparty does not fulfill the terms of the contract.

Market risk – Risk arising due to fluctuations in the value of a derivative financial instrument as a result of a change in market prices, such as exchange rates, interest rates, etc.

Liquidity risk – Risk deriving from the inability to close a position rapidly by clearing in cash or by creating a reverse position.

Operational risk – Risk deriving from the erroneous operation of transactions from the time that they are formed until the end of account settlement in respect thereof, due to human error or as a result of a mechanical failure in operation.

Market and liquidity risks arising from this activity are managed and measured routinely in specialized automated systems known in the international markets for these purposes, such as Summit, Devon, and Algorithmics, and in automated systems developed by the Bank.

Credit risk arising from transactions in derivative financial instruments with respect to the counterparty to the transactions is usually measured by applying conservative coefficients to the nominal amounts of the transactions, and using the scenarios approach. The operational issues deriving from this activity are examined and controlled routinely by a specialized unit.

The use of derivative instruments as part of the management of the Bank's current (non-trading) activity is aimed at achieving objectives and complying with limits as approved by the Board of Directors (linkage base, interest rate, and liquidity exposures).

The Bank provides comprehensive service to its customers for hedging and investing in derivative financial instruments via the dealing rooms. Activity in financial instruments in the areas of trading is designed to respond to customers' needs while undertaking limited and controlled risk in accordance with authorizations. The authorizations for activity and risk are measured, as relevant, in terms of sensitivity to risk factors (such as vega); theoretical loss in different scenarios, including an extreme scenario; in terms of VaR; and in terms of nominal amounts. In certain cases, procedure also prescribes limiting losses by means of a stop-loss order.

Note 29 Segments of Activity and Geographical Regions

Description of the Bank Group's Business by Segment of Activity

General – The Segments and Customer Assignment Criteria

The Bank Group operates in Israel and abroad through the Bank, subsidiaries, branches, and representative offices, in all areas of banking, and provides a wide range of banking and financial services to its customers. The Bank also has investments in equity-basis investee companies.

The activity of the Bank Group is conducted via six principal segments of activity. The division into segments of activity is based on types of products and services or on types of customers. The Board of Management of the Bank uses this division to make decisions and to analyze the Group's business results. The segments of activity are presented according to characteristics stipulated by the Supervisor of Banks.

Criteria for Assignment of Customers to the Segments

Customers' assignments to the segments of activity are based on the actual assignment of customers to the organizational units that serve them, which is performed in accordance with the criteria described below. However, it is clarified that customer assignments occasionally take additional criteria into consideration, as in the case of a private customer or a company with a profile or potential for future activity that justifies an assignment to the Private Banking Segment or to the Corporate Segment, as relevant. In assigning a business client to an organizational unit, the client's association with a group of companies is also taken into consideration.

Households Segment – Provides a range of banking services and financial products to households. Customers assigned to this segment are customers with a monthly income of up to NIS 9,000.

Private Banking Segment – Provides a range of advanced banking services, through various channels, and financial products, including investment advisory services, to private customers of medium to high net worth in Israel and abroad. Customers assigned to this segment are customers with a monthly income higher than NIS 9,000 and/or who hold investments at the Bank in an amount greater than NIS 100,000, as well as young customers with a monthly income higher than NIS 7,000, or who hold investments at the Bank in an amount greater than NIS 75,000.

Small Business Segment – This segment includes customers with a total indebtedness (to the Bank or to other lenders) of less than NIS 10 million, or a total indebtedness (to the Bank or to other lenders) of more than NIS 10 million but an indebtedness to the Bank of less than NIS 6 million and a sales turnover of less than NIS 30 million.

Commercial Segment – Customers included in this segment are customers with a revenue turnover of over NIS 30 million and up to NIS 400 million annually, or with indebtedness to the Bank of more than NIS 6 million, up to a total of NIS 100 million; and customers whose total indebtedness (to the Bank or to other lenders) is more than NIS 10 million, up to a total of NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 6 million, up to NIS 200 million to the Bank; or total indebtedness (to the Bank or to other lenders) is over NIS 10 million, up to a total of NIS 400 million.

Note 29 Segments of Activity and Geographical Regions (continued)

Corporate Segment – Customers included in this segment are customers with a revenue turnover (sales) of over NIS 400 million, with indebtedness to the Bank of more than NIS 100 million, or customers with total indebtedness (to the Bank or to other lenders) of more than NIS 250 million. For customers in the construction and real-estate sector, total indebtedness is over NIS 200 million to the Bank, or total indebtedness (to the Bank or to other lenders) is over NIS 400 million.

Financial Management Segment – Responsible for the management of the Bank's assets and liabilities, management of the Nostro activity of the Bank, activity of the dealing rooms (foreign currency and securities), overall business with management companies of provident funds (excluding management companies of provident funds managed within insurance companies) and mutual funds, contact and administration of activity with financial entities (in Israel and overseas), and provision of operational services to financial-asset managers and operational services in securities to all customers of the Bank. The segment is responsible for the management of market and liquidity risks, performed through proactive management of the Nostro portfolio and through the use of financial instruments, such as issuance of various securities, deposits, interest and foreign-currency derivatives, and more.

Others and Adjustments – Includes all other activities of the Bank Group, each of which does not form a reportable segment. This segment also includes activity in credit cards under the responsibility of other banks that do not belong to the Bank Group.

The results of operations of the principal subsidiaries and of the Bank's main offices overseas were assigned to the segments of activity as follows: results of operations of Poalim Sahar Ltd., Poalim Capital Markets Investment House Ltd., Peilim Investment Portfolio Management Ltd., and Hapoalim Securities USA Inc. were assigned to the Financial Management Segment; customers of Bank Hapoalim (Switzerland) Ltd. – Private Banking Segment; customers of the US branches – Private Banking, Commercial, and Corporate Segment; Bank Pozitif and its subsidiary JSC Bank Pozitiv, until the date of its sale – Households and Commercial Banking Segment. Banque Hapoalim (Luxembourg) S.A. – Corporate Segment.

Rules for the Distribution of Results of Operations Among the Segments

The following are the main rules applied in dividing the results of operations among the different segments:

Net interest income – Includes among others: (1) the spread between the interest received from the segment's customers and the wholesale interest which the segment is charged in respect of the resource used to provide the loan to the customer; (2) the spread between the wholesale interest at which the segment is credited in respect of resources which it makes available to the Bank, and the interest rate paid to the segment's customers in respect of such resources; (3) the unindexed wholesale interest on the weighted capital calculated for the return on equity attributed to the segment, calculated based on the risk-adjusted assets allocated to each segment; and (4) surplus cost in respect of subordinated notes issuance.

Provision for credit losses – A provision for credit losses is charged to the segment to which the borrower against whose debt the allowance is recorded belongs.

Note 29 Segments of Activity and Geographical Regions (continued)

Non-interest financing income – Attributed to the segment to which the customer belongs. Income recorded in the Financial Management Segment includes income from realization and adjustment to fair value of bonds, profits from investment in shares, results of activity in derivative instruments, net profit from exchange-rate differences, and financing expenses arising from hedging of investments overseas. Income recorded in the other segments includes profits from the dealing room.

Fees and other income – Attributed to the segment to which the customer belongs. Income in respect of computer services provided by the Bank to external entities is attributed to the Others and Adjustments Segment.

Operating and other expenses – Expenses are attributed to each segment of activity according to predetermined rules and standard prices, either as an expense identified directly with the activity of the segment, or according to charging formulas. Standard prices are determined similarly to the establishment of transfer prices, as described above. Differences formed in calculations between the actual expense calculation of units that are not profit units and the income attributed to these units based on standard prices are allocated as income or expenses, as relevant, to the Others and Adjustments Segment. Attribution rules are based on the volumes of activity relevant to the types of costs in each segment.

Debiting for inter-segmental services – The assigned segment of a customer receiving services from another segment is charged with an inter-segmental expense, based on standard prices for services provided by other segments to its customers, or based on a transfer price for the service provided to the customer. The costs of the segment providing the service are reduced accordingly, and the costs are concurrently charged to the segment to which the customer belongs. Transfer prices are set by the Bank based, among other factors, on market prices for the service, internal cost estimates, and participation in income derived directly or indirectly from the said service.

Taxes on income – The provision for tax on the results of operation of each segment was calculated according to the annual effective tax rate, excluding the effects of translation differences in respect of consolidated companies overseas (attributed to the Financial Management Segment).

Return on equity – Reflects the ratio of the net profit attributed to shareholders of the Bank in each segment to the capital allocated to that segment.

Capital allocated to the segment – The balance of risk-adjusted assets in each segment, which represents each segment's relative share of the total risk-adjusted assets of the Group, as calculated for the purposes of capital adequacy pursuant to the Basel 3 directives (the Bank applied the Basel 2 directives until December 31, 2013, as noted below), multiplied by the ratio of weighted capital, as calculated for the purposes of calculating return on equity, to the total balance of risk-adjusted assets.

Note 29 Segments of Activity and Geographical Regions (continued)

A. Information on Segments of Activity

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision for credit losses
Operating and other expenses
From externals
Inter-segmental
Profit before taxes
Provision for taxes on profit
Profit after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to the shareholders of the banking corporation
Return on equity[(1)]
Average balance of assets
Of which: investments in equity-basis investees
Average balance of liabilities
Average balance of risk-adjusted assets[(1)]
Average balance of assets of provident funds and mutual funds[(2)]
Average balance of securities
Average balance of other assets under management
Average number of employee positions
Net interest income component:
Margin from credit granting activity
Margin from deposit taking activity
Other
Total net interest income

(1) Calculated based on the capital allocated to the segment, according to the risk assets attributed to it under the Basel 3 directives.
(2) Provident funds receiving operational services and mutual funds for which the Bank Group provides custody services.

NIS millions

For the year ended December 31, 2015							
Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Others and Adjustments	Total
2,815	380	1,350	1,294	2,549	(503)	-	7,885
(613)	364	(88)	(293)	(852)	1,482	-	-
2	42	1	18	57	924	-	1,044
2,204	786	1,263	1,019	1,754	1,903		8,929
1,162	1,627	617	362	581	404	680	5,433
3,366	2,413	1,880	1,381	2,335	2,307	680	14,362
213	21	263	124	(143)	(3)	-	475
2,848	2,096	969	593	592	1,080	612	8,790
(181)	267	86	6	72	(218)	(32)	-
486	29	562	658	1,814	1,448	100	5,097
177	1	224	270	750	641	34	2,097
309	28	338	388	1,064	807	66	3,000
-	-	-	-	-	19	-	19
309	28	338	388	1,064	826	66	3,019
3	(1)		(8)		69		63
312	27	338	380	1,064	895	66	3,082
5.5%	0.8%	12.5%	7.3%	8.7%	34.8%	-	9.6%
74,918	40,045	31,271	39,164	87,676	138,455	7,974	419,503
-	-	-	-	-	139	-	139
39,892	131,521	33,806	27,875	40,853	113,583	498	388,028
60,172	36,411	28,954	55,671	130,910	27,514	3,208	342,840
2,842	56,913	3,730	2,193	1,329	102,347	-	169,354
2,002	129,524	8,437	14,016	161,797	517,951	-	833,727
-	1,093	-	-	-	-	-	1,093
4,678	3,020	1,620	1,074	670	784	549	12,395
2,105	466	1,215	974	1,644	2,681	-	9,085
85	277	49	31	35	(1,359)	-	(882)
12	1	(2)	(4)	18	(343)	-	(318)
2,202	744	1,262	1,001	1,697	979	-	7,885

Note 29 Segments of Activity and Geographical Regions (continued)

A. Information on segments of activity (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision for credit losses
Operating and other expenses
From externals
Inter-segmental
Profit before taxes
Provision for taxes on profit
Profit after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to the shareholders of the banking corporation
Return on equity[1]
Average balance of assets
Of which: investments in equity-basis investees
Average balance of liabilities
Average balance of risk-adjusted assets[1]
Average balance of assets of provident funds and mutual funds[2]
Average balance of securities
Average balance of other assets under management
Average number of employee positions
Net interest income component:
Spread from credit granting activity
Spread from deposit taking activity
Other
Total net interest income

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1).
** Reclassified.
(1) Calculated based on the capital allocated to the segment, according to the risk assets attributed to it under the Basel 3 directives.
(2) Provident funds receiving operational services and mutual funds for which the Bank Group provides custody services.

NIS millions

For the year ended December 31, 2014							
Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Others and Adjustments	Total
2,885	219	1,260	1,217	2,914	(727)	-	7,768
*(785)	648	(80)	(330)	*(1,140)	*1,687	-	-
2	35	-	9	78	792	-	916
*2,102	902	1,180	896	*1,852	*1,752	-	8,684
1,163	**1,618	602	329	586	**384	656	5,338
*3,265	**2,520	1,782	1,225	*2,438	**,*2,136	656	14,022
241	76	190	91	(177)	4	-	425
*2,857	*2,345	*1,058	*605	*665	*1,030	623	*9,183
(82)	225	97	9	71	(240)	(80)	-
*249	**,*(126)	*437	*520	*1,879	**,*1,342	113	*4,414
*77	**,*23	*162	*201	*736	**,*482	32	*1,713
*172	**,*(149)	*275	*319	*1,143	**,*860	81	*2,701
-	-	-	-	-	9	-	9
*172	**,*(149)	*275	*319	*1,143	**,*869	81	*2,710
3	(1)	-	4	-	(3)		3
*175	**,*(150)	*275	*323	*1,143	**,*866	81	*2,713
*3.3%	**,*(4.6%)	*11.5%	*7.5%	*9.4%	**,*36.4%	-	*9.1%
69,322	36,647	27,822	32,477	87,417	*120,639	6,793	*381,117
-	-	-	-	-	136	-	136
37,214	123,259	30,091	22,583	33,878	*104,384	456	*351,865
57,093	35,702	26,044	46,912	132,373	25,978	2,684	326,786
2,866	57,607	4,217	2,559	3,137	90,601	-	160,987
1,987	118,065	7,830	13,263	161,695	504,054	-	806,894
-	882	-	-	-	-	-	882
4,977	3,144	1,656	1,109	696	823	559	12,964
1,871	423	1,074	840	1,677	3,766	-	9,651
197	421	99	36	37	(2,293)	-	(1,503)
*32	23	7	11	*60	*(513)	-	(380)
*2,100	867	1,180	887	*1,774	*960	-	7,768

Note 29 Segments of Activity and Geographical Regions (continued)

A. Information on segments of activity (continued)

Net interest income:
From externals
Inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision for credit losses
Operating and other expenses
From externals
Inter-segmental
Profit before taxes
Provision for taxes on profit
Profit after taxes
The Bank's share in profits of equity-basis investees, after taxes
Net profit (loss):
Before attribution to non-controlling interests
Attributed to non-controlling interests
Attributed to the shareholders of the banking corporation
Return on equity(1)
Average balance of assets
Of which: investments in equity-basis investees
Average balance of liabilities
Average balance of risk-adjusted assets(1)
Average balance of assets of provident funds and mutual funds(2)
Average balance of securities
Average balance of other assets under management
Average number of employee positions
Net interest income component:
Spread from credit granting activity
Spread from deposit taking activity
Other
Total net interest income

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1).
(1) Calculated based on the capital allocated to the segment, according to the risk assets attributed to it under the Basel 2 directives.
(2) Provident funds receiving operational services and mutual funds for which the Bank Group provides custody services.

NIS millions

For the year ended December 31, 2013							
Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Others and Adjustments	Total
3,381	(249)	1,252	1,210	3,871	(1,522)	-	7,943
(1,258)	*1,237	(144)	(397)	*(1,894)	*2,456	-	-
2	31	-	6	74	367	-	480
2,125	*1,019	1,108	819	*2,051	*1,301	-	8,423
1,194	1,478	648	333	598	358	632	5,241
3,319	*2,497	1,756	1,152	*2,649	*1,659	632	13,664
229	53	143	14	446	(11)	-	874
*2,939	*2,187	*1,095	*559	*615	959	687	*9,041
(68)	216	86	7	65	(202)	(104)	-
*219	*41	*432	*572	*1,523	*913	49	*3,749
*59	*6	*134	184	*495	*374	*13	*1,265
*160	*35	*298	*388	*1,028	*539	*36	*2,484
-	-	-	-	-	9	-	9
*160	*35	*298	*388	*1,028	*548	*36	*2,493
2	(1)	-	(11)	-	54	-	44
*162	*34	*298	*377	*1,028	*602	*36	*2,537
3.5%	*1.2%	*14.1%	10.4%	*8.7%	*30.2%	-	*9.3%
65,830	33,084	24,939	28,965	92,279	*122,691	6,835	*374,623
-	-	-	-	-	132	-	132
36,838	125,651	29,174	20,166	34,288	*100,563	855	*347,535
50,913	31,528	23,123	39,475	129,750	21,697	1,934	298,420
2,365	45,059	3,639	2,086	3,456	82,132	-	138,737
1,900	105,942	7,153	11,980	125,303	467,281	-	719,559
-	837	-	-	-	-	-	837
5,249	3,321	1,689	1,071	724	862	576	13,492
1,719	348	936	731	1,788	5,889	-	11,411
354	609	154	45	47	(4,140)	-	(2,931)
50	*31	18	37	*142	*(815)	-	(537)
2,123	*988	1,108	813	*1,977	*934	-	7,943

NIS millions

Note 29 Segments of Activity and Geographical Regions (continued)

B. Information on geographical regions(1)

	For the year ended December 31			For the year ended December 31			December 31	
	2015	2014	2013	**2015**	2014	2013	**2015**	2014
	Income(2)			Net profit attributed to shareholders of the Bank			Total assets	
Israel	**13,220**	12,721	12,458	**2,989**	*2,605	*2,369	**370,903**	*343,257
North America	**573**	604	522	**63**	62	105	**36,874**	40,262
Europe	**566**	693	683	**26**	45	66	**23,720**	24,366
Other	**3**	4	1	**4**	1	(3)	**141**	148
Total outside Israel	**1,142**	1,301	1,206	**93**	108	168	**60,735**	64,776
Total consolidated	**14,362**	14,022	13,664	**3,082**	*2,713	*2,537	**431,638**	*408,033

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP for employee benefits, see Note 1D(1).
(1) The division into geographical areas was performed according to the location of the assets. The Global Private Banking Center in Tel Aviv, which is an integral part of the GPB network, was also assigned to activity outside Israel.
(2) Income: net interest income and non-interest income.

Note 29A Supervisory Activity Segments

Description of the Bank Group's Business by Supervisory Activity Segments

General – The Supervisory Segments and Customer Assignment Criteria

Pursuant to the circular of the Supervisor of Banks, issued November 7, 2014, reporting on supervisory segments of activity is performed in accordance with the format and classifications established in the Public Reporting Directives of the Supervisor of Banks, beginning with the annual financial statements for 2015. For further details, see Note 1D(7) above.

Definitions and Characteristics of Supervisory Activity Segments

Private individuals – classified into activity segments based on their portfolio of financial assets at the Bank, as detailed below:

- Private banking segment – Private individuals, the balance of whose portfolio of financial assets at the Bank, on a consolidated basis (including monetary deposits, securities portfolios, and other financial assets) exceeds NIS 3 million.
- Households segment – Private individuals other than those customers included in the Private Banking Segment.

Business clients – classified into activity segments according to turnover, as detailed below:

- Microbusiness – A business with a turnover of less than NIS 10 million.
- Small business – A business with a turnover greater than or equal to NIS 10 million, and lower than NIS 50 million.
- Mid-sized business – A business with a turnover greater than or equal to NIS 50 million, and lower than NIS 250 million.
- Large business – A business with a turnover greater than or equal to NIS 250 million.

Note 29A Supervisory Activity Segments (continued)

When the turnover of a business client does not reflect the volume of its activity, the client's business activity is classified as follows: if the total indebtedness of the business client is greater than or equal to NIS 100 million, the client is assigned to the Large Business Segment. When the client's total indebtedness is lower than NIS 100 million, the client is assigned to the appropriate supervisory activity segment based on its total balance sheet assets.
Pursuant to the transitional directives set forth in the file of questions and answers released by the Bank of Israel, if a business client's indebtedness to the Bank is up to a total of NIS 300 thousand (including credit facilities, etc.) and the Bank has no information about the client's turnover, the client is classified into the appropriate supervisory activity segment based on the client's total financial assets at the Bank (including monetary deposits, securities portfolios, and other financial assets); instead of total balance sheet assets, the classification is based on total financial assets, multiplied by a coefficient of 10.
Institutional entities – Includes provident funds, mutual funds, pension funds, study funds, and insurance companies, in accordance with the definitions of the Supervisor of Banks.
Financial management segment – Includes trading activity, asset and liability management, non-financial investment, and additional activities, as defined in the directives of the Supervisor of Banks. Pursuant to the transitional directives for 2015, no separate disclosure was included in the note with regard to the financial management segment or with regard to geographical regions and activity segments based on management's approach.
Other – Including discontinued operations, profits from designated amounts and other results related to employee benefits not allocated to other activity segments, activities not allocated to other activity segments, and adjustments of the total items attributed to the segments with the total items in the consolidated financial statements.

The disclosure of segments of activity at the Bank is based on the assignment of the customer, in practice, to the relevant organizational unit, in accordance with criteria established by the Board of Management of the Bank (see the section "Description of the Bank Group's Business by Segments of Activity," above). The segmentation of customers into supervisory activity segments is based on uniform definitions established by the Supervisor of Banks, as detailed above. The difference in definitions is primarily evident in the following segments:

- Private customers with a portfolio of financial assets at the Bank in an amount lower than NIS 3 million, classified into the Private Banking Segment in the disclosure of activity segments, were classified into the Households Segment in the disclosure of supervisory activity segments.
- Microbusinesses and small businesses, which were classified into the Households Segment and the Private Banking Segment in the disclosure of activity segments, according to their assignment to the organizational unit by which they are served, were classified into the business segments noted above in the disclosure of supervisory activity segments, based on the criteria detailed above.
- Business clients classified into the Corporate Segment or the Commercial Segment in the disclosure of activity segments, according to their assignment to the organizational unit by which they are served and their association with a group of companies, were classified into the Microbusinesses and Small Businesses Segment in the disclosure of supervisory activity segments, based on the criteria detailed above.
- Institutional entities, which were classified into the Corporate Segment and the Financial Management Segment in the disclosure of activity segments, were classified into the Institutional Entities Segment in the disclosure of supervisory activity segments.

Note 29A Supervisory Activity Segments (continued)

Information regarding supervisory activity segments

	December 31, 2015				
	Activity in Israel				
	Households segment	Private banking segment	Microbusinesses and small businesses	Mid-sized businesses	Large businesses
Gross balance of credit to the public	**108,759**	**3,043**	**50,392**	**28,578**	**61,935**
Balance of impaired debts	**661**	**5**	**1,086**	**492**	**2,961**
Balance of debts in arrears of more than 90 days	**724**	**-**	**132**	**1**	**-**
Balance of deposits from the public	**118,526**	**33,938**	**41,481**	**19,128**	**28,797**
Balance of risk-adjusted assets	**88,313**	**5,445**	**55,543**	**44,185**	**87,976**

Private individuals – households and private banking – activity in Israel, consolidated

	December 31, 2015								
	Households segment				Private banking segment				Total
	Housing loans	Credit cards	Other	Total households	Housing loans	Credit cards	Other	Total private banking	
Gross balance of credit to the public	**60,063**	**8,636**	**40,060**	**108,759**	**1,057**	**855**	**1,131**	**3,043**	**111,802**
Balance of impaired debts	**-**	**8**	**653**	**661**	**-**	**-**	**5**	**5**	**666**
Balance of debts in arrears of more than 90 days	**634**	**-**	**90**	**724**	**-**	**-**	**-**	**-**	**724**
Balance of deposits from the public	**-**	**-**	**118,526**	**118,526**	**-**	**-**	**33,938**	**33,938**	**152,464**
Balance of risk-adjusted assets	**33,356**	**12,516**	**42,441**	**88,313**	**824**	**1,229**	**3,392**	**5,445**	**93,758**

Microbusinesses and small businesses, mid-sized businesses, and large businesses – activity in Israel, consolidated

	December 31, 2015									
	Microbusiness and small business segment			Mid-sized business segment			Large business segment			Total
	Construction and real estate	Other	Total microbusinesses and small businesses	Construction and real estate	Other	Total mid-sized businesses	Construction and real estate	Other	Total large businesses	
Gross balance of credit to the public	**14,649**	**35,743**	**50,392**	**14,853**	**13,725**	**28,578**	**13,209**	**48,726**	**61,935**	**140,905**
Balance of impaired debts	**361**	**725**	**1,086**	**238**	**254**	**492**	**447**	**2,514**	**2,961**	**4,539**
Balance of debts in arrears of more than 90 days	**42**	**90**	**132**	**-**	**1**	**1**	**-**	**-**	**-**	**133**
Balance of deposits from the public	**6,423**	**35,058**	**41,481**	**4,021**	**15,107**	**19,128**	**3,905**	**24,892**	**28,797**	**88,922**
Balance of risk-adjusted assets	**17,412**	**38,131**	**55,543**	**24,014**	**20,171**	**44,185**	**23,994**	**63,982**	**87,976**	**187,704**

NIS millions

	December 31, 2015							
	Activity in Israel				Activity abroad			Total
	Institutional entities	Financial management segment	Other segment	Total activity in Israel	Private individuals	Business activity	Total activity abroad	
	1,752	**-**	**5,159**	**259,618**	**6,158**	**17,135**	**23,293**	**282,911**
	-	**-**	**-**	**5,205**	**30**	**101**	**131**	**5,336**
	-	**-**	**-**	**857**	**-**	**-**	**-**	**857**
	43,580	**-**	**-**	**285,450**	**20,597**	**15,680**	**36,272**	**321,727**
	6,548	**25,065**	**3,795**	**316,870**	**7,364**	**20,890**	**28,254**	**345,124**

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses

A. Debts* and off-balance sheet credit instruments

Allowance for credit losses

1. Change in allowance for credit losses**

	2015					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	**3,530**	**387**	**935**	**4,852**	**4**	**4,856**
Provision for credit losses(1)	**291**	**5**	**180**	**476**	**(1)**	**475**
Charge-offs	**(918)**	**-**	**(586)**	**(1,504)**	**-**	**(1,504)**
Recoveries of debts charged off in previous years	**958**	**-**	**318**	**1,276**	**-**	**1,276**
Net charge-offs	**40**	**-**	**(268)**	**(228)**	**-**	**(228)**
Other	**(14)**	**-**	**(3)**	**(17)**	**-**	**(17)**
Allowance for credit losses at end of year(2)	**3,847**	**392**	**844**	**5,083**	**3**	**5,086**
(1) Of which: in respect of off-balance sheet credit instruments	**12**	**-**	**(15)**	**(3)**	**-**	**(3)**
(2) Of which: in respect of off-balance sheet credit instruments	**616**	**-**	**53**	**669**	**-**	**669**

	2014					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	3,430	422	729	4,581	6	4,587
Provision for credit losses(1)	138	(37)	326	427	(2)	425
Charge-offs	(897)	(3)	(476)	(1,376)	-	(1,376)
Recoveries of debts charged off in previous years	859	5	356	1,220	-	1,220
Net charge-offs	(38)	2	(120)	(156)	-	(156)
Allowance for credit losses at end of year(2)	3,530	387	935	4,852	4	4,856
(1) Of which: in respect of off-balance sheet credit instruments	41	-	(7)	34	-	34
(2) Of which: in respect of off-balance sheet credit instruments	604	-	68	672	-	672

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For details regarding the initial implementation of the directives of the Supervisor of Banks concerning the collective allowance for credit losses, see Note 1D(6).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

1. Change in allowance for credit losses** (continued)

	2013					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	3,356	358	969	4,683	5	4,688
Provision for credit losses(1)	635	108	130	873	1	874
Charge-offs	(892)	(44)	(544)	(1,480)	-	(1,480)
Recoveries of debts charged off in previous years	331	-	175	506	-	506
Net charge-offs	(561)	(44)	(369)	(974)	-	(974)
Adjustments from translation of financial statements	-	-	(1)	(1)	-	(1)
Allowance for credit losses at end of year(2)	3,430	422	729	4,581	6	4,587
(1) Of which: in respect of off-balance sheet credit instruments	61	-	(18)	43	-	43
(2) Of which: in respect of off-balance sheet credit instruments	563	-	75	638	-	638

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For details regarding the initial implementation of the directives of the Supervisor of Banks concerning the collective allowance for credit losses, see Note 1D(6).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

A. Debts* and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts* and the underlying debts*

	December 31, 2015**					
	Credit to the public				Banks and governments	Total
	Commercial***	Housing	Other private	Total		
Recorded debt balance of debts*:						
Examined on an individual basis	**142,300**	**-**	**3,159**	**145,459**	**26,801**	**172,260**
Examined on a collective basis(1)	**25,697**	**61,120**	**50,635**	**137,452**	**-**	**137,452**
Total debts*	**167,997**	**61,120**	**53,794**	**282,911**	**26,801**	**309,712**
(1) Of which: allowance for which was calculated according to the extent of arrears	**6,126**	**60,863**	**-**	**66,989**	**-**	**66,989**
Allowance for credit losses in respect of debts*:						
Examined on an individual basis	**2,856**	**-**	**126**	**2,982**	**3**	**2,985**
Examined on a collective basis(2)	**375**	**392**	**665**	**1,432**	**-**	**1,432**
Total allowance for credit losses	**3,231**	**392**	**791**	**4,414**	**3**	**4,417**
(2) Of which: allowance for which was calculated according to the extent of arrears****	**61**	**392**	**-**	**453**	**-**	**453**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For details regarding the initial implementation of the directives of the Supervisor of Banks concerning the collective allowance for credit losses, see Note 1D(6).

*** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 6,126 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2014: NIS 5,599 million).

**** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 235 million (December 31, 2014: NIS 215 million).
Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 28 million (December 31, 2014: NIS 24 million).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

A. Debts** and off-balance sheet credit instruments (continued)

Allowance for credit losses (continued)

2. Additional information regarding the method of calculating the allowance for credit losses in respect of debts** and the underlying debts**

	December 31, 2014					
	Credit to the public				Banks and governments	Total
	Commercial***	Housing	Other private	Total		
Recorded debt balance of debts**						
Examined on an individual basis	137,840	-	3,584	141,424	34,046	175,470
Examined on a collective basis(1)	23,325	56,515	46,896	126,736	-	126,736
Total debts**	161,165	56,515	50,480	268,160	34,046	302,206
(1) Of which: allowance for which was calculated according to the extent of arrears	5,599	56,196	-	61,795	-	61,795
Allowance for credit losses in respect of debts**						
Examined on an individual basis	2,682	-	163	2,845	4	2,849
Examined on a collective basis2)	244	387	704	1,335	-	1,335
Total allowance for credit losses	2,926	387	867	4,180	4	4,184
(2) Of which: allowance for which was calculated according to the extent of arrears****	*58	*387	-	*445	-	*445

* Restated.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 6,126 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2014: NIS 5,599 million).

**** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 235 million (December 31, 2014: NIS 215 million).
Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 28 million (December 31, 2014: NIS 24 million).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts*

1. Credit quality and arrears

	December 31, 2015					
	Non-problematic	Problematic(1)		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more(3)	In arrears of 30 to 89 days(4)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**19,835**	**308**	**433**	**20,576**	**42**	**64**
Construction and real estate - real-estate activities	**18,956**	**445**	**490**	**19,891**	**5**	**16**
Financial services	**13,424**	**11**	**452**	**13,887**	**-**	**1**
Commercial - other	**83,743**	**2,339**	**3,018**	**89,100**	**86**	**167**
Total commercial	**135,958**	**3,103**	**4,393**	**143,454**	**133**	**248**
Private individuals - housing loans(5)	**59,935**	**634**	**-**	**60,569**	**634**	**388**
Private individuals - other	**50,839**	**322**	**664**	**51,825**	**84**	**194**
Total public - activity in Israel	**246,732**	**4,059**	**5,057**	**255,848**	**851**	**830**
Banks in Israel	**51**	**-**	**-**	**51**	**-**	**-**
Israeli government	**813**	**-**	**-**	**813**	**-**	**-**
Total activity in Israel	**247,596**	**4,059**	**5,057**	**256,712**	**851**	**830**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 30B(2)(c) below.

(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months), accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 132 million (December 31, 2014: NIS 156 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 110 million (December 31, 2014: NIS 97 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not yet due for repayment.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

1. Credit quality and arrear (continued)

	December 31, 2015					
	Non-problematic	Problematic[1]		Total	Unimpaired debts** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public - commercial						
Construction and real estate	6,175	40	123	6,338	-	33
Commercial - other	17,840	241	124	18,205	-	53
Total commercial	24,015	281	247	24,543	-	86
Private individuals	2,468	20	32	2,520	6	34
Total public - activity overseas	26,483	301	279	27,063	6	120
Banks overseas	24,186	-	-	24,186	-	-
Governments overseas	1,751	-	-	1,751	-	-
Total activity overseas	52,420	301	279	53,000	6	120
Total public	273,215	4,360	5,336	282,911	857	950
Total banks	24,237	-	-	24,237	-	-
Total governments	2,564	-	-	2,564	-	-
Total	300,016	4,360	5,336	309,712	857	950

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 30B(2)(c) below.

(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months), accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 132 million (December 31, 2014: NIS 156 million) were classified as unimpaired problematic debts.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts** (continued)

1. Credit quality and arrears (continued)

	December 31, 2014					
	Non-problematic	Problematic(1)		Total	Unimpaired debts*** – additional information	
		Unimpaired	Impaired(2)		In arrears of 90 days or more(3)	In arrears of 30 to 89 days(4)
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	18,751	323	558	19,632	41	204
Construction and real estate - real-estate activities	17,937	454	642	19,033	15	83
Financial services	11,899	286	584	12,769	-	3
Commercial - other	80,767	3,395	3,383	87,545	87	127
Total commercial	129,354	4,458	5,167	138,979	143	417
Private individuals - housing loans(5)	55,254	717	-	55,971	*717	*391
Private individuals - other	47,292	266	638	48,196	75	188
Total public - activity in Israel	231,900	5,441	5,805	243,146	*935	*996
Banks in Israel	404	-	-	404	-	-
Israeli government	560	-	-	560	-	-
Total activity in Israel	232,864	5,441	5,805	244,110	*935	*996

* Restated.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 30B(2)(c) below.

(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months), accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 132 million (December 31, 2014: NIS 156 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 110 million (December 31, 2014: NIS 97 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not not yet due for repayment.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts** (continued)

1. Credit quality and arrears (continued)

	December 31, 2014					
	Non-problematic	Problematic[1]		Total	Unimpaired debts*** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
Borrower activity overseas						
Public - commercial						
Construction and real estate	5,256	-	210	5,466	-	-
Commercial - other	16,280	226	214	16,720	9	16
Total commercial	21,536	226	424	22,186	9	16
Private individuals	2,751	25	52	2,828	*7	*23
Total public - activity overseas	24,287	251	476	25,014	*16	*39
Banks overseas	31,781	-	-	31,781	-	-
Governments overseas	1,301	-	-	1,301	-	-
Total activity overseas	57,369	251	476	58,096	*16	*39
Total public	256,187	5,692	6,281	268,160	*951	*1,035
Total banks	32,185	-	-	32,185	-	-
Total governments	1,861	-	-	1,861	-	-
Total	290,233	5,692	6,281	302,206	*951	*1,035

* Restated.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** For this purpose, "unimpaired debts" include non-problematic debts.

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 30B(2)(c) below.

(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months), accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 132 million (December 31, 2014: NIS 156 million) were classified as unimpaired problematic debts.

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

Credit Quality – The Status of Debts in Arrears

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming debts (debts not accruing interest income) after 90 days in arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is 30 days in arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears); debts are charged off by the Bank after 150 days in arrears. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

Concessions and Troubled Debt Restructuring

The policy of the Bank regarding concessions takes a range of factors into account in order to maximize repayment to the Bank: management of the relationship with the customer, maximization of opportunities, prevention of default, foreclosures, public aspects, etc. Concessions are granted only in cases in which customers have demonstrated the intention to repay the loans and are expected to meet their obligations.

In cases in which, for economic or legal reasons related to financial difficulties of the borrower, the Bank grants a concession to a debtor that it would not consider granting under other conditions, the debt shall be considered a troubled debt restructuring. Troubled debt restructuring may be a change in the terms of the debt, leading to reduction or postponement of cash payments required of the debtor in the near future; a reduction of the rate of interest; a reduction of payments on principal; consolidation of debts; etc. The Bank can consent to receive, in cash, assets or an interest in the equity capital of the debtor, as repayment of the debt, even if the value obtained is lower than the amount of the debt, if the Bank reaches the conclusion that this would maximize the recovery of its investment.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts** (continued)

2. Additional information regarding impaired debts

a. Impaired debts and individual allowance

	December 31, 2015				
	Balance[1] of impaired debts for which an individual allowance exists[2]	Individual allowance[2]	Balance[1] of impaired debts for which no individual allowance exists[2]	Total balance[1] of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	**375**	**103**	**58**	**433**	**3,615**
Construction and real estate - real-estate activities	**279**	**22**	**211**	**490**	**1,946**
Financial services	**293**	**37**	**159**	**452**	**1,337**
Commercial - other	**2,043**	**780**	**975**	**3,018**	**6,562**
Total commercial	**2,990**	**942**	**1,403**	**4,393**	**13,460**
Private individuals - other	**390**	**82**	**274**	**664**	**1,215**
Total public - activity in Israel	**3,380**	**1,024**	**1,677**	**5,057**	**14,675**
Borrower activity overseas					
Public - commercial					
Construction and real estate	**83**	**2**	**40**	**123**	**364**
Commercial - other	**112**	**41**	**12**	**124**	**328**
Total commercial	**195**	**43**	**52**	**247**	**692**
Private individuals	**31**	**29**	**1**	**32**	**35**
Total public - activity overseas	**226**	**72**	**53**	**279**	**727**
Total public*	**3,606**	**1,096**	**1,730**	**5,336**	**15,402**
* Of which:					
Measured at the present value of cash flows	**2,741**	**904**	**997**	**3,738**	**-**
Debts in troubled debt restructuring	**1,365**	**308**	**1,072**	**2,437**	**-**

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Recorded debt balance.

(2) Individual allowance for credit losses.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts*** (continued)

2. Additional information regarding impaired debts (continued)

a. Impaired debts and individual allowance (continued)

	December 31, 2014				
	Balance(1) of impaired debts for which an individual allowance exists(2)	Individual allowance(2)	Balance(1) of impaired debts for which no individual allowance exists(2)	Total balance(1) of impaired debts	Balance of contractual principal of impaired debts
Borrower activity in Israel					
Public - commercial					
Construction and real estate - construction	276	83	282	558	4,067
Construction and real estate - real-estate activities	363	12	279	642	2,050
Financial services	522	150	62	584	1,312
Commercial - other	1,766	442	1,617	3,383	7,058
Total commercial	2,927	687	2,240	5,167	14,487
Private individuals - other	376	98	262	638	1,109
Total public - activity in Israel	3,303	785	2,502	5,805	15,596
Borrower activity overseas					
Public - commercial					
Construction and real estate	38	10	172	210	449
Commercial - other	193	97	21	214	354
Total commercial	231	107	193	424	803
Private individuals	51	41	1	52	54
Total public - activity overseas	282	148	194	476	857
Total public	3,585	933	2,696	6,281	16,453
* Of which:					
Measured at the present value of cash flows	2,242	704	**1,386	**3,628	-
Debts in troubled debt restructuring	1,157	208	1,458	2,615	-

** Restated.
*** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Recorded debt balance.
(2) Individual allowance for credit losses.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income

	2015		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	**574**	**5**	**4**
Construction and real estate - real-estate activities	**523**	**6**	**5**
Financial services	**589**	**4**	**4**
Commercial - other	**3,329**	**38**	**32**
Total commercial	**5,015**	**53**	**45**
Private individuals - other	**640**	**36**	**15**
Total public - activity in Israel	**5,655**	**89**	**60**
Borrower activity overseas			
Public - commercial			
Construction and real estate	**154**	**2**	**2**
Commercial - other	**172**	**2**	**2**
Total commercial	**326**	**4**	**4**
Private individuals	**44**	**2**	**2**
Total public - activity overseas	**370**	**6**	**6**
Total public	**6,025**	**95**	**66**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 430 million would have been recorded for the year ended December 31, 2015 (2014: NIS 466 million; 2013: 684 million).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income (continued)

	2014		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	745	23	18
Construction and real estate - real-estate activities	708	24	21
Financial services	702	8	7
Commercial - other	3,613	69	59
Total commercial	5,768	124	105
Private individuals - other	661	41	18
Total public - activity in Israel	6,429	165	123
Borrower activity overseas			
Public - commercial			
Construction and real estate	279	6	4
Commercial - other	212	3	2
Total commercial	491	9	6
Private individuals	46	4	3
Total public - activity overseas	537	13	9
Total public	6,966	178	132

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 430 million would have been recorded for the year ended December 31, 2015 (2014: NIS 466 million; 2013: 684 million).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

b. Average balance and interest income (continued)

	2013		
	Average balance** of impaired debts	Interest income recorded***(1)	Of which: recorded on a cash basis
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	1,346	36	26
Construction and real estate - real-estate activities	801	39	34
Financial services	1,006	4	3
Commercial - other	3,393	73	59
Total commercial	6,546	152	122
Private individuals - other	763	49	22
Total public - activity in Israel	7,309	201	144
Borrower activity overseas			
Public - commercial			
Construction and real estate	352	7	5
Commercial - other	194	2	2
Total commercial	546	9	7
Private individuals	67	3	2
Total public - activity overseas	613	12	9
Total public	7,922	213	153

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Average recorded debt balance of impaired debts in the reported period.

*** Interest income recorded in the reported period in respect of the average balance of impaired debts, during the period in which the debts were classified as impaired.

(1) Had the impaired debts accrued interest according to the original terms, interest income in the amount of NIS 430 million would have been recorded for the year ended December 31, 2015 (2014: NIS 466 million; 2013: 684 million).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring

	December 31, 2015			
	Recorded debt balance			
	Not accruing interest income	Accruing(1) in arrears of 30 to 89 days	Accruing(1) not in arrears	Total(2)
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	**138**	**-**	**19**	**157**
Construction and real estate - real-estate activities	**304**	**-**	**13**	**317**
Financial services	**38**	**-**	**1**	**39**
Commercial - other	**1,137**	**-**	**116**	**1,253**
Total commercial	**1,617**	**-**	**149**	**1,766**
Private individuals - other	**338**	**-**	**244**	**582**
Total public - activity in Israel	**1,955**	**-**	**393**	**2,348**
Borrower activity overseas				
Public - commercial				
Construction and real estate	**67**	**-**	**-**	**67**
Commercial - other	**-**	**19**	**-**	**19**
Total commercial	**67**	**19**	**-**	**86**
Private individuals	**1**	**1**	**1**	**3**
Total public - activity overseas	**68**	**20**	**1**	**89**
Total public	**2,023**	**20**	**394**	**2,437**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Accruing interest income.

(2) Included in impaired debts.

Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 132 million as at December 31, 2015 (December 31, 2014: NIS 106 million).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	December 31, 2014			
	Recorded debt balance			
	Not accruing interest income	Accruing[1] in arrears of 30 to 89 days	Accruing[1] not in arrears	Total[2]
Borrower activity in Israel				
Public - commercial				
Construction and real estate - construction	266	-	48	314
Construction and real estate - real-estate activities	247	-	36	283
Financial services	44	-	1	45
Commercial - other	1,177	-	96	1,273
Total commercial	1,734	-	181	1,915
Private individuals - other	324	-	240	564
Total public - activity in Israel	2,058	-	421	2,479
Borrower activity overseas				
Public - commercial				
Construction and real estate	131	-	-	131
Commercial - other	1	-	-	1
Total commercial	132	-	-	132
Private individuals	3	-	1	4
Total public - activity overseas	135	-	1	136
Total public	2,193	-	422	2,615

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(1) Accruing interest income.
(2) Included in impaired debts.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured		
	In the year ended December 31, 2015		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	**127**	**45**	**38**
Construction and real estate - real-estate activities	**25**	**38**	**37**
Financial services	**15**	**17**	**16**
Commercial - other	**737**	**539**	**487**
Total commercial	**904**	**639**	**578**
Private individuals - other	**8,152**	**434**	**401**
Total public - activity in Israel	**9,056**	**1,073**	**979**
Borrower activity overseas			
Public - commercial			
Commercial - other	**2**	**19**	**19**
Private individuals	**27**	**2**	**1**
Total public - activity overseas	**29**	**21**	**20**
Total public	**9,085**	**1,094**	**999**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured		
	In the year ended December 31, 2014		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	88	260	251
Construction and real estate - real-estate activities	22	71	68
Financial services	5	24	24
Commercial - other	603	609	570
Total commercial	718	964	913
Private individuals - other	6,964	310	282
Total public - activity in Israel	7,682	1,274	1,195
Borrower activity overseas			
Public - commercial			
Commercial - other	1	1	1
Private individuals	101	4	4
Total public - activity overseas	102	5	5
Total public	7,784	1,279	1,200

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Debts restructured		
	In the year ended December 31, 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
Borrower activity in Israel			
Public – commercial			
Construction and real estate - construction	100	265	261
Construction and real estate - real-estate activities	14	11	10
Financial services	5	5	3
Commercial - other	578	944	912
Total commercial	697	1,225	1,186
Private individuals - other	7,626	335	304
Total public - activity in Israel	8,323	1,560	1,490
Borrower activity overseas			
Public - commercial			
Commercial - other	13	1	1
Private individuals	141	5	5
Total public - activity overseas	154	6	6
Total public	8,477	1,566	1,496

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts**	
	In the year ended December 31, 2015	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	**42**	**5**
Construction and real estate - real-estate activities	**10**	**1**
Financial services	**3**	**-**
Commercial - other	**268**	**30**
Total commercial	**323**	**36**
Private individuals - other	**3,114**	**73**
Total public - activity in Israel	**3,437**	**109**
Borrower activity overseas		
Public - commercial		
Construction and real estate	**1**	**-**
Private individuals	**9**	**-**
Total public - activity overseas	**10**	**-**
Total public	**3,447**	**109**

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts**	
	In the year ended December 31, 2014	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	45	11
Construction and real estate - real-estate activities	5	16
Financial services	2	-
Commercial - other	283	41
Total commercial	335	68
Private individuals - other	3,160	87
Total public - activity in Israel	3,495	155
Borrower activity overseas		
Public - commercial		
Private individuals	8	-
Total public	3,503	155

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts* (continued)

2. Additional information regarding impaired debts (continued)

c. Troubled debt restructuring (continued)

	Failed restructured debts**	
	In the year ended December 31, 2013	
	Number of contracts	Recorded debt balance
Borrower activity in Israel		
Public - commercial		
Construction and real estate - construction	43	10
Construction and real estate - real-estate activities	7	20
Financial services	2	1
Commercial – other	247	53
Total commercial	299	84
Private individuals - other	3,246	109
Total public - activity in Israel	3,545	193
Borrower activity overseas		
Public - commercial		
Commercial – other	1	-
Private individuals	6	-
Total public – activity overseas	7	-
Total public	3,552	193

* Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

** Debts that became debts in arrears of 30 days or more during the reporting period, and underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

B. Debts*** (continued)

3. Additional information regarding housing loans - private individuals

Year-end balances by financing ratio (LTV), repayment type, and interest type**

		December 31, 2015			
		Balance of housing loans - private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
First lien: financing rate	Up to 60%	**36,287**	**2,362**	**22,924**	**669**
	Over 60%	**24,251**	**843**	**17,413**	**431**
Secondary lien or no lien		**582**	**51**	**398**	**1,510**
Total		**61,120**	**3,256**	**40,735**	**2,610**

		December 31, 2014*			
		Balance of housing loans - private individuals			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
First lien: financing rate	Up to 60%	31,869	2,340	21,602	598
	Over 60%	23,979	1,113	17,982	432
Secondary lien or no lien		667	67	409	1,447
Total		56,515	3,520	39,993	2,477

* Restated.
** Ratio of the approved credit facility, when the facility was provided, to the value of the asset, as approved by the Bank when the facility was provided.
*** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

Credit Quality – LTV Ratio

The LTV ratio provides another indication of credit quality for the Bank. The LTV ratio is the ratio of the amount of the loan to the estimated value of the financed asset, as approved by the Bank when the credit facility was granted. The LTV ratio is calculated at the time of approval of the credit, with the following exceptions:

1. Granting of additional credit secured by the same asset.
2. Receiving a loan from another corporation with a joint pari-passu lien on the asset.
3. Transfer of a mortgage.
4. Part of the credit facility has not been utilized.
5. Substantial early repayment (10 percent or more).

Note 30B.3 presents balances of debt in respect of housing loans, with segmentation by ranges of LTV ratios and levels of liens.

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

C. Balances of credit to the public[(1)] and of off-balance sheet credit risk[(1)(2)] by volume of credit per borrower

	December 31, 2015		
	Number of borrowers[(3)]	Credit*[(1)]	Off-balance sheet credit risk[(1)(2)]
Credit per borrower (in thousands of NIS)			
Up to 10	**1,766,706**	**2,742**	**2,757**
From 10 to 20	**571,691**	**3,334**	**4,931**
From 20 to 40	**468,879**	**6,022**	**7,358**
From 40 to 80	**298,286**	**9,772**	**7,087**
From 80 to 150	**182,714**	**13,384**	**6,625**
From 150 to 300	**120,872**	**18,180**	**7,225**
From 300 to 600	**71,471**	**25,367**	**5,363**
From 600 to 1,200	**52,088**	**38,045**	**5,444**
From 1,200 to 2,000	**13,272**	**17,071**	**2,799**
From 2,000 to 4,000	**5,541**	**12,323**	**2,615**
From 4,000 to 8,000	**2,173**	**9,152**	**3,010**
From 8,000 to 20,000	**1,524**	**13,201**	**6,040**
From 20,000 to 40,000	**847**	**15,154**	**8,259**
From 40,000 to 200,000	**1,030**	**49,616**	**36,987**
From 200,000 to 400,000	**134**	**20,099**	**16,315**
From 400,000 to 800,000	**71**	**20,377**	**19,044**
From 800,000 to 1,200,000	**19**	**11,670**	**6,389**
From 1,200,000 to 1,600,000	**4**	**3,017**	**2,905**
From 1,600,000 to 2,000,000	**4**	**3,193**	**3,887**
From 2,000,000 to 3,200,000	**1**	**1,848**	**421**
Over 3,200,000	**2**	**1,979**	**6,973**
Total	**3,557,329**	**295,546**	**162,434**

* Credit to the public, investments in bonds of the public, other assets in respect of derivative instruments where the public is the counterparty, at a total of NIS 282,911, 6,631, and 6,004 million, respectively.

(1) Credit and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.

(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 11,700 million).

(3) The number of borrowers is calculated according to total credit and off-balance sheet credit risk.

Note:

Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (consolidation on the basis of layers), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classified in the respective credit bracket (specific consolidation).

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

C. Balances of credit to the public(1) and of off-balance sheet credit risk(1)(2) by volume of credit per borrower (continued)

	December 31, 2014		
	Number of borrowers(3)	Credit*(1)	Off-balance sheet credit risk(1)(2)
Credit per borrower (in thousands of NIS)			
Up to 10	1,800,283	2,831	2,445
From 10 to 20	544,912	3,269	4,686
From 20 to 40	442,933	5,688	6,981
From 40 to 80	282,061	9,178	6,817
From 80 to 150	173,354	12,480	6,508
From 150 to 300	111,201	16,368	7,024
From 300 to 600	67,441	23,759	5,196
From 600 to 1,200	46,924	33,856	4,952
From 1,200 to 2,000	11,968	15,296	2,658
From 2,000 to 4,000	5,291	11,593	2,594
From 4,000 to 8,000	2,164	8,959	3,045
From 8,000 to 20,000	1,525	13,158	5,891
From 20,000 to 40,000	835	14,773	7,873
From 40,000 to 200,000	941	45,670	31,846
From 200,000 to 400,000	150	22,335	19,058
From 400,000 to 800,000	70	23,041	17,050
From 800,000 to 1,200,000	17	9,837	6,128
From 1,200,000 to 1,600,000	4	4,095	1,382
From 1,600,000 to 2,000,000	7	3,648	8,314
From 2,000,000 to 3,200,000	2	1,569	2,526
Over 3,200,000	2	1,944	7,871
Total	3,492,085	283,347	160,845

* Credit to the public, investments in bonds of the public, other assets in respect of derivative instruments where the public is the counterparty, at a total of NIS 268,160, 7,051, and 8,136 million, respectively.
(1) Credit and off-balance-sheet credit risk are presented before the effect of the allowance for credit losses, and before the effect of deductible collateral for the purpose of the indebtedness of borrowers and of groups of borrowers.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 10,753 million).
(3) The number of borrowers is calculated according to total credit and off-balance sheet credit risk.

Note:
Data for credit and off-balance sheet credit risk (hereinafter: "credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the data in each credit bracket of each consolidated company (consolidation on the basis of layers), whereas data on credit over NIS 8,000 thousand, including the number of borrowers, were calculated by aggregating the credit of each borrower throughout the Bank Group and classified in the respective credit bracket (specific consolidation).

NIS millions

Note 30 Credit Risk, Credit to the Public, and Allowance for Credit Losses (continued)

D. Information regarding sales of debt

The following table details the consideration paid or received for purchases or sales of loans*:

	December 31, 2015			
	Commercial	Housing	Other	Total
Loans sold	**493**	**-**	**6**	**499**

	December 31, 2014			
	Commercial	Housing	Other	Total
Loans sold	-	-	2	2

* For further information regarding loan sale transactions, see Note 26(C)(4) below.

E. Off-balance sheet financial instruments

	December 31			
	2015	2014	**2015**	2014
	Contract balances*		Allowance for credit losses	
Contract balances or nominal amounts at year end:				
(a) Documentary credit	**1,074**	1,586	**7**	11
(b) Credit guarantees	**6,359**	6,391	**36**	19
(c) Guarantees to purchasers of homes	**18,900**	16,769	**77**	76
(d) Other guarantees and liabilities**	**23,171**	23,557	**175**	189
(e) Unutilized credit facilities for credit cards under the responsibility of the Bank	**32,721**	31,070	**54**	54
(f) Unutilized credit facilities for credit cards under the responsibility of other banks	**11,700**	10,753	**-**	-
(g) Unutilized revolving overdraft and other on-demand credit facilities	**41,613**	40,445	**115**	131
(h) Irrevocable commitments to grant credit approved but not yet drawn***	**31,944**	35,513	**99**	98
(i) Commitments to issue guarantees	**23,392**	21,756	**106**	94

* Contract balances or nominal amounts at year end, before the effect of the allowance for credit losses.
** Includes commitments of the Bank in respect of its share in the risk fund of the Maof Clearing House, in the amount of NIS 505 million (2014: NIS 711 million).
*** Includes commitments to grant credit given to customers in loans "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, Procedures for Granting Housing Loans.

NIS millions

Note 31 Assets and Liabilities by Linkage Base

	December 31, 2015						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	40,268	-	19,034	909	4,765	-	64,976
Securities	38,187	2,241	17,454	1,069	1,399	2,534	62,884
Securities borrowed or purchased under agreements to resell	119	-	-	-	-	-	119
Net credit to the public[2]	190,286	48,654	27,924	6,541	4,652	440	278,497
Credit to governments	90	-	1,343	935	196	-	2,564
Investments in equity-basis investees	40	-	-	-	-	103	143
Buildings and equipment	-	-	-	-	-	3,409	3,409
Assets in respect of derivative instruments[3]	7,563	677	4,006	255	284	4	12,789
Other assets	4,959	210	76	395	52	565	6,257
Total assets	281,512	51,782	69,837	10,104	11,348	7,055	431,638
Liabilities							
Deposits from the public	210,077	13,451	78,681	13,817	5,261	440	321,727
Deposits from banks	2,065	191	1,922	555	40	-	4,773
Deposits from the government	124	32	198	-	-	-	354
Securities lent or sold under agreements to repurchase	-	-	-	64	19	-	83
Bonds and subordinated notes	6,089	26,436	1,581	32	337	-	34,475
Liabilities in respect of derivative instruments[3]	8,050	966	4,334	225	231	-	13,806
Other liabilities	21,377	315	520	455	116	418	23,201
Total liabilities	247,782	41,391	87,236	15,148	6,004	858	398,419
Surplus assets (liabilities)	33,730	10,391	(17,399)	(5,044)	5,344	6,197	33,219
Effect of hedging derivatives:							
Derivative instruments (excluding options)	1,646	-	11	-	(1,657)		
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(16,341)	(2,106)	18,278	4,424	(4,255)		
Options in the money, net (in terms of underlying asset)	1,171	-	(1,696)	522	3		
Options out of the money, net (in terms of underlying asset)	(386)	-	66	182	138		
Total	19,820	8,285	(740)	84	(427)	6,197	
Options in the money, net (nominal present value)	2,240	-	(2,935)	625	70		
Options out of the money, net (nominal present value)	(3,528)	-	1,938	916	674		

* Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage base.
(3) The Bank has implemented the directives of FAS 157 concerning fair value measurements. Balances of assets and liabilities presented in this note are net amounts, after attribution of the effects of the implementation of the standard, in the amount of NIS (132) million. These effects were presented in the unlinked segment.

NIS millions

Note 31 Assets and Liabilities by Linkage Base (continued)

	December 31, 2014						
	Israeli currency		Foreign currency[1]			Non-monetary items**	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash and deposits with banks	22,884	-	28,310	591	3,189	-	54,974
Securities	35,121	2,637	15,509	1,272	1,626	2,613	58,778
Securities borrowed or purchased under agreements to resell	280	-	194	-	2	-	476
Net credit to the public[2]	173,161	51,955	27,490	5,978	5,020	376	263,980
Credit to governments	47	-	1,055	759	-	-	1,861
Investments in equity-basis investees	39	-	-	-	-	96	135
Buildings and equipment	-	-	-	-	-	3,475	3,475
Intangible assets and goodwill	-	-	-	-	-	7	7
Assets in respect of derivative instruments[3]	7,855	706	6,721	415	535	12	16,244
Other assets	*6,528	3	*365	420	122	665	*8,103
Total assets	*245,915	55,301	*79,644	9,435	10,494	7,244	*408,033
Liabilities							
Deposits from the public	184,567	16,461	75,977	13,695	6,154	376	297,230
Deposits from banks	1,771	211	1,616	609	115	-	4,322
Deposits from the government	214	36	205	-	-	-	455
Securities lent or sold under agreements to repurchase	-	-	-	-	42	-	42
Bonds and subordinated notes	6,105	25,134	1,685	23	724	-	33,671
Liabilities in respect of derivative instruments[3]	8,080	1,062	6,988	282	365	-	16,777
Other liabilities	*22,031	207	*1,053	439	160	430	*24,320
Total liabilities	*222,768	43,111	*87,524	15,048	7,560	806	*376,817
Surplus assets (liabilities)	*23,147	12,190	*(7,880)	(5,613)	2,934	6,438	*31,216
Effect of hedging derivatives:							
Derivative instruments (excluding options)	1,592	-	17	-	(1,609)		
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(5,344)	(5,925)	8,702	3,845	(1,278)		
Options in the money, net (in terms of underlying asset)	(56)	-	(1,537)	1,414	179		
Options out of the money, net (in terms of underlying asset)	321	-	(693)	508	(136)		
Total	*19,660	6,265	*(1,391)	154	90	6,438	
Options in the money, net (nominal present value)	890	-	(2,885)	1,778	217		
Options out of the money, net (nominal present value)	(2,976)	-	2,064	1,233	(321)		

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).
** Including derivative instruments whose underlying asset refers to a non-monetary item.
(1) Including linked to foreign currency.
(2) After deduction of allowances for credit losses attributed to the linkage base.
(3) The Bank has implemented the directives of FAS 157 concerning fair value measurements. Balances of assets and liabilities presented in this note are net amounts, after attribution of the effects of the implementation of the standard, in the amount of NIS (136) million. These effects were presented in the unlinked segment.

Note 32 Assets and Liabilities by Currency and by Term to Maturity

	December 31, 2015		
	Future expected contractual cash flows*		
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year
Israeli currency (including foreign currency linked):			
Assets	**80,525**	**20,871**	**67,522**
Liabilities	**196,855**	**10,556**	**24,503**
Difference	**(116,330)**	**10,315**	**43,019**
Derivative instruments (excluding options)	**(900)**	**(5,657)**	**(3,058)**
Options (in terms of underlying asset)	**(273)**	**(85)**	**(608)**
Difference after effect of derivative instruments	**(117,503)**	**4,573**	**39,353**
Foreign currency**			
Assets	**33,074**	**5,839**	**10,753**
Liabilities	**69,168**	**13,351**	**18,268**
Difference	**(36,094)**	**(7,512)**	**(7,515)**
Of which: difference in USD	**(29,838)**	**(6,754)**	**(8,100)**
Of which: difference in respect of foreign operations	**2,777**	**(1,696)**	**(782)**
Derivative instruments (excluding options)	**877**	**5,634**	**3,037**
Options (in terms of underlying asset)	**273**	**85**	**608**
Difference after effect of derivative instruments	**(34,944)**	**(1,793)**	**(3,870)**
Total as at December 31, 2015			
Assets***	**113,599**	**26,710**	**78,275**
Liabilities****	**266,023**	**23,907**	**42,771**
Difference	**(152,424)**	**2,803**	**35,504**
*** Of which: credit to the public	**47,553**	**23,048**	**54,918**
**** Of which: deposits from the public	**249,331**	**17,895**	**32,072**
Derivative instruments (excluding options)	**(23)**	**(23)**	**(21)**
Options (in terms of underlying asset)	**-**	**-**	**-**

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets with no maturity period, including assets in the amount of NIS 3,591 million, which are past due.

(2) As included in Note 31, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.

(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance-sheet balance.

(4) Including revolving credit in the amount of NIS 16,149 million, of which amounts in excess of revolving credit facilities in the amount of NIS 2,487 million.

NIS millions

December 31, 2015										
Future expected contractual cash flows*								Balance sheet balance[(2)]		Contractual return rate[(3)]
Over 1 year up to 2 years	Over 2 years up to 3 years	Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total cash flows	No maturity period[(1)]	Total	
43,390	**27,796**	**21,394**	**20,353**	**39,203**	**27,285**	**6,411**	**354,750**	**5,931**	**334,557**	**2.7%**
12,357	**10,217**	**9,890**	**8,943**	**14,645**	**2,381**	**726**	**291,073**	**133**	**289,904**	**2.6%**
31,033	**17,579**	**11,504**	**11,410**	**24,558**	**24,904**	**5,685**	**63,677**	**5,798**	**44,653**	**-**
57	**363**	**2,300**	**(270)**	**57**	**433**	**-**	**(6,675)**	**-**	**(6,942)**	**-**
(8)	**578**	**444**	**-**	**1,409**	**-**	**-**	**1,457**	**-**	**1,236**	**-**
31,082	**18,520**	**14,248**	**11,140**	**26,024**	**25,337**	**5,685**	**58,459**	**5,798**	**38,947**	**-**
8,376	**7,868**	**7,246**	**7,026**	**12,048**	**2,414**	**235**	**94,879**	**1,262**	**90,026**	**2.9%**
2,637	**1,731**	**1,315**	**787**	**1,663**	**581**	**56**	**109,557**	**61**	**107,657**	**1.5%**
5,739	**6,137**	**5,931**	**6,239**	**10,385**	**1,833**	**179**	**(14,678)**	**1,201**	**(17,631)**	**-**
4,751	**4,103**	**4,896**	**5,151**	**9,453**	**983**	**181**	**(15,174)**	**1,173**	**(18,329)**	**-**
3,027	**4,133**	**3,613**	**3,881**	**1,759**	**759**	**208**	**17,679**	**(10)**	**15,944**	**-**
(31)	**(401)**	**(2,243)**	**339**	**(97)**	**(440)**	**-**	**6,675**	**-**	**6,942**	**-**
8	**(578)**	**(444)**	**-**	**(1,409)**	**-**	**-**	**(1,457)**	**-**	**(1,236)**	**-**
5,716	**5,158**	**3,244**	**6,578**	**8,879**	**1,393**	**179**	**(9,460)**	**1,201**	**(11,925)**	**-**
51,766	**35,664**	**28,640**	**27,379**	**51,251**	**29,699**	**6,646**	**449,629**	**7,193**	**[(4)]424,583**	**2.7%**
14,994	**11,948**	**11,205**	**9,730**	**16,308**	**2,962**	**782**	**400,630**	**194**	**397,561**	**2.6%**
36,772	**23,716**	**17,435**	**17,649**	**34,943**	**26,737**	**5,864**	**48,999**	**6,999**	**27,022**	**-**
38,282	**29,612**	**21,177**	**18,487**	**34,209**	**28,292**	**6,438**	**302,016**	**3,594**	**278,057**	**2.8%**
5,760	**3,592**	**2,746**	**2,203**	**3,805**	**1,462**	**29**	**318,895**	**-**	**321,287**	**1.9%**
26	**(38)**	**57**	**69**	**(40)**	**(7)**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Note 32 Assets and Liabilities by Currency and by Term to Maturity (continued)

	December 31, 2014		
	Future expected contractual cash flows*		
	On demand up to 1 month	Over 1 month up to 3 months	Over 3 months up to 1 year
Israeli currency (including foreign currency linked):			
Assets(5)	64,801	24,389	49,122
Liabilities(5)	176,431	11,617	25,021
Difference	(111,630)	12,772	24,101
Derivative instruments (excluding options)	2,323	(2,494)	(3,236)
Options (in terms of underlying asset)	(601)	(340)	(342)
Difference after effect of derivative instruments	(109,908)	9,938	20,523
Foreign currency**			
Assets	41,195	7,139	10,688
Liabilities	67,543	12,828	20,178
Difference	(26,348)	(5,689)	(9,490)
Of which: difference in USD	(21,137)	(3,382)	(6,984)
Of which: difference in respect of foreign operations	14,387	(1,213)	(3,825)
Derivative instruments (excluding options)	(2,323)	2,494	3,236
Options (in terms of underlying asset)	601	340	342
Difference after effect of derivative instruments	(28,070)	(2,855)	(5,912)
Total as at December 31, 2014			
Assets***(5)	105,996	31,528	59,810
Liabilities****(5)	243,974	24,445	45,199
Difference	(137,978)	7,083	14,611
*** Of which: credit to the public	46,025	20,773	51,031
**** Of which: deposits from the public	222,790	19,055	33,618
Derivative instruments (excluding options)	-	-	-
Options (in terms of underlying asset)	-	-	-

* This note presents expected future contractual cash flows in respect of assets and liabilities by currency, according to the remaining contractual maturity periods of each cash flow. The data are presented net of the effect of charge-offs and of allowances for credit losses.
** Excluding Israeli currency linked to foreign currency.
(1) Assets with no maturity period, including assets in the amount of NIS 3,829 million, which are past due.
(2) As included in Note 31, "Assets and Liabilities by Linkage Base," including off-balance sheet amounts in respect of derivatives.
(3) The contractual return rate is the interest rate discounting the expected contractual future cash flows presented in this note in respect of a monetary item to its balance-sheet balance.
(4) Including revolving credit in the amount of NIS 15,138 million, of which amounts in excess of revolving credit facilities in the amount of NIS 1,956 million.
(5) Retrospective implementation – for details regarding retrospective implementation of US GAAP for employee benefits, see Note 1D(1).

NIS millions

December 31, 2014										
Future expected contractual cash flows*								Balance sheet balance[2]		Contractual return rate[3]
Over 1 year up to 2 years	Over 2 years up to 3 years	Over 3 years up to 4 years	Over 4 years up to 5 years	Over 5 years up to 10 years	Over 10 years up to 20 years	Over 20 years	Total cash flows	No maturity period[1]	Total	
44,494	30,994	18,836	13,668	44,050	26,204	5,492	322,050	7,292	302,951	2.4%
12,492	9,422	8,501	8,439	17,582	2,872	981	273,358	117	266,631	2.7%
32,002	21,572	10,335	5,229	26,468	23,332	4,511	48,692	7,175	36,320	-
(1,025)	1,268	528	2,746	(723)	324	-	(289)	-	(1,414)	-
72	-	571	440	1,394	-	-	1,194	-	907	-
31,049	22,840	11,434	8,415	27,139	23,656	4,511	49,597	7,175	35,813	-
8,954	6,792	6,229	6,710	12,227	1,877	383	102,194	794	97,838	2.0%
3,032	1,522	1,039	1,778	2,056	719	163	110,858	18	109,380	1.5%
5,922	5,270	5,190	4,932	10,171	1,158	220	(8,664)	776	(11,542)	-
2,403	3,332	2,899	3,348	6,599	223	233	(12,466)	472	(8,372)	-
2,675	1,806	1,385	2,545	2,418	239	219	20,636	(47)	19,726	-
1,025	(1,268)	(528)	(2,746)	723	(324)	-	289	-	1,414	-
(72)	-	(571)	(440)	(1,394)	-	-	(1,194)	-	(907)	-
6,875	4,002	4,091	1,746	9,500	834	220	(9,569)	776	(11,035)	-
53,448	37,786	25,065	20,378	56,277	28,081	5,875	424,244	8,086	[4]400,789	2.3%
15,524	10,944	9,540	10,217	19,638	3,591	1,144	384,216	135	376,011	2.3%
37,924	26,842	15,525	10,161	36,639	24,490	4,731	40,028	7,951	24,778	-
40,277	27,553	20,146	14,655	34,713	25,195	5,556	285,924	3,917	263,604	2.9%
7,627	4,192	3,272	2,682	4,495	1,803	150	299,684	9	296,854	2.7%
-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-

Note 33 Balances and Fair Value Estimates of Financial Instruments

Fair Value of Financial Instruments

This note includes information concerning the assessment of the fair value of financial instruments.

A "market price" cannot be quoted for the majority of financial instruments at the Bank because no active market exists in which they are traded. Fair value is therefore estimated by means of accepted pricing models, such as the present value of future cash flows discounted by a discounting interest rate that reflects the level of risk inherent in the financial instrument. An estimate of fair value by means of an assessment of future cash flows and the setting of a discounting interest rate is subjective. Therefore, for the majority of financial instruments, the following assessment of fair value is not necessarily an indication of the disposal value of the financial instrument on the reporting date. The fair value is assessed on the basis of the interest rates valid at the reporting date, and does not take interest-rate volatility into account. Under the assumption of different interest rates, fair values would be obtained that may differ materially. This mainly applies to financial instruments that bear a fixed rate of interest or that do not bear interest. In addition, the assessment of fair value does not take into consideration fees to be received or paid in the course of business activity, and does not include the effect of non-controlling interests or tax effects. Moreover, the difference between the balance sheet balance and fair value balances may not be realized, because in the majority of cases the financial instrument may be held to maturity by the Bank. Due to all of these factors, it should be emphasized that the data included in this note are insufficient to indicate the value of the banking corporation as a going concern. In addition, due to the broad spectrum of assessment techniques and estimates that can be applied in assessing fair value, caution should be exercised when comparing fair values between different banks.

Principal Methods and Assumptions Used to Estimate the Fair Value of Financial Instruments

Deposits with banks, nonmarketable bonds and loans, and credit to the government – By discounting future cash flows according to the interest rates at which the Bank executed similar transactions at the reporting date.

Marketable securities – According to market value in the primary market.

Credit to the public – The fair value of the balance of credit to the public is estimated using the method of the present value of future cash flows discounted by a suitable discount rate. The balance of credit was segmented into homogenous categories. In each category, the flow of future receipts (principal and interest) was calculated. These receipts were discounted by an interest rate reflecting the level of risk inherent in the credit in that category. This interest rate was usually determined according to the interest rate at which similar transactions were executed at the Bank at the reporting date.

The fair value of impaired debts was calculated using discounting interest rates reflecting the high credit risk inherent in such debts. In any case, these discount rates were not lower than the highest interest rate used by the Bank in its transactions at the reporting date.

Future cash flows for impaired debts and other debts were calculated after the deduction of the effects of charge-offs and of allowances for credit losses in respect of the debts. An increase of 1% in discounting interest rates of impaired debts would reduce their fair value by a total of NIS 15 million.

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

Charge-offs and allowances for credit losses were attributed to the periods in which the debt was classified, where possible (e.g. when an allowance was calculated on an individual basis according to the current value of a cash flow). In the absence of these data, charge-offs and the allowance are attributed proportionally to the balance of credit, according to the term to maturity at the end of the period.

The calculation of fair value includes assumptions regarding early repayment of housing loans, in accordance with the estimates of the Bank, based on an examination of the historical data regarding early repayment in relation to parameters that explain such repayment. The effect of these assumptions on fair value resulted in an increase of the fair value by NIS 130 million.

Deposits, bonds, and notes – By discounting future cash flows according to the interest rates at which the corporation raises similar deposits or the Bank issues similar bonds and notes (if a price quoted in an active market is not available) on the reporting date. With regard to bonds and subordinated notes traded as an asset in an active market, fair value is based on quoted market prices or on quotes from traders for an identical liability traded as an asset in an active market.

Inter-client lending – Presented as credit and deposits, and measured according to the value of the loaned securities on the stock market.

Derivative instruments – Derivative financial instruments that have an active market were assessed at the market value established in the primary market. Derivative financial instruments not traded in an active market were assessed on the basis of models used by the Bank in its routine operations, taking into account the risks inherent in the financial instrument.

The measurement of the fair value of derivative instruments takes the credit risk inherent in such transactions into account, among other factors. Estimates of the fair value of assets in respect of derivative instruments also reflect the credit risk of the counterparty, and estimates of the fair value of liabilities in respect of derivative instruments also reflect the credit risk of the Bank.

Assets and liabilities for which fair value is measured based on Level 3 data – Items for which fair value is determined based on an indicative price from an independent entity, indicative price of a counterparty to the transaction, or evaluation models in which some of the significant inputs are unobservable; and items for which fair value is determined based on internal calculators or service bureaus in which some of the inputs are unobservable.

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

A. Balances and fair-value estimates of financial instruments

	December 31, 2015				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	**64,976**	**2,619**	**-**	**62,370**	**64,989**
Securities*	**62,884**	**45,832**	**15,844**	**1,214**	**62,890**
Securities borrowed or purchased under agreements to resell	**119**	**-**	**-**	**119**	**119**
Net credit to the public***	**278,497**	**2,876**	**-**	**276,695**	**279,571**
Credit to governments	**2,564**	**-**	**-**	**2,571**	**2,571**
Assets in respect of derivative instruments	**12,789**	**823**	**8,822**	**3,144**	**12,789**
Other financial assets	**2,011**	**1,189**	**-**	**825**	**2,014**
Total financial assets	****423,840**	**53,339**	**24,666**	**346,938**	**424,943**
Financial liabilities					
Deposits from the public***	**321,727**	**2,876**	**-**	**320,243**	**323,119**
Deposits from banks	**4,773**	**-**	**-**	**4,824**	**4,824**
Deposits from the government	**354**	**-**	**-**	**397**	**397**
Securities lent or sold under agreements to repurchase	**83**	**-**	**-**	**83**	**83**
Bonds and subordinated notes	**34,475**	**30,470**	**2,114**	**3,882**	**36,466**
Liabilities in respect of derivative instruments	**13,806**	**820**	**12,624**	**362**	**13,806**
Other financial liabilities	**17,734**	**1,220**	**-**	**16,473**	**17,693**
Total financial liabilities	****392,952**	**35,386**	**14,738**	**346,264**	**396,388**

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 643 million. For further details regarding the balance sheet balance and fair value of securities, see Note 12.

** Of which: assets and liabilities in the amount of NIS 81,302 million and in the amount of NIS 17,916 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

*** Of which, amounts of NIS 8 million and NIS 14 million (respectively) were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 - Fair value measurements using quoted prices on an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

A. Balances and fair-value estimates of financial instruments (continued)

	December 31, 2014				
	Balance sheet balance	Fair value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and deposits with banks	54,974	2,364	-	52,625	54,989
Securities**	58,778	43,581	14,076	1,147	58,804
Securities borrowed or purchased under agreements to resell	476	-	-	476	476
Net credit to the public****	263,980	3,558	-	262,378	265,936
Credit to governments	1,861	-	-	1,869	1,869
Assets in respect of derivative instruments	16,244	892	11,063	4,289	16,244
Other financial assets	3,668	2,183	-	1,485	3,668
Total financial assets	***399,981	52,578	25,139	324,269	401,986
Financial liabilities					
Deposits from the public****	297,230	3,558	-	*295,668	*299,226
Deposits from banks	4,322	-	-	4,373	4,373
Deposits from the government	455	-	-	505	505
Securities lent or sold under agreements to repurchase	42	-	-	42	42
Bonds and subordinated notes	33,671	29,861	2,132	4,634	36,627
Liabilities in respect of derivative instruments	16,777	882	14,744	1,151	16,777
Other financial liabilities	18,735	2,254	321	16,123	18,698
Total financial liabilities	***371,232	36,555	17,197	*322,496	*376,248

* Restated.

** Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 612 million. For further details regarding the balance sheet balance and fair value of securities, see Note 12.

*** Of which: assets and liabilities in the amount of NIS 83,502 million and in the amount of NIS 25,214 million, respectively, whose balance sheet balance is identical to their fair value (instruments presented at fair value in the balance sheet). For further information regarding instruments measured at fair value on a recurring basis and on a nonrecurring basis, see Sections B-F.

**** Of which, amounts of NIS 11 million and NIS 41 million (respectively) were included in the balance of credit to the public and in the balance of deposits from the public, in respect of embedded derivative instruments.

(1) Level 1 - Fair value measurements using quoted prices on an active market.
Level 2 - Fair value measurements using other significant observable inputs.
Level 3 - Fair value measurements using significant unobservable inputs.

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis

	December 31, 2015			
	Fair value measurements using –			Total fair value
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Assets				
Securities available for sale:				
Government bonds - Israeli government	32,330	5,021	-	37,351
Government bonds - foreign governments	1,252	4,363	-	5,615
Bonds of financial institutions in Israel	134	95	-	229
Bonds of foreign financial institutions	1,198	3,332	151	4,681
Bonds of others in Israel	1,130	915	-	2,045
Bonds of foreign others	1,470	2,118	-	3,588
Tradable shares	1,843	-	-	1,843
Securities held for trading:				
Government bonds - Israeli government	6,291	-	-	6,291
Government bonds - foreign governments	7	-	-	7
Bonds of foreign financial institutions	56	-	-	56
Bonds of others in Israel	3	-	-	3
Bonds of foreign others	70	-	-	70
Tradable shares	48	-	-	48
Total securities measured at fair value	45,832	15,844	151	61,827
Assets in respect of derivative instruments:				
NIS-CPI contracts	-	355	115	470
Other interest contracts	-	6,492	1,282	7,774
Foreign-currency contracts	98	1,876	1,591	3,565
Share contracts	725	56	101	882
Commodity and other contracts	-	43	55	98
Assets in respect of embedded derivatives	-	-	8	8
Credit in respect of inter-customer lending	2,876	-	-	2,876
Assets in respect of activity in the Maof market	1,189	-	-	1,189
Total assets	50,720	24,666	3,303	78,689

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2015			
	Fair value measurements using –			Total fair value
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contracts	**-**	**596**	**-**	**596**
Other interest contracts	**-**	**8,102**	**278**	**8,380**
Foreign-currency contracts	**98**	**3,708**	**68**	**3,874**
Share contracts	**722**	**126**	**13**	**861**
Commodity and other contracts	**-**	**92**	**3**	**95**
Liabilities in respect of embedded derivatives	**-**	**4**	**10**	**14**
Deposits in respect of inter-customer lending	**2,876**	**-**	**-**	**2,876**
Liabilities in respect of activity in the Maof market	**1,189**	**-**	**-**	**1,189**
Liabilities in respect of securities lending	**31**	**-**	**-**	**31**
Total liabilities	**4,916**	**12,628**	**372**	**17,916**

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2014			
	Fair value measurements using –			Total fair value
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Assets				
Securities available for sale:				
Government bonds - Israeli government	31,957	5,092	-	37,049
Government bonds - foreign governments	1,437	2,061	-	3,498
Bonds of financial institutions in Israel	721	98	-	819
Bonds of foreign financial institutions	1,093	3,990	-	5,083
Bonds of others in Israel	1,440	844	-	2,284
Bonds of foreign others	1,463	1,991	-	3,454
Tradable shares	1,951	-	-	1,951
Securities held for trading:				
Government bonds - Israeli government	2,871	-	-	2,871
Government bonds - foreign governments	43	-	-	43
Bonds of foreign financial institutions	354	-	-	354
Bonds of others in Israel	20	-	-	20
Bonds of foreign others	181	-	-	181
Tradable shares	50	-	-	50
Total securities measured at fair value	43,581	14,076	-	57,657
Assets in respect of derivative instruments:				
NIS-CPI contracts	-	280	135	415
Other interest contracts	-	7,136	1,215	8,351
Foreign-currency contracts	62	3,349	2,874	6,285
Share contracts	830	160	31	1,021
Commodity and other contracts	-	138	34	172
Assets in respect of embedded derivatives	-	-	11	11
Credit in respect of inter-customer lending	3,558	-	-	3,558
Assets in respect of activity in the Maof market	2,183	-	-	2,183
Total assets	50,214	25,139	4,300	79,653

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2014			
	Fair value measurements using –			Total fair value
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	
Liabilities				
Liabilities in respect of derivative instruments:				
NIS-CPI contracts	-	547	-	547
Other interest contracts	-	8,331	588	8,919
Foreign-currency contracts	62	5,565	539	6,166
Share contracts	820	148	9	977
Commodity and other contracts	-	153	15	168
Liabilities in respect of embedded derivatives	-	(4)	45	41
Deposits in respect of inter-customer lending	3,558	-	-	3,558
Liabilities in respect of activity in the Maof market	2,183	-	-	2,183
Liabilities in respect of securities lending	71	321	-	392
Total liabilities	6,694	15,061	1,196	22,951

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

C. Items measured at fair value on a nonrecurring basis

	December 31, 2015				
	Fair value measurements using –			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2015
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	**-**	**-**	**1,598**	**1,598**	**(122)**
Investments in shares	**-**	**-**	**11**	**11**	**(2)(7)**
Total	**-**	**-**	**1,609**	**1,609**	**(29)**

	December 31, 2014				
	Fair value measurements using –			Total fair value	Total profit (loss) in respect of changes in value in the period ended December 31, 2014
	Prices quoted in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)		
Assets measured at fair value on a nonrecurring basis					
Impaired credit the collection of which is contingent on collateral	-	-	*2,653	*2,653	(1)81
Investments in shares	-	-	35	35	(2)(8)
Total	-	-	*2,688	*2,688	73

* Restated.
(1) Losses included in the statement of profit and loss under the item "provision for credit losses."
(2) Losses included in the statement of profit and loss under the item "non-interest financing income."

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurring basis included in level 3

	Fair value as at Dec. 31, 2014	Gains (losses) included in statement of profit and loss(1)(3)	Gains (losses) included in equity(2)	Acquisitions	Issuance	Extinguishment	Transfers to level 3	Transfers from level 3	Fair value as at Dec. 31, 2015	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2015
Assets										
Securities available for sale:										
Bonds of foreign financial institutions	-	-	**1**	**150**	-	-	-	-	**151**	(2)(1)**1**
Net balances in respect of derivative instruments:										
NIS-CPI contracts	**135**	**49**	-	-	-	**(74)**	**5**	-	**115**	(3)**38**
Other interest contracts	**627**	**87**	-	**220**	-	**(214)**	**79**	**205**	**1,004**	(3)(1)**251**
Foreign-currency contracts	**2,335**	**235**	-	**319**	-	**(1,715)**	**46**	**303**	**1,523**	(3)**385**
Share contracts	**22**	**65**	-	**7**	-	**(6)**	-	-	**88**	(3)**65**
Commodity and other contracts	**19**	**29**	-	**25**	-	**(21)**	-	-	**52**	(3)**26**
Embedded derivatives	**(34)**	**34**	-	**2**	-	**(4)**	-	-	**(2)**	(3)**33**
Total	**3,104**	**499**	**1**	**723**	-	**(2,034)**	**130**	**508**	**2,931**	**799**

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

NIS millions

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

D. Changes in items measured at fair value on a recurring basis included in level 3 (continued)

	Fair value as at Dec. 31, 2013	Gains (losses) included in statement of profit and loss[(1)(3)]	Gains (losses) included in equity[(2)]	Acquisitions	Issuance	Extinguishment	Transfers to level 3	Transfers from level 3	Fair value as at Dec. 31, 2014	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2014
Assets										
Net balances in respect of derivative instruments:										
NIS-CPI contracts	52	109	-	-	-	(51)	25	-	135	[(3)]96
Other interest contracts	237	267	-	224	(24)	(107)	20	10	627	[(3)(1)]247
Foreign-currency contracts	1,819	681	-	160	-	(448)	(17)	140	2,335	[(3)]1,004
Share contracts	46	3	-	4	-	(20)	-	(11)	22	[(3)]1
Commodity and other contracts	17	10	-	6	-	(14)	-	-	19	[(3)]13
Embedded derivatives	3	(35)	-	(2)	-	1	-	(1)	(34)	[(3)](4)
Total	2,174	1,035	-	392	(24)	(639)	28	138	3,104	1,357

(1) Gains (losses) included in the statement of profit and loss under the item "interest income."
(2) Gains (losses) included in equity under the item "adjustments for presentation of securities available for sale at fair value."
(3) Gains (losses) included in the statement of profit and loss under the item "non-interest financing income."

E. During the period, there were no transfers of items measured at fair value from Level 1 to Level 2.

F. During the period, there were no transfers of items measured at fair value from level 3 measurement to level 2 measurement, with the exception of transfers due to transaction counterparty risk.

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3

	December 31, 2015			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
	NIS millions			
Assets				
Investment in non-tradable shares	**11**	Valuation		
Impaired credit the collection of which is contingent on collateral	**1,598**	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		
Net balances in respect of derivative instruments:				
NIS-CPI contracts	**115**	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	1.74%-5.71% (2.45%)
Other interest contracts	**1,005**	Interest rate derivatives pricing model	Transaction counterparty risk	0.65%-5.71% (3.66%)
Foreign-currency contracts	**1,522**	Option pricing model	Transaction counterparty risk	0.65%-5.71% (2.56%)
Share contracts	**76**	Option pricing model	Transaction counterparty risk	1.83%-5.71% (2.10%)
Share contracts(1)	**1**	Option pricing model	Standard deviation	22.30%-68.50% (39.22%)
			Dividend yield	6.00%-6.00% (6.00%)
			Unlinked NIS interest rate	1.25%-1.25% (1.25%)
Commodity and other contracts	**52**	Currency derivatives pricing model	Transaction counterparty risk	2.37%-5.71% (3.68%)
Embedded derivatives(2)	**8**	Option pricing model	Unlinked NIS interest rate	1.26%-6.48% (2.94%)

Sensitivity analysis of fair value measurements classified as level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.

Note 33 Balances and Fair Value Estimates of Financial Instruments (continued)

G. Additional information regarding significant unobservable inputs and assessment techniques used in the measurement of the fair value of items classified as Level 3 (continued)

	December 31, 2014			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
	NIS millions			
Assets				
Investment in non-tradable shares	35	Valuation		
Impaired credit the collection of which is contingent on collateral	*2,653	Tradable assets – market value less an appropriate safety coefficient		
		Non-tradable assets – discounted cash flow less an appropriate safety coefficient		
Net balances in respect of derivative instruments:				
NIS-CPI contracts	135	Currency and interest-rate derivatives pricing model	Transaction counterparty risk	0.52%-4.68% (2.60%)
Other interest contracts	627	Interest rate derivatives pricing model	Transaction counterparty risk	0.52%-4.38% (3.18%)
Foreign-currency contracts	2,325	Option pricing model	Transaction counterparty risk	0.44%-4.68% (2.22%)
Share contracts(1)	2	Option pricing model	Standard deviation	26.51%-68.50% (29.21%)
			Dividend yield	6.00%-10.56% (9.99%)
			Unlinked NIS interest rate	1.46%-1.70% (1.49%)
Commodity and other contracts	19	Currency derivatives pricing model	Transaction counterparty risk	0.52%-4.38% (3.03%)
Embedded derivatives(2)	11	Option pricing model	Unlinked NIS interest rate	0.85%-6.94% (2.79%)

* Restated.

Sensitivity analysis of fair value measurements classified as level 3:

(1) An increase (decrease) in the standard deviation would lead to a significantly higher (lower) fair value measurement. Conversely, an increase (decrease) in the dividend yield or in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.

(2) An increase (decrease) in the discounting interest rate would lead to a significantly lower (higher) fair value measurement.

NIS millions

Note 34 Interested and Related Parties[(a)]

Parent companies, controlling shareholder, and subsidiaries

All interested party and related party transactions were carried out in the ordinary course of business, on terms similar to terms of transactions with entities unrelated to the Bank. Income or expenses related to such transactions are included in the appropriate items of the statement of profit and loss.

A. Balance sheet balances

	December 31, 2015							
	Interested parties							
	Shareholders							
	Controlling parties		Others[(3)]		Officers*		Others	
	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**
Assets								
Securities	-	-	193	254	-	-	264	264
Credit to the public	-	-	109	109	14	17	[(1)]7,033	[(1)]7,158
Allowance for credit losses	-	-	-	-	-	-	(66)	(66)
Net credit to the public	-	-	109	109	14	17	6,967	7,092
Other assets	-	-	2	2	-	-	167	388
Liabilities								
Deposits from the public	20	21	199	1,081	54	75	14,070	15,420
Bonds and subordinated notes	-	-	-	-	-	-	62	92
Other liabilities	-	-	161	161	88	88	1,360	1,361
Shares (included in equity)	6,648	6,856	1,847	2,089	35	35	-	-
Credit risk in off-balance sheet financial instruments* **	-	-	147	233	9	[(2)]12	[(1)]4,607	[(1)]5,650

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).

* Pursuant to Section 80D(3) of the Public Reporting Directives.

** Based on the balance at the end of each month.

*** As calculated for the purpose of borrower debt limits.

(1) Including NIS 642 million in credit to the public and NIS 173 million in credit risk in respect of off-balance sheet financial instruments (highest balance during 2015: NIS 690 million and NIS 186 million, respectively), in respect of an interested party at the time of the transactions who ceased to be an interested party.

(2) Highest balance during 2015: NIS 0 million in credit risk in respect of financial instruments, in respect of an interested party at the time of the transactions who ceased to be an interested party.

(3) The note as at December 31, 2015, and for the year ended on that date, includes, for the first time, balances and transactions of an interested party who holds shares of the Bank at a rate higher than 5% through provident funds, mutual funds, and exchange-traded funds managed by that related party. Comparative figures were not restated.

NIS millions

Note 34 Interested and Related Parties[a] (continued)

A. Balance sheet balances (continued)

	December 31, 2015					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*
Assets						
Securities	-	-	-	-	87	87
Credit to the public	2	4	82	82	84	84
Allowance for credit losses	-	-	(1)	(1)	(1)	(1)
Net credit to the public	2	4	81	81	83	83
Investments in equity-basis investees[1]	-	2	143	143	-	-
Other assets	-	-	2	3	1	1
Liabilities						
Deposits from the public	2	3	142	142	46	46
Other liabilities	-	-	41	43	-	-
Credit risk in off-balance sheet financial instruments**	-	-	73	143	218	218

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).
* Based on the balance at the end of each month.
** As calculated for the purpose of borrower debt limits.
(1) Details of this item are also included in Note 15.

NIS millions

Note 34 Interested and Related Parties[a] (continued)

A. Balance sheet balances (continued)

	December 31, 2014					
	Shareholders[3] Controlling parties		Interested parties			
			Officers*		Others	
	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**	Balance as at end of year	Highest balance during the year**
Assets						
Credit to the public	-	-	16	16	(1) 1,124	(1) 1,382
Allowance for credit losses	-	-	-	-	(15)	(15)
Net credit to the public	-	-	16	16	1,109	1,367
Other assets	-	-	-	-	16	16
Liabilities						
Deposits from the public	20	20	72	79	125	222
Other liabilities	-	-	60	60	5	6
Shares (included in equity)	6,540	6,747	34	34	-	-
Credit risk in off-balance sheet financial instruments*	-	-	12	(2) 13	(1) 1,730	(1) 1,815

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).

* Pursuant to Section 80D(3) of the Public Reporting Directives.

** Based on the balance at the end of each month.

*** As calculated for the purpose of borrower debt limits.

(1) Including NIS 690 million in credit to the public and NIS 186 million in credit risk in respect of off-balance sheet financial instruments (highest balance during 2014: NIS 857 million and NIS 187 million, respectively), in respect of an interested party at the time of the transactions who ceased to be an interested party.

(2) Highest balance during 2014: NIS 0 million in credit risk in respect of financial instruments, in respect of an interested party at the time of the transactions who ceased to be an interested party.

(3) Does not include balances of The Phoenix, which holds more than 5% through provident funds, mutual funds, and index certificates.

NIS millions

Note 34 Interested and Related Parties[(a)] (continued)

A. Balance sheet balances (continued)

	December 31, 2014					
	Related parties held by the Bank and its consolidated companies					
	Unconsolidated subsidiaries		Equity-basis investees		Others	
	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*	Balance as at end of year	Highest balance during the year*
Assets						
Credit to the public	2	2	76	236	-	-
Allowance for credit losses	-	-	(2)	(6)	-	-
Net credit to the public	2	2	74	230	-	-
Investments in equity-basis investees[(1)]	-	2	135	135	-	-
Liabilities						
Deposits from the public	3	4	121	146	4	6
Other liabilities	-	-	-	-	-	1
Credit risk in off-balance sheet financial instruments**	-	-	129	196	-	-

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).

* Based on the balance at the end of each month.

** As calculated for the purpose of borrower debt limits.

(1) Details of this item are also included in Note 15.

NIS millions

Note 34 Interested and Related Parties[a] (continued)

B. Income and expenses in the statement of profit and loss

	For the year ended December 31, 2015							
	Interested parties							
	Shareholders				Related parties held by the Bank and its consolidated companies			Total
	Controlling parties	Others	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	-	1	-	207	-	10	1	219
Provision for credit losses	-	1	-	(24)	-	1	(1)	(23)
Non-interest income	1	(6)	-	25	-	1	121	142
Of which: management and service fees	-	-	-	2	-	-	-	2
Operating and other expenses	1		(1)(89)	(65)	-	(13)	-	(166)
Of which: Interested party employed by or on behalf of the corporation: 16	-	-	(78)	-	-	-	-	(78)
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 14	1	-	(11)	-	-	-	-	(10)
Total	2	(4)	(89)	143	-	(1)	121	172

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).

* Details in section C below.

** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.

*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.

(1) Short-term employee benefits – NIS 56 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 8 million; share-based payment – NIS 14 million.

NIS millions

Note 34 Interested and Related Parties[(a)] (continued)

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2014						
	Interested parties			Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	-	-	21	-	10	-	31
Provision for credit losses	-	-	(2)	-	6	-	4
Non-interest income	-	-	8	-	2	-	10
Operating and other expenses	-	(1)(92)	(6)	-	(13)	-	(111)
Of which: Interested party employed by or on behalf of the corporation: 18	-	(80)	-	-	-	-	(80)
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 14	-	(12)	-	-	-	-	(12)
Total	-	(92)	21	-	5	-	(66)

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).

* Details in section C below.

** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.

*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.

(1) Short-term employee benefits – NIS 49 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 14 million; share-based payment – NIS 15 million.

NIS millions

Note 34 Interested and Related Parties[(a)] (continued)

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2013						
	Interested parties			Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Officers**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	-	-	51	-	7	-	58
Provision for credit losses	-	-	(2)	-	-	-	(2)
Non-interest income	-	-	7	-	2	-	9
Operating and other expenses	-	(1)(83)	(1)	-	(8)	-	(92)
Of which: Interested party employed by or on behalf of the corporation: 19	-	(73)	-	-	-	-	(73)
Benefits to directors not employed by the corporation or on its behalf – number of beneficiaries: 14	-	(10)	-	-	-	-	(10)
Total	-	(83)	55	-	1	-	(27)

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).

* Details in section C below.

** Pursuant to Section 80D(3) of the Public Reporting Directives, including those who retired during the year.

*** Parties meeting the definition of a related party, who were not included in other columns, and a party on whose business the activity of the Bank and of its consolidated companies depends to a significant extent.

(1) Short-term employee benefits – NIS 42 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 8 million; share-based payment – NIS 23 million.

NIS millions

Note 34 Interested and Related Parties[a] (continued)

C. Net interest income in transactions with interested and related parties

				Of which: equity-basis investees		
	2015	2014	2013	**2015**	2014	2013
Income (expenses)						
In respect of assets:						
From credit to the public	**238**	31	67	**10**	11	8
From bonds	**9**	-	-	**-**	-	-
From other assets	**3**	3	-	**-**	-	-
In respect of liabilities:						
On deposits from the public	**(26)**	(3)	(9)	**-**	(1)	(1)
On bonds and subordinated notes	**(5)**	-	-	**-**	-	-
Total	**219**	31	58	**10**	10	7

(a) The format of the disclosure in this note was updated in accordance with the circular concerning disclosure of interested and related parties; see also Note 1D(3).

D. Information regarding terms of transactions and balances with related and interested parties

Transactions and balances with interested and related parties were all executed during the ordinary course of business, at terms similar to the terms of transactions with entities unrelated to the Bank. Interest charged and interest paid in respect of balances with interested and related parties are at the usual rates for transactions during the ordinary course of business with parties unrelated to the Bank.

E. Transaction with a related party

During 2013 and 2014, the Bank acquired shares of the Delek Group Ltd., which is a related party, at a rate of 1% of the capital of that company, in a total amount of NIS 160 million. The value of the shares as at December 31, 2015, is NIS 89 million. Accordingly, the Bank included a provision for impairment in its financial statements in 2014 and 2015.

NIS millions

Note 35 Information Based on Historical Nominal Data for Tax Purposes – The Bank

	December 31	
	2015	2014
Total assets	**405,992**	*380,609
Total liabilities	**373,041**	349,746
Shareholders' equity	**32,951**	*30,863

	2015	2014	2013
Net profit	**3,104**	*2,738	*2,582

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

NIS millions

Note 36 Condensed Financial Statements of the Bank

A. Condensed Balance Sheet

	December 31	
	2015	2014
Assets		
Cash and deposits with banks	**61,088**	53,266
Securities	**52,602**	45,989
Securities borrowed or purchased under agreements to resell	**119**	474
Credit to the public	**256,600**	241,591
Allowance for credit losses	**(4,210)**	(3,934)
Net credit to the public	**252,390**	237,657
Credit to governments	**2,368**	1,861
Investments in affiliates	**16,595**	16,361
Buildings and equipment	**2,876**	2,933
Assets in respect of derivative instruments	**12,568**	15,747
Other assets	**5,467**	*7,058
Total assets	**406,073**	*381,346
Liabilities and Capital		
Deposits from the public	**327,074**	298,427
Deposits from banks	**4,506**	4,489
Government deposits	**354**	455
Subordinated notes	**19,630**	21,566
Liabilities in respect of derivative instruments	**13,585**	16,329
Other liabilities	**7,892**	*9,114
Total liabilities	**373,041**	*350,380
Capital	**33,032**	*30,966
Total liabilities and capital	**406,073**	*381,346

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

NIS millions

Note 36 Condensed Financial Statements of the Bank (continued)

B. Condensed Statement of Profit and Loss

	2015	2014	2013
Interest income	**9,291**	10,038	12,251
Interest expenses	**(1,842)**	(2,775)	(4,906)
Net interest income	**7,449**	7,263	7,345
Provision for credit losses	**455**	346	844
Net interest income after provision for credit losses	**6,994**	6,917	6,501
Non-interest income:			
Non-interest financing income	**995**	635	425
Fees	**3,343**	3,281	3,258
Other income	**101**	91	75
Total non-interest income	**4,439**	4,007	3,758
Operating and other expenses:			
Salaries and related expenses	**4,202**	*4,637	*4,745
Maintenance and depreciation of buildings and equipment	**1,343**	1,323	1,339
Other expenses	**1,353**	1,416	1,195
Total operating and other expenses	**6,898**	*7,376	*7,279
Profit before taxes	**4,535**	*3,548	*2,980
Provision for taxes on profit	**1,855**	*1,485	*1,036
Profit after taxes	**2,680**	*2,063	*1,944
The Bank's share in profits of affiliates, after taxes	**402**	650	593
Net profit:			
Attributed to shareholders of the Bank	**3,082**	*2,713	*2,537

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

NIS millions

Note 36 Condensed Financial Statements of the Bank (continued)

C. Condensed Statement of Cash Flows

	2015	2014	2013
Cash flows from (for) operating activity			
Net profit for the year	**3,082**	*2,713	*2,537
Adjustments necessary to present cash flows from operating activity:			
The Bank's share in undistributed profits of affiliates	**(402)**	(650)	(593)
Depreciation of buildings and equipment	**524**	507	555
Amortizations	**21**	17	19
Provision for credit losses	**455**	346	844
Gain from realization of securities available for sale and held to maturity	**(382)**	(297)	(296)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(8)**	(29)	-
Gain from realization of buildings and equipment	**(5)**	(5)	(11)
Change in benefit due to share-based payment transactions	**86**	112	101
Net change in liabilities in respect of employee benefits	**(157)**	*254	*357
Deferred taxes, net	**206**	*(461)	*(550)
Gain from sale of credit portfolios	**(3)**	-	(1)
Adjustments in respect of exchange-rate differences	**549**	(1,305)	1,372
Accumulation differentials included in investing and financing activities	**148**	(1,791)	(307)
Net change in current assets:			
Deposits with banks	**724**	(2,637)	(527)
Credit to the public	**(15,683)**	(10,312)	(2,728)
Credit to governments	**(507)**	(692)	(371)
Securities borrowed or purchased under agreements to resell	**355**	(438)	11
Assets in respect of derivative instruments	**3,179**	(5,343)	(916)
Securities held for trading	**(3,391)**	(1,320)	1,420
Other assets	**1,556**	(1,164)	(225)
Net change in current liabilities:			
Deposits from banks	**17**	(134)	(1,270)
Deposits from the public	**28,647**	20,360	482
Deposits from the government	**(101)**	(158)	(16)
Securities lent or sold under agreements to repurchase	**-**	-	(561)
Liabilities in respect of derivative instruments	**(2,733)**	4,513	(647)
Other liabilities	**(1,069)**	1,027	135
Net cash from (for) operating activity	**15,108**	3,113	(1,186)

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

NIS millions

Note 36 Condensed Financial Statements of the Bank (continued)

C. Condensed Statement of Cash Flows (continued)

	2015	2014	2013
Cash flows for investing activity			
Acquisition of bonds held to maturity	**(137)**	(50)	(39)
Proceeds from redemption of bonds held to maturity	**241**	10	237
Acquisition of securities available for sale	**(24,463)**	(28,360)	(55,603)
Proceeds from sale of securities available for sale	**10,760**	14,069	23,795
Proceeds from redemption of securities available for sale	**10,871**	20,271	25,198
Acquisition of credit portfolios	**-**	-	(49)
Proceeds from sale of credit portfolios	**493**	-	201
Dividends received from equity-basis investees	**52**	294	95
Investments in affiliates	**(347)**	(105)	(4)
Proceeds from realization of affiliates and maturity of capital notes	**259**	107	103
Acquisition of buildings and equipment	**(471)**	(460)	(496)
Proceeds from realization of buildings and equipment	**9**	13	30
Net cash for investing activity	**(2,733)**	5,789	(6,532)
Cash flows from (for) financing activity			
Issuance of bonds and subordinated notes	**(15)**	(16)	-
Redemption of bonds and subordinated notes	**(2,702)**	(1,018)	(860)
Issue of shares and options	**4**	5	4
Dividend paid to shareholders of the Bank	**(569)**	(448)	(276)
Buyback of shares	**-**	(85)	(127)
Net cash from (for) financing activity	**(3,282)**	(1,562)	(1,259)
Increase (decrease) in cash	**9,093**	7,340	(8,977)
Balance of cash at beginning of year	**49,393**	40,748	51,097
Effect of changes in exchange rates on cash balances	**(549)**	1,305	(1,372)
Balance of cash at end of year	**57,937**	49,393	40,748
Interest and taxes paid and/or received:			
Interest received	**11,017**	12,725	13,217
Interest paid	**(2,228)**	(3,970)	(5,478)
Dividends received	**1**	2	1
Income tax paid	**(1,708)**	(2,465)	(1,502)
Income tax received	**134**	485	-

Note 37 Regulatory Initiatives

Regulatory Initiatives

In December 2011, the Committee for the Examination of Increasing Competitiveness in the Banking System, headed by the Supervisor of Banks, was appointed as an adjunct to the Committee for Economic and Social Change, headed by Prof. Manuel Trajtenberg. The committee's mission, as described in its letter of appointment, is to examine and recommend "various means and measures to increase competitiveness in the Israeli banking market." The committee's recommendations were published in its final report on March 19, 2013.

The main recommendations in the area of fees were implemented in the recent amendment of the Banking Rules, issued on November 28, 2012, and applied in two phases, on January 1 and March 1, 2013.

An amendment to the Banking Rules was issued on September 9, 2013, addressing the maintenance of an addition to or subtraction from the basic interest rate established at the creation of a deposit throughout the entire duration of the deposit. It was further established that the mechanism for determining the interest rate should be objective and external, and the banking corporation should not have the ability to influence this determination. These directives took effect on July 1, 2014.

The directives in the Banking Rules concerning minimum management fees and the fee for a single transaction by a teller have been implemented as of April 1, 2014; the current-account tracks also took effect on that date. In addition, supervision was imposed on the price of the basic track, which was set at a maximum of NIS 10.

A circular concerning disclosure of the cost of securities services was issued on April 2, 2014, and took effect on January 1, 2015.

A directive of the Bank of Israel concerning opening of accounts over the Internet was issued on April 15, 2014. The Bank activated the option of opening accounts over the Internet in January 2015.

In March 2014, an amendment to the Banking Law (Service to Customers) was published in the Official Gazette of the Israeli Government, pursuant to which customers shall be notified before the immediate repayment of a loan granted to them by a banking corporation is demanded, or before a legal proceeding is initiated, as detailed in the law. This law took effect on September 10, 2014.

Many changes in the Banking Rules (Service to Customers) (Fees), 2008, took effect during 2015, including:

- Cancellation of the direct-channel fee in transactions executed using debit cards.
- Cancellation of management fees for housing loans and non-housing loans granted up to July 2008.
- Cancellation of the deferred payment fee in transactions executed using credit cards from February 2015 forward.
- A change in the definition of a "small business," such that the categorization has no expiration date.
- Changes in fees in respect of transactions in foreign currencies and withdrawals overseas using charge cards.
- The fee for notification of a nonsufficient funds alert on a check and for payments in arrears was changed, and the fee charged to depositors for bounced checks was canceled.

Note 37 Regulatory Initiatives (continued)

On November 19, 2014, as part of the implementation of the recommendations of the Committee for Increasing Competition in the Banking System (the "Zaken Committee"), the Supervisor of Banks issued a directive concerning "Annual Statements to Customers of Banking Corporations." The directive is aimed at formalizing banking corporations' obligation to report to their customers on all of the assets and liabilities of the customer at the banking corporation, including total income and expenses during the year in respect of assets, liabilities, and current activity in the account. The "Banking ID" annual statement is designed to improve customers' ability to monitor the activity in their accounts and to improve the ability to compare different banking products and services. The directive will take effect on February 28, 2016, with regard to data for 2015.

A draft of the report on increasing efficiency and competition in charge cards by the Israel Antitrust Authority was released for comments from the public in February 2014; the final report was published in September 2014. The report addresses several key matters, including the introduction of debit cards to the Israeli market, lowering of barriers to allow new players to enter the clearing field, and the reduction of costs for businesses by setting earlier crediting dates for credit companies.

Main implications of the report – reduction of the interchange fee; immediate credit to businesses for debit transactions; banks obligated to bear the cost of credit days arising from deferred-debit transactions; imposition of a requirement for credit companies to issue a combined card allowing both debit and deferred-debit transactions.

The report was approved by the government on October 22, 2014, but no final implementation date has been set.

Pursuant to the coalition agreement signed in April 2015, the government will act to increase competitiveness in the financial system, reduce the costs of long-term savings, and promote the separation of credit-card companies from banks, in cooperation with the Bank of Israel. In addition, the Ministry of Finance will formulate a memorandum of law for the expansion of competition in the credit market for consumers and for small and mid-sized business owners, through means including promotion of the implementation of the Credit Data Services Law, 2002, and the Non-Bank Loan Regularization Law, 1993; implementation of a "Bank ID"; expansion of the usage of debit cards; and granting of a state guarantee to new banks, including Internet-based and cooperative banks, for capital requirements and credit to households and small businesses. It was further agreed that the government would act and assist in the setup of IT infrastructure systems necessary for new banks, and that a committee would be established to examine the implementation of deposit insurance.

Accordingly, in June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed the Committee for Increasing Competition in Common Banking and Financial Services Provided to Households and Non-Large Businesses (the Strum Committee). The committee is to make recommendations with regard to the introduction of new players in this field, including through the separation of credit-card companies from bank ownership. The committee has also been charged with recommending necessary supplementary measures, the removal of barriers to the entry of new players, and increasing competition, as noted. The committee has called on the public to present its positions on these issues. The committee's recommendations were published in an interim report released for comments by the public in December 2015; these include:

- Separation of the control of credit-card companies from large banks.
- Increasing competition in the area of clearing.

Note 37 Regulatory Initiatives (continued)

- Limiting large banks in the issuance of credit cards.
- Investment houses, institutional entities, and companies related to institutional entities are to be given incentives to offer retail credit to consumers; tools will be made available to the public to allow credit to be received from these providers, including through completion of the regularization of supervision of non-bank financing companies.
- Non-large banks are to be permitted to collaborate with each other and with other non-bank entities by pooling IT resources (including cloud resources).
- All banks are to be required to insure deposits that are deposited to them with an insurance authority.
- Ordering of the various payment services, based on international regularization, with an emphasis on European regularization.
- Enhancing consumers' ability to compare prices between banks and facilitating customers' transition between banks.

In addition to the foregoing, various private bills have been submitted to the twentieth Knesset, including proposals to cancel or reduce fees, proposals to implement updates of the Execution Law with direct implications for the activity of banking corporations, including discharges and exemptions from arrears interest for various debtors, and more.

These regulatory initiatives have an adverse effect on the revenues of the Bank, and may have an adverse effect on the business of the Bank Group in the future. At this stage, the Bank is reviewing the overall implications of the foregoing for the Bank's revenues, as well as additional long-term business and operational implications. These effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

2015

Bank Hapoalim

Corporate Governance Report,
Additional Information, and Appendices
to the Annual Report for 2015

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8. Corporate Governance

8.1 The Board of Directors and the Board of Management

During 2015, the Board of Directors of the Bank continued its work of formulating strategy, policy, and fundamental principles for the activity of the Bank in Israel and overseas, while establishing guidelines on various matters, in accordance with the requirements of updates in legislation and in accordance with the new Directive 301 of the Bank of Israel. As part of this process, the Board of Directors set forth policy for the activities of subsidiaries in Israel and abroad, limits for exposure to various risks, bond issuance, share capital issuance, execution and realization of fixed investments, and the execution of buyout offers and mergers. The Board of Directors addressed the approval of the quarterly and annual financial statements; dividend distribution policy; the organizational structure of the Bank; establishment of policy on manpower, salaries, retirement terms, and the remuneration system for employees and senior executives; and supervision and control over ongoing business operations executed by the Board of Management and the congruence of these operations with the policies of the Bank.

The Board in plenary session and its committees – the Credit Committee; the Transactions with Related Parties Committee; the Audit Committee; the Risk Management and Control Committee; the Overseas Banking and International Activity Committee; the New Products Committee; the Corporate Governance Committee; the Investment Approval Committee; the Information Technology Committee; the Finance and Prospectus Committee; the Remuneration Committee; and the IDB Derivative Claims Committee – held detailed discussions on various aspects of the Bank's activities.

In the course of 2015, the Board of Directors held 31 meetings in plenary session and 195 meetings of its committees, as detailed in this section.

The Credit Committee

The committee held discussions on matters of principle and made recommendations to the Board of Directors regarding the Bank's credit policy in Israel and abroad. The committee held discussions and made recommendations to the Board of Directors regarding the approval of limits for credit transactions, in accordance with the hierarchy of authorizations approved by the Board of Directors. The committee held discussions and made recommendations to the Board of Directors regarding business objectives and target markets for credit, and regarding policies concerning credit granted to finance means of control over other corporations; discussed the desirable ratio between total credit to the public and the total assets and capital of the Bank; received comprehensive reviews of borrowers whose indebtedness exceeds a certain monetary volume established by the Board of Directors; held discussions and made recommendations to the Board of Directors regarding policy on leveraged financing, at a level of leverage to be determined by the Board of Directors, and against collateral, conditions, and financial limits to be determined by the Board of Directors, and policy on credit to employees and related parties; held discussions and made recommendations to the Board of Directors regarding risk tolerance and the desirable limits on the exposure to risks in the credit portfolio, including exposure in respect of sectoral concentration, exposure in respect of large borrowers and large borrower groups, rating and hedging of credit risks, exposure to concentration of collateral, and exposure to foreign countries and foreign financial institutions; and discussed the policy for credit granting by the Bank and by the Bank’s subsidiaries overseas.

The committee held discussions and made recommendations to the Board of Directors regarding policy for establishing allowances and debt classifications, including recommendations to the Board of Directors regarding supervision of the adequacy of identification of problematic debts, and the fairness of classifications and allowances for credit losses in respect of such debts; and discussed significant debt-rescheduling arrangements and substantial debts that are difficult to collect, and made recommendations to the Board of Directors regarding the approval of debt-rescheduling arrangements and the manner of addressing substantial debts that are difficult to collect, in accordance with the hierarchy of authorizations established by the Board of Directors. The committee held discussions and made recommendations to the Board of Directors regarding policy on collateral and safety margins and the hierarchy of credit authorizations in Israel and overseas, and held discussions and recommended approval by the Board of Directors of the annual and multi-year work plans for credit review in Israel and abroad.

The committee received sector reviews; reports on loans and deposits in foreign currency given to the Bank; a quarterly overview of the condition of the Bank's credit portfolio; a description of key developments in credit risk, and their effect on capital adequacy; coping with specific substantial borrowers; data regarding credit approvals that diverge from policy; data regarding credit approved in contradiction of the opinion of the Risk Management Area; stress tests and the results thereof; details regarding problematic borrowers in Israel and overseas whose indebtedness exceeds amounts established in the credit authorizations document approved by the Board of Directors; details of the formation of problematic debts in Israel and overseas above the amount established in the credit authorizations document, near the time of classification as problematic; and details of debts written off in an amount exceeding the amount established in the credit authorizations document. The committee also received quarterly reports on the indebtedness of individual borrowers and large borrowers reported to the Bank of Israel.

The Credit Committee held 37 meetings in the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, I. Izakson, M. Baron, I. Tov, and M. Koren.

The Transactions with Related Parties Committee

The committee discussed transactions with "related parties" of the Bank, in Israel and overseas, as defined by the Supervisor of Banks. For every transaction with a "related party" in excess of the amount determined by the Board of Directors, a risk aspects document was presented to the committee by the management of the Risk Management Area, as required by the Proper Conduct of Banking Business Directives. The committee also discussed transactions, including allowances or write-offs of debts of the Bank, with others who are not "related parties," in which an officer of the Bank has a "personal interest," as defined in the Companies Law, 1999, in amounts as determined in the Supervisor of Banks' Proper Conduct of Banking Business Directives, in accordance with the hierarchy of authorizations approved by the Board of Directors. The committee discussed, as necessary, the approval of non-extraordinary transactions of the Bank with the controlling shareholders, or transactions in which the controlling shareholders of the Bank have a personal interest which are not indebtedness transactions or transactions for the provision of banking services by the Bank, in amounts as determined by the Board of Directors and in accordance with the Proper Conduct of Banking Business Directives of the Supervisor of Banks. The committee also received routine reviews of the economic and financial condition of entities whose transactions with the Bank are presented to the committee for discussion, and whose indebtedness exceeds the amounts determined by the Board of Directors. The committee monitored problematic borrowers who are "related parties" and received periodic reports on the indebtedness of the "related parties," as required in the Proper Conduct of Banking Business Directives of the Supervisor of Banks.

The Transactions with Related Parties Committee held 36 meetings in the course of the year.

Members of the committee are: M. Baron – Chairperson, I. Tov, M. Koren, and D. Schwartz.

The Audit Committee

The committee discussed the work plan of the Bank's Internal Auditor, made recommendations regarding the approval of the work plan to the plenum of the Board of Directors, and monitored its implementation, including setting the desired outline for audits at subsidiaries in Israel and abroad. Semiannual summaries of internal audit activity and of the activity of the Audit Committee were presented to the committee. Through the Internal Auditor, the committee carried out control over the Board of Directors' working procedures and the execution of the resolutions of the Board of Directors and its committees. The committee also carried out control over compliance with the procedure regarding required utilization of continuous vacation time.

The committee discussed the quarterly and annual financial statements and presented its recommendations regarding the approval of the financial statements to the Board of Directors. As part of this process, the committee discussed the estimates and evaluations executed in connection with the financial statements, including with regard to problematic debts and allowances for credit losses; internal controls related to financial reporting; the completeness and suitability of the disclosure in the financial statements; the accounting policies adopted and accounting treatment applied to material matters; and valuations. The Audit Committee discussed problematic debts at the Bank and the allowances for credit losses required in respect of such debts, and discussed the classification of securities defined as problematic and the examination of the need for provisions for other-than-temporary impairment of securities held by the Bank.

The committee received semiannual reports regarding audits executed at the subsidiaries in Israel and abroad and ascertained the existence of an adequate audit system at these companies. Material audit findings or findings posing a material risk in relation to subsidiaries discovered in reports on audits executed at the Bank's subsidiaries were reported by the internal auditors of the subsidiaries, following discussion by the audit committee of the subsidiary.

The committee discussed Bank of Israel audit reports received during the year, the audit report by the external auditors, and material and/or prominent Internal Audit reports, and monitored the processing of these reports. In addition, the committee received reports on periodic summaries of audit findings, including reports related to audit mechanisms at corporations under the Bank's control.

The committee also addressed the authorization of operations and transactions related to officers and/or interested parties (as defined in the Companies Law) and/or related parties (as defined in the Bank of Israel's Proper Conduct of Banking Business Directives), and the approval of material and/or "extraordinary" transactions, as required under the provisions of the Companies Law, 1999 (the "Companies Law"). In this context, the committee also established criteria for the classification of transactions as extraordinary. The committee also addressed, as necessary, the approval of actions and transactions related to officers and/or interested parties (as defined in the Companies Law) and/or related parties (as defined in the Bank of Israel's Proper Conduct of Banking Business Directives), including non-extraordinary actions and transactions, and discussed the necessity of conducting a competitive procedure under its supervision, or under the supervision that it appoints for that purpose, according to standards set by the committee.

The committee also held discussions on various subjects, as required by the Companies Law, including regarding the fulfillment of qualification conditions of an independent director; and discussions as required by the Bank of Israel's Proper Conduct of Banking Business Directives, including a discussion of the appointment of the external auditors; discussions with the external auditors regarding the auditors' detailed and supplementary reports on the financial statements; and discussions with the Chief Internal Auditor alone, with the Chief Legal Advisor alone, with the Chief Accountant alone, with the Chief Risk Officer alone, with the Compliance Officer and Anti-Money Laundering Officer alone, and with the external auditors alone, as required in the Proper Conduct of Banking Business Directives of the Bank of Israel.

The Audit Committee held 38 meetings in the course of the year.

Members of the committee are: D. Schwartz – Chairperson, M. Baron, N. Zichlinskey, I. Tov, Y. Yarom, and Y. Peer.

The Risk Management and Control Committee

The committee held discussions and made recommendations to the Board of Directors regarding overall group risk strategy, including the risk appetite and the manner of implementation of risk strategy by the Board of Management of the Bank in practice, as required in the Proper Conduct of Banking Business Directives of the Supervisor of Banks. The committee also discussed the Bank's organizational preparations for the management, control, and assessment of risks; and the quality and adequacy of the tools and means used by the Bank to manage and control various risks and to manage and control the Bank's overall exposure to the various risks. The committee received appropriate annual and quarterly reports in order to monitor, control, and assess the risks, as required in the Proper Conduct of Banking Business Directives.

The committee also approved the methodology for the assessment of the different risks, and discussed the Bank's preparations and progress towards implementation of plans to adopt the Basel directives. The committee also discussed and recommended approval by the Board of Directors of the ICAAP (Internal Capital Adequacy Assessment Process) report of the Bank for 2015. The committee received annual reports on the subjects of the prohibition of money laundering, the prohibition of terrorism financing, compliance with regulatory directives, and internal enforcement with regard to securities, and annual reports on risk management in the various areas by the Bank's subsidiaries in Israel and abroad and on the implementation of risk-management policy in the Bank Group.

The committee discussed new activities of the Bank, new products intended for activity in Israel and overseas, significant changes in existing activities, and entry into new markets for activity in Israel and overseas, and examined the risks involved therein and the tools to be used to manage, assess, and control such risks.

The committee also received routine reports on material and/or special events in the Bank's activity with an impact on the Bank's risk management that may have a material effect on the Bank's capital, results, management, and/or reputation, in the various areas, as well as reports on the mapping and assessment of operational risks in the Group, including the processing of the findings of the Embezzlement and Fraud Survey. The committee presented its recommendations to the Board of Directors.

The Risk Management and Control Committee held 15 meetings during the course of the year.

Members of the committee are: I. Izakson – Chairperson, M. Baron, I. Tov, Y. Seroussi, E. Peled, and M. Koren.

The Overseas Banking and International Activity Committee

The committee held discussions and made recommendations to the Board of Directors regarding strategy for the Bank's activity outside Israel and work plans for international activity, including new products and activities and entry into activity in new international markets, and made recommendations in this regard to the Board of Directors. The committee discussed periodic reports on the Bank's activity abroad, including through the Bank's overseas branches and offices, as well as through its subsidiaries overseas.

The committee also discussed and made recommendations to the Board of Directors on policies in the area of non-transparent activity, as required by the Bank of Israel's Proper Conduct of Banking Business Directives, and on the following matters: periodic reviews of the environment of operations (business, economic, regulatory, legal, political, etc.) in countries in which the Bank operates through branches and offices; periodic developments at the overseas branches and offices, on the level of individual branches and offices and on the aggregate level – activities, exposure to risks, and business results; periodic reviews of internal audit, control, and supervision units in relation to overseas offices and branches; compliance with exposure limits at overseas offices and branches of the Bank; periodic examination of the adequacy of human resources at all units of the Bank engaged in supervision, control, and auditing, and in the system of reporting and accounting records related to overseas offices; and reports of special events at overseas offices.

The Overseas Banking and International Activity Committee held 12 meetings during the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, A. Dick, M. Wietchner, I. Tov, E. Peled, and I. Stern.

The New Products Committee

The committee discussed and made recommendations to the Risk Management and Control Committee and to the Board of Directors on all new activities and/or entry into new markets and/or new products and/or new derivative financial instruments that are significantly different from existing instruments at the Bank, to be included in activity in Israel and overseas, by the Bank itself or by a subsidiary of the Bank, and/or that lead to the creation of exposures of a new type, and/or market making, including through the Bank's subsidiaries or branches overseas, which require approval by the Board of Directors pursuant to the policy of the Bank. The committee received reports regarding the Bank's performance in new products and regarding the execution of new activities approved by the committee and by the Board of Directors.

The New Products Committee held 9 meetings during the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, I. Izakson, A. Dick, Y. Yarom, and M. Koren.

The Corporate Governance Committee

The committee discussed and made recommendations to the Board of Directors regarding policies, procedures, and guidelines for instilling the principles of corporate governance in the work of the Board of Directors and its committees, and for the Bank's compliance with the principles of proper corporate governance, and the adjustment thereof to legal directives, including the establishment of the Bank's policy and supervision of the Board of Management and of the Bank's subsidiaries, as required by the Bank of Israel's Proper Conduct of Banking Business Directives.

The Corporate Governance Committee held 5 meetings during the course of the year.

Members of the committee are: Y. Seroussi – Chairperson, M. Baron, I. Tov, E. Peled, N. Ronen*, and I. Stern.

The Investment Approval Committee

The committee meets on an ad hoc basis to discuss the recommendations of the Board of Management with regard to investments, acquisitions, and/or realizations of non-financial investments in Israel and abroad, and to discuss the recommendations of the Board of Management with regard to the execution and/or realization of fixed assets in Israel and abroad, to be made by the Bank itself or by its wholly-owned subsidiaries, in amounts as established by the Board of Directors, following approval by the Board of Management of the Bank.

The committee received reports on investment decisions, in amounts up to the amount determined by the Board of Directors, executed by Poalim Capital Markets and approved by the Board of Management of the Bank; discussed and approved an investment in an amount exceeding the amount determined by the Board of Directors, after receiving recommendations from the Board of Management of the Bank, and reported to the Board of Directors; discussed and recommended approval by the Board of Directors of investment decisions in amounts determined by the Board of Directors; discussed investments in convertible shares/bonds, in accordance with the hierarchy of authorizations established by the Board of Directors; and discussed and approved purchases of corporate bonds in foreign currency, within the limits and amounts determined by the Board of Directors.

The committee received quarterly reports on the condition of the investment portfolio, including investments to be executed following approval by the Board of Management committee, in accordance with the hierarchy of authorizations approved by the Board of Directors, and reported to the Board of Directors. Resolutions of the committee are reported to the Board of Directors.

The Investment Approval Committee held 5 meetings in the course of the year.

Members of the Committee are: Y. Seroussi – Chairperson, A. Dick, Y. Tauman**, I. Tov, and I. Stern.

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* Ms. Nehama Ronen's service as a member of the Board of Directors of the Bank and as a member of the committee ended on December 11, 2015, pursuant to the requirements of the Law for Promotion of Competition and Reduction of Concentration, 2013.

** Mr. Yair Tauman resigned from his position as an external director (as defined in Proper Conduct of Banking Business Directive 301 of the Bank of Israel) on the Board of Directors of the Bank and as a member of the committee, on December 27, 2015, for personal reasons.

The Information Technology Committee

The committee discussed and made recommendations to the Board of Directors regarding the work plans of the Information Technology Area, including technology and computer-related matters at the Bank, backup and survivability of the Bank's technological systems, and management of information technology, as required under Directive 357 of the Bank of Israel. The committee also discussed quarterly progress reports on significant technological projects.

The Information Technology Committee held 8 meetings during the course of the year.

Members of the Committee are: M. Wietchner – Chairperson, A. Dick, and N. Zichlinskey.

The Finance and Prospectus Committee

The committee reviewed the business performance of the Bank, as indicated by drafts of the quarterly and annual financial statements, and discussed the economic implications thereof; discussed accounting policies adopted on material matters in the financial statements, and the implications thereof; and discussed the evaluation of estimates regarding impaired debts and material valuations in the financial statements, while examining implications and courses of action on the business level. In its discussions, the committee received reports on problematic borrowers in Israel and at the overseas branches. The committee also discussed dividend distribution, according to the policy established by the Board of Directors, and made recommendations for approval by the Board of Directors; and discussed prospectuses of the Bank, including shelf prospectuses and shelf offer reports, and presented its recommendations regarding the approval thereof to the Board of Directors.

The Finance and Prospectus Committee held 5 meetings during the course of the year.

Members of the committee are: I. Izakson – Chairperson, I. Tov, Y. Seroussi, Y. Peer, E. Peled, and M. Koren.

The Remuneration Committee

The committee is engaged in the roles assigned to it by the aforesaid amendment to the Companies Law, as well as the roles established for it in the Proper Conduct of Banking Business Directives of the Supervisor of Banks. As such, the committee held discussions to establish the Bank's policy with regard to the terms of service and employment of the officers of the Bank. The committee submitted its recommendations regarding this policy to the Board of Directors of the Bank, so that following approval by the Board of Directors, the policy would also be presented to the general meeting of shareholders of the Bank for approval (the policy established by the committee was approved at the general meeting held on February 11, 2014).

The committee also discussed the terms of the Bank's contractual engagements with some of its officers, in accordance with the remuneration policy in effect, including, to the extent necessary, in congruence with the remuneration policy which is subject to approval by the general meeting of shareholders of the Bank. The committee's recommendations on these matters were submitted to the Board of Directors for approval.

The committee is also responsible for establishing remuneration policy for "key employees" of the Bank (as this term is defined in Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks), even if they are not considered "officers" under the definition in the Companies Law.

In accordance with the amendment to the Proper Conduct of Banking Business Directive of the Supervisor of Banks of December 2013, the Board of Directors of the Bank resolved on January 29, 2014, that the Remuneration Committee established as described above, pursuant to Amendment 20 to the Companies Law, would operate in an expanded format to discuss remuneration policy and remuneration agreements of all of the employees of the Bank, with the exception of officers and key employees of the Bank. The Board of Directors further resolved to transfer all other matters previously under the responsibility of the Human Resources – Salaries and Remuneration Committee, which was dissolved at that time, to the authority of the Remuneration Committee in its expanded format.

The Remuneration Committee held 19 meetings during the course of the year.

Members of the committee are: I. Tov – Chairperson, D. Schwartz, N. Ronen*, and M. Koren. The expanded format of the Remuneration Committee also includes: Y. Seroussi, A. Dick, and E. Peled.

The IDB Derivative Claims Committee

A committee established ad hoc to examine a demand by claimants to file a derivative claim against officers of the Bank, in connection with credit granted to the IDB Group.

The IDB Derivative Claims Committee held 6 meetings during the course of the year.

Members of the committee are: I. Stern – Chairperson, Y. Tauman**, and D. Schwartz.

The description of the activity, composition, and authority of the plenum of the Board of Directors and its committees is current as at the date of publication of the annual financial statements for 2015.

Report on Directors with Accounting and Financial Expertise and Professional Qualification

The Companies Law, 1999 (hereinafter: the "Companies Law") states that the board of directors of a public company must determine the minimum required number of directors on the board of directors who must be "accounting and financial experts," taking into account factors including the type and size of the company and the scope and complexity of its activity. This directive applies to the Bank, as a public company. The Companies Law further states that an external director appointed to a public company must have "professional qualification" or "accounting and financial expertise." The Companies Regulations (Conditions and Tests for a Director with Accounting and Financial Expertise and for a Director with Professional Qualification), 2005, stipulate the conditions required in order for a director to be considered a director with "accounting and financial expertise" or a director with "professional qualification." The Companies Regulations (Rules for Compensation and Expenses for an External Director), 2000, establish the conditions required for a director to be considered an "expert external director."

Pursuant to the Companies Regulations, a "director with accounting and financial expertise" is "a director who due to education, experience, and skills has a high level of proficiency and understanding of business and accounting matters and of financial statements, such that he or she is able to understand the company's financial statements in depth and prompt discussion regarding the manner of presentation of financial data." It is further stipulated that the accounting and financial proficiency of directors is to be assessed by the board of directors, taking into account considerations including the director's education, experience, and knowledge on the following subjects:

A. Accounting issues and accounting control issues characteristic of the industry in which the company operates and of companies of the size and complexity of the company;
B. The responsibilities and duties of auditors;
C. The preparation and approval of financial statements in accordance with the law and the Securities Law.

A "director with professional qualification" is a director who meets one of the following conditions:

A. Holds an academic degree in one of the following subjects: economics, business, accounting, law, public administration;
B Holds another academic degree or has completed other higher-education studies in the company's main area of activity or in an area relevant to the position;

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* Ms. Nehama Ronen's service as a member of the Board of Directors of the Bank and as a member of the committee ended on December 11, 2015, pursuant to the requirements of the Law for Promotion of Competition and Reduction of Concentration, 2013.

** Mr. Yair Tauman resigned from his position as an external director (as defined in Proper Conduct of Banking Business Directive 301 of the Bank of Israel) on the Board of Directors of the Bank and as a member of the committee, on December 27, 2015, for personal reasons.

C. Has at least five years' experience in one of the following, or cumulative experience of at least five years in two or more of the following:
   1. A senior position in business management of a corporation with a significant volume of business;
   2. Senior public office or a senior position in the public service;
   3. A senior position in the area of the company's main activities.

The Regulations state that professional qualification of a candidate for service as a professionally qualified director, as noted, is to be assessed by the board of directors.

Pursuant to the regulations concerning compensation and expenses for an external director, an "expert external director" is a "director with accounting and financial expertise" and/or a director who due to education, experience, and skills has a high level of proficiency and in-depth understanding of the company's main area of activity. The assessment of the director's proficiency and understanding, as noted, is to be performed by the board of directors.

The Board of Directors of the Bank has determined that the minimum adequate number of directors with "accounting and financial expertise" is two, like the number of external directors to be appointed to a public company under the Companies Law.

In addition, the Supervisor of Banks determined in Public Reporting Directive 640 (hereinafter: "Directive 640") that a banking corporation must specify in its periodic report, as part of the board of directors' report, the minimum number of directors with "accounting and financial expertise" that the banking corporation has determined should be members of the board of directors' audit committee and of any other board of directors' committees which are authorized to discuss the banking corporation's financial statements.

Directive 640 also stipulates that the board of directors' report should specify the number of directors at the reporting date who have "accounting and financial expertise," noting the number of such directors who are members of the board of directors' audit committee, as well as of any other board of directors' committees which are authorized to discuss the banking corporation's financial statements.

The Board of Directors of the Bank has determined that the minimum adequate number of directors with "accounting and financial expertise" who should be members of the Board of Directors' Audit Committee is two, and that the minimum adequate number of directors with "accounting and financial expertise" who should be members of the Board of Directors' Finance and Prospectus Committee, which is authorized to discuss the Bank's financial statements, is two, based on the considerations used by the Board of Directors in determining the minimum adequate number of directors with "accounting and financial expertise" to serve on the Bank's Board of Directors.

Note that at the reporting date, there are thirteen directors with "accounting and financial expertise" and "professional qualification," based on their education, skills, and experience, in accordance with the requirements of the Companies Regulations, and two directors with "professional qualification," who due to their education, experience, and skills are highly proficient and have a deep understanding of the key areas of activity of the Bank. The number of directors with "accounting and financial expertise" and "professional qualification" who are members of the Audit Committee of the Board of Directors is six directors with accounting and financial expertise.

Members of the Board of Directors who have "accounting and financial expertise" and/or "professional qualification," and who are considered "expert external directors," based on their education, skills, experience, and understanding of the area of activity of the Bank, in accordance with the requirements of the Companies Regulations, as at the date of publication of the Financial Statements for 2015, are the following:

1. Yair Seroussi – B.A., Economics and Political Science, Hebrew University of Jerusalem.
Chairman of the Board of Directors of the Bank as of August 1, 2009. Chairman of the following Board Committees at the Bank: the Credit Committee; the Investment Approval Committee; the Overseas Banking and International Activity Committee; the New Products Committee; and the Corporate Governance Committee. Member of the following Board Committees: the Finance and Prospectus Committee; the Risk Management and Control Committee; and the Remuneration Committee in expanded format.
Served as Vice Chairman of the Board of Directors of the Bank from June 4, 2009 to July 31, 2009.
Serves as a director of the Bank as of June 4, 2009.
President of the Association of Banks in Israel (Registered Non-Profit Organization) as of January 1, 2015.
Chairman of the Administrative Committee of the Poalim for the Community Foundation and of the Peretz Naftali Fund.
Chairman of the Eli Horowitz Institute of Strategic Management at Tel Aviv University.
Member of the Board of Trustees of the Hebrew University.
Member of the Israeli Board of Trustees of the Institute for National Security Studies.
Member of the Board of Directors of the following companies: DSP Group Ltd., Amdeal Y.S. Ltd., and Amdeal Holdings (1999) Ltd.
Served as senior advisor at the investment bank Morgan Stanley (Israel) Ltd.; chairman of the board of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Eyal Microgal Ltd., Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., and Diur B.P. Assets (1993) Ltd.; and director at the following companies: Israel Corp. Ltd. (external director), Vintegra Ltd. (external director), City Investment, Aspen Construction and Development Ltd. (external director), Mustang Mezzanine Investments Ltd., Mustang Fund Management Ltd., Frutarom Industries Ltd., Europort Ltd., Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., and Poalim Capital Markets - Investment House Ltd.; however, he no longer serves at these companies. Also served as chairman of the investment committee of Mivtachim – Established Pension Fund, and as a member of the asset investment committee of the Hebrew University; however, he no longer serves in these positions. Also served as chairman of the fund Mustang Mezzanine Investments Ltd., as a member of the investment committee of the Sky 1 fund (private equity), and as a member of the advisory board of the Caesarea Center; however, he no longer serves in these positions.
The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

2. Irit Izakson – MSc. in Operational Research, School of Business Administration, Tel Aviv University; B.A. in Economics, Tel Aviv University.
Member of the Board of Directors of the Bank as of December 27, 1999. Chairperson of the following Board Committees: the Finance and Prospectus Committee, and the Risk Management and Control Committee. Member of the following Board Committees: the Credit Committee and the New Products Committee.
Director at the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., and Shikun & Binui Ltd.
Member of the executive board of the Association of Public Companies, the board of trustees of Ben-Gurion University, and the Azrieli Foundation.
Served as chairperson of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd. Served as a director at the following companies: Israel Corp. Ltd., Israel Chemicals Ltd., Dead Sea Bromine Company Ltd., Bromine Compounds Ltd., and I.D.B. Development Company Ltd.; however, she no longer serves at these companies. Served as a member of the board of trustees of the Van Leer Jerusalem Institute, however, she no longer serves there.

Previously held a number of positions in the course of her 17-year employment at Bank Leumi Le-Israel Ltd. These positions included Manager of Assets and Liabilities in Israeli Currency. In her last position at Bank Leumi Le-Israel Ltd., served as Head of the Industrial Sector in the Corporate Area.
From October 2008 to December 2013, served as chairperson of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.
The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

3. Mali Baron – M.B.A. (Specialized in Finance), Hebrew University of Jerusalem; B.A. in Economics and Developing Nations, Tel Aviv University.
Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel, as of September 10, 2007. Chairperson of the Transactions with Related Parties Committee, and member of the following Board Committees: the Credit Committee, the Audit Committee, the Corporate Governance Committee, and the Risk Management and Control Committee.
Member of the board of directors of Maliba Ltd. Member of the investment committee of Tel Aviv University.
Served as a director at ECTel Ltd. (external director) and as a member (internal) of the profit-participatory investment committee at The Phoenix Investment and Finance Ltd.; however, she no longer serves at these companies. Served as chairperson of the board of directors of Marbit Insurance Agency, a subsidiary of Mercantile Discount Bank (a banking auxiliary corporation), until December 31, 2006; however, she no longer serves there.
In 1975-1985, served in various positions at the Budget Division of the Ministry of Finance, of which five years as Deputy Head of Budgets. In 1986-2006, served in various positions in the banking system. Most recently served as Senior Deputy General Manager at Mercantile Discount Bank Ltd., Head of the Branches Administration, and Head of Mortgages.
The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

4. Amnon Dick – M.B.A., Tel Aviv University; B.A. in Economics, Tel Aviv University.
Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel, as of March 24, 2010. Member of the following Board Committees: the Investment Approval Committee; the Information Technology Committee; the New Products Committee; the Overseas Banking and International Activity Committee; and the Remuneration Committee in its expanded format.
Businessman, partner in companies, consultant, and director. CEO of Adsensory Ltd. Member of the board of directors of the following companies: Non Stop Radio Ltd., The Northern Radio Ltd., Radio Eco 99 Ltd., Rala Management and Development (2014) Ltd., Eco Sharon Management and Development Ltd., and Habima National Theater Ltd. (Public Benefit Company). Chairperson of the Friends of Tel Aviv University Association.
In the past, served as CEO of the Bezeq Group, Chairman and CEO of Elite International, and in other senior management positions.
The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

5. Meir Wietchner – M.B.A., Northwestern University, Chicago; B.A. in Political Science and Computer Science, Bar Ilan University, Ramat Gan.

Member of the Board of Directors of the Bank as of November 24, 2009. Chairman of the Information Technology Committee of the Board of Directors, and member of the Overseas Banking and International Activity Committee. Head of Global Strategy for the Arison Group and Chairman of the Miya Group. Member of the board of directors of the following companies: Miya S.a.r.l., Miya Luxembourg Holdings S.a.r.l., Miya Water Holdings Ltd., Miya Water Projects Ltd, Dorot Management Control Valves Ltd., Miya Water (Proprietary) SA, Miya Australia Holdings PTY Ltd., Miya Voda D.O.O., Miya Columbia S.A.S., Miya Water Mexico, V.DEC S.A., Miya Puerto Rico LLC., Swiss IP Branch, 4Water Supplies (Pty) Ltd.

Served as a director at Eyal Microgal Ltd.; however, he no longer serves there. Also served as a director at the following companies: Storwize Ltd., Storwize Inc. (Delaware-US), Veritec Consulting Inc., Miya Brasil Soluções em Engenharia Hidráulica Ltda, Miya Bahamas Ltd., Romiya (subsidiary of Miya Water S.R.L.), Miya Manila Water Projects Inc., WRP Consulting Engineers (Proprietary) Ltd., and Miya Water S.R.L.; however, he no longer serves there.

From 1989 to 1998, self-employed in the areas of consulting, management, and investments (fund raising, locating investments and leverage for high-tech companies, management and membership of boards of directors, consulting for organizations on strategy and technology management). From 1998 to 2003, served as Vice President and President of the Messaging Division at Comverse.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

6. Nir Zichlinskey – Ph.D. in Political Science, Bar Ilan University; M.B.A. (specialized in finance), Ben Gurion University; B.A. in Business Administration (specialized in accounting and finance), Management College, Rishon Lezion; CPA.

Member of the Board of Directors of the Bank as of September 10, 2007. Member of the following Board Committees: the Audit Committee and the Information Technology Committee.

Owner of the SRI Global Group, a business group in Israel leading the area of investments based on the SRI (Socially Responsible Investment) model. The group operates through four main sectors: SRI Investment, SRI Funds, SRI Consulting, and SRI Training. CEO of the following companies: Socially Responsible Investments (SRI) Ltd., and Zichlinskey Ltd.

Member of the board of directors at the following companies: Shikun & Binui Ltd., Shikun & Binui - SBI Infrastructures Ltd., Shikun & Binui Real Estate Ventures Ltd., Shikun & Binui Renewable Energy Ltd., Shikun & Binui Solel Boneh Construction and Infrastructure Ltd., Shikun & Binui - Solel Boneh - Infrastructures Ltd., Shikun & Binui Water Ltd., Socially Responsible Investment (SRI) Consulting Ltd., Migdalor Investments (SRI) 2009 Ltd., Jerusalem Technology Investments (JTI) Ltd., Paz Training Ltd., and Central Company for Social Finance Services (SRI) Ltd.

Member of the governing board of the Friends of Rabin Medical Center Foundation, member of the presidency of the charitable association Yad B'Yad, member of the board of trustees and the finance committee of the College of Management Rishon Lezion, social business partner of Matan – Investing in the Community, and trustee of WIZO – Women's International Zionist Organization.

Founder and president of the Israel Directors' Union Ltd. President of the Nova Project – Management in the Service of the Community. Member of the steering committee of the Social Initiative Center of the town of Savyon. Chairman of the Student Pioneers for Israel Foundation.

Lecturer in business administration and accounting departments for undergraduate and graduate studies at Tel Aviv, Hebrew, and Bar Ilan Universities, the Interdisciplinary Center Herzliya, the College of Management, the Peres Academic Center, Ashkelon Academic College, and Ruppin Academic Center, for approximately twenty years.

Served for ten years as Senior Partner and Head of the Professional Department, Head of Business Development and the Social Reporting Department, and Head of Training at BDO Ziv Haft Certified Public Accountants.

Served as Deputy General Manager, Finance Manager, and Head of Business Development at companies in the controlling shareholders' group: Arison Investments Ltd., Arison Holdings (1998) Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., Arzaf C Ltd., Arzaf D Ltd., and Arshav Holdings Ltd.
Served as chairman of the board of directors of the following companies: SRI Global Finance Group, SRI Master; and as a director at the following companies: Stone and Limestone Industries Ltd., Israel Salt Industries Ltd., and Gaon Holdings Ltd.; however, he no longer serves at these companies.
Has comprehensive financial understanding both in practice and in methodologies passed on to the general public, as evidenced by authorship and editing of dozens of books (including two encyclopedias), articles, and studies in the areas of economics, business, accounting, control, auditing, law, and corporate social responsibility.
The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

7. Imri Tov – M.A. in Economics and Business Administration, Hebrew University of Jerusalem; B.A. in Economics and Political Science, Hebrew University of Jerusalem.
Serves as an external director of the Bank (as defined in Section 240 of the Companies Law) as of February 5, 2009. Chairman of the Remuneration Committee and of the Remuneration Committee in expanded format, and member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Audit Committee; the Finance and Prospectus Committee; the Investment Approval Committee; the Risk Management and Control Committee; the Overseas Banking and International Activity Committee; and the Corporate Governance Committee.
Director of companies; business consultant; consultant and researcher in defense economics. Member of the board of directors of the following companies: MTA Holdings Ltd., Amanet Management and Systems Ltd. (external director), and Plasan Sasa Ltd.
Member of the Paratrooper Veterans of the Liberation of Jerusalem and Crossing of the Canal Foundation (Registered Non-Profit Association), the Paratrooper Heritage Foundation, and the executive board of HaGesher Theater.
From 2000 to 2006 served as an external director on the Board of Directors of Bank Hapoalim B.M., Chairman of the Audit Committee, and member of the following Board Committees: the Credit Committee, the Transactions with Interested and Related Parties Committee, the Business and Budget Committee, the Salaries and Human Resources Committee, the Prospectus Committee, the Balance Sheet Committee, the Expense Control and Streamlining Committee, the Investment Approval Committee, and the Repricing Committee.
Served in the past as a researcher at the Research Department of the Bank of Israel, as a manager at the Credit and Foreign Currency Supervision Department, and as a consultant to the Governor of the Bank of Israel. Also served as Chief Economist of the Defense System until June 2000.
Served as a director at the following companies: Golden Wings Ltd., Elisra Electronic Systems Ltd., Opterisity Ltd., Shufersal Ltd. (external director), Granit Hacarmel Investments Ltd. (external director), and IC Green Energy (ICG) Ltd.; as an external director of the Provident Fund of State Employee Physicians (Aram) and as a member of the provident fund's investment committee; and as a research fellow at the Center for Strategic Studies at Tel Aviv University and at the Institute for National Security Studies (INSS); however, he no longer serves at these companies.
The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

8. Yosef Yarom – M.A. in Law from the Department of Law and Social Sciences, National University of Cordoba, Argentina.

Licensed to practice law in Israel.

Serves as an external director of the Bank, under Proper Conduct of Banking Business Directive 301 of the Bank of Israel, as of March 21, 2011. Member of the following Board Committees: the Audit Committee and the New Products Committee.

Lecturer on auditing in the business sector at Haifa University. Member of the National Library Council Ltd.

From 1994 to 2004, served as Chief Internal Auditor of the Bank, Head of Internal Audit in Israel and overseas, and internal auditor of companies in the Bank Group, with the rank of a Member of the Board of Management. From 2004 to 2006, served as Head of Risk Management at the Bank. From 2006 to 2008, served as Chairman of the Board of Directors of Bank Massad Ltd.

Served as a director at the following companies: Bank Massad Ltd., UBank Ltd., and Clarity Family Office; however, he no longer serves at these companies. Also served as a member of the audit committee of the Movement for Quality Government in Israel, and as a member of the credit committee of Dash Provident Funds Management Ltd.; however, he no longer serves there.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

9. Oded Eran – M.A. in Law, Tel Aviv University; M.A. in Literature, Tel Aviv University; B.A. in Law, Tel Aviv University; B.A. in Humanities, Open University.

Member of the Board of Directors of the Bank as of February 18, 2016.

Special consultant to the law firm Goldfarb Seligman & Co. External lecturer at the Department of Law, Tel Aviv University. Director and controlling shareholder of the companies: Oded Eran Law Office; Minortil Ltd. Director at The Whole Person Association.

Served as a partner at the law offices of Goldfarb Seligman & Co., and as a member of the executive board of the Migdalor Association for the Promotion and Distribution of Contemporary Culture; however, he no longer serves in these positions.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

10. Yacov Peer – M.B.A., Industrial Engineering and Management, Ben-Gurion University; B.A. in Economics, Ben-Gurion University.

Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel as of October 6, 2010. Member of the following Board Committees: the Finance and Prospectus Committee and the Audit Committee.

Financial and management consultant for small businesses. Does not serve on boards of directors of other companies. From 1996 to 2002, CEO of Shargad Orchanim Ltd.; from 2003 to the present, owner of a business providing financial and managerial consulting for small businesses. From 1988 to 1995, Head of the Economic Department at Nitsba.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

11. Efrat Peled – M.B.A., EMBA Kellogg Recanati International Program, Tel Aviv University; B.A. in Economics and Accounting, Tel Aviv University; Certificate in Land Assessment, Tel Aviv University.

Member of the Board of Directors of the Bank as of January 24, 2007. Member of the following Board Committees: the Overseas Banking and International Activity Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the Corporate Governance Committee; and the Remuneration Committee in expanded format.

Serves as chairperson of the board of directors and CEO of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., and Arzaf C Ltd. As of September 2004, serves as CEO of SAFO LLC.

Serves as a director at the following companies: Shikun & Binui Ltd., Salt of the Earth Ltd., Av-Ar Capital Investments 1997 Ltd., Arshav Holdings Ltd. and Arison Investments USA LLC.

Member of the Board of Directors of the Weizmann Institute of Science.

Extensive managerial experience accumulated in recent years at the Arison Group, in the areas of business and philanthropy in the Israeli and international markets, including management in various financial and operational sectors and specialization in the management of global financial fund systems, investment portfolios, financial and operational holdings, Israeli and international taxation, real estate, and extensive work with top-tier international investment banks and financial institutions.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

12. Moshe Koren – B.A. in Economics and Statistics, Hebrew University; graduate of courses on financial statement analysis. Banking and financial consultant.

Member of the Board of Directors of the Bank as of August 3, 1992. Member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the New Products Committee; and the Remuneration Committee in expanded format.

Served as a director at the following companies: Psagot Investment House Ltd. and Psagot Securities Ltd.; however, he no longer serves at these companies.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on his declaration.

13. Reuven Krupik – B.A. in Social Sciences (specialized in economics and political science), Hebrew University of Jerusalem; B.A. in Law, Tel Aviv University; graduate of business course at the Kellogg Recanati Center, Tel Aviv University.

Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel, as of February 18, 2016.

Director of companies, business entrepreneur. Chairperson of the board of directors of Gamida Cell Ltd.; director at Recanati Winery Ltd. Member of the executive board of the Institute for Medical BioMathematics (Registered Non-Profit Association).

Over the last ten years, served as CEO of Clal Biotechnology Industries Ltd.; partner, chairperson of the board, and CEO of Arte Venture Group Ltd; chairperson of the board of the following companies: Mediwound Ltd., D-Pharm Ltd., Biocancell Ltd., and Andromeda Biotech Ltd.; and as a member of the board of directors of the following companies: CureTech Ltd., Campus Bio Management Ltd., and NIK Ltd.; however, he no longer serves in these positions.

The Board of Directors has determined that the director has "accounting and financial expertise" and that the director, due to his education, experience, and skills, has high proficiency and deep understanding of the main areas of activity of the Bank, based on his declaration.

14. Dafna Schwartz – Professor at Ben Gurion University; Ph.D. in Economics, Hebrew University of Jerusalem; M.A. in Agricultural Economics and Administration, Hebrew University of Jerusalem; B.A. in Economics, Tel Aviv University. Serves as an external director of the Bank (as defined in Section 240 of the Companies Law) as of April 6, 2012. Chairperson of the Audit Committee of the Board of Directors; member of the following Board Committees: the Transactions with Related Parties Committee, the Remuneration Committee, the Remuneration Committee in expanded format, and the IDB Derivative Claims Committee.

Serves as an academic staff member at Ben Gurion University, head of the Entrepreneurship and Innovation course of study in the Department of Business Administration, chairperson and director of the Bengis Center for Entrepreneurship and Innovation at the Guilford Glazer Faculty of Business & Management, and member of the board of governors of Ben Gurion University of the Negev.

Practices as an economic and business consultant in Israel and overseas (Prof. Dafna Schwartz Economic and Business Development Ltd.).

Member of the National Council for Research and Development. Member of the general assembly of the Achva Academic College of Education (non-profit). Member of the board of directors of Strauss Group Ltd. (external director).

Served as a director at the following companies: Teva Pharmaceutical Industries external director), (Oil Refineries Ltd. (external director), Rotem Industries Ltd., Albaad Massuot Yitzhak Ltd., Discount Bank, Giron Development and Construction Ltd. (external director), The Phoenix Insurance Company Ltd., The Phoenix Holdings Ltd., Orda Print Industries Ltd. (external director), and Leumi Securities and Investments (Psagot Ofek Investment House Ltd.); however, she no longer serves at these companies.

Served as a member of the expert group on: "Policy relevant research on entrepreneurship and SME's" (EU), European Commission, Enterprise and Industry Director General; however, she no longer serves there.

The Board of Directors has determined that the director has "accounting and financial expertise" and "professional qualification," based on her declaration.

15. Ido Stern – L.L.B., Hebrew University of Jerusalem; graduate of the Program for Leadership Development, School of Business Administration, Harvard University, Boston.

Member of the Board of Directors of the Bank as of September 24, 2012. Chairman of the IDB Derivative Claims Committee; member of the following Board Committees: the Investment Approval Committee, the Corporate Governance Committee, and the Overseas Banking and International Activity Committee.

Deputy general manager and legal counsel at Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf B (97) Ltd., Arzaf Ltd., and Av-Ar Capital Investments 1997 Ltd. Member of the boards of directors of the following companies: Shikun & Binui Ltd., Salt of the Earth Ltd.

In 2005-2007, practiced as an attorney at Gornitzky law offices.

The Board of Directors has determined that the director is a "director with professional qualification," who due to his education, experience, and qualifications is highly skilled and has a deep understanding of the key areas of activity of the Bank, based on his declaration.

Members of the Board of Directors of the Bank

Yair Seroussi Chairman of the Board of Directors of the Bank as of August 1, 2009.
Serves as a director of the Bank as of June 4, 2009.

Mali Baron Director of companies.
Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of September 10, 2007.

Amnon Dick Businessman, partner in communications companies, consultant, and director. CEO of Adsensory Ltd.
Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of March 24, 2010.

Oded Eran Special consultant to the law offices of Goldfarb Seligman & Co.; external lecturer at the Department of Law, Tel Aviv University.
Serves as a director of the Bank as of February 18, 2016.

Irit Izakson Director of companies.
Serves as a director of the Bank as of December 27, 1999.

Moshe Koren Banking and financial consultant.
Serves as a director of the Bank as of August 3, 1992.

Reuven Krupik Director of companies, business entrepreneur.
Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of February 18, 2016.

Yacov Peer Financial and managerial consultant for small businesses.
Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of October 6, 2010.

Efrat Peled Chairperson of the boards of directors and CEO of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., and Arzaf D Ltd.; CEO of the following companies: SAFO LLC and Arzaf C Ltd.
Serves as a director of the Bank as of January 24, 2007.

Dafna Schwartz Professor and member of staff at the Department of Business Administration, Faculty of Management, Ben Gurion University of the Negev; head of the High-Tech Entrepreneurship and Management course of study in the Department of Business Administration (MBA program) and head of the Bengis Center for Entrepreneurship and High-Tech Management, Faculty of Management, Ben Gurion University.
Economic and business consultant in Israel and overseas (Prof. Dafna Schwartz Economic and Business Development Ltd.).
Serves as an external director (as defined in Section 240 of the Companies Law) as of April 6, 2012.

Ido Stern Deputy general manager and legal counsel at Arison Holdings (1998) Ltd. and Arison Investments Ltd.
Serves as a director of the Bank as of August 24, 2012.

Imri Tov Director of companies; business consultant; consultant and researcher in defense economics.
Serves as an external director (as defined in Section 240 of the Companies Law) as of February 5, 2009.

Meir Wietchner Head of global strategy for the Arison Group and chairman of the Miya Group.
Serves as a director of the Bank as of November 24, 2009.

Yosef Yarom Lecturer on auditing in the business sector at Haifa University.
Serves as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of March 21, 2011.

Nir Zichlinskey President and CEO of SRI Global Group.
Serves as a director of the Bank as of September 10, 2007.

Nehama Ronen Served as a director of the Bank from February 3, 2010, to December 11, 2015.

Yair Tauman Served as an external director (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) from December 1, 2011, to December 27, 2015.

Additional information regarding the members of the Board of Directors of the Bank is presented in the Periodic Report of the Bank for 2015 and on the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

Members of the Board of Management of the Bank

Zion Kenan	President and Chief Executive Officer
Ari Pinto(1)	Deputy CEO, Chief Operating Officer (COO)
Yadin Antebi	Chief Financial Officer (CFO)
Amir Aviv(2)	Member of the Board of Management
Eti Ben-Zeev(3)	Head of Information Technology
Tsahi Cohen	Chief Risk Officer (CRO)
Avraham Kochva(4)	Head of Innovation
Dan Koller(5)	Head of Financial Markets and International Banking
Ofer Levy	Chief Accountant
Ilan Mazur	Chief Legal Advisor
Jacob Orbach	Head of Corporate Banking
Ronen Stein(6)	Head of Retail Banking
Efrat Yavetz(7)	Head of Customer and Stakeholder Relations

Chief Internal Auditor	Zeev Hayo – Head of Internal Audit in Israel and Abroad
Ron Weksler(8)	Head of Corporate Strategy
Corporate Secretary	Ronit Shapira
Bank Spokesperson	Ofra Preuss
External Auditors	Ziv Haft, Certified Public Accountants (Isr.)
	Somekh Chaikin, Certified Public Accountants (Isr.)

For further information regarding changes in the structure of the Board of Management of the Bank, see the section "Other Matters," below.

(1) As of February 8, 2016. Head of Retail Banking until February 7, 2016.
(2) Ceased to serve as Head of International Banking in February 2016; will resign from the Board of Management of the Bank on March 31, 2016.
(3) As of February 14, 2016.
(4) As of February 23, 2016. Head of Information Technology until February 14, 2016.
(5) Head of International Banking as of February 24, 2016.
(6) As of February 14, 2016.
(7) Head of Customer and Stakeholder Relations as of February 22, 2016. Head of Human Capital, Advising, and Resources until January 31, 2016.
(8) Ceased to serve as a member of the Board of Management on February 4, 2016.

Additional details regarding the Members of the Board of Management of the Bank are presented in the Periodic Report of the Bank for 2015, and on the Magna website of the Israel Securities Authority at http://www.magna.isa.gov.il.

8.2 Internal Audit

Information regarding the Internal Auditor – Mr. Zeev Hayo, CPA, serves as Chief Internal Auditor of the Bank as of July 14, 2014. Mr. Zeev Hayo, CPA, has worked at the Bank Hapoalim Group since 1990. He is employed full time, with the rank of a Member of the Board of Management. He holds a B.A. degree in Accounting and Economics from Tel Aviv University and has experience in the areas of banking and auditing. Mr. Hayo meets the conditions stipulated in Section 3(A) of the Internal Audit Law, 1992 (hereinafter: the "Internal Audit Law"). The Internal Auditor is not an interested party in the Bank or its subsidiaries, and holds no other office in addition to his position as Chief Internal Auditor of the Bank and Internal Auditor of some of the subsidiaries in the Group, as required under Section 146(B) of the Companies Law and Section 8 of the Internal Audit Law. The appointment and termination of internal audit employees are subject to approval by the Chief Internal Auditor; audit employees receive instructions on audit-related matters only from the Chief Internal Auditor or from internal audit executives authorized by him; in general, internal audit employees do not hold other positions in addition to internal auditing; employees of the Internal Auditor Bureau are authorized to sign, on behalf of the Bank, only documents related to audit work, as required under Proper Conduct of Banking Business Directive 307, The Internal Audit Function.

Appointment method – The appointment of the Internal Auditor was approved by the Board of Directors of the Bank on July 14, 2014, following the recommendation and approval of the Audit Committee on July 14, 2014, which cited considerations including his professional qualifications, personal qualities, education, and experience, including experience in the area of auditing.

Superior officer of the Internal Auditor – The Chief Internal Auditor reports organizationally to the Chairman of the Board of Directors.

Work plan – Internal auditing is conducted in accordance with an annual work plan and a three-year long-term work plan. The work plan for 2015 was derived from the multi-year plan, which is based on the following, among other matters: risk assessment at audited units; an operational risk survey; the current organizational structure of the Bank; audit rounds at various units; and findings discovered in previous audits. In order to formulate the work plan, the audit team held discussions and consultations with the Bank's senior managers and other management functionaries, as well as the external auditors. The audit work plan at the Bank's subsidiaries was established in a similar manner; the Bank's Internal Audit unit provides auditing services to most subsidiaries. The audit work plan also includes examination of the approval processes of material transactions, all based on a comprehensive perspective with a focus on risks.

Following the formulation of the audit work plan by Internal Audit, the plan was submitted for discussion by the Audit Committee; subsequently, taking the committee's recommendations into consideration, the plan was discussed and approved by the Board of Directors.

The Chief Internal Auditor has the discretion to diverge from the work plan in response to changing, unexpected needs. Among other matters, the work plan includes resource allocation for audits of special events and unplanned audits, including audits by demand of authorized parties, such as the Board of Directors, the Audit Committee, Bank management officials, and regulators. Material changes to the work plan are discussed and approved by the Audit Committee and by the Board of Directors.

The Internal Audit work plan also addresses the Bank's activity overseas through branches and representative offices, and the Bank's subsidiaries in Israel and abroad. The principal subsidiaries abroad have local internal auditors. Internal Audit in Israel performs controls to ensure that the internal auditing is executed at an adequate professional level, as required under Proper Conduct of Banking Business Directive 307, The Internal Audit Function. In general, subsidiaries in Israel receive internal audit services from Internal Audit at the Bank.

Manpower – The number of positions in Internal Audit was determined in accordance with the multi-year work plan, based on a risk survey. The internal audit team at the Bank, its subsidiaries, and its overseas offices numbered an average of approximately 134 employee positions and 3 outsourced positions in 2015, as detailed below.

Table 8-1: Average number of positions on Internal Audit staff

	Average number of employee positions in 2015		
	Bank	Subsidiaries	Total
Activity in Israel	**103**	**5**	**108**
Activity abroad	**10**	**16**	**26**
Total	**113**	**21**	**134**

In addition, approximately 3 positions were invested in outsourcing.

Performing audits – Internal Audit at the Bank operates under laws; regulations; directives and guidelines of the Supervisor of Banks, including Proper Conduct of Banking Business Directive 307, The Internal Audit Function; professional standards; professional guidelines of the Institute of Internal Auditors in Israel; and guidelines of the Audit Committee and of the Board of Directors.

Having examined the Internal Audit work plan and the actual execution of said plan, the Board of Directors and the Audit Committee believe that the Bank's internal auditing complies with the requirements established in the professional standards and in the directives of the Supervisor of Banks.

Access to information – Internal Audit has unrestricted access to all information at the Bank, including continuous unmediated access to the Bank's information systems, including financial data, as necessary to perform its duties. This authority is anchored in the audit charter and procedures. This policy is in place in the Bank's activity in Israel and abroad and at its subsidiaries.

Internal Auditor's report – Internal audit reports, including periodic reports, are submitted in writing. A list of all audit reports published during the preceding month is presented to the Board of Directors' Audit Committee each month, after being submitted to the Chairman of the Audit Committee. Audit reports are presented to the Chairman of the Board of Directors, the Chairman of the Audit Committee, and the CEO of the Bank. The reports are also distributed to members of the Audit Committee. Substantial audit reports are discussed by the Audit Committee each month.

In 2015, semiannual and annual summaries were presented to the Board of Directors' Audit Committee and discussed by the committee, reviewing internal audit activities during the reported period. A summary of audit activities for 2014 was submitted on February 12, 2015, and discussed by the Audit Committee on February 18, 2015. A summary of audit activities in the first half of 2015 was submitted on August 12, 2015, and discussed by the Audit Committee on August 23, 2015. A summary of audit activities in 2015 will be discussed by the Audit Committee during the first quarter of 2016.

Evaluation of the activity of the Internal Auditor by the Board of Directors – In the opinion of the Board of Directors and of the Audit Committee, the volume, nature, continuity of activity, and work plan of Internal Audit are reasonable under the circumstances, and are sufficient to realize the Bank's internal auditing objectives.

Remuneration – Total remuneration paid, or in respect of which a provision was recorded, for the Chief Internal Auditor totaled NIS 4,764 thousand. For full details, see the section "Salaries and Benefits of Officers," below.

The salary and terms of employment of the Internal Auditor are approved by the Board of Directors, based on the recommendations of the Audit Committee. The remuneration of the Auditor is appropriate to his office and based on the prevalent principles also used for the remuneration of Members of the Board of Management (defined as a control function). In the opinion of the Board of Directors, the remuneration of the Internal Auditor is not such that would bias his professional judgment.

8.3. Disclosure Regarding the Procedure for Approval of the Financial Statements

The Board of Directors of the Bank is the organ charged with overarching control at the Bank, pursuant to the resolution of the Board of Directors of June 29, 2006, and with the approval of its financial statements, as required by Proper Conduct of Banking Business Directive 301, The Board of Directors ("Directive 301").

The Audit Committee of the Board of Directors discusses and examines the drafts of the financial statements presented to it and makes a recommendation to the Board of Directors with regard to the approval of the financial statements, as required by the Companies Regulations (Directives and Terms Regarding the Procedure for the Approval of Financial Statements), 2010, and in accordance with Directive 301.

The financial statements are also discussed by the Finance and Prospectus Committee of the Board of Directors, which mainly examines the business and economic aspects of the financial statements, including an examination of the reported results in comparison to a summary of the budget and work plans of the Bank.

The Audit Committee received reports and held discussions regarding deficiencies and material weaknesses in internal control over the financial statements, if and as found, and received reports of any fraud, whether material or immaterial, if and inasmuch as any existed, in which the Board of Management is involved, or in which other employees are involved who take part in the Bank's internal control over financial reporting, as required in Directive 645 of the Public Reporting Directives of the Supervisor of Banks, Disclosure Declaration.

The Audit Committee examined the material issues and critical estimates applied in the financial statements; the reasonableness of the data; the accounting policies applied and the changes thereto, if any; and the accounting treatment applied to material matters. The committee also examined the implementation of the due disclosure principle in the financial statements and in the accompanying information, through detailed presentation of the issues by officers and others at the Bank, including the Chief Executive Officer, the Chief Financial Officer, and the Chief Accountant, and examined the effectiveness of the internal control over financial reporting.

As part of the discussion of the financial statements, the Audit Committee also discussed the problematic debts of the Bank, examined the value of the Bank's holdings in securities, and discussed the provision for other-than-temporary impairment of securities and provision for credit losses of the Bank. In addition, the Audit Committee discussed and examined the Bank's exposure to risks and the reflection and impact of such risks on the financial statements.

The Bank's external auditors, Ziv Haft CPA (Isr.) and Somekh Chaikin CPA (Isr.), are invited to the meetings of the Audit Committee and of the Board of Directors in which the financial statements are discussed and approved, and they attend all such meetings. The Bank's Internal Auditor is also invited to the discussions of the Audit Committee and the Board of Directors regarding the approval of the financial statements.

The names and qualifications of the members of the Audit Committee and of the Finance and Prospectus Committee are detailed in the section "The Board of Directors and the Board of Management" in the Annual Financial Statements for 2015.

The Audit Committee and the Finance and Prospectus Committee held discussions regarding the financial statements as at December 31, 2015, and thereafter. The Audit Committee presented its recommendations to the plenum of the Board of Directors prior to the discussion of the financial statements by the Board of Directors.

8.4. Remuneration of Auditors[(1)(2)(3)]

Table 8-2: Remuneration of Auditors

	Consolidated		The Bank	
	2015	2014	**2015**	2014
	NIS thousands			
For auditing activity[(4)]:				
Joint auditors	**22,179**	22,393	**12,763**	12,686
Other auditors	**346**	1,123	**-**	490
Total	**22,525**	23,516	**12,763**	13,176
For audit-related services[(5)]:				
Joint auditors	**7,306**	6,937	**6,590**	6,354
Other auditors	**126**	188	**-**	-
For tax services[(6)]:				
Joint auditors	**1,862**	1,543	**1,559**	1,112
Other auditors	**302**	767	**-**	424
For other services[(7)]:				
Joint auditors	**2,379**	4,034	**1,135**	1,392
Other auditors	**78**	74	**-**	-
Total	**12,053**	13,543	**9,284**	9,282
Total remuneration of auditors	**34,578**	37,059	**22,047**	22,458

(1) Report by the Board of Directors to the annual general assembly on the remuneration of auditors for audit activities.
(2) The remuneration of the external auditors includes payments to partnerships and corporations under their control, as well as payments in accordance with the Value Added Tax Law.
(3) Including remuneration paid and accrued remuneration.
(4) Audit of the annual financial statements, review of interim reports, including an audit of the internal control of financial reporting (SOX 404), and a review of the Bank's overseas branches.
(5) Audit-related fees mainly include prospectuses, special approvals, comfort letters, and special reports at the request of the Supervisor of Banks..
(6) Mainly includes tax adjustment reports, tax assessment discussions, and tax consulting in Israel and abroad.
(7) Mainly includes assistance with preparation of the Corporate Social Responsibility Report, and consulting on employee remuneration.

8.5. Remuneration for Interested Parties and Senior Officers

Table 8-3: Salaries, compensation, value of benefits, and employer payments and provisions for the senior office-holders of the Bank Group (in NIS thousands)

		2015										
Name	Title	Rate of holdings in the capital of the Bank	Salary [1]	Bonuses	Benefit for share-based payment[2]	Value of additional benefits[3]	Employer payments and provisions[4]	Total[5]	Loans granted with benefits in terms[6]			Balance of loans granted without benefits in terms
									Balance	Average term to maturity (in years)	Benefit granted during the year	
Yair Seroussi	Chairman of the Board of the Bank	**0.02**	**1,903**	**3,886**	**739**	**475**	**668**	**7,671**	**-**	**-**	**-**	**36**
Zion Kenan	President and CEO of the Bank	**0.02**	**2,090**	**3,910**	**1,409**	**561**	**(53)**	**7,917**	**-**	**-**	**-**	**131**
Ron Weksler*	Head of Corporate Strategy	**-**	**1,760**	**1,114**	**1,113**	**256**	**823**	**5,066**	**-**	**-**	**-**	**623**
Orit Lerer	General Manager, Bank Hapoalim Switzerland	**-**	**2,311**	**589**	**948**	**754**	**191**	**4,793**	**-**	**-**	**-**	**576**
Zeev Hayo	Chief Internal Auditor	**-**	**1,644**	**886**	**886**	**262**	**1,086**	**4,764**	**94**	**7**	**2**	**1,044**
Tsahi Cohen	Chief Risk Officer	**0.01**	**1,890**	**1,008**	**1,006**	**209**	**611**	**4,724**	**-**	**-**	**-**	**25**
Yadin Antebi	Chief Financial Officer	**0.01**	**1,754**	**1,116**	**1,115**	**250**	**380**	**4,615**	**-**	**-**	**-**	**19**

* Appointed to the position of CEO of Isracard on February 4, 2016.

Note:
The Bank applied US GAAP regarding employee benefits and share-based payment transactions as of January 1, 2015, retrospectively. The Bank did not amend remuneration data for 2014; remuneration data for 2015 are therefore not comparable to the data for 2014.

8.5. Remuneration for Interested Parties and Senior Officers (continued)

Table 8-3: Salaries, compensation, value of benefits, and employer payments and provisions for the senior office-holders of the Bank Group (in NIS thousands) (continued)

		2014											
Name	Title	Rate of holdings in the capital of the Bank	Salary(1)	Bonuses	Benefit for share-based payments(2)	Value of additional benefits(3)	Employer payments and provisions(4)	Supplement of reserves for related expenses due to changes in wages in the accounting year	Total(5)	Loans granted with benefits in terms(6)			Balance of loans granted without benefits in terms
										Balance	Average term to maturity (in years)	Benefit granted during the year	
Yair Seroussi	Chairman of the Board of the Bank	0.02	1,903	2,944	1,697	467	876		7,887	-	-	-	33
Zion Kenan	President and CEO of the Bank	0.02	2,089	2,948	2,073	545	869		8,524	-	-	-	105
Orit Lerer	General Manager, Bank Hapoalim Switzerland	-	2,314	982	1,661	914	883		6,754	-	-	-	513
Dov Kotler*	CEO of the Isracard Group	-	1,293	1,808	399	121	2,388		6,009	-	-	-	62
Dan Koller	Head of Financial Markets	0.01	1,394	813	1,683	217	928		5,035	-	-	-	25
Moshe Allouche	Deputy General Manager, Bank Hapoalim Switzerland	-	2,075	2,357	-	11	443		4,886	-	-	-	-
Zeev Hayo	Chief Internal Auditor	-	1,068	447	221	204	1,608	975	4,523	113	8	2	2,018
Efrat Yavetz	Head of Human Capital, Advising and Resources	-	1,406	751	782	263	1,133		4,335	69	6	1	277
Jacob Orbach	Head of Corporate Banking	0.01	1,422	726	1,072	221	796		4,237	16	2	-	87

* Completed his term of service on January 31, 2015.

Note:
The Bank applied US GAAP regarding employee benefits and share-based payment transactions as of January 1, 2015, retrospectively. The Bank did not amend remuneration data for 2014; remuneration data for 2015 are therefore not comparable to the data for 2014.

8.5. Remuneration for Interested Parties and Senior Officers (continued)

General Notes

The recipients of the remuneration are employed in full-time (100%) positions.

All employees of the Bank, including officers of the Bank, enjoy various benefits in the management of their bank accounts. The benefits mainly refer to an exemption from fixed account-management fees, fees for recording transactions in accounts, information printouts, checkbooks, securities custody, cash withdrawals, money transfers to other accounts, and credit-card membership fees. In addition, there are benefits in the form of reduced fee rates for buying and selling securities and foreign currency, standing instructions for payments executed through the account, and safe-deposit box rentals. Further, like all other employees of the Bank, the officers enjoy preferred interest rates on credit and debit balances in current accounts. The entire range of benefits given to officers totals negligible amounts, which do not exceed a total of NIS 50 thousand per year for each officer.

For further details regarding lateral remuneration components (including share-based payment) to which all members of the Board of Management of the Bank and the Chairman of the Board of Directors of the Bank are entitled, including retirement terms, bonuses, etc., see Notes 23 and 24 to the Financial Statements.

On January 5, 2014, the Bank published its remuneration policy for officers, pursuant to Amendment 20 to the Companies Law, 1999 (the "Companies Law"), and in accordance with Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks of November 19, 2013 ("Banking Corporation Remuneration Policy Directive") and the additional comments received from the Supervisor of Banks (the "Remuneration Policy"). The Remuneration Policy was adopted by the general meeting of shareholders of the Bank on February 11, 2014, and amended on February 18, 2016. The Bank adopted a general remuneration policy for its senior executives and employees, and a corresponding remuneration plan, on June 22, 2014 (the "Remuneration Plan (2014)").

As detailed in Note 23 to the Financial Statements, in accordance with the Remuneration Policy and Remuneration Plan (2014), in general and among other matters, officers and senior executives of the Bank may be entitled to a risk-adjusted performance-based annual bonus, based on a mechanism similar to the mechanism previously in use at the Bank; 50% of the bonus will be paid to the executives in the form of contingent (performance-based) RSU, which will vest over three years, subject to the Bank's performance during those years. For accounting purposes, the RSU are classified as equity compensation (in special cases, phantom units of restricted shares will be granted). The ROE difference of the Bank for 2015, for the purpose of determining bonuses within the Remuneration Plan (2014), is approximately 2.33%.

The subsidiaries of the Bank in Israel have reported to the Bank that the process of their adoption of the Remuneration Policy had been completed by the date stipulated in the applicable law. The Bank is in the final stages of the process of applying the principles of its Remuneration Policy to its subsidiaries overseas and branches overseas, with certain adjustments, and to subsidiaries thereof, where relevant.

8.5. Remuneration for Interested Parties and Senior Officers (continued)

The Bank is working to adjust the remuneration of its officers and employees to its Remuneration Policy, in accordance with the inception and application directives in Section 7 of the Officers chapter in the Remuneration Policy and the relevant sections of the chapters concerning its senior executives and employees who are "key employees" other than officers, and in accordance with the transitional directives in the Banking Corporation Remuneration Policy Directive (jointly, the "Transitional Directives"). Accordingly, and because some of the agreements with the officers and executives noted in the tables above were signed prior to the publication of the Banking Corporation Remuneration Policy Directive, these agreements remained in effect in 2015 (all or part of the year), and are subject to the terms of the Remuneration Plan (2010), including its appendices (as revised), and as detailed in the Immediate Report dated August 31, 2010, reference no. 2010-01-608787 ("Remuneration Plan Report (2010)" and "Remuneration Plan (2010)"). Agreements signed from June 3, 2013 forward are subject to the directives of the Remuneration Policy and of the Remuneration Plan (2014), as of the dates specified in the Transitional Directives.

As detailed in Note 23 to the Financial Statements, pursuant to the terms of the Remuneration Plan (2010) and the Remuneration Plan Report (2010), the amount of the annual bonus will be added to or subtracted from the bonus account of each executive, each year. The bonus account is a notional personal bank account reflecting the positive or negative bonus balance of the executive at any time. Each year, subject to the fulfillment of certain conditions established in the Remuneration Plan (2010), a relative payment out of the balance in the bonus account will be executed, and the unpaid balance will remain in the bonus account. The ROE difference of the Bank for 2015, for the purpose of determining bonuses pursuant to the Remuneration Plan (2010), is approximately 1.83%, and approximately 1.33% for the Chairman and CEO.

(1) Pursuant to the Remuneration Plan (2014), the payment of salary includes payments classified as fixed remuneration that does not qualify for benefits, as detailed in Note 23 to the Financial Statements.

(2) The value of the benefit in respect of share-based payment for the members of the Board of Management of the Bank and for the Chairman of the Board of Directors of the Bank includes a benefit in respect of the restricted stock units (RSU) and contingent RSU granted under the Remuneration Plan (2010). The value of the benefit in respect of the RSU and contingent RSU, under the Remuneration Plan (2010), is measured at the date of the grant, and recorded over the vesting period. As a rule, the remuneration in respect of the RSU granted according to the terms of the Remuneration Plan (2010) will vest in three equal installments, in accordance with the period of the employment agreement of the executive. The value of the benefit listed in the table above includes the non-linear spreading of the accounting expenses in respect thereof, according to the installments method, under which the total expense in the third year amounts to approximately 10%. An expense was recorded in 2015 in respect of share-based payment (in the form of RSU), in the amount of 50% of the annual bonus according to the Remuneration Plan (2014), as detailed above.

(3) Amounts listed in the column of the table with the heading "additional benefits" include net payments for vehicle expenses, daily allowances, and gross-up.

(4) The payments in the column with the heading "employer payments and provisions" include provisions for severance pay, compensation, pensions, study funds, vacation, National Insurance, sick days, and 25-year service grants.

(5) Excluding wage tax.

(6) Loans granted under terms similar to those granted to all employees of the Bank, amounts of which were determined based on uniform criteria.

8.5. Remuneration for Interested Parties and Senior Officers (continued)

Mr. Yair Seroussi

Mr. Seroussi is employed by the Bank in the position of active Chairman of the Bank as of August 1, 2009. With regard to the terms of employment of Mr. Seroussi, including the period of his employment, the terms for termination of the contractual engagement, the advance notice period and adjustment period, severance pay and pensions, study fund, and related terms, see the Immediate Reports of the Bank dated September 13, 2012 and October 19, 2012 (reference no. 2012-01-237483 and 2012-01-259701, respectively), included herein by reference (jointly: "Seroussi Remuneration Report"). The amount noted in the bonuses column of the table includes the following components:
(1) A risk-adjusted, performance-dependent annual bonus – See Section F Note 23 to the Financial Statements.
(2) A grant for the purchase of shares – See Section F of Note 23 to the Financial Statements.
The amount noted in the share-based payment column of the table includes the following components:
Restricted stock units – see Section F of Note 23 to the Financial Statements.
With regard to the effect of the end of service on compensation, see Section F of the aforesaid Note 23.
For further details regarding share-based payment and bonuses for Mr. Seroussi, see the Seroussi Remuneration Report.

Mr. Zion Kenan

Mr. Kenan is employed by the Bank in the position of Chief Executive Officer of the Bank as of August 27, 2009. With regard to the terms of employment of Mr. Kenan, including the period of his employment, the terms for termination of the contractual engagement, the advance notice period and adjustment period, severance pay and pensions, study fund, and related terms, see the Immediate Report of the Bank dated September 13, 2012 (reference no. 2012-01-237483), included herein by reference ("Kenan Remuneration Report"). The amount noted in the bonuses column of the table includes the following components:
(1) A risk-adjusted, performance-dependent annual bonus – See Section F of Note 23 to the Financial Statements.
(2) A grant for the purchase of shares – See Section F of Note 23 to the Financial Statements.
The amount noted in the share-based payment column of the table includes the following components:
Restricted stock units – See Section F of Note 23 to the Financial Statements.
With regard to the effect of the end of service on compensation, see Section F of the aforesaid Note 23.
For further details regarding share-based payment and bonuses for Mr. Kenan, see the Kenan Remuneration Report.

Mr. Ron Weksler

Mr. Weksler served as Head of Corporate Strategy in 2015, until his appointment to the position of CEO of Isracard on February 4, 2016. The employment agreement of Mr. Weksler covers a period of three years, from November 1, 2013 to December 31, 2016. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Mr. Weksler's monthly salary is linked to increases in the consumer price index. For details of the other terms of employment of the members of the Board of Management of the Bank, which also apply to the employment of Mr. Weksler, see Sections C, D, and E(4) of Note 23 to the Financial Statements of the Bank.
For details of the bonuses noted in the bonuses column of the table above, see Section F of Note 23 to the Financial Statements of the Bank.
The amount noted in the share-based payment column of the table includes: restricted stock units – see Section F of Note 23 to the Financial Statements.
For further details regarding share-based payment and bonuses for Mr. Weksler, also see Note 23 to the Financial Statements with regard to the Remuneration Plan (2014).

8.5. Remuneration for Interested Parties and Senior Officers (continued)

Ms. Orit Lerer

Ms. Lerer serves as CEO of Bank Hapoalim (Switzerland) as of August 8, 2012. The employment agreement of Ms. Lerer covers a period of four years. Ms. Lerer is entitled to a monthly salary of CHF 50 thousand, as well as related terms, including reimbursement of rent expenses, health insurance, a pension, etc. All of the costs of employment of Ms. Lerer are paid by Bank Hapoalim Switzerland, in Swiss francs, adjusted for the cost of living in Switzerland. Ms. Lerer is entitled to annual share-based payment at a value of approximately CHF 180 thousand.

Mr. Zeev Hayo

Mr. Hayo serves as Chief Internal Auditor, in Israel and overseas. The employment agreement of Mr. Hayo covers a period of three years, from July 14, 2014 to September 30, 2017. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Mr. Hayo's monthly salary is linked to increases in the consumer price index. For details of the other terms of employment of the members of the Board of Management of the Bank, which also apply to the employment of Mr. Hayo, see Sections C, D, and E(4) of Note 23 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F of Note 23 to the Financial Statements of the Bank.

The amount noted in the share-based payment column of the table includes: restricted stock units – see Section F of Note 23 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Hayo, also see Note 23 to the Financial Statements with regard to the Remuneration Plan (2014).

Mr. Tsahi Cohen

Mr. Cohen serves as Chief Risk Officer. The employment agreement of Mr. Cohen covers a period of three years, from July 1, 2015, to June 31, 2018. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Mr. Cohen's monthly salary is linked to increases in the consumer price index. For details of the other terms of employment of the members of the Board of Management of the Bank, which also apply to the employment of Mr. Cohen, see Sections C, D, and E(4) of Note 23 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F of Note 23 to the Financial Statements of the Bank.

The amount noted in the share-based payment column of the table includes: restricted stock units – see Section F of Note 23 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Cohen, also see Note 23 to the Financial Statements with regard to the Remuneration Plan (2014).

8.5. Remuneration for Interested Parties and Senior Officers (continued)

Mr. Yadin Antebi

Mr. Antebi serves as Chief Financial Officer. The employment agreement of Mr. Antebi covers a period of three years, from June 19, 2013, to June 30, 2016. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Mr. Antebi's monthly salary is linked to increases in the consumer price index. For details of the other terms of employment of the members of the Board of Management of the Bank, which also apply to the employment of Mr. Antebi, see Sections C, D, and E(4) of Note 23 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F of Note 23 to the Financial Statements of the Bank.

The amount noted in the share-based payment column of the table includes: restricted stock units – see Section F of Note 23 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Antebi, also see Note 23 to the Financial Statements with regard to the Remuneration Plan (2014).

The connection between the remuneration granted in 2015 to the senior officers listed in the above table for 2015 and the contribution of the recipients to the corporation:

As part of the approval process of the Annual Financial Statements of the Bank for 2015, on February 9 and 22, 2016 the Board of Directors held extensive discussions of the terms of service and employment of the officers and interested parties of the Bank, which are detailed above, in accordance with Regulation 21 of the Securities Regulations (Periodic and Immediate Reports), 1970 (the "Senior Officers Under Regulation 21" and the "Periodic and Immediate Reports Regulations", respectively), separately for each Senior Officer under Regulation 21, after receiving full information regarding the terms of their service and employment.

Bonuses in respect of 2015, which were approved by the Remuneration Committee and by the Board of Directors of the Bank, were determined mostly in accordance with measurable criteria established in advance in the Remuneration Plan (2010) or in the Remuneration Plan (2014), as relevant (as defined above). Judgment exercised in connection with the bonuses for officers in respect of 2015 was in accordance with the directives of Amendment 20 to the Companies Law and the Banking Corporation Remuneration Policy Directive, and in accordance with the Remuneration Policy and the Remuneration Plan (2014), as applicable, pursuant to the transitional directives.

The discussions of the Board of Directors on February 9 and 22, 2016 were preceded by preliminary discussions of this matter by the Remuneration Committee. In discussions held by the Remuneration Committee and the Board of Directors, as noted, specific criteria established in advance for each officer were examined, separately for each officer (with regard to this matter, see the Remuneration Plan Report (2010) and the Remuneration Policy of the Bank), as well as the officer's fulfillment of the criteria established for him or her, as detailed below, and the connection between the remuneration he or she receives and his or her contribution to the Bank. The specific criteria established for each officer corresponds to each officer's position.

For the purpose of this examination, and for the purpose of the examination of the fairness and reasonableness of the remuneration for each officer, the Board of Directors examined criteria including: (1) the contribution of the officer to the Bank's business, the achievement of its objectives, and its financial results; (2) promotion of the Bank's goals, including fulfilling the work plan established by the Board of Directors for the reporting year; (3) the Bank's need to retain an officer with unique skills, knowledge, or expertise; (4) the officer's professional and managerial skills, education, expertise, experience, and achievements, and the degree of responsibility borne by the officer; (5) special challenges of importance to the Bank with which the officer coped during the year; (6) the satisfaction of the CEO and/or Chairman, as relevant, with the officer's performance; (7) the effect of the remuneration on wage gaps at the Bank; (8) the ratio of fixed components of the remuneration to variable components; and (9) consideration of the remuneration in view of the size of the Bank and the nature of its activity, and in light of the existing market conditions with regard to corresponding officers at similar banks and companies.

In order to examine the remuneration and compliance with the aforesaid criteria, and in order to examine the overall reasonableness of the terms of remuneration of the Senior Officers Under Regulation 21, as required under Regulation 10(B)(4) of the Periodic and Immediate Reports Regulations, the Board of Directors examined the Remuneration Policy of the Bank and the principles thereof; data regarding the remuneration approved for each officer in the past; a comparative survey, prepared by an external consultant, of the terms of remuneration at similar companies in the industry and at companies on a similar scale as the Bank; the Remuneration Plan (2010) (as amended) and the criteria established in relation thereto, and the Remuneration Plan (2014); the Bank's performance in 2015 (including relative to its competitors); and data regarding the fulfillment of the aforesaid criteria, including the activity and contribution of each officer to the Bank in 2015, and the relationship of these factors with the total remuneration proposed for approval for that officer, as noted.

The Board of Directors of the Bank conducted its examination and determined that the remuneration of officers at the Bank is congruent with the transitional directives in the Banking Corporation Remuneration Policy Directive and in the Remuneration Policy of the Bank, and with the Remuneration Policy, pursuant to which individual agreements signed prior to the publication of the draft of Directive 301A shall be valid until their conclusion, no later than December 31, 2016. With regard to the terms of service and employment, the Board of Directors noted that the terms are congruent with the remuneration plans of the Bank that were in effect in 2015, and with Amendment 20. The terms of service and employment of some of the officers, whose remuneration is not yet subject to the Remuneration Plan (2014), differ from the Remuneration Policy in three main respects: (a) the equity remuneration granted to the officers of the Bank ("Restricted Stock Units") is not aligned with the conditions for the "fixed remuneration component" or the "variable remuneration component" in the Remuneration Policy; (b) the bonus formula differs from the formula established in the Remuneration Policy; (c) a performance-dependent component in the form of a grant for the purchase of shares restricted for four years, in the amount of NIS 2 million (net of tax), has been established for Mr. Yair Seroussi, Chairman of the Board of Directors of the Bank, and for Mr. Zion Kenan, Chief Executive Officer of the Bank; this remuneration is not established in the Remuneration Policy.

It is further noted that the total remuneration for the officers noted above in 2015 does not exceed the cumulative ceilings in the Remuneration Policy, in accordance with the remuneration plans of the Bank that were in effect in 2015, and in accordance with Amendment 20.

Following the discussion of the remuneration of the Senior Officers and an additional discussion regarding the remuneration of Senior Officers Under Regulation 21, and in light of the materials presented to the Board of Directors of the Bank, the members of the Board of Directors expressed their position that the remuneration in question is fair and reasonable under the circumstances, and that the remuneration of each senior officer is congruent with his or her contribution to the Bank.

For further details regarding the Remuneration Plan (2010), the Remuneration Plan (2014), and the remuneration of officers and interested parties, see Notes 23 and 24 to the Financial Statements.

Other Matters

A special general meeting of shareholders of the Bank convened on March 31, 2015. The shareholders approved the election of Ms. Dafna Schwartz to serve as an "external director" of the Bank, as defined in Section 1 of the Companies Law, for an additional period of three years, beginning April 6, 2015.

On April 20, 2015, the Board of Directors approved the appointment of Ms. Ronit Shapira to the position of Secretary of the Bank, effective July 1, 2015, replacing Mr. Yoram Weissbrem, who retired on June 30, 2015.

The term of service of Ms. Nehama Ronen as a member of the Board of Directors of the Bank ended on December 11, 2015, due to a requirement in the Law for the Promotion of Competition and Reduction of Concentration, 2013.

Mr. Yair Tauman resigned from the position of external director (as defined in Proper Conduct of Banking Business Directive 301 of the Bank of Israel) of the Board of Directors of the Bank on December 27, 2015, for personal reasons.

On January 13, 2016, the Board of Directors of the Bank approved adjustments to the structure and composition of the Board of Management of the Bank, within the strategy designed to prepare the Bank for the challenges ahead. As part of this process, the following changes were approved in the organizational structure of the Bank and in the staffing of several positions of members of the Board of Management, which took effect during February 2016:

1. Mr. Ari Pinto was appointed to a new position: Chief Operating Officer (COO), with the rank of Deputy CEO. Mr. Pinto previously served as Head of Retail Banking. In this position, Mr. Pinto is responsible for strategy, resources, and operations. It is clarified that the Human Capital, Advising, and Resources Area, the Corporate Strategy Area, and additional units as noted above will be merged under the position of COO.
2. Within the Bank's strategy for the coming years, it is creating the Innovation Area, headed by Mr. Avraham Kochva, who served until this time as Head of Information Technology. This area will lead the Bank's digital strategy and will be responsible for technological innovation (the duties of the CTO), technological leadership, big data and information management, the ecosystem, customer experience, and fintech.
3. Mr. Ronen Stein has been appointed Head of Retail Banking, and has resigned his position as CEO of companies in the Isracard Group. Pursuant to the Banking Ordinance, Mr. Stein's appointment to the position of Head of Retail Banking requires the consent of the Supervisor of Banks, which was granted on February 14, 2016.
4. The International Banking Area was merged into the Financial Markets Area, which will be known as the Financial Markets and International Banking Area, headed by Mr. Dan Koller. Mr. Amir Aviv, who headed the International Banking Area of the Bank, has asked to resign from the Bank on March 31, 2016, in order to devote his efforts to a private venture overseas. Mr. Dan Koller has also been appointed to the position of chairperson of the board of directors of Bank Hapoalim (Switzerland), replacing Mr. Amir Aviv.
5. A new area has been established to lead relationships with customers and stakeholders, headed by Ms. Efrat Yavetz. Upon her appointment to this position, Ms. Yavetz ended her service as Head of Human Capital, Advising, and Resources. This area will be responsible for relationships with customers and stakeholders, customer service, the Poalim Campus and human capital development, corporate social responsibility, sustainability, Poalim for the Community, and Poalim Volunteers.
6. Ms. Eti Ben-Zeev was appointed to the position of Head of Information Technology. Pursuant to the Banking Ordinance, the appointment of Ms. Ben-Zeev requires the consent of the Supervisor of Banks, which was granted on February 14, 2016.
7. Advising and research, which were under the responsibility of Ms. Efrat Yavetz, have been transferred to the Financial Markets Area, headed by Mr. Yadin Antebi.

8. Mr. Ron Weksler resigned from his position as Head of Corporate Strategy, and was appointed, based on the Bank's recommendation, to the position of CEO of Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd., effective February 4, 2016.

On February 9, 2016, the Board of Directors approved a special general meeting of shareholders of the Bank, to convene on March 16, 2016. The agenda for the meeting includes extension of the appointment of Mr. Ido Stern as a director of the Bank, for a period of three additional years, beginning March 24, 2016; and extension of the appointment of Mr. Amnon Dick as an external director of the Bank, pursuant to Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks ("Directive 301"), for a period of three additional years, beginning March 24, 2016.

The annual general meeting of shareholders of the Bank convened on February 18, 2016. The shareholders discussed the financial statements and board of directors' report of the Bank for 2014; approved the appointment of the Bank's external auditors; approved the appointment of Mr. Oded Eran as a director of the Bank, for a period of three years from the date of approval of the appointment by the general meeting; approved the appointment of Mr. Reuven Krupik as an external director of the Bank, pursuant to Directive 301, and as an "independent director," as defined in the Companies Law, for a period of three years from the date of approval of the appointment by the general meeting; approved an amendment of the Articles of the Bank ("Articles of the Bank") by the addition of Article 24E to the Articles of the Bank, permitting officers of the Bank to be granted an exemption from responsibility for violation of the duty of care towards the Bank; approved the amendment of Article 17 of the Articles of the Bank; approved amendment of the remuneration policy of the Bank (which was approved by the general meeting of shareholders of the Bank on February 11, 2014 (the "Remuneration Policy")), such that the Remuneration Policy shall permit an exemption to be granted to officers from responsibility for violation of the duty of care towards the Bank, through the addition of Section 18A to Chapter E of the Remuneration Policy; approved letters of exemption to be granted to officers and directors of the Bank who serve, and/or who may serve from time to time at the Bank, including the CEO of the Bank, who serves and/or may serve from time to time, and including officers and directors of the Bank who serve and/or may serve at the Bank from time to time, in the granting of letters of exemption to whom the controlling shareholder of the Bank may be considered to have a personal interest; and reapproved the granting of letters of indemnification to directors and officers of the Bank, who serve and/or may serve from time to time, in the granting of letters of indemnification to whom the controlling shareholder of the Bank may be considered to have a personal interest.

8.6. Transactions with Controlling Parties

Pursuant to the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the "Reporting Regulations"), corporations required to report according to the regulations must report, in their annual periodic reports, any transaction with a controlling party, or any transaction in which a controlling party has a personal interest (whether the transaction is exceptional, i.e. outside the ordinary course of business of the bank, not at market terms, or such that it may have a material effect on the bank's profitability, property, or liabilities; or non-exceptional), including the identity of the parties to the transaction, the content and the qualitative and quantitative characteristics of the transaction, the personal interest of the controlling shareholder, the date of approval, and information regarding the organ that approved the transactions, with a separation of exceptional and non-exceptional transactions (Reporting Regulation 22). An exception to this rule is provided for transactions determined in the financial statements of the bank to be "negligible transactions," as defined in Regulation 41(A)(6)(a) of the Securities Regulations (Annual Financial Statements), 2010 (hereinafter: the "Financial Statements Regulations"); information regarding such transactions shall be presented as noted in the aforesaid regulation. In addition, the corporation is required to file an immediate report of an exceptional transaction with a controlling party, or in which a controlling party has a personal interest (either in the form of an immediate report regarding presentation of the transaction for approval by the general meeting of shareholders, or in the form of an approval that does not require a general meeting pursuant to the Companies Regulations (Eased Requirements for Transactions with Interested Parties)).

Section 117(A) of the Companies Law, 1999 (hereinafter: the "Companies Law") states that the function of the Audit Committee, among other matters, is to determine, with respect to a transaction with a controlling party or a transaction with another person in which a controlling party has a personal interest, whether the transaction is exceptional or non-exceptional. This section also states that the Audit Committee is authorized to make such decisions regarding types of actions or transactions, according to standards that it sets in advance, on an annual basis.

Accordingly, the Audit Committee established criteria for negligible transactions and exceptional transactions with respect to transactions with controlling parties or transactions in which controlling parties have a personal interest. These criteria were published, including in the Board of Directors' Report of the Bank as at December 31, 2014. The Audit Committee of the Board of Directors approved these criteria again on January 24, 2016, and on January 31, 2016.

Set out below are details of the types of transactions and the criteria established in connection with approval and reporting of transactions of the Bank with its controlling party, or transactions with another person in which the controlling party has a personal interest.

"Exceptional" Banking Transactions

Pursuant to the aforesaid criteria established by the Bank, banking transactions meeting the following criteria shall be considered exceptional transactions:

1. "Exceptional" banking transactions

- Any transaction involving the granting of credit by the Bank, as a result of the execution of which the total indebtedness of the controlling party exceeds 10% of capital, as defined in Proper Conduct of Banking Business Directive 312 of the Supervisor of Banks; or as a result of which the increase in the indebtedness of the controlling party, or of the party in whose indebtedness the controlling party has a personal interest, exceeds 2% of the supervisory capital at the date of execution of the transaction. In this subsection 1(A), several transactions executed consecutively with the same person shall be considered as a single transaction, such that for the purpose of classifying the said transactions, the cumulative amount of the said transactions shall be examined.

- Transactions involving the deposit of funds in any type of deposit, if as a result of the transaction the total deposits of the controlling party exceed 2% of total deposits from the public, as reported in the most recent consolidated balance sheet of the Bank released to the public prior to the date of the deposit of the funds.
- Transactions of deposit and/or purchase and/or sale of securities, participatory units in mutual funds and/or other funds, and any other investment held by the Bank as an asset of the customer (rather than as a balance sheet liability), where the amount of the transaction exceeds 0.5% of the total balance of off-balance sheet monetary assets of customers in the Bank Group, as reported in the most recent consolidated balance sheet of the Bank released to the public at the date of execution of the transaction.
- Any other banking transaction of the type of transactions that the Bank usually performs with the public, provided that it does not involve the granting of credit by the Bank, where the amount of the transaction exceeds 0.5% of the total consolidated balance sheet of the Bank at the date of execution of the transaction.

2. Any other transaction of the Bank (banking or non-banking) not covered by the previous items, if it is not in the ordinary course of business of the Bank or at market terms, or if the amount of the transaction exceeds NIS 300 million. For this purpose, transactions in the "ordinary course of business" are transactions that the Bank executes from time to time in order to conduct its routine operations (such as renting property, purchasing products, and receiving services), and transactions of the same type can be found which the Bank executed during the twelve-month period preceding the approval of the transaction.

Along with the establishment of the aforesaid criteria, the Audit Committee determined that any transaction, of any type and volume, between the Bank and the controlling shareholder of the Bank, and/or in the approval of which the controlling party of the Bank has a personal interest, shall be executed in accordance with market conditions and in such a manner that the Bank shall not grant any preference in the transaction or any benefit in its terms relative to the terms at which similar transactions would be executed with others not considered "related parties" of the Bank (as defined in Proper Conduct of Banking Business 312 of the Supervisor of Banks). Pursuant to the directives of the Companies Law, a transaction other than at market terms is an exceptional transaction.

For the purpose of determining whether a transaction is exceptional, "market terms" are: (1) when the transaction requires approval by the Board of Directors' Committee for Approval of Transactions with Related Parties, terms that the committee has found to be "market terms," pursuant to Proper Conduct of Banking Business Directive 312, according to the tests it customarily uses, and according to the materials presented to it, including with regard to specific transactions or to a specific type of transaction; or (2) transaction terms similar to the terms of at least two transactions with similar characteristics (such as type of customer or counterparty to the transactions, and characteristics thereof; volume of the transaction; and other characteristics relevant to market terms, such as collateral or volume of the customer's activity with the Bank) executed by the Bank in the period near the date of the contractual engagement in the transaction under review (including quotes or binding offers proposed by the Bank to its customers, and bids proposed by suppliers to the Bank), provided that such transactions were executed (or quoted, as relevant) with a party unrelated to the Bank, and the controlling party of the Bank had no personal interest therein; or (3) transaction terms similar to the terms of at least two transactions in the relevant market known to the Bank and similar in characteristics (such as type of customer or counterparty to the transaction, and characteristics thereof; volume of the transaction; and other characteristics relevant to market terms, such as collateral) executed during the period close to the date of the contractual engagement in the transaction under review, provided that they were executed between unrelated parties; or (4) a price set in an orderly market of buyers and sellers, such as prices of marketable securities or prices of commodities, provided that sufficient tradability exists in that market with respect to the relevant asset or product or service.

3. "Negligible" transactions

It was further established by the Bank that the following transactions shall be considered negligible transactions:

3.1. A transaction for the acquisition of products and services from a controlling party, or in which a controlling party has a personal interest, provided that it is not a contractual engagement with the controlling party or with a relative thereof with regard to terms of service and employment, and that it is in the ordinary course of business and at market terms, and the volume of which does not exceed a total of NIS 2.5 million, and provided that total transactions of its type in one calendar year do not exceed 0.1% of the supervisory capital. This total shall not include single transactions the volume of each of which is less than NIS 25,000.

3.2. Transactions for the rental of land from or to a controlling party, or in which a controlling party has a personal interest, approved in one calendar year, in the ordinary course of business and at market terms, the total volume of which does not exceed 0.1% of the supervisory capital.

3.3. Any other transaction in the ordinary course of business and at market terms, the volume of which is up to a total of NIS 250,000, provided that total transactions of its type in one calendar year do not exceed 0.1% of the regulatory capital. This total shall not include single transactions the volume of each of which is less than NIS 25,000.

Definitions

For this purpose, the following terms shall have the meanings listed below:

(1) **"Credit" –** As defined in the Banking Law (Licensing), 1981.

(2) **"Indebtedness" –** As defined in Proper Conduct of Banking Business Directive 312 of the Supervisor of Banks.

(3) **"Market terms" –** Terms that are not preferable to the terms at which the Bank executes similar transactions of the same type with persons or corporations that are not controlling parties of the Bank, or with persons in whose transactions a controlling party has no personal interest. Market terms with respect to banking transactions are examined in comparison to the terms of transactions of the same type, at similar volumes, as is customary in examining transactions with related persons, pursuant to Proper Conduct of Banking Business Directive 312 of the Supervisor of Banks, with customers of the Bank who are not related persons or parties in whose transactions the controlling parties have a personal interest. Market terms in respect of non-banking transactions are examined in comparison to transactions of the same type executed by the Bank with suppliers and/or in comparison to proposals of other suppliers examined prior to the decision concerning the contractual engagement. In cases in which the Bank has no transactions of the same type, market terms shall be examined in relation to transactions of the same type in the economy, provided that the transaction is in the ordinary course of business and that there is a market for transactions of its type in which similar transactions are executed. With regard to the determination that a transaction is exceptional, directives with regard to "market terms" have been established, as detailed above.

(4) **"Controlling party" –** Together with her related private and public companies, as the term "related person" is defined in Proper Conduct of Banking Business Directive 312, and together with her relatives and the private companies related to them, including family members residing with her or supported financially by her; the definition of a "relative" under the provisions of the Banking (Licensing) Law includes spouses, siblings, parents, offspring, spouse's offspring, and spouses of each of the foregoing.

(5) **"Supervisory capital" –** As defined in Proper Conduct of Banking Business Directive 202 of the Supervisor of Banks, or any directive that takes its place.

Competitive Proceedings

Section 117 of the Companies Law establishes the functions of an audit committee. Among other matters, Section 117(1B) states, in connection with transactions of a company with its controlling party, or with others when the controlling party has a personal interest in the transaction, that the audit committee has the following duties: "To determine, with respect to transactions as noted in Section 270(4) or (4A), even if they are not exceptional transactions, the need to conduct a competitive proceeding, under the supervision of the committee, or whoever it appoints for that purpose, according to standards that the committee establishes; or to determine that different proceedings should be conducted, to be determined by the audit committee, prior to contracting such transactions, all according to the type of transaction. The audit committee is permitted to establish criteria for this purpose once annually, in advance."

The establishment of criteria by the committee in advance, rather than in the course of the discussion of a particular transaction, will avert the need to conduct a specific discussion regarding the need for a competitive proceeding in each such transaction, and also supports the objectiveness and reasonableness of the determination, as long as the Bank operates in accordance with the criteria.

1. The Audit Committee, in its meeting of October 12, 2015, determined that, in general, the Bank shall enter into the following types of transactions, when they are executed with a controlling party of the Bank or a controlling party of the Bank has a personal interest therein, only after conducting a competitive proceeding, as detailed below: (a) acquisition of products and services; (b) contractual engagements for the execution of projects and work for the Bank or for companies under its control; (c) contractual engagements to buy, rent, or rent out property, except as noted in Section 3.4 above. This applies unless the Audit Committee has determined, due to considerations to be recorded, with respect to a particular transaction and the circumstances thereof (including regulatory approvals granted to the transaction, including from the Bank of Israel, inasmuch as any such approval is required), that there is no need for such a competitive proceeding, including with reference to considerations of the applicant, in accordance with the procedures of the Bank, or that another proceeding should be conducted, as detailed in Section 3 below, or that an exemption can be applied, as detailed in Section 4 below.
2. Within the competitive proceeding, the Board of Management of the Bank, or whoever it appoints, shall approach at least three candidates for the contractual engagement (at least two of these shall be unrelated to a controlling party of the Bank or to a related party of the Bank, to the extent that such candidates exist and it is practical) for proposals to contract with the Bank in the proposed transaction (hereinafter: the "Bidders"). The Bank shall establish a uniform timeframe for submission of proposals (which may be extended). If a decision is made to negotiate with the Bidders, the negotiations shall be conducted with each of the Bidders whose proposal was found to be relevant, in order to receive their best and final offer (hereinafter: the "Final Offer").

   The Final Offers and a summary of the talks held with the Bidders shall be presented for a decision by the approving party, according to law and the procedures of the Bank. The Audit Committee shall supervise the competitive proceeding in connection with exceptional transactions, in the way it determines, to the extent that it is within its authority. The approving party, at its discretion, shall make the decision regarding the contractual engagement of the Bank with the Bidder. As a rule, the Bank shall contract with the Bidder that offers the most beneficial terms for the Bank, or in a case in which there is no clear preference for one proposal over the other proposals, the Bank shall contract with any of the Bidders, according to its judgment. The choice of the offer with the most beneficial terms for the Bank can be based on various criteria, to be determined, that are relevant to the contractual engagement referenced in the proceeding. If the chosen proposal is that of a Bidder related to a controlling party of the Bank, the approving party shall specify the considerations supporting this contractual engagement.

3. The following types of transactions have been found to be unsuitable for competitive proceedings pursuant to Section 117(1B) of the Companies Law and as described in Sections 1 and 2 above, for reasons noted below. In general, the Bank shall enter into the following types of transactions after conducting an alternative proceeding, as detailed below:
   3.1. Banking transactions of any kind, including granting credit and other indebtedness transactions; taking monetary deposits; transactions oriented to banking fees and services, such as transactions in securities and in financial assets, and foreign-currency conversion; transactions in credit cards, including the provision of issuance and clearing services; provision of services for investment banking, portfolio management, underwriting, and distribution. The Bank or companies under its control offer these transactions to all of its customers or to many entities, the number and quantity of the transactions are unlimited, and the terms thereof are adapted to the circumstances of each individual customer.
   3.2. Transactions for the terms of employment of an officer and/or employee of the Bank.
   3.3. A contractual engagement for the purchase of insurance policies, including directors' and officers' insurance. In this case, the personal interest of controlling parties of the Bank, or of a party in which a controlling party has a personal interest, can derive from the identity of those covered by the policy; however, they have no personal interest in the amount of the premium paid to the insurance company, and it was therefore found that there is no justification for a competitive proceeding with respect to the purchase of the policy.
   3.4. Extension of a rental agreement or change in the terms of rent for a property, when vacating the property may cause material expenses relative to the rent payments, or damage to business activity (e.g. as a result of difficulty for customers, loss of a location, etc.), or a property for which no reasonable and appropriate substitute can be found that would meet the requirements of the Bank. With regard to a rent agreement contracted for a new property, if the Board of Management of the Bank recommends not conducting a competitive proceeding, for unique reasons (such as the location of the property), the decision not to conduct a competitive proceeding shall be presented to the Audit Committee, in advance, for discussion and approval.
   3.5. With regard to the transactions noted in this Section 3, the Bank shall apply a proceeding to ensure that the transaction is executed at market terms. The examination of market terms shall be performed in accordance with the criteria for market terms adopted by the Bank with respect to the classification of exceptional and negligible transactions and in accordance with the procedures of the Board of Directors and the procedures of the Bank on these matters.
4. The Audit Committee further determined that notwithstanding the foregoing, the transactions listed below shall be exempt from a competitive proceeding:
   4.1. A contractual engagement not exceeding a monetary value of NIS 2 million, and in a continuing contractual engagement not exceeding an annual monetary value of NIS 2 million, provided that it is executed at market terms.
   4.2. A contractual engagement required urgently to prevent genuine damage to the Bank, in the opinion of the Board of Management of the Bank, provided that it is executed at market terms.
   4.3. A continuing contractual engagement at terms identical to or better than the terms of the original contractual engagement, under circumstances in which continuity is necessary for reasons of savings and efficiency, provided that it is executed at market terms.
   4.4. A contractual engagement for the acquisition of unique services or goods in the area of culture and art, provided that it is executed at market terms.

4.5. A contractual engagement with a person who, according to legal rights, or due to actual circumstances, is the only person capable of performing the matter referenced in the contractual engagement (hereinafter: a "Sole Supplier"), provided that the member of the Board of Management responsible for the area, or the Board of Management committee appointed for the contractual engagement, has expressed the opinion that the party to the contract is a Sole Supplier, as noted, provided that it is executed at market terms.

4.6. Donations and monetary sponsorships to benefit the community, provided that they are approved by the Audit Committee.

4.7. A contractual engagement which the Audit Committee has determined is unsuitable for or does not require a competitive proceeding.

5. The Audit Committee also determined that given that, pursuant to the Companies Law, in accordance with the interpretation of the Israel Securities Authority, transactions of private subsidiaries of the Bank with a controlling party of the Bank, or in which the controlling party of the Bank has a personal interest, are viewed as transactions that require approval at the Bank as though they were transactions of the Bank, the aforesaid criteria shall also apply to transactions of the subsidiaries with a controlling party of the Bank, or in which a controlling party of the Bank has a personal interest. The foregoing shall not detract from any additional approval or proceeding required at the subsidiary, according to law and/or the articles of the subsidiary.

Table 8-4: Details of the balances of the controlling party of the Bank and of others in whose transactions with the Bank the controlling party has a personal interest (in NIS thousands)

	Balance as at December 31, 2015	Highest balance in 2015
Shikun & Binui Ltd. Group[1]:		
Balance sheet credit	**354,986**	**434,111**
Commitments to grant credit	**829,492**	**1,210,894**
Sale guarantees, guarantees to secure credit, and others	**445,821**	**445,821**
Balance sheet and off-balance sheet credit in respect of transactions in derivatives[2]	**22,029**	**25,040**
Guarantees to third parties	**41,344**	**41,398**
Deductions	**-**	**-**
Deposits from the public (balance sheet)	**266,832**	**607,832**
Expenses in respect of non-banking activity	**1,696**	**-**
"Ruach Tova" Foundation:		
Deposits from the public (balance sheet)	**156**	**6,900**
Sponsorships[3]	**950**	**950**
Tel Aviv Museum of Art:		
Donations[4]	**268**	**268**
"Matan – Investing in the Community" Foundation:		
Donations[5]	**1,000**	**1,100**
Shari Arison:		
Commitments to grant credit	**10**	**10**
Sale guarantees, guarantees to secure credit, and others	**158**	**160**
Deposits from the public (balance sheet)	**20,405**	**20,787**
Arison Holdings Ltd.:		
Deposits from the public	**9**	**10**

(1) Ms. Shari Arison is the controlling shareholder of Shikun & Binui Ltd.(hereinafter: "Shikun & Binui"), and is considered to be the controlling shareholder of the companies in this group. The information presented regarding the Bank's business (balance sheet credit, off-balance sheet credit, and monetary deposits) with the Shikun & Binui Group refers to the accounts of Shikun & Binui itself, as well as to all of the corporations under its control, excluding the accounts of a corporation under its control, which are reported separately. Note that because the information refers to the group as a whole, it includes data which would be considered negligible for each company in its own right, and which would not be reported at all if the report referred to each corporation individually.

(2) Off-balance sheet credit as calculated for the purpose of the limits on borrower indebtedness, pursuant to Proper Conduct of Banking Business Directive 313. The balance as at December 31, 2015 includes a balance of balance sheet fair value of derivatives in the amount of approximately NIS 22,029 thousand.

(3) The Bank granted this sponsorship through its participation in financing the activities of Good Deeds Day. Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the "Ruach Tova" Foundation.

(4) Assistance to the Tel Aviv Museum was granted through various sponsorships, including for the Passover Project and the museum's gala night, as well as through museum membership fees and membership in the purchasing group of the museum.

(5) The Bank, through the Poalim for the Community Foundation, which serves as the Bank's channel for donations to public institutions, in cooperation with the Isracard Group, granted this donation within its participation in the project "A Password for Every Student." Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the "Matan – Investing in the Community" Foundation.

Table 8-4: Details of the balances of the controlling party of the Bank and of others in whose transactions with the Bank the controlling party has a personal interest (in NIS thousands):

	Balance as at December 31, 2014	Highest balance in 2014
Shikun & Binui Ltd. Group[1]:		
Balance sheet credit	434,110	524,060
Commitments to grant credit	1,208,894	1,209,289
Sale guarantees, guarantees to secure credit, and others	332,466	416,352
Balance sheet and off-balance sheet credit in respect of transactions in derivatives[2]	17,669	17,669
Guarantees to third parties	41,398	41,674
Deposits from the public (balance sheet)	124,446	221,761
Expenses in respect of non-banking activity	1,774	-
"Ruach Tova" Foundation:		
Deposits from the public (balance sheet)	395	395
Sponsorships[3]	950	950
"Matan - Investing in the Community" Foundation:		
Donations[4]	1,000	1,000
Shari Arison:		
Commitments to grant credit	10	35
Sale guarantees, guarantees to secure credit, and others	160	180
Deposits from the public (balance sheet)	20,296	20,296
Arison Holdings Ltd.:		
Deposits from the public	10	14

(1) Ms. Shari Arison is the controlling shareholder of Shikun & Binui Ltd. (hereinafter: "Shikun & Binui"), and is considered to be the controlling shareholder of the companies in this group. The information presented regarding the Bank's business (balance sheet credit, off-balance sheet credit, and monetary deposits) with the Shikun & Binui Group refers to the accounts of Shikun & Binui itself, as well as to all of the corporations under its control, excluding the accounts of Derech Eretz Highways (1997) Ltd. (see footnote 3 below) and of a corporation under its control, which are reported separately. Note that because the information refers to the group as a whole, it includes data which would be considered negligible for each company in its own right, and which would not be reported at all if the report referred to each corporation individually.

(2) Off-balance sheet credit as calculated for the purpose of limits on borrower indebtedness, pursuant to Proper Conduct of Banking Business Directive 313. The balance as at December 31, 2014, includes a balance sheet balance of derivatives in the amount of approximately NIS 15,573 thousand, and an off-balance sheet balance in the amount of approximately NIS 1,798 thousand.

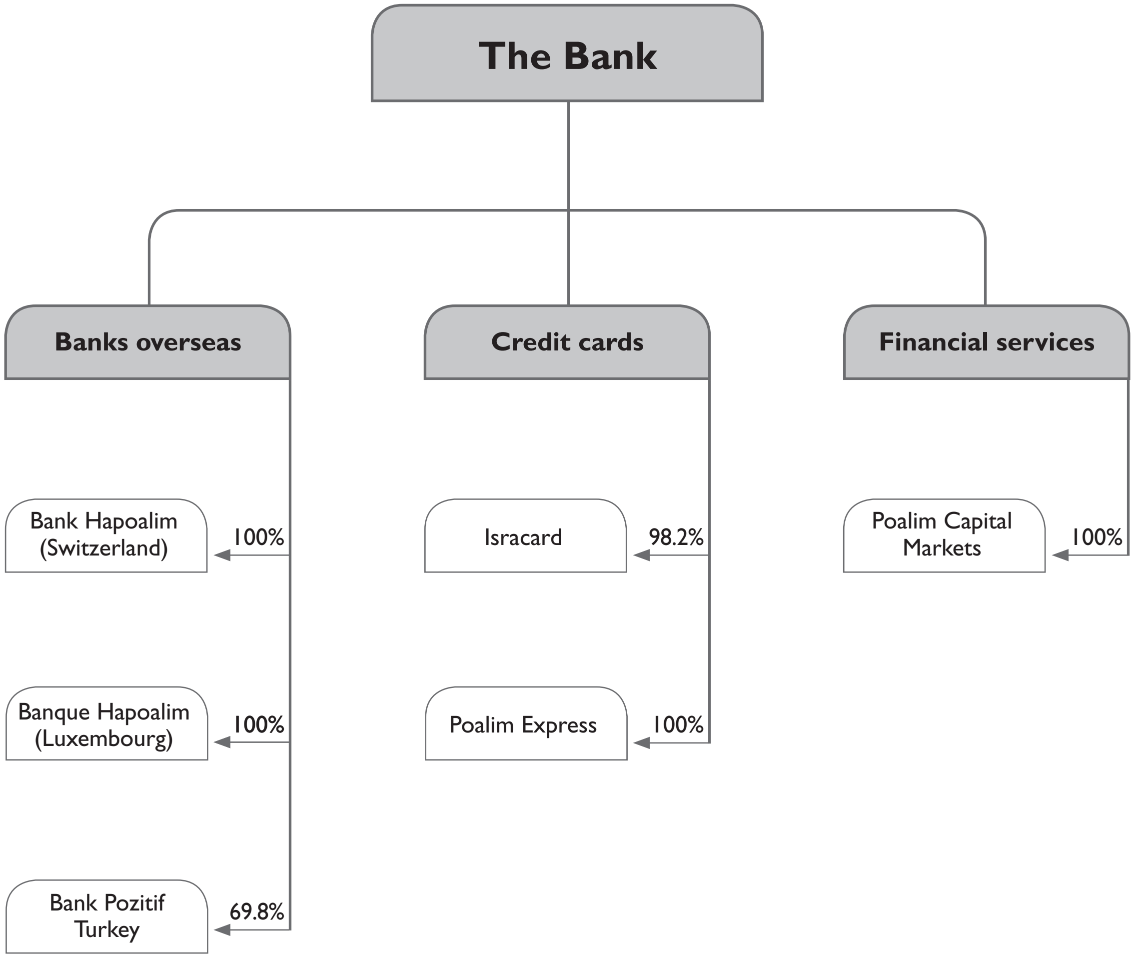
(3) The Bank granted this sponsorship through its participation in financing the activities of Good Deeds Day. Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the "Ruach Tova" Foundation.

(4) The Bank, through the Poalim for the Community Foundation, which serves as the Bank's channel for donations to public institutions, in cooperation with the Isracard Group, granted this donation within its participation in the project "A Password for Every Student." Mr. Jason Arison, son of Ms. Shari Arison, volunteers on the executive board of the "Matan – Investing in the Community" Foundation.

9. Additional Information Regarding the Business of the Banking Corporation and the Management Thereof

9.1. Holdings Chart

Set out below is a chart of the Bank's main holdings*:



* The chart includes the principal companies held directly by the Bank or indirectly through private subsidiaries under the full ownership of the Bank. The wholly-owned subsidiaries through which the companies in the above chart are held do not appear in the chart. For the purposes of this chart, a principal company is a company engaged in business operations which in the opinion of the Board of Management of the Bank is a principal company in the Group, and in which the Bank's investment is at least 1% of the shareholders' equity of the Bank, or the Bank's share of whose net profit (loss) attributed to shareholders of the Bank exceeds 5% of the net profit (or loss) attributed to shareholders of the Bank (similar to the criterion established in Public Reporting Directive 662 of the Supervisor of Banks regarding the statement of data on principal subsidiaries in financial statements of banking corporations).

For details regarding the control of the Bank, see the section "Control of the Bank" in the Board of Directors' and Board of Management Report.

9.2. Fixed Assets

Table 9-1: Fixed Assets

	December 31			
	2015			2014
	Cost	Accrued depreciation	Balance	Balance
	NIS millions			
Buildings and land (including installations and improvements to rented properties)	**4,224**	**2,220**	**2,004**	1,995
Equipment, including computers, furniture, and vehicles	**2,305**	**1,795**	**510**	522
Software	**4,101**	**3,206**	**895**	958
Total	**10,630**	**7,221**	**3,409**	3,475

The buildings in which the Bank's business is conducted in Israel are under its ownership or under the ownership of its asset companies, or rented for various rental periods. Most of the properties in which the Bank Group's business is conducted overseas are rented.

The Bank owns 177 properties with an area of 213 thousand square meters, of which 156 buildings with an area of 103 thousand square meters used as branches, and 21 buildings with an area of 110 thousand square meters used as management offices and auxiliary space. In addition to the buildings under its ownership, the Bank Group rents 206 buildings with an area of 114 thousand square meters. Data referring to the area of Head Office buildings also include parking lots and storage facilities.

As part of the work plan for 2011, the Board of Directors passed a resolution to work to consolidate Head Office offices and units at a future central site to be built outside central Tel Aviv. Among other matters, a decision was taken to buy suitable land reserves with a large area, and to transfer the units in stages. It was further resolved that the central site would be planned based on green construction principles. The planning and construction of the first stage of the central site are expected to take several years.

For further data regarding buildings and equipment, see Note 16 to the Financial Statements.

IT Infrastructures

General

With the completion of the Rotem project, the Bank will have two central IT sites: a double main production site (the Rotem site contains two separate IT sites in a high-availability format) in Emek Hefer, and a backup site in Tel Aviv, to ensure maximum survivability. The Bank's core system, located at the production site, is installed on an IBM mainframe computer. A mainframe computer operates at the backup site in a minimal format. When necessary, this computer will be expanded to the required power.

Additional systems operate alongside the core system (Linux, Unix, and Windows-based systems – hereinafter: the "Open Systems"), for specific needs, using a platform that allows dynamic distribution and optimal utilization of resources. The Bank uses advanced methodologies and systems to streamline development and production processes.

The Bank Group's branches, regional administrations, business centers, and Head Office units are computerized and connected online to the computer centers of the Information Technology Area. 493 external ATMs, 107 internal ATMs, 264 external check-deposit machines, 326 internal check-deposit machines, 89 AdKan information stations, and 269 Toran self-service stations are available to customers.

The systems used by the Isracard Group include mainframe computers (including for backup purposes), open systems, and hardware and software used by the company in its routine operations in the areas of issuance and clearing and in the operation of credit-card arrangements. These systems meet the requirements of the technical specifications established by the international organizations.

Information Backup and Storage

As noted above, the Bank has two central IT sites (at two geographical locations: Rotem and Allenby), a double main production site and a backup site. In addition, the Bank has databases that store copies of paper documents, mortgage documents, etc., for everyday use in data retrieval and in order to retain an accessible historical copy of these data. Every action executed on the Bank's computers is simultaneously updated at the Rotem production site (with double saving) and at the backup site, so that in case of disaster or physical malfunction, a backup exists for the Bank's critical systems, and damage to the hardware at one of the sites would not cause information loss. In the event of an emergency switch to the backup site, the Bank has the capability to immediately increase the power of the backup computer (MF) to the power level of the production computer, by operating dormant engines; in other words, the backup site has the capacity for the computer power required for all of the Bank's routine business activity.

Communications

The Bank has an advanced data and voice communications network, with high data transmission speeds. The communications network has high survivability and includes backups that allow work with both of the Bank's IT centers. The Bank's communication network also connects the Bank's branches and offices worldwide and transmits data services, speech, and video conferences.

Subsidiaries

The IT and operational systems of the overseas subsidiaries, as well as of the activity of the Bank Group overseas not conducted through subsidiaries, are based on independent systems; managerial responsibility rests with the managements and boards of directors of the subsidiaries, or with the Member of the Board of Management responsible for the activity, as relevant. Corporate governance rules serve as the basis for the interaction between the IT Area and the subsidiaries.

Suppliers

From time to time the Bank enters into contractual engagements with suppliers from Israel and elsewhere to receive the various services it requires in the area of information systems, including agreements for the purchase and maintenance of equipment, implementation of information systems, and purchase of software, as there are services based on technologies regarding which knowledge is concentrated with a small number of service providers, and sometimes with a service provider with exclusive expertise and knowledge in the specific technology. The Bank has contracted with an outsourcing services supplier, at this stage mostly for testing.

Information Security

Investment in information security of information systems is an integral, inseparable part of the development of modern information systems. Information security is implemented on several levels and circuits in the Bank's systems, in order to ensure that the Bank's systems are well protected against penetration, unauthorized access, or damage. Information-related projects at the Bank are accompanied from their inception by an information-security team that ensures strict compliance with information-security rules, protection of the privacy of information, and the restriction of access to information to authorized personnel only. Security events in IT systems are referred in real time to an expert center of information-security personnel, and addressed and documented from the initial stage of the event to its completion. Relevant events are also referred to the Audit Department. Material incidents are reported to the Board of Management and the Board of Directors. The Bank routinely conducts resilience tests and information-security surveys of its systems, in order to ensure that information security is maintained at all times and complies with the strict rules established in this area.

Main Projects in Progress

MESER (General Ledger System) – Computerization of the general ledger of the Bank; based on the Bank Analyzer product by SAP. The deliverables of this project will bring the Bank to the forefront of the field of comptrolling on an international level, on a par with the tier of major global banks. The system includes an accounting information infrastructure based on detailed business events and contractual and administrative attributes derived from operational systems. The system will provide business and managerial insights for the Bank's management and provide the capability to flexibly generate reports.

Mobile banking – Development and expansion of mobile applications for customers of the Bank. The applications offer business capabilities in a wide range of areas and customer segments, through an innovative and unique interface and user experience, with an emphasis on business and technological leadership and adaptation to the customer.

Rotem project – The Bank has established a new data center. The structure is characterized by high availability and a high level of protection, in order to provide a solution for the need for continuity of the Bank's IT systems. The construction of the structure has been completed, and the process of migration to the new facility has begun.

Poalim restructuring – Allows construction of a process of working with customers experiencing difficulties, with earlier identification. A comprehensive offer is provided to the customer, reducing the volume of cases transferred to collection proceedings.

Internet and mobile leadership project – Planning and development of the Bank's future Internet and mobile system, as the first application in the business technology leadership project, which is designed to preserve and solidify the business technology leadership of Bank Hapoalim. This project reflects an advanced approach to visibility and customer service as well as multi-channel integration and the architecture supporting the application.

ATM of the Future project – The goal of this project is to replace and upgrade the core of the ATM system, reduce operational risks, and create a technological foundation for future advanced services.

Capital-market leadership – Improvement and upgrade of core systems for the capital market, to create new growth drivers and achieve operational efficiency.

Leadership in deposits – Development of new capabilities in the systems used for deposits, including development of personalized structured products and creation of new product categories, in order to respond to market needs.

Digital branches – Establishment of a network of digital branches, creating an advanced banking experience that combines virtual and brick-and-mortar services. The branch offers advanced technologies, such as advanced customer identification, paperless branch, tablets for use by customers and bankers, and wearable tech. The branch provides advanced financial services: remote investment advising via VC, electronic signatures, and a digital product shelf.

Scope of Investment

The Bank implements International Accounting Standard 38 and the guidelines of the Supervisor of Banks concerning the capitalization of software costs. Costs of the information-technology system are recorded as assets in the financial statements only during the development stage of the IT system. The development stage begins only after the project has been approved and budgeted, and its technological feasibility has been demonstrated. Costs recognized as assets include direct costs of hardware, services, and labor. Other costs, such as pre-project costs, software development costs that do not exceed the materiality threshold, absorption and training costs, routine maintenance costs, administrative costs, and other costs that cannot be attributed directly to software development are recognized as an expense in the statement of profit and loss upon formation.

9.3. Human Capital

Human Resources Strategy

Human resources strategy is formulated in congruence with the Bank's strategy, the derived business needs, and trends in the area of human resources. Accordingly, the Human Capital, Advising, and Resources Area has set itself the mission of serving as a strategic partner supporting the achievement of the Bank's business objectives, with an emphasis on the development and cultivation of human resources, while continually striving for excellence and making optimal use of resources.

The strategic plan encompasses four main areas of activity:

- **Human resources planning –** Formulating and implementing plans and processes according to the work plans of the Areas of the Bank, in all matters related to human capital, including mix, education, and training, while adjusting to labor-market trends and changing regulation.
- **Cultivating and developing people and culture –** Solidifying the Bank's vision, ethical code, and values; cultivating professional and managerial excellence among Bank employees; motivating and encouraging employees. The Bank continually cultivates a culture of learning among its employees and invests substantial resources in professional and management training.
- **Operational excellence –** Managing resources and continually examining work processes and cost generators in order to achieve optimal resource utilization and savings.
- **Partnership and service promoting business –** Proactively providing service to Bank units and matching the service package to the unique needs of internal clients.

Table 9-2: Data regarding the headcount of the Bank Group, in terms of positions(1)

	2015		2014	
	Annual average	Year-end balance	Annual average	Year-end balance
Bank				
In Israel	**9,920**	**9,595**	10,387	10,139
Abroad	**287**	**288**	288	283
Bank total	**10,207**	**9,883**	10,675	10,422
Subsidiaries				
In Israel	**1,596**	**1,591**	1,631	1,636
Abroad	**592**	**456**	658	625
Subsidiaries total	**2,188**	**2,047**	2,289	2,261
Bank Group total	**12,395**	**11,930**	12,964	12,683

(1) The number of positions also includes translation of overtime costs into employee positions, plus the positions of external personnel who are not employees of the Bank but who provide labor services as required for the adjustment of manpower needs in the course of routine operations and for the introduction of projects, less positions of employees whose wages were capitalized to fixed assets.

Principal changes in the headcount of the Bank Group in 2015 in comparison to the end of 2014 are set out below.

The number of position at the Bank Group as at December 31, 2015, decreased by 753 compared with the number of positions at the end of 2014, as follows:

- The number of positions at the Bank in Israel decreased by 544. The decrease mainly resulted from the implementation of the standardization process at the Head Office units, based on the "Poalim the Right Way" (LEAN Banking) methodology, and from optimization of the deployment of the branch network.
- The number of positions at subsidiaries overseas decreased by 169, mainly due to the sale of the bank in Kazakhstan.
- The number of positions at subsidiaries in Israel decreased by 45.

Table 9-3: Distribution of the average number of employee positions in the Bank Group by segment of activity(1)

	2015	2014	Change
Households	**4,678**	4,977	(6.0%)
Private banking	**3,020**	3,144	(3.9%)
Small businesses	**1,620**	1,656	(2.2%)
Commercial	**1,074**	1,109	(3.2%)
Corporate	**670**	696	(3.7%)
Financial management	**784**	823	(4.7%)
Others and adjustments	**549**	559	(1.8%)
Total	**12,395**	12,964	(4.4%)

(1) Includes positions of Head Office employees whose cost of employment was charged to the segments.

Human Resource Characteristics

The policy of the Bank is to employ, promote, and make decisions concerning employees based on material considerations such as skills and performance, without discrimination on the basis of religion, race, sex, age, views, sexual orientation, disability, place of residence, etc. The Bank encourages the hiring of employees belonging to segments underrepresented in the labor market, as part of its hiring policy, in recognition of the advantages inherent in a diverse workforce in terms of a better understanding of various segments of customers, and the encouragement of innovation and creativity in an open and diverse work environment.

The average seniority of the Bank's employees was 18.5 years in 2015, compared with 17.9 years in 2014. The average age of employees of the Bank was 44.4 in 2015, compared with 43.7 in 2014.

In 2015, approximately 65.3% of all employees of the Bank were women, compared with 65.7% in 2014. In the Bank's senior management (department heads at the Head Office, branch managers, and above), the percentage of women in 2015 was 40.9%, compared with 40.6% in 2014 (the percentage of women in senior management in 2006 was 29%).

The Bank's policy is to hire employees holding academic degrees, as necessary; accordingly, the percentage of these employees out of total employees of the Bank has risen steadily, from 28.1% in 1998 to 64.6% in 2015 (62.2% in 2014). This increase resulted from degree-holding employees hired, and from the completion of academic studies by employees of the Bank.

Efficiency at the Bank

In 2015, the Bank continued to apply the efficiency plan in its workforce, both at the branches and at the head-office units. The plan, which is based on early retirement, was reflected in the financial statements for 2015 at a total amount of NIS 355 million.

The efficiency plan also addresses various matters related to purchasing, reduction of space, and other expense items. The efficiency plan, which supports the Bank's multi-year strategy, continues in 2016.

The Bank's Remuneration System

The Bank aims to remunerate its employees for their work and contribution to the Bank, and to retain employees for the long term. The Bank also aspires to link employees' best interests with the best interests of the Bank and of its stakeholders, in alignment with the Bank's goals, work plans, and long-term policies, while maintaining fair employment, encouraging excellence, and fostering a culture of performance. Employees' remuneration is usually based on three components: routine wages, annual bonuses, and long-term remuneration derived from the increase in value of the Bank's shares. Employees of the Bank are entitled to various benefits, including participation in health insurance, participation in tuition fees, participation in costs of membership of sports centers and cultural institutions, gifts on holidays and personal occasions, and a bonus after 25 years of work. For further details, see Notes 23 and 24 to the Financial Statements.

Cost and Wages per Employee Position**

Table 9-4: Details of cost per employee position and wages per employee position at the Bank (in NIS thousands)

	2015	2014
Cost per employee position, excluding bonuses	**365**	*361
Cost per employee position, including bonuses	**412**	*401
Salary** per employee position, excluding bonuses	**211**	201
Salary**per employee position, including bonuses	**249**	*233

* Excluding expenses for the efficiency plan. Comparative figures have been restated.
** Salary – calculated according to gross salary as paid to the employee.

Remuneration Policy and Remuneration Plan

On January 5, 2014, the Bank published its remuneration policy for officers, pursuant to Amendment 20 to the Companies Law, 1999 (the "Companies Law"), and in accordance with Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks of November 19, 2013 ("Banking Corporation Remuneration Policy Directive") and the additional comments received from the Supervisor of Banks (the "Remuneration Policy"). The principles of the Remuneration Policy apply to the subsidiaries of the Bank in Israel and overseas. The Remuneration Policy was adopted by the general meeting of shareholders of the Bank on February 11, 2014.

The Board of Directors of the Bank approved a remuneration plan for its senior executives, in accordance with the Banking Corporation Remuneration Policy Directive and the Remuneration Policy, on June 22, 2014. The remuneration plan creates alignment between the business results of the Bank as a whole over time and remuneration; it is based on profit adjusted for risk and the cost of capital, alongside negative remuneration for failure to meet objectives in the long term. The plan establishes a mechanism for long-term spreading of payments, in order to avoid encouraging risk-taking beyond the risk appetite of the Bank. Annual bonuses are calculated based on the Bank's performance (reflecting executives' responsibility for the performance of the Bank as a whole, beyond their responsibility for the specific performance of their area or unit); achievement of KPIs, including metrics related to risk management and compliance with laws, regulatory directives, and procedures; and evaluation by a supervisor.

Increase in Minimum Wage

The Minimum Wage Law was amended by the Knesset in January 2015. Pursuant to this law, the minimum monthly wage in Israel will rise from a gross amount of NIS 4,300 to a gross amount of NIS 5,000 over two years, in three increments: the first in April 2015, the second in July 2016, and the third in January 2017.

Following the update of this law, the Bank, in cooperation with the chairperson of the Employee Union, resolved to implement the increase in wages immediately, such that minimum wage for employees of the Bank, including external workers, rose to a gross amount of NIS 5,000 in one step, beginning April 2015, instead of three increments.

Cultivation and Development of Human Capital

The Bank continually cultivates a culture of learning among its employees, and invests substantial resources in professional and managerial training, based on the view that constant improvement in employees' abilities supports the achievement of the Bank's strategic objectives and is in line with the Bank's vision. The Bank hires employees with academic degrees, and encourages its existing employees to obtain undergraduate and graduate degrees by providing tuition aid and adding vacation days for examinations.

Poalim Campus

Poalim Campus is a key arena for instilling the strategy and vision of the Bank through learning, communication, and processes promoting performance. Learning leads to personal, organizational, and business development, ensuring professional and managerial excellence for employees and executives. Learning takes place in Campus classrooms, at regional administrations, and at each employee's workstation.

In 2015, approximately 62,000 training days were held at the Poalim Campus, in about 750 courses. These included banking coaching days, management coaching days, courses for senior executives, banking management training, a preparatory course on economics and finance, and learning "on the ground" in regional and branch classrooms.

Banking training – The Banking School is responsible for training bankers in the area of professional knowledge and for imparting business skills in a manner adapted to each position holder, the needs of the position, and the strategic changes within the organization, including promotion of the digital channels in the courses and coaching days, which use a variety of learning technologies. In 2015, short, focused training sessions on a variety of topics in banking were developed and conducted; professional coaching days were held for executives; and 13 sessions of courses for senior executives in various areas of banking were conducted.

New learning system – The system has been implemented at all units of the Bank. Over 100 new learning elements were developed for the learning system in 2015, on various banking topics. The system allows employees to maintain readiness and professional skill at all times. Employees receive learning elements each week, individually matched to their position, and knowledge gaps in the field are mapped routinely. The learning elements concern all content areas in banking: current accounts, credit, foreign currency, service, regulation, and more.

Executive training and development – The School of Management and Leadership at the Poalim Campus serves as a base for the creation and operation of development tracks for Bank executives, in order to empower and cultivate a core group of managers, in line with the Bank's strategic goals, objectives, and values. The center conducts development programs suited to the executive tier. The Team Leadership program continued during the year, emphasizing team management, empowerment of individuals, and development; 54 additional branches and 14 Head Office units participated. A new senior management program, Managing Through Being, was introduced for the senior management forum.

Organizational Culture and Climate

Ethical Code

The Bank considers the ethical code to be a foundation of its organizational culture. The ethical code has been in place at the Bank since 2004, and is a statement of intent embodying the commitment of Bank Hapoalim to proper conduct, both in labor relations within the Bank and in the Bank's relationships with suppliers, customers, competitors, and other stakeholders. Until 2012, training sessions were conducted for managers, in order to instill the ethical code at the units, and a game was designed for this purpose and run by managers at all units of the Bank. A tutorial on this subject was distributed and completed by all employees of the Bank. A page containing detailed content regarding the code, for all employees, was added to the organizational portal in 2013. The tutorial has been updated with a new learning cluster concerning the resolution of ethical dilemmas, and is completed annually by all employees of the Bank. The procedure on acceptance of gifts has been updated, and a workshop discussing ethical dilemmas and ways of resolving them has been developed and included in various professional courses. An English-language learning cluster was developed in 2015, for use at the Bank's representative offices overseas.

Vision of the Bank

Over the last five years, a process has been underway to instill the vision of the Bank, with the aim of expressing the desired future of Bank Hapoalim at its best. The vision declares the Bank's commitment to its employees, its customers, and all of its stakeholders; it imbues the objectives set and the processes led by the Bank with meaning in terms of values. The values of the vision are integrated into learning and training systems in courses on banking, management, and conduct.

In 2015, a trajectory was formulated for an organization-wide process under the heading Poalim BeTov (Poalim for Good), in which employees will be introduced to the Doing Good model of the Arison Group, which has been adopted by the Bank. This process will enhance the Bank's positive action with employees, customers, the environment, and the community, and constitutes the next step to the implementation of the Bank's vision of 2011. Poalim for Good will be launched in 2016.

Performance Evaluation Process

The evaluation process, performed each year, is centered on a feedback meeting in which the performance of the last year is summed up and future objectives and development are planned. This process is based on open dialogue and transparency, and supports employee empowerment and development. The process is part of an annual sequence of managerial efforts to encourage excellence and give employees evaluation, appreciation, and compensation. An additional annual process is conducted mid-year, focusing, beginning in 2015, on employee development.

Intra-Organizational Communication

Bank Hapoalim views its employees as full partners in its business and organizational processes. In order to maintain employees' sense of strong identification and connection, many initiatives are conducted with the aim of strengthening connections and dialogue through organization-wide communication: between management and employees, between executives and employees, and among the various units. The Bank operates through various channels for this purpose, including the organizational portal, which serves as a central, advanced communications channel supporting the sharing of information with employees and the absorption of intra-organizational change processes. The Bank's digital intra-organizational news program, Poalim Broadcast, was introduced in 2015. Each program is about two minutes long. Content includes business news as well as depth topics such as documentation of the work of the branches and units, interviews with senior executives, and interviews with Bank employees who have grown and developed.

9.4. Restrictions and Supervision of the Activity of the Banking Corporation

General

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.

In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).

Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.

Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.

The Bank's activity is subject to supervision and auditing by the Supervisor of Banks as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Antitrust Commissioner. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity. The Bank and its subsidiaries work to comply with the duties imposed upon them under the said legal provisions.

The legislation passed following the recommendations of an inter-ministerial committee headed by the Director General of the Ministry of Finance (the Bachar Committee) establishes the possibility, for most of the laws applicable to the activity of the Bank, to impose monetary sanctions for violations of the directives of the laws and the secondary legislation (including circulars and guidelines) issued in the past or future under such laws.

The following is a summary of several regulatory directives relevant to the reported period, which have an impact on the activity of the Bank:

- Encouraging competition in the banking system – The recommendations of the Committee for Increasing Competition in the Banking System (the Zaken Committee) continued to be promoted in 2014, with a range of directives issued by the Bank of Israel and implemented over the last year. These directives include easier transition between accounts (an update of Proper Conduct of Banking Business Directive 432 in Bank of Israel Circular 2443, dated December 15, 2014), by simplifying the actions necessary to close a customer's account and transfer the activity from the customer's old bank to the customer's account at the new bank, and shortening of the procedures involved in the transition, in order to prevent unnecessary inconvenience for the customer, all in order to help customers exercise their choice to conduct all or part of their banking activity at a different bank. The procedure for transferring authorizations to debit the account from a transferring bank to a transferee bank has also been simplified, which entailed significant changes in work processes in the banking system (Proper Conduct of Banking Business Directive 439, dated September 4, 2014).
- Another directive derived from the recommendations of the Zaken Committee concerns disclosure of the cost of services in securities (amendment of Proper Conduct of Banking Business Directive 414 in Bank of Israel Circular 2415, dated October 16, 2013). This directive calls for the Bank to present detailed information to customers who execute transactions in securities regarding the costs charged (details of fees for buying, selling, and redeeming securities, and securities management fees), as well as comparative information regarding the average rates of actual fees charged versus a reference group based on the deposit value.
- Another recommendation concerns the implementation of the directive on annual statements to customers of banking corporations (Proper Conduct of Banking Business Directive 425, in the circular of the Bank of Israel dated November 19, 2014). This recommendation calls for a concise summary report to be sent to all customers of the Bank, detailing all of the customer's assets and liabilities, delivered proactively on a periodic basis and presented on the Bank's secure website. This report is to be sent to individual customers and small businesses. The first report shall refer to 2015, and shall be delivered to customers by February 28, 2016.
- In order to stimulate competition in the banking system, the Bank of Israel has promoted the option to open bank accounts over the Internet (Proper Conduct of Banking Business Directive 418, dated July 15, 2014), in a specialized format, as part of the organization of an infrastructure for the establishment of an online bank in Israel. Account opening will be possible only for an individual resident of Israel over the age of 18; activation will be possible only after receiving a bank transfer from an account in the name of the applicant at a banking corporation in Israel. In addition, the account opened will be subject to limits on amounts for activity, asset balances, and the limit for activity using a charge card. Special directives regarding identification of the customer have been established.
- Additional directives are a directive on opening and managing a current account with a positive balance (Proper Conduct of Banking Business Directive 422 in Bank of Israel Circular 2423, dated May 26, 2014), which establishes processes for the examination of an application to open an account, means of payment to be provided by the Bank (including a bank debit card), and means for retrieval and control available to the customer; Banking Rules (Service to Customers) (Due Disclosure and Submission of Documents) (published in the Official Gazette of the Israeli Government 7469 on December 30, 2014), which, among other matters, establish new directives for the delivery of copies of documents and notification of changes concerning the terms of management of an account and the termination of benefits; and Banking Rules (Service to Customers) (Fees), dated January 21, 2015, which led to a change in the definition of a "small business."

- Implementation of the Basel Committee recommendations – This year, as part of the implementation of the recommendations of the Basel Committee, the Supervisor of Banks intensified the promotion of numerous amendments to the Proper Conduct of Banking Business Directives concerning risk management, including corporate governance management, risk appetite, and measurement and reporting (amendment of Proper Conduct of Banking Business Directive 310 in Bank of Israel Circular 2356, dated December 27, 2012); interest risks and consolidated measurement of interest exposure (value and income) of the entire group in the banking and non-banking book (amendment of Proper Conduct of Banking Business Directive 333 in Bank of Israel Circular 2377, dated May 30, 2013); proper assessment of credit risks and proper measurement of debts (Proper Conduct of Banking Business Directives 311 and 314 in Bank of Israel Circular 2357, dated December 27, 2012, and Bank of Israel Circular 2375, dated April 30, 2013, respectively); measurement of the liquidity coverage ratio and development of monitoring tools for the use of banking corporations and supervisors in monitoring liquidity risks (Bank of Israel Circular 2431, dated September 28, 2014); and more. The implementation of these directives at the Bank involves work processes, project management, and extensive inputs.
- Implementation of FATCA directives – Beginning in 2011, the Bank has prepared to implement the FATCA directives published by the United States government, according to the detailed regulations within the law, and as expressed in the letter of the Bank of Israel dated April 6, 2014, which guides banking corporations on preparations in the areas of corporate governance procedures, registration on the IRS portal for reporting financial institutions, and the manner of conduct with customers. FATCA is an American law aimed at empowering the IRS to enforce and combat tax evasion outside the United States, through accounts maintained outside the United States. The FATCA regulations were published on January 17, 2013, and are in effect as of July 1, 2014. On June 30, 2014, the governments of the United States and Israel signed an inter-government agreement regulating the implementation of FATCA in Israel through local legislation. The agreements reached with the Department of the Treasury in the United States will ease requirements for financial entities obligated to supply information regarding accounts of Americans in Israel. Among other matters, the agreement formalizes the transfer of information from financial entities in Israel to the IRS (the Internal Revenue Service in the United States). The information to be submitted includes details regarding financial accounts held in Israel by United States citizens, United States residents, Green Card holders, or legal entities in which such Americans have a material holding. In addition, the agreement makes it possible to report to the IRS on revenues in the accounts of Israeli residents maintained in the United States.
- Amendment 5 to the Uniform Contracts Law, published in the Official Gazette of the Israeli Government on December 17, 2014 (Book of Laws File 2484, page 109), seeks to establish that in cases in which a uniform contract contains a provision such as, "I confirm that I have read the contract and I agree to its terms," the burden of proof shall be transferred to the supplier, who shall be required to explain why this provision is not discriminatory. If the supplier fails to prove that the provision is not discriminatory, the court may determine that the provision is void ab initio, and it shall not be possible to argue that the customer agreed to terms that do not appear explicitly in the service transaction contract. The law also states that if a consumer signs a contract containing a provision that grants the supplier unreasonable consensual compensation or an unreasonable remedy or a remedy not available to the company by law, this provision shall also be considered a discriminatory provision. The law further establishes that from this point forward, the special tribunal for uniform contracts shall not hear suppliers' petitions for "approval certificates" for uniform contracts. Until now, the law allowed a supplier seeking to protect itself against claims of a discriminatory provision in a uniform contract to petition the special tribunal for legal approval of the provisions of the contract. The implementation of this law at the Bank has far-reaching implications for various and numerous contracts and forms at the Bank, and it has complex operational implications requiring the investment of extensive inputs.

9.5. Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

Table 9-5: Ratings of the Bank

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating					
	Moody's	A1	P-1	Stable	October 2015
	S&P	A+	A-1	Stable	February 2016
	Fitch Ratings	A	F1	Stable	October 2015
Bank Hapoalim					
	Moody's	A2	P-1	Stable	December 2015
	S&P	A-	A-2	Stable	November 2015
	Fitch Ratings	A-	F1	Stable	April 2015

In February 2015, the rating agency S&P reaffirmed the sovereign foreign-currency rating at A+. The sovereign rating outlook remained Stable.
In April 2015, the rating agency Fitch reaffirmed the Bank's rating, with no change. The rating outlook remained Stable.
In May 2015, the rating agency Fitch reaffirmed the sovereign foreign-currency rating at A. The sovereign rating outlook remained Stable.
In June 2015, the rating agency Moody's reaffirmed the Bank's rating, with no change. The rating outlook was upgraded from to Stable (from Negative).
In August 2015, the rating agency S&P reaffirmed the sovereign foreign-currency rating at A+. The sovereign rating outlook remained Stable.
In October 2015, the rating agency Moody's reaffirmed the sovereign foreign-currency rating at A1. The sovereign rating outlook remained Stable.
In October 2015, the rating agency Fitch reaffirmed the sovereign foreign-currency rating at A. The sovereign rating outlook remained Stable.
In November 2015, the rating agency S&P reaffirmed the Bank's rating, with no change. The rating outlook remained Stable.
In December 2015, the rating agency Moody's reaffirmed the Bank's rating, with no change. The rating outlook remained Stable.
In February 2016, the rating agency S&P reaffirmed the sovereign foreign-currency rating at A+. The sovereign rating outlook remained Stable.

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Local rating (in Israel)					
	S&P Maalot	AAA		Stable	November 2015
	Midroog	Aaa	P-1	Stable	October 2015

In October 2015, the rating agency Midroog reaffirmed the Bank's rating, with no change. The rating outlook remained Stable.
In November 2015, the rating agency S&P Maalot reaffirmed the Bank's rating, with no change. The rating outlook remained Stable.

9.6. Poalim in the Community – Social Involvement and Contribution to the Community

Strategy and Vision

As part of the Bank Hapoalim Group's vision, strategy, and corporate values, the Bank is committed to an active, leading role in the community, alongside its business leadership and economic initiatives. This involvement, implemented through "Poalim for the Community," is part of an advanced managerial approach stating that an organization that operates within the community, and draws both its employees and customers from it, is an integral part of that community, and as a business leader, should strengthen the community and take a leading role in the advancement and improvement of conditions for all members of the community, especially those who are underprivileged.

In the spirit of this business philosophy, the Bank conducts a varied and extensive range of community-oriented activities that take the form of social involvement, monetary donations, and large-scale volunteer activities in which both members of management and employees participate. Activity on behalf of the community is an important factor in cultivating employees' sense of pride and cohesion.

Ongoing Activities

All of the Bank's community-oriented activity is organized within "Poalim for the Community"; part of the activity is conducted through the "Poalim for the Community Foundation (Registered Non-Profit Organization)," and the rest is conducted through other channels, described below.

Poalim for the Community devotes special attention to work with children and adolescents, with the aim of advancing the generation of the future. However, the activity of Poalim for the Community is extensive and varied, and includes other target groups as well.

In 2015, Poalim for the Community focused on projects in the area of education, aimed at children, adolescents, and specific population groups, with special emphasis on teaching sensible financial behavior. Poalim for the Community devotes approximately half of its budget to the area of education.

Through the areas of activity described below, and through the various projects promoted by the Bank Group, the Group's involvement in the community in 2015 was expressed in a financial expenditure of approximately NIS 43 million. The budget for this activity is determined each year by a committee headed by the Chairman of the Board of Directors. This decision is made separately for each specific year, and approved within the overall budget of the Bank.

Details of the various channels and projects follow.

"Poalim Volunteers" employee volunteer project – Several Bank units collaborate on this project, aimed at assisting employees interested in volunteering for community activities. The Bank units involved are the Human Capital, Advising and Resources Area, the Employee Union, the Head of Community Relations, regional managements in the Retail Banking Area, and the "Ruach Tova" and "Matan" foundations. Within this collaboration, employees are offered a wide variety of volunteering possibilities, for groups, branches, or individuals. Other Bank employees also volunteer individually with the Bank's assistance. A specialized unit was established in 2011 to handle this activity, and continues to operate.

"Poalim for the Community Foundation" – Monetary donations to the numerous organizations supported by the Bank Group are made via the "Poalim for the Community Foundation." In 2015, as in previous years, the Poalim for the Community Foundation contributed to a large number of causes, including assistance for children and youth, strengthening disadvantaged population groups, and support for educational, culture, welfare, health care, and science institutions. Through the Foundation, the Bank contributes to higher-education institutions, to scholarships for university students and underprivileged schoolchildren, and to the realization of educational initiatives and enrichment programs for children and youth, as well as for children who are hospitalized and need special assistance in order to progress in their studies. The Poalim for the Community Foundation contributes to the advancement of culture and the arts, and makes donations to various activities throughout Israel, focusing on enrichment programs for children and youth via innovative educational projects.

Another important area in which the Poalim for the Community Foundation is a regular donor is health care. The Poalim for the Community Foundation supports several medical centers, with donations intended mainly to improve conditions of patients' treatment and hospitalization. The Foundation also promotes projects aimed at integrating persons with disabilities into community life. In addition, the Foundation contributes to organizations that help realize wishes of children suffering from cancer.

"Read & Succeed" community project – Poalim for the Community is committed to changing the reading habits of Israeli children and youth. In addition to its ongoing community activities, the Foundation decided in 2004 to initiate a focused effort to bring about fundamental changes in the reading habits of Israeli children and youth. The project continued during 2005-2015. The goal of the project is to raise public awareness of the encouragement of reading. The project includes a public informational campaign, funding of story hours throughout Israel, activities during National Book Week, and collaboration with the Children's Channel and other media outlets.

Community-oriented sponsorships – Various community activities are supported through community-oriented sponsorships, primarily encouraging excellence in sports, funding cultural events, and assisting health-care institutions.

Donations of computers and accompanying equipment – The Bank is aware of the paramount importance of investment in technology for the education and advancement of children and youth, and accordingly donates computers and accompanying equipment each year. In 2015, the Bank donated approximately 655 computer systems as well as additional accompanying equipment.

"Poalim for Culture and Nature in Israel" – The Bank believes that closeness to our heritage and culture is of the utmost importance, and has therefore resolved to make it possible for all Israeli parents and children to visit and enjoy a variety of sites throughout Israel during holidays, without a heavy financial burden for the families. During Passover 2005, the Bank launched a special project in which all Israelis were invited to visit sites throughout Israel free of charge during the holiday week. Since then, this project has become an annual tradition, which continued during Passover in 2015.

Support for culture and the arts – Each year, the Bank contributes to the promotion of culture and the arts through donations and sponsorships; for example, the Bank provides support to museums throughout Israel. The Bank sponsors several internationally recognized cultural institutions committed to leadership and excellence in their field: the Batsheva Dance Company; the Israel Philharmonic Orchestra; the Israeli Opera; Cameri, Habima, and Gesher theaters; and others. The Bank also holds art exhibitions in the Head Office building at its compound in Shefayim, with revenues devoted to the various foundations that participate in this initiative.

Activity in the Arab-Israeli community – The Bank places special emphasis on the promotion of projects targeted to the Arab-Israeli community, including donations dedicated to a wide range of projects in this sector.

"Poalim from Three to Five" Project – The Bank, in cooperation with the ORT organization, participates in the initiative of the Technion to help students from geographically remote communities with lower socio-economic backgrounds improve their academic achievements in mathematics. The goal is to increase the number of applicants for the five-credit-point matriculation exam in mathematics by about 5%.

Financial education project with the ORT chain – The Bank is committed to an effort, in collaboration with the ORT chain, to promote financial education and education on sensible economic conduct for adolescents, and to improve financial dialogue between parents and children. With the completion of the development of the learning environment and the writing of learning materials over recent months, the program is being rolled out to all of the schools in the ORT chain.

"Matan – Investing in the Community" (hereinafter: "Matan") **–** Since 1999, the Bank has engaged in activity on behalf of the community in cooperation with the Matan Foundation. Through the "Matan Campaign," employees engaged in volunteer work gain awareness of community needs and the importance of giving, and share this message with their colleagues. The model is based on partnership between management and employees in the workplace. All donations to Matan by employees and management are intended for a wide variety of community causes, aimed at supporting and strengthening disadvantaged groups in society. Donations are allocated in a special procedure that involves an examination of needs and effectiveness. Bank employees participate as volunteers on the Matan fund-designation committee, which decides on the distribution of the funds in the community, and as "Matan Observers," assisting in the monitoring process of use of the funds donated. Matan is committed to transferring donations to organizations or community causes chosen by the employee.

Sustainability and Corporate Social Responsibility

The Bank has adopted the principles of sustainability and CSR as essential foundations for its activity, based on a deep conviction that this is its moral and professional duty and the expectation of the community in which the Bank operates and from which it draws its strength. The Bank therefore views sustainability and CSR as integral parts of its overall strategy as a business leader in Israel. The Bank works to identify and maximize business opportunities in these areas, in order to generate social and environmental benefit; improve service; maintain fair, ethical conduct; foster partnerships with stakeholders in the society and community; and improve environmental and social risk management. Based on this philosophy, the Bank is implementing a large-scale long-term plan to embed CSR principles in all aspects of its activity.

Extensive details regarding activity in the areas of sustainability and CSR are provided in the Bank's CSR Report, which is available on its website, in Hebrew and English. The Bank is the first business organization in Israel to receive the top rating for all of its reports.

The Bank is the first business organization in Israel to voluntarily report at the highest level (In Accordance: Comprehensive) within the new, advanced G4 standard launched by the Global Reporting Initiative (GRI). Preparations for reporting according to the new standard included an innovative process of examining and selecting sustainability issues material to the Bank's activity and reporting, taking into consideration the opinions of stakeholders and sources in Israel and overseas. Among other matters, the report contains an extensive integrative presentation of the Bank's activity aimed at promoting its customers' financial freedom. The initiatives and activities described in the report have earned Bank Hapoalim international and local recognition.

As part of its ambition to develop businesses with added social or environmental benefit, Bank Hapoalim has completed the planning of a broad strategic drive targeted to "mature" citizens near or after retirement age – the first of its kind in Israel. This effort is one of the key focus areas for the Bank's activity in 2015 and thereafter. The move encompasses unique benefits, services, and products for senior citizens, based on the Bank's view that retirement opens the door to a new life stage in which adults can enjoy the fruits of their labors, after many years of hard work. The core of this effort is specialized financial planning for the senior age group, performed via the groundbreaking new system developed by the Bank, Poalim Advisor. This system offers unique advisory processes to senior citizens, which include targeted financial goal setting and solutions for achievement of the goals, full asset mapping, and an analysis of present and future income and expenses. Following the advisory process, customers will be offered solutions matched to their needs and based on their economic abilities and future plans, taking their age and risk level into consideration. The Bank's 700 investment advisors are attending targeted training sessions in order to be able to respond to senior citizens' specific advisory needs.

This far-reaching effort, the first of its kind in Israel for the senior-citizen population, is rooted in an understanding of its importance and strong influence on society and on the economy. The challenges faced after retirement necessitate the creation of a specialized package of services and products for this group. Bank Hapoalim views this move as another way of expressing its concern for its customers' financial freedom and of fulfilling its role of providing financial guidance to families during important milestones and addressing their present and future needs.

10. Appendices

10.1. Rates of Interest Income and Expenses

Table 10-1: Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses(1)

A. Average balances and interest rates

	For the year ended December 31								
	2015			2014			2013		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing assets									
Credit to the public(3):									
In Israel	**238,506**	**8,272**	**3.47%**	224,530	*8,938	*3.98%	219,512	10,674	4.86%
Outside Israel	**21,996**	**772**	**3.51%**	18,423	690	3.75%	18,975	716	3.77%
Total	**260,502**	**(4)9,044**	**3.47%**	242,953	(4)*9,628	*3.96%	238,487	(4)11,390	4.78%
Credit to governments:									
In Israel	**2,067**	**41**	**1.98%**	1,470	32	2.18%	927	21	2.27%
Outside Israel	**185**	**-**	**-**	-	-	-	-	-	-
Total	**2,252**	**41**	**1.82%**	1,470	32	2.18%	927	21	2.27%
Deposits with banks:									
In Israel	**5,683**	**75**	**1.32%**	3,709	66	1.78%	2,634	42	1.59%
Outside Israel	**2,957**	**(5)**	**(0.17%)**	2,765	10	0.36%	2,373	19	0.80%
Total	**8,640**	**70**	**0.81%**	6,474	76	1.17%	5,007	61	1.22%
Deposits with central banks:									
In Israel	**22,171**	**26**	**0.12%**	12,367	71	0.57%	14,095	192	1.36%
Outside Israel	**18,237**	**47**	**0.26%**	12,816	32	0.25%	18,393	44	0.24%
Total	**40,408**	**73**	**0.18%**	25,183	103	0.41%	32,488	236	0.73%
Securities borrowed or purchased under agreements to resell:									
In Israel	**499**	**1**	**0.20%**	187	-	-	73	1	1.37%
Outside Israel	**7**	**1**	**14.29%**	10	-	-	6	-	-
Total	**506**	**2**	**0.40%**	197	-	-	79	1	1.27%

* Reclassified.
(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).
(3) Before deduction of the average balance sheet balance of the allowance for credit losses. Includes impaired debts that do not accrue interest income.
(4) Fees in the amount of NIS 722 million were included in interest income in the year ended December 31, 2015 (December 31, 2014: NIS 707 million; December 31, 2013: NIS 386 million).

Table 10-1: Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses(1) (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2015			2014			2013		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing assets (continued)									
Bonds held to maturity and available for sale(3):									
In Israel	**40,746**	**483**	**1.19%**	47,849	685	1.43%	47,532	1,054	2.22%
Outside Israel	**7,364**	**101**	**1.37%**	6,838	122	1.78%	6,008	123	2.05%
Total	**48,110**	**584**	**1.21%**	54,687	807	1.48%	53,540	1,177	2.20%
Bonds held for trading(3):									
In Israel	**5,872**	**17**	**0.29%**	1,740	22	1.26%	3,044	55	1.81%
Outside Israel	**595**	**3**	**0.50%**	793	5	0.63%	1,198	4	0.33%
Total	**6,467**	**20**	**0.31%**	2,533	27	1.07%	4,242	59	1.39%
Other assets:									
In Israel	**187**	**3**	**1.60%**	655	*-	*-	603	6	1.00%
Outside Israel	**-**	**-**	**-**	-	-	-	110	10	9.09%
Total	**187**	**3**	**1.60%**	655	*-	*-	713	16	2.24%
Total interest-bearing assets	**367,072**	**9,837**	**2.68%**	334,152	10,673	3.19%	335,483	12,961	3.86%
Non-interest-bearing debtors in respect of credit cards	**14,057**			13,658			13,765		
Other non-interest-bearing assets(4)	**38,374**			**33,307			*25,375		
Total assets	**419,503**			**381,117			*374,623		
Total interest-bearing assets attributed to activities outside Israel	**51,341**	**919**	**1.79%**	41,645	859	2.06%	47,063	916	1.95%

* Reclassified.

** Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) The average balance of unrealized gains (losses) from adjustments to fair value of bonds held for trading and of gains (losses) from bonds available for sale, which are included in equity within cumulative other comprehensive income, in the amount of NIS 820 million for the year ended December 31, 2015 (December 31, 2014: NIS 906 million; December 31, 2013: NIS 493 million), were deducted from (added to) the average balance of bonds available for sale and of bonds held for trading.

(4) Includes derivative instruments and other non-interest-bearing assets; net of the allowance for credit losses.

Table 10-1: Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1] (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2015			2014			2013		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing liabilities									
Deposits from the public:									
In Israel	**190,911**	**735**	**0.38%**	197,881	1,355	0.68%	204,336	2,710	1.33%
On demand	**59,254**	**41**	**0.07%**	45,448	194	0.43%	49,629	388	0.78%
Fixed term	**131,657**	**694**	**0.53%**	152,433	1,161	0.76%	154,707	2,322	1.50%
Outside Israel	**19,168**	**95**	**0.50%**	16,173	73	0.45%	16,475	82	0.50%
On demand	**9,396**	**22**	**0.23%**	7,722	23	0.30%	6,284	22	0.35%
Fixed term	**9,772**	**73**	**0.75%**	8,451	50	0.59%	10,191	60	0.59%
Total	**210,079**	**830**	**0.40%**	214,054	1,428	0.67%	220,811	2,792	1.26%
Deposits from the government:									
In Israel	**357**	**11**	**3.08%**	446	12	2.69%	596	23	3.86%
Outside Israel	**79**	**1**	**1.27%**	7	-	-	-	-	-
Total	**436**	**12**	**2.75%**	453	12	2.65%	596	23	3.86%
Deposits from central banks:									
In Israel	**-**	**-**	**-**	-	-	-	5	-	-
Outside Israel	**484**	**-**	**-**	28	-	-	-	-	-
Total	**484**	**-**	**-**	28	-	-	5	-	-
Deposits from banks:									
In Israel	**3,634**	**15**	**0.41%**	3,469	9	0.26%	3,608	36	1.00%
Outside Israel	**925**	**25**	**2.70%**	1,547	54	3.49%	1,668	80	4.80%
Total	**4,559**	**40**	**0.88%**	5,016	63	1.26%	5,276	116	2.20%
Securities lent or sold under agreements to repurchase:									
In Israel	**-**	**-**	**-**	-	-	-	367	4	1.09%
Outside Israel	**120**	**2**	**1.67%**	126	10	7.94%	297	11	3.70%
Total	**120**	**2**	**1.67%**	126	10	7.94%	664	15	2.26%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 10-1: Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1] (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2015			2014			2013		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing liabilities (continued)									
Bonds:									
In Israel	**31,957**	**951**	**2.98%**	30,571	1,256	4.11%	32,889	1,948	5.92%
Outside Israel	**2,182**	**107**	**4.90%**	2,151	105	4.88%	2,454	117	4.77%
Total	**34,139**	**1,058**	**3.10%**	32,722	1,361	4.16%	35,343	2,065	5.84%
Other liabilities:									
In Israel	**117**	**8**	**6.84%**	150	29	19.33%	73	3	4.11%
Outside Israel	**401**	**2**	**0.50%**	498	2	0.40%	552	4	0.72%
Total	**518**	**10**	**1.93%**	648	31	4.78%	625	7	1.12%
Total interest-bearing liabilities	**250,335**	**1,952**	**0.78%**	253,047	2,905	1.15%	263,320	5,018	1.91%
Non-interest-bearing deposits from the public	**96,427**	**-**	**-**	61,557	-	-	50,240	-	-
Non-interest-bearing creditors in respect of credit cards	**14,012**	**-**	**-**	13,848	-	-	14,032	-	-
Other non-interest-bearing liabilities[3]	**27,254**	**-**	**-**	*23,413	-	-	*19,943	-	-
Total liabilities	**388,028**	**-**	**-**	*351,865	-	-	*347,535	-	-
Total capital means	**31,475**	**-**	**-**	*29,252	-	-	*27,088	-	-
Total liabilities and capital means	**419,503**	**-**	**-**	*381,117	-	-	*374,623	-	-
Interest spread			**1.90%**			2.04%			1.95%
Net return on interest-bearing assets[4]									
In Israel	**315,731**	**7,198**	**2.28%**	292,507	7,153	2.45%	288,420	7,321	2.54%
Outside Israel	**51,341**	**687**	**1.34%**	41,645	615	1.48%	47,063	622	1.32%
Total	**367,072**	**7,885**	**2.15%**	334,152	7,768	2.32%	335,483	7,943	2.37%
Total interest-bearing liabilities attributed to activities outside Israel	**23,359**	**232**	**0.99%**	20,530	244	1.19%	21,446	294	1.37%

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1).

(1) Data presented after the effect of hedging derivative instruments.

(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

(3) Includes derivative instruments.

(4) Net return – net interest income divided by total interest-bearing assets.

Table 10-1: Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1] (continued)

B. Average balances and interest rates – additional information regarding interest-bearing assets and liabilities attributed to activity in Israel

	For the year ended December 31								
	2015			2014			2013		
	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)	Average balance[2]	Interest income/ (expenses)	Rate of income/ (expense)
	NIS millions		%	NIS millions		%	NIS millions		%
Israeli currency unlinked									
Total interest-bearing assets	**226,997**	**6,984**	**3.08%**	203,843	7,306	3.58%	199,815	8,040	4.02%
Total interest-bearing liabilities	**148,365**	**(596)**	**(0.40%)**	149,001	(1,067)	(0.72%)	150,140	(1,967)	(1.31%)
Interest spread			**2.68%**			2.86%			2.71%
Israeli currency CPI-linked									
Total interest-bearing assets	**53,442**	**1,132**	**2.12%**	56,984	1,756	3.08%	59,354	3,180	5.36%
Total interest-bearing liabilities	**41,431**	**(975)**	**(2.35%)**	42,217	(1,438)	(3.41%)	46,907	(2,566)	(5.47%)
Interest spread			**(0.23%)**			(0.33%)			(0.11%)
Foreign currency (includes Israeli currency linked to foreign currency)									
Total interest-bearing assets	**35,292**	**802**	**2.27%**	31,680	752	2.37%	29,251	825	2.82%
Total interest-bearing liabilities	**37,180**	**(149)**	**(0.40%)**	41,299	(156)	(0.38%)	44,827	(191)	(0.43%)
Interest spread			**1.87%**			1.99%			2.39%
Total activity in Israel									
Total interest-bearing assets	**315,731**	**8,918**	**2.82%**	292,507	9,814	3.36%	288,420	12,045	4.18%
Total interest-bearing liabilities	**226,976**	**(1,720)**	**(0.76%)**	232,517	(2,661)	(1.14%)	241,874	(4,724)	(1.95%)
Interest spread			**2.06%**			2.22%			2.23%

(1) Data presented after the effect of hedging derivative instruments.
(2) Based on monthly opening balances (in the unlinked Israeli currency segment, based on daily balances).

Table 10-1: Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1] (continued)

C. Analysis of changes in interest income and expenses

	Year ended December 31, 2015, versus year ended December 31, 2014			Year ended December 31, 2014, versus year ended December 31, 2013		
	Increase (decrease) due to change[2]		Net change	Increase (decrease) due to change[2]		Net change
	Quantity	Price		Quantity	Price	
	NIS millions					
Interest-bearing assets						
Credit to the public:						
In Israel	**485**	**(1,151)**	**(666)**	200	(1,936)	(1,736)
Outside Israel	**125**	**(43)**	**82**	(21)	(5)	(26)
Total	**610**	**(1,194)**	**(584)**	179	(1,941)	(1,762)
Other interest-bearing assets:						
In Israel	**77**	**(307)**	**(230)**	(12)	(483)	(495)
Outside Israel	**31**	**(53)**	**(22)**	(35)	4	(31)
Total	**108**	**(360)**	**(252)**	(47)	(479)	(526)
Total interest income	**718**	**(1,554)**	**(836)**	132	(2,420)	(2,288)
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**(27)**	**(593)**	**(620)**	(44)	(1,311)	(1,355)
Outside Israel	**15**	**7**	**22**	(1)	(8)	(9)
Total	**(12)**	**(586)**	**(598)**	(45)	(1,319)	(1,364)
Other interest-bearing liabilities:						
In Israel	**39**	**(360)**	**(321)**	(109)	(599)	(708)
Outside Israel	**(5)**	**(29)**	**(34)**	(24)	(17)	(41)
Total	**34**	**(389)**	**(355)**	(133)	(616)	(749)
Total interest expenses	**22**	**(975)**	**(953)**	(178)	(1,935)	(2,113)
Total interest income less interest expenses	**696**	**(579)**	**117**	310	(485)	(175)

(1) Data presented after the effect of hedging derivative instruments.
(2) The change attributed to change in quantity was calculated by multiplying the new price by the change in quantity.The change attributed to change in price was calculated by multiplying the old quantity by the change in price.

10.2. Multi-Quarter Profit and Loss and Balance Sheet

Table 10-2: Quarterly Consolidated Statement of Profit and Loss for the Years 2014-2015 – Multi-Quarter Data

	2015				2014			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions							
Interest income	**2,240**	**2,795**	**3,080**	**1,722**	2,396	2,855	2,983	2,439
Interest expenses	**(288)**	**(671)**	**(872)**	**(121)**	(507)	(882)	(926)	(590)
Net interest income	**1,952**	**2,124**	**2,208**	**1,601**	1,889	1,973	2,057	1,849
Provision (income) for credit losses	**147**	**55**	**213**	**60**	363	80	(3)	(15)
Net interest income after provision for credit losses	**1,805**	**2,069**	**1,995**	**1,541**	1,526	1,893	2,060	1,864
Non-interest income								
Non-interest financing income	**154**	**55**	**264**	**571**	257	187	265	207
Fees	**1,306**	**1,329**	**1,313**	**1,339**	1,377	1,283	1,277	1,270
Other income	**46**	**25**	**31**	**44**	61	21	20	29
Total non-interest income	**1,506**	**1,409**	**1,608**	**1,954**	1,695	1,491	1,562	1,506
Operating and other expenses								
Salaries and related expenses	**1,236**	**1,189**	**1,249**	**1,260**	*1,473	*1,270	*1,289	*1,311
Maintenance and depreciation of buildings and equipment	**429**	**393**	**360**	**373**	397	393	382	367
Amortization and impairment of intangible assets and goodwill	**-**	**-**	**3**	**4**	3	3	3	3
Other expenses	**646**	**601**	**496**	**551**	612	579	580	518
Total operating and other expenses	**2,311**	**2,183**	**2,108**	**2,188**	*2,485	*2,245	*2,254	*2,199
Profit before taxes	**1,000**	**1,295**	**1,495**	**1,307**	*736	*1,139	*1,368	*1,171
Provision for taxes on profit	**428**	**527**	**628**	**514**	*241	*424	585	*463
Profit after taxes	**572**	**768**	**867**	**793**	*495	*715	*783	*708
The Bank's share in profits (losses) of equity-basis investees, after taxes	**(2)**	**7**	**8**	**6**	(4)	1	(1)	13
Net profit:								
Before attribution to non-controlling interests	**570**	**775**	**875**	**799**	*491	*716	*782	*721
Loss (profit) attributed to non-controlling interests	**16**	**27**	**11**	**9**	(4)	2	-	5
Attributed to shareholders of the Bank	**586**	**802**	**886**	**808**	*487	*718	*782	*726
Earnings per ordinary share in NIS:								
Basic earnings								
Net profit attributed to shareholders of the Bank	**0.44**	**0.60**	**0.67**	**0.61**	*0.37	*0.54	0.59	*0.55
Diluted earnings								
Net profit attributed to shareholders of the Bank	**0.44**	**0.60**	**0.66**	**0.61**	*0.37	*0.54	0.59	*0.54

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1). to the Financial Statements.

Table 10-3: Consolidated Balance Sheet as at the End of Each Quarter in the Years 2014-2015 – Multi-Quarter Data

	2015			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions			
Assets				
Cash and deposits with banks	**64,976**	**58,579**	**62,115**	**70,443**
Securities	**62,884**	**61,064**	**56,232**	**54,328**
Securities borrowed or purchased under agreements to resell	**119**	**504**	**647**	**523**
Credit to the public	**282,911**	**279,484**	**275,146**	**272,987**
Allowance for credit losses	**(4,414)**	**(4,292)**	**(4,329)**	**(4,066)**
Net credit to the public	**278,497**	**275,192**	**270,817**	**268,921**
Credit to governments	**2,564**	**2,580**	**2,268**	**2,243**
Investments in equity-basis investees	**143**	**144**	**142**	**139**
Buildings and equipment	**3,409**	**3,361**	**3,411**	**3,435**
Intangible assets and goodwill	**-**	**-**	**-**	**4**
Assets in respect of derivative instruments	**12,789**	**15,097**	**13,802**	**18,312**
Other assets	**6,257**	**6,398**	**7,180**	**8,078**
Total assets	**431,638**	**422,919**	**416,614**	**426,426**
Liabilities and Capital				
Deposits from the public	**321,727**	**310,692**	**304,382**	**307,895**
Deposits from banks	**4,773**	**4,679**	**4,718**	**5,421**
Government deposits	**354**	**397**	**463**	**560**
Securities lent or sold under agreements to repurchase	**83**	**109**	**324**	**43**
Bonds and subordinated notes	**34,475**	**35,061**	**34,829**	**34,808**
Liabilities in respect of derivative instruments	**13,806**	**16,178**	**15,478**	**19,715**
Other liabilities	**23,201**	**22,859**	**23,930**	**25,898**
Total liabilities	**398,419**	**389,975**	**384,124**	**394,340**
Shareholders' equity	**33,032**	**32,741**	**32,260**	**31,845**
Non-controlling interests	**187**	**203**	**230**	**241**
Total capital	**33,219**	**32,944**	**32,490**	**32,086**
Total liabilities and capital	**431,638**	**422,919**	**416,614**	**426,426**

Table 10-3: Consolidated Balance Sheet as at the End of Each Quarter in the Years 2014-2015 – Multi-Quarter Data (continued)

	2014			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
	NIS millions			
Assets				
Cash and deposits with banks	54,974	50,541	31,282	39,467
Securities	58,778	57,190	63,800	65,333
Securities borrowed or purchased under agreements to resell	476	375	23	50
Credit to the public	268,160	261,744	255,929	253,994
Allowance for credit losses	(4,180)	(3,918)	(3,863)	(3,762)
Net credit to the public	263,980	257,826	252,066	250,232
Credit to governments	1,861	1,676	1,426	1,380
Investments in equity-basis investees	135	145	139	141
Buildings and equipment	3,475	3,358	3,373	3,381
Intangible assets and goodwill	7	10	13	17
Assets in respect of derivative instruments	16,244	16,584	11,597	10,547
Other assets	*8,103	*6,529	*6,680	*6,318
Total assets	*408,033	*394,234	*370,399	*376,866
Liabilities and Capital				
Deposits from the public	297,230	281,760	268,935	276,014
Deposits from banks	4,322	5,395	4,392	4,849
Government deposits	455	407	463	504
Securities lent or sold under agreements to repurchase	42	26	132	188
Bonds and subordinated notes	33,671	34,073	30,533	31,314
Liabilities in respect of derivative instruments	16,777	17,208	12,528	11,623
Other liabilities	*24,320	*24,422	*23,260	*22,886
Total liabilities	*376,817	*363,291	*340,243	*347,378
Shareholders' equity	*30,966	*30,696	*29,907	*29,241
Non-controlling interests	250	247	249	247
Total capital	*31,216	*30,943	*30,156	*29,488
Total liabilities and capital	*408,033	*394,234	*370,399	*376,866

* Retrospective implementation – for details regarding the retrospective implementation of US GAAP regarding employee benefits, see Note 1D(1). to the Financial Statements.

Glossary

Active market

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

Appreciation

Strengthening of the value of a currency in relation to other currencies.

Auxiliary corporation

A corporation that is not a banking corporation in its own right, and which engages only in an area of activity permitted to the banking corporation that controls it, excluding occupations permitted exclusively to banking corporations by law.

Average duration

Weighted average term to maturity of the principal and interest payments on a bond.

B2B

Business to business - A business activity in which a product is sold or a service is provided by an organization to another organization.

B2C

Business to consumer - A business activity in which a product is sold or a service is provided to an end consumer.

Balloon loan

A loan in which only interest payments are performed throughout the loan period, and the principal is paid in full at the end of the period; in some cases, the interest is also paid at the end of the period.

Bullet loan

A loan in which only interest payments are performed throughout the loan period, and the principal is paid in full at the end of the period; in some cases, the interest is also paid at the end of the period.

Bank of Israel interest rate

The interest rate at which the Bank of Israel lends or borrows money to or from banking corporations. This rate is established by the monetary committee of the Bank of Israel.

Banking corporation

A bank, foreign bank, mortgage bank, investment financing bank, business promotion bank, financial institution, or join services company.

Basel

Basel 2/Basel 3 - Risk-management regulations for banks, established by the Basel Committee, which is engaged in supervision and setting standards for supervision of banks worldwide.

Benchmark scenario

A possible outline of security-related, operational, economic, or other events that may cause a significant operational disruption for the banking corporation, used as a relevant outline in planning solutions.

Bid-ask spread

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

Black-Scholes model

A model for pricing options, including a current value technique that reflects the time value and the internal value of the option.

Bond

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

BOT

Build Operate Transfer - A financing arrangement for public projects, in which a private entity receives a franchise from a public entity to finance, plan, build, and operate a public facility for a limited period, at the completion of which the ownership of the project is transferred to the government.

Branch

Any place where a banking corporation takes monetary deposits or conducts business with its customers, including a mobile branch, but excluding a facility which customers can use to execute transactions in their account with a banking corporation, including loans.

Business continuity management

An organization-wide approach encompassing policy guidelines, standards, and procedures aimed at protecting the Bank's existence as an active, robust financial entity and its ability to continue to provide optimal service to its customers even during emergencies and significant operational disruptions.

CBS

Central Bureau of Statistics - An organization endowed with the legal authority to collect and distribute official data about the society and economy of Israel.

Class action

A claim filed on behalf of a group of people who have not given the representative claimant power of attorney, which raises essential questions of fact or law common to all members of the group.

Clearing

A financial process of debiting and crediting customers.

Cloud computing

IT resources, IT infrastructure, or IT systems accessed from a remote computer through the Internet or a dedicated communication line.

Consortium

A credit transaction in which several financial entities grant a joint loan to a borrower.

Control

The ability to direct the activity of a corporation, excluding ability arising solely from performance of the duties of a director or other office of the corporation. A person necessarily controls a corporation if they hold half or more of a certain type of means of control of the corporation.

Controls and procedures concerning disclosure

Other controls and procedures of the banking corporation designed to ensure that the information that the banking corporation is required to disclose in its reports is recorded, processed, summarized, and reported in accordance with the Public Reporting Directives of the Supervisor of Banks. "Controls and procedures concerning disclosure" include, among other matters, controls and procedures designed to ensure that the information that the banking corporation is required to disclose, pursuant to the Public Reporting Directives of the Supervisor of Banks, is collected and transmitted to the management of the banking corporation, including the chief executive officer and the chief accountant, in an appropriate manner in order to allow decisions to be made at the proper time in connection with the disclosure requirements.

CPI

Consumer price index - An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the "consumption basket" of an average family. The Central Bureau of Statistics publishes the index of changes in prices in the preceding month on the 15th day of each month.

Credit granting activity

Loan granting, commitments to grant loans, refinancing or restructuring of loans, organization of letters of credit, creation of loan syndications.

Credit facility

The maximum withdrawal amount that a banking corporation agrees to accept in withdrawals from a customer's current account with a negative balance.

Credit-card company

An auxiliary corporation that issues credit cards or clears payments executed using credit cards.

Current account

A bank account used to conduct incoming and outgoing cash transactions.

Current drawing account

A business current account with a credit facility.

CVA

Credit valuation adjustment - Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

Cyber incident

An event in which Internet infrastructures and Internet services are a main component of an attack on computer systems and/or IT systems and infrastructures are attacked by, or on behalf of, antagonists (external or internal to the banking corporation), which may lead to the materialization of exposure, disruption, or blocked access to information or information systems, including an attempt at such an attack, even if no actual damage results.

Damage

An unwanted consequence, including disruption, interruption, or suspension of activity; theft of an asset; collection of business intelligence; or harm to reputation or public trust.

Debt

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

Debt contingent on collateral

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

Deflation

An ongoing decrease in the consumer price index.

Depreciation

Weakening of the value of a currency in relation to other currencies.

Derivative claim

A claim filed by a claimant on behalf of a company due to a cause of the company. Under the appropriate conditions, any shareholder or director of a company is permitted to file a derivative claim.

Derivative instrument

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

Dodd-Frank Act

Federal regulations passed by the United States Congress in 2010 with the aim of increasing stability, transparency, and efficiency in the US financial system, particularly in the market for OTC derivatives. Government agencies have been established in accordance with these regulations in order to supervise, enforce, and monitor the performance of large financial entities.

Dormant shares

Shares held directly by the company itself or by a subsidiary under its control. These shares are denied rights to capital or voting in the company.

Emergency

A period in which the economy is operated in emergency mode, in accordance with Government Resolution 1716 of July 6, 1986; Government Resolution 1080 of February 13, 2000; and any other government resolution on this matter; declaration of a special situation on the home front pursuant to Section 9C of the Civil Defense Law, 1951; or declaration of a state of emergency by the Supervisor.

EMIR

European Market Infrastructure Regulation - Regulation adopted by the European Union in 2012 in order to increase stability, transparency, and efficiency in derivatives markets in the European Union, particularly in the market for OTC derivatives.

Exchange rate

The rate for conversion of currencies.

Extreme scenario

A possible outline of security-related, operational, economic, or other events that may cause a significant operational disruption for the banking corporation, used as a relevant outline in planning solutions.

FATCA

Foreign Accounts Tax Compliance Act - An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

FDIC

Federal Deposit Insurance Corporation - The Federal Deposit Insurance Corporation in the United States.

Financial asset

Cash; an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity, with potential preferred terms for the entity; or a contract to be settled, or possibly to be settled, with equity instruments of the entity.

Financial instrument

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

Fixed-term deposits

Deposits in which the depositor does not have the right or authorization to withdraw funds for six days from the date of the deposit.

Floating/current lien

A lien on all of the assets and operations of a company, or on some at the time, as they are from time to time, but subject to the authority of the company to create special liens on its assets, or on some of its assets.

GDP

Gross domestic product - The total added value of all local producers (output less interim consumption), plus net taxes (taxes less support for products) not included in the output value. Gross domestic product is also obtained by a summation of the expenditure on end consumption, plus gross investment and exports, less imports. Gross domestic product is also obtained by a summation of the primary revenue distributed by domestic production units – the remuneration of salaried employees, plus the gross operational surplus, mixed revenues, and net taxes on production and on imports.

GRI

Global Reporting Initiative - An international standard for reporting on sustainability and corporate social responsibility.

Guarantees

Formal contractual engagements that legally require a third party to pay a debt, if the direct debtor is unable to do so.

Hedge

A financial transaction the goal of which is to reduce exposure arising from another financial transaction or from a portfolio of exposures.

Housing loan

A loan that fulfills one of the following criteria, provided that it is not granted for the purposes of a business:

(1) The loan is intended for the purchase or lease of a residence, or for the construction, expansion, or renovation of a residence;

(2) The loan is intended for the purchase of a lot for the construction of a residence, or for the purchase of a right to a residence in return for key money;

(3) The loan is granted through a mortgage of a residence;

(4) The loan is intended to finance full or partial early repayment of a loan as noted in subsections (1) and (2).

ICAAP

Internal Capital Adequacy Assessment Process - An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations. The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

Indebtedness

As defined in Proper Conduct of Banking Business Directive 313.

Inflation

An ongoing rise in prices, which causes a decrease in the value of money. Inflation is measured according to the rate of change in the consumer price index.

Internal control over financial reporting

A process planned by or under the supervision of the chief executive officer and the chief accountant, or someone who fulfills the same role, and influenced by the board of directors of the banking corporation, management, and other employees, in order to obtain a reasonable degree of confidence with regard to the reliability of financial reporting and with regard to the preparation of the financial statements for external purposes in compliance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.

Inventory of high-quality liquid assets

Assets are considered high-quality liquid assets if they can be converted to cash easily and quickly, with a minor loss or no loss in value.

LDC

Less developed country - A country classified by the World Bank as having low or medium revenue.

Legal entity

Any legal structure used to perform actions or hold assets. Companies, partnerships, and limited partnerships are examples of such structures.

Libor interest rate

The interbank interest rate at which banks trade credit with one another.

Lien

Collateral given to a lender by a borrower to guarantee payment owed.

LTV

Loan to value ratio - The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

Macro-economic scenario

A possible outline of security-related, operational, economic, or other events that may cause a significant operational disruption for the banking corporation, used as a relevant outline in planning solutions.

MAGNA

Electronic due disclosure system of the ISA - An information system for online acceptance and distribution of all of the reports required of entities supervised by the Israel Securities Authority: corporations, mutual-fund managers, trustees, investment advising companies, portfolio management companies, and underwriters.

Management

Those responsible for the achievement of the goals of an entity, and authorized to establish policies and make decisions for the achievement of such goals. Management usually includes the members of the board of directors, the chief executive officer, the chief operating officer, the deputy to the chief executive officer responsible for the main activities of the business (such as sales, administration, or finance), and others who fulfill similar decision-making functions.

Maof market

TASE market of future and financial instruments - A market for derivative instruments traded on the Tel Aviv Stock Exchange.

Material weakness

A deficiency or a combination of deficiencies in the internal control over financial reporting, such that there is a reasonable possibility that material misstatement in the annual or quarterly financial statements of the banking corporation may not be prevented or may not be discovered in time.

Means of control

Pursuant to the Banking (Licensing) Law, 1981, any one of the following:

(1) The right to vote at the general assembly of a company or at the corresponding body of another corporation;

(2) The right to appoint a director of a corporation, and for this purpose:

(a) Anyone who appoints a director of a corporation shall be considered to have the right to appoint the director;

(b) A corporation, an officer of which is appointed as a director of another corporation, and the controlling party of such a corporation, necessarily have the right to appoint the director;

(3) The right to participate in the profits of the corporation;

(4) The right to the balance of assets of the corporation upon liquidation, after settlement of its liabilities.

Microfinance loan

A loan granted as part of a microfinancing project for small businesses with low financial capabilities that would be ineligible for credit under standard conditions.

Middle market

Commercial activity conducted with mid-sized businesses, usually in the United States.

MTM

Mark to market - Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

NPL

Non-performing loan - Impaired credit not accruing interest income.

Obligo

Total liabilities of the customer to the Bank.

Off-balance sheet credit

Instruments such as commitments to grant credit and guarantees (excluding derivative instruments).

Off-balance sheet financial instruments

Instruments such as commitments to grant credit and guarantees (excluding derivative instruments).

On-demand deposits

Deposits other than fixed-term deposits.

Option

A contract between two parties (the option writer and the option buyer); the option writer grants the option buyer the right to buy or sell a particular asset for a predetermined price, usually at a predetermined time.

OTC derivative

Over-the-counter derivative - A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists wherein its value can be determined.

Phantom shares

An instrument granting cash compensation based on the value of shares of the company, without entitlement to receive the share.

Public

Excluding the government, foreign governments, and banks.

Recovery

Rehabilitation of a business activity, after the activity has been disrupted, to a satisfactory level in order to meet business obligations.

Restrictive arrangement

An arrangement between people who manage businesses in which at least one of the parties restricts itself in a manner that may prevent or reduce business competition between that party and the other parties to the arrangement, or some of them, or between that party and a person who is not a party to the arrangement.

Retrospective implementation

Implementation of a new accounting policy with respect to transactions, events, or other situations as though the policy had always been implemented.

Securitization

A transaction in which loans and bank credit are transformed into long-term loans, through bonds.

Subordinated notes

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

Subsidiary

A company in which another company holds 50% or more of the notional value of issued share capital, or of voting power, or is authorized to appoint half or more of its directors or its chief executive officer.

Supervisory capital

Supervisory capital comprises two tiers: Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

Syndication

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

Tier 1 capital

Going-concern capital, including common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

Tier 2 capital

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

Total capital ratio

Total capital is the total of Tier 1 capital and Tier 2 capital. The total capital ratio is calculated by dividing total capital by risk-adjusted assets.

Turnover

Annual sales volume or annual revenue volume.

VaR

Value at risk - A commonly used statistical model for the quantification of market risks. The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance level.

Vesting period

The period in which all defined terms must be fulfilled for the maturation of a share-based payment arrangement.

VIE

Variable interest entity - Contractual interests, ownership interests, or other monetary interests that vary according to changes in the fair value of the net assets of the entity, which do not include variable interests.

Volcker Rule

The Volcker Rule is American legislation applicable to certain banking corporations, which imposes prohibitions and restrictions related to proprietary trading and investment activity and/or sponsorship of covered funds, as defined in the Volcker Rule.

Bank Hapoalim B.M.

Annual Periodic Report 2015

Annual Periodic Report for 2015
Bank Hapoalim B.M.

Company Number (Registrar)	:	520000118
Address	:	50 Rothschild Blvd., Tel Aviv, Israel
Telephone No.	:	+972-3-714-4669
Fax No.	:	+972-3-714-5424
Balance Sheet Date	:	December 31, 2015
Report Date	:	February 28, 2016

Annual Periodic Report for

2015

Standard 9: <u>Financial Statements</u>

The audited annual financial statements, with the attached Auditors' Review, are enclosed and constitute an integral part of this report.

Standard 10C: None.

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position

A. In shares and convertible securities

	Share type						Holding rate			
Company	Share	Par value per share	Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	In securities	In capital	In voting	In authority to appoint directors
Avuka Hevra Lehashkaot. Ltd.	Ordinary shares	0.001	NIS	5,000	5		100%	100%	100%	100%
Agam Hevra Finansit Ltd.	Ordinary shares	1	NIS	1,250,000	1,250,000	3	100%	100%	100%	100%
Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	Ordinary shares	0.0001	NIS	1,000,000,000	100,000	6	100%	100%	100%	100%
Opaz Ltd.	Ordinary shares	0.01	NIS	1,000,770	10,007.7	377	100%	100%	100%	100%
AMI Trustees Ltd.								100%	100%	100%
BAMI Nechasim Ltd.								100%	100%	100%
BHI Investment Advisors Asia								100%	100%	100%
BHI Global Investment Advisors (Israel) Ltd.								100%	100%	100%
Bitzur Ltd.	Ordinary shares	0.0005	NIS	69,640,000	34,820	(169)	100%	100%	100%	100%
Bitan Investments and Mortgages Co. Ltd.	Ordinary shares	0.001	NIS	5,999,979	5,999.979		100%	100%	100%	100%
Bank Hapoalim (Luxembourg) S.A.	Ordinary shares	100	USD	999,900	99,990,000	237	100%	100%	100%	100%
Bank Hapoalim (Switzerland) Ltd.	Founding shares	100	CHF	650,000	65,000,000	1,676	100%	100%	100%	100%
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.						328		70%	70%	70%
Gadid Poalim	Ordinary shares	1	NIS	1,500,000	1,500,000	1	100%	100%	100%	100%
Global Factoring Ltd.								100%	100%	100%
Diur B.P. Ltd.						588		100%	100%	100%
Diur B.P. Investments (1992) Ltd.								100%	100%	100%
Diur B.P. Properties (1993) Ltd.								100%	100%	100%
The Administration of the Kibbutzim Agreement Ltd.	Ordinary shares	1	NIS	3	3		38%	38%	38%	38%
Hapoalim (Latin America) S.A.						32		100%	100%	100%
Hapoalim (Cayman) Ltd.	Common	1	USD	13,579,143	13,579,143	46	100%	100%	100%	100%
Hapoalim International N.V.	Common	1,000	USD	250	250,000	12	100%	100%	100%	100%
Hapoalim American Israeli Ltd.	Ordinary shares	0.001	NIS	93,076,887	93,076.887	105	100%	100%	100%	100%
Hapoalim Hanpakot Ltd.	Ordinary shares	1	NIS	18,150,006	18,150,006	41	100%	100%	100%	100%

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

A. In shares and convertible securities (cont.)

Company	Share type: Share	Share type: Par value per share	Share type: Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	Holding rate: In securities	Holding rate: In capital	Holding rate: In voting	Holding rate: In authority to appoint directors
Hapoalim Nechasim (Menayot) Ltd.						1,149		100%	100%	100%
Hapoalim Securities U.S.A. Inc.						85		100%	100%	100%
Zohar Hashemesh Lehashkaot Ltd.	Ordinary shares	0.0001	NIS	19,999	1.9999	799	100%	100%	100%	100%
Nominees Company of Bank Hapoalim Ltd.	Ordinary shares	0.01	NIS	100,000	1,000		100%	100%	100%	100%
Hevrat Nemanut Aseret Alafim Veachat Ltd.								100%	100%	100%
Hevrat Nemanut Aseret Alafim Veshtaim Ltd.								100%	100%	100%
Hanyon Allenby 115 Tel-Aviv Ltd.	Ordinary shares	0.001	NIS	42	0.042		42%	42%	42%	42%
Chatzron Hevra Lehashkaot Ltd.								33%	33%	33%
Hermesh Poalim Ltd.	Ordinary shares	1,000	NIS	3,420	3,420,000		100%	100%	100%	100%
Trinel Trading And Investment Ltd.								100%	100%	100%
Europay (Eurocard) Israel Ltd.								100%	100%	100%
Yefet Nominees Ltd.								100%	100%	100%
Isracard (Nechasim) 1994 Ltd.								100%	100%	100%
Isracard Ltd.	Ordinary shares	0.0001	NIS	721,925	72.1925	2,419	98%	98%	99%	99%
Isracard Ltd.	Special shares	0.0001	NIS	1	0.0001	2,419	100%	98%	99%	99%
Isracard Mimun Ltd.								100%	100%	100%
Mivnim Vetsiud Ltd.	Ordinary shares	0.1	NIS	95	9.5		95%	100%	100%	100%
May-Oz Ltd.						3		100%	100%	100%
Mesik Poalim Ltd.	A ordinary shares	1,000	NIS	1,500	1,500,000		100%	100%	100%	100%
Mesik Poalim Ltd.	Ordinary shares	0.0001	NIS	20,000	2		100%	100%	100%	100%
Bank Clearing Center Ltd.	Ordinary shares	0.001	NIS	6,250,000	6,250	22	25%	25%	25%	25%
C Bilisim Teknolojileri								100%	100%	100%
Maritime Nechasim Ltd.	Ordinary shares	1	NIS	99	99		99%	100%	100%	100%
Maritime Trust Services Ltd.	Ordinary shares	1	NIS	30,000	30,000		100%	100%	100%	100%
Alzur Property Development Company Ltd.	Ordinary shares	0.0001	NIS	100,000	10		100%	100%	100%	100%
PAM Holdings Ltd.						137		100%	100%	100%
Poalim - Financial Holdings (1993) Ltd.	Ordinary shares	1	NIS	3,070	3,070	6	100%	100%	100%	100%
Poalim Ofakim Ltd.								100%	100%	100%

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

A. In shares and convertible securities (cont.)

Company	Share type: Share	Share type: Par value per share	Share type: Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	Holding rate: In securities	Holding rate: In capital	Holding rate: In voting	Holding rate: In authority to appoint directors
Poalim Asset Management (Ireland) Ltd.								100%	100%	100%
Poalim Asset Management (UK) Ltd.								100%	100%	100%
Poalim Express Ltd.	Ordinary shares	1	NIS	139,326	139,326	332	100%	100%	100%	100%
Poalim Betevouna Ltd.	Ordinary shares	1	NIS	10,000	10,000	(14)	100%	100%	100%	100%
Poalim Delta Fund L.P.								99%	99%	99%
Poalim Ventures - Fund Management Ltd.								100%	100%	100%
Poalim Ventures I Ltd.								54%	54%	100%
Poalim Ventures II L.P.								0%	0%	100%
Poalim Ventures Ltd.								100%	100%	100%
Poalim Venture Services Israel Ltd.						4		100%	100%	100%
Poalim Mortgages Insurance Agency (2005) Ltd.						17		100%	100%	100%
Poalim Sahar Ltd.						300		100%	100%	100%
Poalim Capital Markets - Investment House Ltd.	Ordinary shares	1	NIS	40,021	40,021	747	0%	100%	100%	100%
Poalim Capital Markets Ltd.								100%	100%	100%
Poalim Capital Markets - Financial Applications & Research Ltd.								100%	100%	100%
Poalim Capital Markets (Euro) Ltd.								100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	A ordinary shares	0.0001	NIS	183,613	18.3613		5%	100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	B ordinary shares	0.0001	NIS	280,695	28.0695		5%	100%	100%	100%
Poalim Trust Services Ltd.	Ordinary shares	1	NIS	200,005	200,005	32	100%	100%	100%	100%
Poalit Ltd.	Ordinary shares	0.0001	NIS	129,050,000	12,905		100%	100%	100%	100%
PCM – HSU Holdings Inc.								100%	100%	100%
PCM Hudson Holdings LLC								100%	100%	100%
PCM Hudson Management Company Holdings L.P.								100%	100%	100%
Peilim - Portfolio Management Company Ltd.	Ordinary shares	1	NIS	50,000	50,000	94	100%	100%	100%	100%
Peilim - Portfolio Management Company Ltd.	0.001 ordinary shares	0.001	NIS	5,000	5	94	100%	100%	100%	100%
Pekaot Poalim Ltd.	Ordinary shares	100	NIS	370,214	37,021,400	295	100%	100%	100%	100%
Tzadit Ltd.	Ordinary shares	0.0001	NIS	1	0.0001		0%	100%	100%	100%

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

A. In shares and convertible securities (cont.)

	Share type						Holding rate			
Company	Share	Par value per share	Currency	Number of shares	Total par value	Balance-sheet value (in NIS m.)	In securities	In capital	In voting	In authority to appoint directors
Tzameret Mimunim Ltd.								100%	100%	100%
K.B.G Energy Systems Ltd.								100%	100%	100%
Continental Poalim Ltd.	Ordinary shares	0.0001	NIS	58,351,356,355	5,835,135.636	530	100%	100%	100%	100%
Continental Poalim Ltd.	A management shares	0.0001	NIS	20	0.002	530	100%	100%	100%	100%
Continental Poalim Ltd.	B management shares	0.0001	NIS	20	0.002	530	100%	100%	100%	100%
Revadim (Nechasim) Ltd.	Ordinary shares	0.0001	NIS	20,000	2		100%	100%	100%	100%
Ramchal Poalim Ltd.	Ordinary shares	0.0001	NIS	32	0.0032		100%	100%	100%	100%
Sure-Ha International Ltd.	Ordinary shares	0.0001	USD	1	1	288	0%	100%	100%	100%
Automatic Bank Services Ltd.	Ordinary shares	0.0001	NIS	13,800,000	1,380	91	35%	34%	34%	34%
Tevuat Poalim Ltd.	A ordinary shares	0.0001	NIS	1	0.0001		100%	50%	50%	50%
Tmura Hevra Finansit Ltd.	Ordinary shares	0.0001	NIS	5,009,997	500.9997		100%	100%	100%	100%
Teuda Hevra Finansit Ltd.	Ordinary shares	0.0001	NIS	60,000,000	6,000	(35)	100%	100%	100%	100%
Tarshish Hapoalim Holdings and Investments Ltd.	Ordinary shares	0.0001	NIS	4,419	0.4419	4,612	100%	100%	100%	100%

Standard 11: List of investments in subsidiaries and related companies as at December 31, 2015 (cont.)

B. In bonds and capital notes

Company	Linkage terms	Balance sheet balance	Interest rate	Final settlement date
		NIS millions	%	
Bitzur Ltd.	Unlinked	200	-	No settlement date
Zohar Hashemesh Lehashkaot Ltd.	Unlinked	850	-	No settlement date
Poalim Betevouna Ltd.	Unlinked	29	-	No settlement date
Teuda Hevra Finansit Ltd.	Unlinked	286	-	No settlement date

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

C. Balance of loans as at December 31, 2015

Company	Balance of loans as at Dec. 31, 2015	Interest rate of unlinked loans	Interest rate of foreign-currency loans	Interest rate of CPI-linked loans	Interest rate of foreign-currency-linked loans	Final settlement date
	NIS millions	%	%	%	%	
Bitzur Ltd.	200					No settlement date
Banque Hapoalim (Luxembourg) Ltd..	1,907		2.4-5.8			2019
Bank Pozitif Kredi Ve Kalkinma	101		3.19-3.37			2016
Zohar Hashemesh Lehashkaot Ltd.	850					No settlement date
Isracard Ltd.	92					No settlement date
Alzur Ltd.	1					No settlement date
Poalit Ltd.	16					No settlement date
Poalim Sahar Ltd.	250					No settlement date
Tzadit Ltd.	8					No settlement date
Ramchal Poalim Ltd.	12					No settlement date
Teuda Hevra Finansit Ltd.	286					No settlement date

Standard 11: List of investments in subsidiaries and related companies as at the date of the report on financial position (cont.)

D. List of inactive companies

Binyaney Zibur Ltd.	
Hasneh Israel Insurance Company Ltd.	
Hapoalim Holdings (Latin America) Ltd.	In voluntary liquidation
Hapoalim Sheirutei Nihul (Latin America) Ltd.	
Hevra Lepitouh Ashkelon Barnea Ltd.	
The Rest Village Ashkelon Ltd.	In voluntary liquidation
Hevrat Nemanut Aseret Alafim Veachat Ltd.	
Hevrat Nemanut Aseret Alafim Veshtaim Lavan Ltd.	
Teus Trust Company Ltd.	In voluntary liquidation
Hevrat Odar Ltd.	
Matai Ramatim Ltd.	
Poalim Ventures I Ltd.	In voluntary liquidation
Poalim Ventures II L.P.	In voluntary liquidation
Pardes A.D.S. Ltd.	
Kamur Finance and Investments Ltd.	
Karkaot Beguosim 7123 7124 7128 Ltd.	
Rotesa Ltd.	In voluntary liquidation
Tevuat Poalim Ltd.	
Tot Tiyur Vetiyul Ltd.	In voluntary liquidation
Teus Development Areas Industrialization Ltd.	In voluntary liquidation

Standard 12: Changes in the Bank's investments in subsidiary and related companies during the reported period

Company	Type of share: Share	Type of share: Par value per share	Type of share: Currency	Date of change	Nature of change	Total par value	Cost (NIS millions)
Banque Hapoalim (Luxembourg) S.A.	Share	100	USD	Oct. 14, 2015	Investment	250,000	97
Igarot	Share	0.001	NIS	Sep. 30, 2015	Group sale		(69)
Bitzur	Share	0.001	NIS	Sep. 30, 2015	Group sale		(116)
Tmura	Share	0.001	NIS	Sep. 30, 2015	Group sale		(6)
Teuda	Share	0.001	NIS	Sep. 30, 2015	Group sale		(59)
Tarshish	Share	0.001	NIS	Sep. 30, 2015	Group acquisition		250

Companies liquidated during the year:

Mishor Poalim Ltd.

Einat (Nechasim) Ltd.

Poalim Besherut Atzmi Ltd.

Poalim (Romema) Trustees Ltd.

Standard 13: Income of subsidiary and related companies and the Bank's income from such companies as at the date of the report on financial position*

Company	Profit (loss) reported by the company: Before tax	Profit (loss) reported by the company: After tax	Bank income: Interest	Bank income: Management fees	Bank income: Dividend
	NIS millions				
Opaz Ltd.	2				31
Bami Nechasim Ltd.	6				
Bitzur Ltd.	7	1			
Bitan Investments and Mortgages Co. Ltd.	5				
Bank Hapoalim (Luxembourg) S.A.	(12)		77		
Bank Hapoalim (Switzerland) Ltd.	45			16	
Gadid Poalim Ltd.					1
Global Factoring Ltd.	5				
Diur B.P. Ltd.	32				
Diur B.P. Properties (1993) Ltd	(2)				
Hapoalim (Cayman) Ltd.	(1)				
Hapoalim American Israeli Ltd.	1				
Hapoalim Nechasim (Menayot) Ltd.	16				
Hapoalim Securities U.S.A. Inc	(5)		1		
Zohar Hashemesh Lehashkaot Ltd.	12				
Nominees Company of Bank Hapoalim Ltd.				7	
Hermesh Poalim Ltd.					3
Europay (Eurocard) Israel Ltd.	(9)				
Isracard (Nechasim) 1994 Ltd.	7				
Isracard Ltd.	191		4	233	
Isracard Mimun Ltd.	52				
May-Oz Ltd.	2				
Mesik Poalim Ltd.					1
Bank Clearing Center Ltd.	3				
Alzur Property Development Company Ltd.	1				
Poalim Ofakim Ltd.	15				
Poalim Asset Management (UK) Ltd.	12				
Poalim Express Ltd.	40			43	
Poalim Besheirut Atzmi Ltd.					13
Poalim Betevouna Ltd.	5				
Poalim Delta Fund L.P	5				
Poalim Ventures I Ltd.	9				
Poalim Ventures Ltd.	26				
Poalim Mortgages Insurance Agency (2005) Ltd.	15				
Poalim Sahar Ltd.	11				

* Companies that had no profits (losses) during the accounting period, and from which the Bank derived no income during the accounting period, were not included in this list. Companies overseas – in local currency translated based on the exchange rate as at December 31, 2015.

Standard 13: Income of subsidiary and related companies and the Bank's income from such companies as at the date of the report on financial position* (cont.)

	Profit (loss) reported by the company		Bank income		
	Before tax	After tax	Interest	Management fees	Dividend
Company	NIS millions				
Poalim Capital Markets - Investment House Ltd.	(6)				
Poalim Capital Markets (Euro) Ltd.	(51)				
Poalim Capital Markets & Investments - Holdings Ltd.	(12)				
Poalit Ltd.	3				
PCM Hudson Holdings LLC	(55)				
Peilim - Portfolio Management Company Ltd.	26				
Tzadit Ltd.	1				
Tzameret Mimunim Ltd.	6				
Revadim (Nechasim) Ltd.	44				
Ramchal Poalim Ltd.	3				
Sure-Ha International Ltd.	11				
Automatic Bank Services Ltd.	13				3
Teuda Hevra Finansit Ltd.	11				
Tarshish Hapoalim Holdings and Investments Ltd.	(157)	(5)			

* Companies that had no profits (losses) during the accounting period, and from which the Bank derived no income during the accounting period, were not included in this list. Companies overseas – in local currency translated based on the exchange rate as at December 31, 2015.

Standard 14: List of groups of balances of loans granted as at the date of the report on financial position, if loan granting was one of the corporation's main activities

The list is included in Note 30C to the Financial Statements.

Standard 20: Trading on the stock exchange – securities listed for trading – dates and reasons for halt of trading

Trading in the Bank's shares on the stock exchange was halted on August 19, due to the publication of the financial statement for the second quarter of 2015.

Standard 21: Remuneration of interested parties and senior officers

Details regarding the salaries and benefits of the recipients of the highest wages among the officers at the Bank Group are included in the Corporate Governance chapter, page 493.

Remuneration paid to directors, with the exception of the Chairman of the Board, not exceeding commonly accepted levels, paid pursuant to Regulations 4 and 5 of the Companies Regulations (Rules Concerning Remuneration and Expenses for External Directors), 2000, amounted to a total of NIS 31,711 thousand in 2015.

Standard 21A: Control of the corporation

Details regarding the control of the Bank are included in the Board of Directors' Report, page 65.

Standard 22: Transactions with controlling shareholders

1. For details regarding transactions with controlling shareholders (which are not transactions noted in Article 270(4) of the law), see the section "Other Matters" in the Board of Directors' Report.

2. Transactions listed in Article 270(4) of the Companies Law –

   Set out below are details of all transactions with the controlling shareholder of the Bank, or in which the controlling shareholder of the Bank has a personal interest, in which the Bank, companies under the control of the Bank, or related companies of the Bank contracted in the reported year, or at a date later than the end of the reported year, until the date of publication of this report, or still in effect at the date of the report, and listed in Article 270(4) of the Companies Law.

   A. Exemption for Officers

   On February 18, 2016, the general meeting of shareholders of the Bank, following the approval of the Remuneration Committee (in its meetings of January 7 and 10, 2016), and the Board of Directors of the Bank (in its meeting of January 13, 2016), approved the granting of letters of exemption to the officers and directors of the Bank serving and/or who may serve from time to time at the Bank, including the CEO of the Bank, serving and/or who may serve from time to time, and including the officers and directors of the Bank, serving and/or who may serve from time to time, in the granting of letters of exemption to whom the controlling shareholder of the Bank may be considered to have a personal interest. Pursuant to the letters of exemption, the Bank exempts the officer, subject to the provisions of the Companies Law, from responsibility towards the Bank due to any damage to the Bank and/or to subsidiaries of the Bank and/or to related companies of the Bank and/or to any other corporations in which the Bank holds securities, and/or may hold securities from time to time, caused by a past or future action or inaction of the officer during the term of the officer's service, which constitutes a violation of the duty of care of the officer towards the Bank. The exemption shall not apply to an action or inaction of the officer pertaining to a decision or transaction in which the controlling shareholder or any officer of the Bank has a personal interest. The Audit Committee of the Bank, in its meetings of January 11 and 17, 2016, established a limited period, violations of the duty of care during which shall be covered by the letters of exemption granted and to be granted from time to time to officers and directors of the Bank serving, and/or who may serve from time to time, in the granting of letters of exemption to whom the controlling shareholder of the Bank may be considered to have a personal interest, such that the period shall end on December 31, 2024, and noted that this period of time is appropriate and reasonable under the circumstances (it is clarified that the letters of exemption for officers (including the CEO) and directors, in the granting of letters of exemption to whom the controlling shareholder has no personal interest, serving and who shall serve from time to time, are not limited in duration, and shall be in effect with respect to all past or future events during the entire term of their service). As at the date of the report, all of the directors and officers of the Bank have letters of exemption. For additional information, including with regard to controlling parties who have a personal interest and the nature of their personal interest, see the Immediate Report concerning the convening of the meeting of shareholders, published by the Bank on January 13, 2016 (Reference No. 2016-01-009607).

Standard 22: Transactions with controlling shareholders (cont.)

B. Reapproval of letters of indemnification for directors and officers of the Bank, serving and/or who may serve from time to time, in the granting of indemnification letters to whom the controlling shareholder of the Bank may be considered to have a personal interest

On February 18, 2016, the general meeting of shareholders of the Bank, following the approval of the Remuneration Committee (in its meetings of January 7 and 10, 2016), and the Board of Directors of the Bank (in its meeting of January 13, 2016), resolved to reapprove the granting of indemnification letters to directors and officers serving, and/or who may serve from time to time, at the Bank, in the granting of indemnification letters to whom the controlling shareholder of the Bank may be considered to have a personal interest. It is noted that the Bank's commitment pursuant to the indemnification letter shall also apply to events that occurred prior to the granting/renewal thereof. The form of the indemnification letter for such officers is identical, with respect to terms, to the form of the indemnification letter given to other directors and officers of the Bank, in the granting of indemnification letters to whom the controlling shareholder has no personal interest (which was approved by the general meeting of shareholders of the Bank on January 3, 2012 – see the Immediate Report of November 28, 2011, Reference No. 2011-01-341340). The Audit Committee of the Bank, in its meetings of January 7, 2016 and January 11, 2016, established a limited period, events during which shall be covered by the indemnification letters granted and to be granted from time to time to those officers in the granting of indemnification letters to whom the controlling shareholder of the Bank may be considered to have a personal interest, such that the period shall end on December 31, 2024, and noted that this period of time is appropriate and reasonable under the circumstances (it is clarified, to remove doubts, that the indemnification letters for directors and officers, including the CEO, in the granting of indemnification letters to whom the controlling shareholder has no personal interest, are not limited in duration). As at the date of the report, all of the aforesaid directors and officers have indemnification letters. For the form of the indemnification letter and additional information, including with regard to the controlling parties who have a personal interest and the nature of their personal interest, see the Immediate Report concerning the convening of the meeting of shareholders, published by the Bank on January 13, 2016 (Reference No. 2016-01-009607).

C. Officers' insurance

On October 26, 2010, the general meeting of shareholders of the Bank (following approval by the Audit Committee and by the Board of Directors of the Bank on August 31, 2010) affirmed that the Bank would be permitted to acquire an officers' liability insurance policy to cover directors and officers such as shall serve from time to time at the Bank (including new directors to be appointed), including directors who are controlling parties of the Bank or who serve at the Bank on behalf of the controlling shareholder, or directors in whose insurance the controlling shareholder of the Bank has a personal interest, to be acquired, including by means of the renewal of an existing policy or acquisition of a new policy, subject to the following cumulative conditions: (a) the policies shall be acquired for a number of insurance periods not to exceed, cumulatively, five years from May 31, 2011; and (b) the liability limit in such policy shall not exceed USD 400 million, per claim and cumulatively, and the annual premium shall not exceed USD 5 million. The Audit Committee of the Bank, in its meetings of January 7, 2016, and January 11, 2016, determined that the aforesaid period of five years is appropriate and reasonable under the circumstances. As at the date of the report, the Bank has an officers' liability insurance policy for the period from June 1, 2015, to May 31, 2016, with coverage in the amount of USD 250 million per claim and cumulatively, and the premium in respect of this policy amounts to USD 1.34 million. Previously, the Bank had an officers' liability insurance policy for a period of one year ended May 31, 2015, with coverage in the amount of USD 250 million per claim and cumulatively, and the premium in respect of the policy was USD 1.34 million.

Standard 24: <u>Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position</u>

A. Holdings of Bank shares by interested parties

Interested party	Corporation number	Par value shares in NIS[2]	Rate of holdings in capital	Rate of holdings in voting[1]	Rate of holdings in capital after dilution	Rate of holdings in voting after dilution
Arison Holdings (1998) Ltd.	512705153	267,543,761	20.01%	20.11%	20.01%	20.01%
Controlling shareholders total		267,543,761	20.01%	20.11%	20.01%	20.01%
Excellence Investments Ltd.	520041989	37,894,938.58	2.84%	2.85%	2.84%	2.84%
The Phoenix Holdings Ltd.	520017450	32,669,374.00	2.45%	2.46%	2.45%	2.45%
Delek Group Ltd. total holdings		70,564,312.58	5.29%	5.31%	5.29%	5.29%

1 The Bank holds 6,777,932 dormant shares; this holding constitutes 100% of the dormant shares.

2 Par value NIS 1.0 for one ordinary share.

B. Holdings of shares of the Bank by directors

Yair Seroussi	053654927	Ordinary shares	231,493	0.02%	0.02%	0.02%	0.02%
		RSU	133,332			0.01%	0.01%
Moshe Koren	1228998	Ordinary shares	13,000	0.00%	0.00%	0.00%	0.00%
Yosef Yarom	12017539	Ordinary shares	29,920	0.00%	0.00%	0.00%	0.00%
Irit Izakson	050709286	Ordinary shares	67,000	0.01%	0.01%	0.01%	0.01%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Holdings of shares of the Bank by senior officers

Zion Kenan	053508594	Ordinary shares	231,493	0.02%	0.02%	0.02%	0.02%
		RSU	399,999			0.03%	0.03%
Ilan Mazur	007447386	Ordinary shares	79,213	0.01%	0.01%	0.01%	0.01%
		RSU	14,959			0.00%	0.00%
Efrat Yavetz	058677881	Ordinary shares	79,213	0.01%	0.01%	0.01%	0.01%
		RSU	14,959			0.00%	0.00%
Ron Wexler	024218422	Ordinary shares	5,390	0.00%	0.00%	0.00%	0.00%
		RSU	42,000			0.00%	0.00%
Tzahi Cohen	022007587	Ordinary shares	123,931	0.01%	0.01%	0.01%	0.01%
		RSU	21,438			0.00%	0.00%
Avraham Kochva	013570890	Ordinary shares	5,492	0.00%	0.00%	0.00%	0.00%
		RSU	24,342			0.00%	0.00%
Jacob Orbach	053906467	Ordinary shares	141,882	0.01%	0.01%	0.01%	0.01%
		RSU	20,000			0.00%	0.00%
Dan Alexander Koller	028051910	Ordinary shares	76,912	0.01%	0.01%	0.01%	0.01%
		RSU	94,888			0.01%	0.01%
Aviv Amir	029443264	Ordinary shares	5,606	0.00%	0.00%	0.00%	0.00%
		RSU	41,346			0.00%	0.00%
Ari Pinto	069042505	Ordinary shares	79,213	0.01%	0.01%	0.01%	0.01%
		RSU	14,959			0.00%	0.00%
Ofer Levy	052222577	Ordinary shares	81,514	0.01%	0.01%	0.01%	0.01%
		RSU	9,918			0.00%	0.00%
Ronit Shapira	054667613	Ordinary shares	32,998	0.00%	0.00%	0.00%	0.00%
		RSU	2,790			0.00%	0.00%
Eli Cohen	027760628	Ordinary shares	476	0.00%	0.00%	0.00%	0.00%
		RSU	29,475			0.00%	0.00%
Yadin Antebi	028078525	Ordinary shares	85,354	0.01%	0.01%	0.01%	0.01%
		RSU	24,630			0.00%	0.00%
Zeev Hayo	057069676	Ordinary shares	34,806	0.00%	0.00%	0.00%	0.00%
		RSU	16,236			0.00%	0.00%

1 The Bank holds 6,777,932 dormant shares; this holding constitutes 100% of the dormant shares.

2 Par value NIS 1.0 for one ordinary share.

Holdings of convertible notes of the Bank by interested parties and officers

Interested party	Corporation/ ID number	Security	Notes par value
Excellence Investments Ltd.	520041989	Poalim A	30,093,171
		Poalim B	18,000,000
		Poalim C	21,913,810
The Phoenix Holdings Ltd.	520017450	Poalim A	3,912,863
		Poalim B	40,000,000
		Poalim C	50,956,188

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

C. Holdings of securities of Hapoalim Hanpakot and Poalim International by interested parties and senior officers

Interested party	Corporation/ ID number	Security	Quantity
Excellence Investments Ltd.	520041989	POALIM HAN B4	8,518,791.00
		POALIM HAN B9	7,875,182.09
		POALIM HAN B10	193,843,573.00
		POALIM HAN B11	57,143,420.00
		POALIM HAN B12	10,215,803.38
		POALIM HAN B13	18,767,840.00
		POALIM HAN B1	62,443,675.89
		POALIM HAN 26	12,067,519.00
		POALIM HAN 29	46,351,953.00
		POALIM HAN 30	12,114,422.00
		POALIM HAN B14	88,317,232.50
		POALIM HAN 31	8,240,851.00
		POALIM HAN 32	29,079,064.00
		POALIM HAN 15	25,217,356.00
		POALIM HAN 16	6,134,958.00
		POALIM HAN 33	62,254,433.00
		POALIM HAN 34	264,629,563.00
The Phoenix Holdings Ltd.	520017450	POALIM HAN B9	7,058,199.20
		POALIM HAN B10	109,182,460.00
		POALIM HAN B11	9,829,179.00
		POALIM HAN B12	1,919,493.70
		POALIM HAN 13	185,372.00
		POALIM HAN B1	30,835,004.00
		POALIM HAN 29	52,168,892.00
		POALIM HAN 30	12,624.00
		POALIM HAN B14	67,502,648.00
		POALIM HAN 31	44,383,112.00
		POALIM HAN 32	66,640,904.00
		POALIM HAN 15	22,076,516.00
		POALIM HAN 16	1,104,093.00
		POALIM HAN 33	38,249,043.00
		POALIM HAN 34	267,030,458.00
Ronit Shapira	054667613	POALIM HAN 16	9,512.00
Yosef Yarom	12017539	POALIM HAN B12	57,046.78
		POALIM HAN B13	449,182.00
		POALIM B1	90,000.00
Ron Wexler	024218422	HAPOALIM INTERNATIONAL NV ISIN xs0794601251	100,000.00

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

Holdings of interested party – Bank Hapoalim B.M.: See Standard 11A.

Additional details regarding principal holders:

1. Controlling shareholders of Arison Holdings (1998) Ltd. (as at January 26, 2015)

	Rate of holding of capital
Eternity Holdings One Trust[1]	30.00%
Eternity Four-A Trust[1]	70.00%
Total	100.00%

2. The Delek Group

The Phoenix Holdings Ltd.

The Phoenix Holdings Ltd. is the only shareholder of The Phoenix Insurance Company Ltd. (100%) and of The Phoenix Investments and Finance Ltd. (100%). The Phoenix Insurance Company is the only shareholder of The Phoenix Pension and Provident Funds Ltd. (100%).

The proprietary holdings of The Phoenix Insurance are reported in part as proprietary holdings of The Phoenix Holdings. Holdings derived from profit-participatory policy portfolios of The Phoenix Insurance Company Ltd. are reported as member investments.

Proprietary holdings of The Phoenix Investments and Finances Ltd., holdings of The Phoenix Holdings, and holdings of the management company The Phoenix Pension and Provident Funds Ltd. and of The Phoenix Pension and Provident Fund Management Ltd.

The Delek Group Ltd. (the "Delek Group") holds approximately 52.31% of the share capital of The Phoenix Holdings.

Excellence Investments Ltd.

The Phoenix Investments and Finance Ltd. holds approximately 89.81% of the issued and paid-up share capital of Excellence Investments Ltd. The Phoenix Investments and Finance Ltd. is a

[1] Shari Arison is the principal beneficiary of the Eternity Holdings One Trust and of the Eternity Four-A Trust. Trustees of each of the aforesaid trusts, respectively, are: The Northern Trust Company of Delaware; and Fides VE LLC along with The Northern Trust Company of Delaware. The Bank was informed that the aforesaid beneficiary shall have exclusive discretion to vote at shareholders' meetings of Arison Holdings (1998) Ltd., under a power of attorney granted to her by the trustees, respectively, under the conditions established by the Bank of Israel, with respect to which the aforesaid trustees have affirmed their awareness and their willingness to act accordingly. The aforesaid powers of attorney were granted without the intention to revoke them at any point; should such a revocation of power of attorney occur with regard to any of the beneficiaries, they are obligated to notify the Bank of Israel immediately, no later than at the end of 7 days from receipt of notification of the revocation.

Standard 24: <u>Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)</u>

wholly owned subsidiary of The Phoenix Holdings Ltd., which is the controlling shareholder of Excellence Investments Ltd.

<u>The Delek Group Ltd.</u>

Holds approximately 52.31% of the share capital of The Phoenix Holdings. The Delek Group Ltd. is a public company whose shares are listed on the Tel Aviv Stock Exchange.

Mr. Itzhak Sharon (Tshuva) is the controlling shareholder of the Delek Group (concatenated).

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

D. Holdings of subsidiaries in shares of subsidiary or related companies

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
AMI Trustees Ltd.	Hapoalim American Israeli Ltd.	510373053	Ordinary shares	50,000.00	0.00	NIS	5.00	100%	100%	100%
Bami Nechasim Ltd.	Hapoalim American Israeli Ltd.	511584781	Ordinary shares	99.00	1.00	NIS	99.00	99%	99%	99%
Bami Nechasim Ltd.	AMI Trustees Ltd.	511584781	Ordinary shares	1.00	1.00	NIS	1.00	1%	1%	1%
BHI Investment Advisors Asia	Bank Hapoalim (Switzerland) Ltd.	1465245	Ordinary shares	9,000,000.00	1.00	Other	9,000,000.00	100%	100%	100%
BHI Global Investment Advisors (Israel) Ltd.	Bank Hapoalim (Switzerland) Ltd.	515082931	Ordinary shares	1,000.00	1.00	NIS	1,000.00	100%	100%	100%
Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	Tarshish Hapoalim Holdings and Investments Ltd.	774483903	Ordinary shares	2,355,146,874.00	0.10	Other	235,514,687.40	70%	70%	70%
Global Factoring Ltd.	Isracard Ltd.	513634394	Ordinary shares	2,000,000.00	1.00	NIS	2,000,000.00	100%	100%	100%
Diur B.P. Ltd.	Opaz Ltd.	510237878	Ordinary shares	1,066.00	0.10	NIS	106.60	100%	100%	100%
Diur B.P. Investments (1992) ltd.	Diur B.P. Ltd.	511727232	Ordinary shares	100.00	1.00	NIS	100.00	100%	100%	100%
Diur B.P. Properties (1993) ltd.	Diur B.P. Ltd.	511895773	Ordinary shares	100.00	1.00	NIS	100.00	100%	100%	100%
Hapoalim (Latin America) S.A.	Bank Hapoalim (Cayman) Ltd.	774177877	Bearer	398,537,083.00	1.00	UYU	398,537,083.00	100%	100%	100%
Hapoalim Nechasim (Menayot) Ltd.	Opaz Ltd.	511391278	Ordinary shares	100.00	1.00	NIS	100.00	100%	100%	100%
Hapoalim Securities U.S.A. Inc.	PCM – HSU Holdings Inc	133732556	Common	10.00	0.01	USD	0.10	100%	100%	100%
Hevrat Nemanut Aseret Alafim Veachat Ltd.	Poalim Trust Services Ltd.	510729205	Ordinary shares	10.00	0.00	NIS	0.00	100%	100%	100%
Hevrat Nemanut Aseret Alafim Veshtaim Lavan Ltd.	Poalim Trust Services Ltd.	510729742	Ordinary shares	10.00	0.00	NIS	0.00	100%	100%	100%
Hetzron Hevra Lehashkaot Ltd.	Revadim (Nechasim) Ltd.	510364508	Ordinary shares	335,880.00	0.10	NIS	33,588.00	33%	33%	33%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

D. Holdings of subsidiaries in shares of subsidiary or related companies

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Trinel Trading and Investment Ltd.	Bank Hapoalim (Switzerland) Ltd.	900000606	Ordinary shares	1,500.00	100.00	CHF	150,000.00	100%	100%	100%
Europay (Eurocard) Israel Ltd.	Isracard Ltd.	510595036	Ordinary shares	11,544,605.00	0.00	NIS	1,154.46	100%	49%	49%
Europay (Eurocard) Israel Ltd.	Isracard Ltd.	510595036	Special shares	1.00	0.00	NIS	0.00	0%	51%	51%
Yefet Nominees Ltd.	Hapoalim American Israeli Ltd.	510125784	Ordinary shares	1,000.00	0.00	NIS	0.10	100%	100%	100%
Isracard (Nechasim) 1994 Ltd.	Isracard Ltd.	512053513	Ordinary shares	9,999.00	1.00	NIS	9,999.00	100%	100%	100%
Isracard Mimun Ltd.	Isracard Ltd.	513497628	Ordinary shares	10,000.00	1.00	NIS	10,000.00	100%	100%	100%
Mivnim Vetsiud Ltd.	Bitzur Ltd.	510439284	Ordinary shares	5.00	0.10	NIS	0.50	5%	5%	5%
May-Oz Ltd.	Diur B.P. Ltd.	511470999	Ordinary shares	100.00	1.00	NIS	100.00	100%	100%	100%
C Bilisim Teknolojileri	Bank Pozitif Kredi Ve Kalkinma Bankasi A.S.	500422084	Ordinary shares	3,986,850.00	1.00	Other	3,986,850.00	100%	100%	100%
C Bilisim Teknolojileri	Agam Hevra Finansit Ltd.	500422084	Ordinary shares	4,375.00	1.00	Other	4,375.00	0%	0%	0%
C Bilisim Teknolojileri	Igarot Hevra Lehanpakot shel Bank Hapoalim Ltd.	500422084	Ordinary shares	4,375.00	1.00	Other	4,375.00	0%	0%	0%
C Bilisim Teknolojileri	Teuda Hevra Finansit Ltd.	500422084	Ordinary shares	4,375.00	1.00	Other	4,375.00	0%	0%	0%
Maritime Nechasim Ltd.	Maritime Trust Services Ltd.	511481269	Ordinary shares	1.00	1.00	NIS	1.00	1%	1%	1%
PAM Holdings Ltd.	Poalim Betevuna Ltd.	740001433	Ordinary shares	771,739.00	1.00	GBP	771,739.00	100%	100%	100%
Poalim Ofakim Ltd.	Hapoalim Nechasim (Menayot) Ltd.	513624338	Ordinary shares	50,000.00	1.00	NIS	50,000.00	100%	100%	100%
Poalim Asset Management (Ireland) Ltd.	PAM Holdings Ltd.	740001458	Ordinary shares	120,000.00	1.00	USD	120,000.00	100%	100%	100%
Poalim Asset Management (UK) Ltd.	PAM Holdings Ltd.	740001441	Ordinary shares	1,000,000.00	1.00	GBP	1,000,000.00	100%	100%	100%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

D. Holdings of subsidiaries in shares of subsidiary or related companies

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Poalim Delta Fund L.P	Poalim Ventures Ltd.	550019012	No share capital	99.00	1.00	NIS	99.00	99%	99%	99%
Poalim Ventures Fund Management Ltd.	Poalim Ventures Ltd.	512433194	Ordinary shares	999.00	1.00	NIS	999.00	100%	100%	100%
Poalim Ventures Fund Management Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	512433194	Ordinary shares	1.00	1.00	NIS	1.00	0%	0%	0%
Poalim Ventures I Ltd.	Poalim Ventures Ltd.	512882317	Ordinary shares	110,000.00	0.01	NIS	1,100.00	6%	6%	0%
Poalim Ventures I Ltd.	Poalim Ventures Fund Management Ltd.	512882317	No share capital	1.00	1.00	NIS	1.00	0%	0%	100%
Poalim Ventures I Ltd.	Poalim Capital Markets Ltd.	512882317	Ordinary shares	951,330.00	0.01	NIS	9,513.30	48%	48%	0%
Poalim Ventures II L.P	Poalim Ventures Fund Management Ltd.	530205905	No share capital	100.00	1.00	NIS	100.00	0%	0%	100%
Poalim Ventures Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	510820046	Ordinary shares	151,660,886.00	0.01	NIS	1,516,608.86	100%	100%	100%
Poalim Ventures Services Israel Ltd.	Hapoalim Nechasim (Menayot) Ltd.	510464795	A ordinary shares	2,698.00	0.10	NIS	269.80	100%	100%	100%
Poalim Mortgages Insurance Agency (2005) Ltd.	Poalim Ofakim Ltd.	513661025	Ordinary shares	1,000.00	1.00	NIS	1,000.00	100%	100%	100%
Poalim Sahar Ltd.	Teuda Hevra Finansit Ltd.	512199381	Ordinary shares	16,108.00	1.00	NIS	16,108.00	100%	100%	100%
Poalim Capital Markets - Investment House Ltd.	Bitzur Ltd.	520032541	Ordinary shares	180,628,882.00	1.00	NIS	180,628,882.00	100%	100%	100%
Poalim Capital Markets Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	511465593	Ordinary shares	21,801,000.00	1.00	NIS	21,801,000.00	100%	100%	100%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

D. Holdings of subsidiaries in shares of subsidiary or related companies

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Poalim Financial Markets - Financial Applications & Research Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	511735185	Ordinary shares	99.00	1.00	NIS	99.00	99%	99%	99%
Poalim Financial Markets - Financial Applications & Research Ltd.	Poalim Capital Markets Ltd.	511735185	Ordinary shares	1.00	1.00	NIS	1.00	1%	1%	1%
Poalim Capital Markets (Euro) Ltd.	Poalim Capital Markets & Investments - Holdings Ltd.	512693441	Ordinary shares	1.00	1.00	NIS	1.00	0%	0%	0%
Poalim Capital Markets (Euro) Ltd.	Poalim Capital Markets Ltd.	512693441	Ordinary shares	999.00	1.00	NIS	999.00	100%	100%	100%
Poalim Capital Markets & Investments - Holdings Ltd.	Tarshish Hapoalim Holdings and Investments Ltd.	520043290	B ordinary shares	2,797,487.00	0.00	NIS	279.75	28%	0%	0%
Poalim Capital Markets & Investments - Holdings Ltd.	Poalim Capital Markets - Investment House Ltd.	520043290	A ordinary shares	1,855,445.00	0.00	NIS	185.54	20%	48%	48%
Poalim Capital Markets & Investments - Holdings Ltd.	Poalim Capital Markets - Investment House Ltd.	520043290	B ordinary shares	2,836,485.00	0.00	NIS	283.65	28%	0%	0%
Poalim Capital Markets & Investments - Holdings Ltd.	Tarshish Hapoalim Holdings and Investments Ltd.	520043290	A ordinary shares	1,829,935.00	0.00	NIS	182.99	19%	47%	47%
PCM – HSU Holdings Inc.	Poalim Capital Markets (Euro) Ltd.	352460912	Ordinary shares	100.00	1.00	USD	100.00	100%	100%	100%
PCM Hudson Holdings LLC	Poalim Ventures Ltd.	980582800	Ordinary shares	100.00	1.00	NIS	100.00	100%	100%	100%
PCM Hudson Management Company Holdings L.P.	Poalim Ventures Ltd.	980582799	Ordinary shares	99.00	1.00	NIS	99.00	99%	99%	99%
PCM Hudson Management Company	PCM Hudson Holdings	980582799	Ordinary shares	1.00	1.00	NIS	1.00	1%	1%	1%

Standard 24: Shares and convertible securities held by interested parties and senior officers of a corporation, subsidiary, or related company near the date of the report on financial position (cont.)

D. Holdings of subsidiaries in shares of subsidiary or related companies

Name of company held by interested party	Name of interested party	Number at Companies Registrar	Name of security	Number of shares	Par value per share	Currency	Par value held at balance sheet date	Rate of holding: Of capital	Rate of holding: Of voting	Rate of holding: Of authority to appoint directors
Holdings L.P.	LLC									
Tzadit Ltd.	Revadim (Nechasim) Ltd.	510437494	Ordinary shares	114,799.00	0.00	NIS	11.48	100%	100%	100%
Tzameret Mimunim Ltd.	Isracard Ltd.	512834896	Ordinary shares	3,000.00	1	NIS	3,000.00	100%	100%	100%
K.B.G Energy Systems Ltd.	Noy E.I Infrastrcture and Energy G.P. Ltd.	512682998	Ordinary shares	100.00	1.00	NIS	100.00	100%	100%	100%
Sure-Ha International Ltd.	Opaz Ltd.	740000401	Ordinary shares	4,999,999.00	1.00	USD	4,999,999.00	100%	100%	100%
Tarshish Hapoalim Holdings and Investments Ltd.	Opaz Ltd.	520037029	Ordinary shares	1.00	0.00	NIS	0.00	0%	0%	0%

Standard 24A

Share capital	Amount in NIS	
	Registered	Issued and paid-up
Ordinary shares of NIS 1	4,000,000,000	1,337,377,111

Dormant Shares

Bank Hapoalim B.M. holds 6,777,932 dormant shares; this holding constitutes 100% of the dormant shares. The number of shares included in issued share capital, excluding the dormant shares that confer no rights, is 1,330,599,179. The shares are listed for trading on the Tel Aviv Stock Exchange.

Standard 24B

Registry of Shareholders

Book of shareholders – Bank Hapoalim B.M.	Number of shares
Bank Hapoalim Nominee Company Ltd.*	1,069,759,554
A. Controlling interest shares	
Arison Holdings (1998) Ltd.	267,543,761
B. Freestanding shares	
Savion Tal	35,800
Tzitzian Avraham	31,680
Don Maxwell	2,450
Florsheim Mark and Zippora	1,640
Agmon Eliahu	700
Berkner Albert	603
Levy Victoria	544
Mindel Shira Milca	122
Geva Arieh	100
Pentzer Natan	75
Zachs Eran	40
Yehuda Bar-Lev	10
Neuman David	10
Aharon Elias	10
Caleb Victoria	5
IMM C. Investments and Finance Ltd.	2
Zaktzar Ram	1
Tal Erez	1
Kramer Moshe	1
Feldman Avi	1
Livnat Raz	1
Total	**1,337,377,111**

* The quantity of shares at the Nominee Company includes 6,777,932 dormant shares owned by Bank Hapoalim.

Standard 26: Board of Directors of the Bank

Name and personal details	Occupation in the last five years
Yair Seroussi Identification Number: 053654927 Date of Birth: Nov. 27, 1955 Citizenship: Israeli Address: Gideon 10, Ramat Gan	Chairman of the Board of Directors of the Bank as of August 1, 2009. Chairman of the following Board Committees: the Credit Committee; the Investment Approval Committee; the Overseas Banking and International Activity Committee; the New Products Committee; and the Corporate Governance Committee. Member of the following Board Committees: the Finance and Prospectus Committee; the Risk Management and Control Committee; and the Remuneration Committee in its expanded format. Serves as a director of the Bank as of June 4, 2009. Served as Vice Chairman of the Board of Directors of the Bank from June 4, 2009 to July 31, 2009. B.A., Economics and Political Science, Hebrew University of Jerusalem. Chairman of the administrative committee of the Poalim for the Community Foundation and the Peretz Naftali Fund. Chairman of the Eli Horowitz Institute of Strategic Management at Tel Aviv University. Member of the board of trustees of the Hebrew University. Member of the Israeli Board of Trustees of the Institute for National Security Studies. Member of the board of directors of the following companies: DSP Group Ltd., Amdeal Y.S. Ltd., and Amdeal Holdings (1999) Ltd. President of the Association of Banks in Israel (Registered Non-Profit Organization) as of January 1, 2015. In the last five years or during part of that period, served as chairman of the board at the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., and Diur B.P. Assets (1993) Ltd.; and as a director at the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd.; however, he no longer serves at these companies. Served as a member of the advisory board of the Caesarea Center; however, he no longer serves in this position. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Irit Izakson Identification Number: 050709286 Date of Birth: Jul. 22, 1951 Citizenship: Israeli Address: Matityahu Cohen 15, Tel Aviv	Chairperson of the following Board Committees: the Finance and Prospectus Committee and the Risk Management and Control Committee. Member of the following Board Committees: the Credit Committee and the New Products Committee. Member of the Board of Directors of the Bank as of December 27, 1999. B.A. in Economics, Tel Aviv University; MSc. in Operational Research, School of Business Administration, Tel Aviv University. Member of the board of directors of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., and Shikun & Binui Ltd. Member of the executive board of the Association of Public Companies; member of the board of trustees of Ben-Gurion University and of the Azrieli Foundation. In the last five years or during part of that period, served as a director at I.D.B. Development Company Ltd.; however, she no longer serves there. Also served as chairperson of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.; however she no longer serves at these companies. Served as a member of the board of trustees of the Van Leer Jerusalem Institute. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Mali Baron Identification Number: 003462181 Date of Birth: Sep. 17, 1948 Citizenship: Israeli Address: Beeri 12/8, Tel Aviv	Chairperson of the Transactions with Related Parties Committee of the Board of Directors. Member of the following Board Committees: the Credit Committee, the Corporate Governance Committee, the Risk Management and Control Committee, and the Audit Committee. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for her election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of September 10, 2007. The six-year term of service of Ms. Mali Baron as an external director of the Bank ended on September 10, 2013. The election of Ms. Mali Baron for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on September 12, 2013. B.A. in Economics and Developing Nations, Tel Aviv University; M.B.A. (specialized in Finance), Hebrew University of Jerusalem. Director of companies. Member of the board of directors of Maliba Ltd. Member of the investment committee of Tel Aviv University. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Amnon Dick Identification Number: 051770568 Date of Birth: Nov. 20, 1952 Citizenship: Israeli and Austrian Address: Romanelli 20, Tel Aviv	Member of the following Board Committees: the Investment Approval Committee, the Overseas Banking and International Activity Committee, the Information Technology Committee, the New Products Committee, and the Remuneration Committee in its expanded format. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of March 24, 2010. The three-year term of service of Mr. Amnon Dick as an external director of the Bank ended on March 24, 2013. The election of Mr. Amnon Dick for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on March 24, 2013. B.A. in Economics, Tel Aviv University; M.B.A., Tel Aviv University. Businessman, partner in companies, consultant, and director. CEO of Adsensory Ltd. Member of the board of directors of the following companies: Non Stop Radio Ltd., Northern Radio Ltd., Radio Eco 99 Ltd., Rala Management and Development (2014) Ltd., Eco Sharon Management and Development Ltd., and Habima National Theater Ltd. (Public Benefit Company). President of the Association of Friends of Tel Aviv University. In the last five years or during part of that period, served as a director at MIRS Communications Ltd., East West Innovations, and Nicevend Ltd.; however, he no longer serves at these companies. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Meir Wietchner Identification Number: 059681593 Date of birth: May 2, 1965 Citizenship: Israeli Address: Margoa 12, Tel Aviv	Chairman of the Information Technology Committee of the Board of Directors. Member of the Overseas Banking and International Activity Committee of the Board of Directors. Serves as a director of the Bank as of November 24, 2009. B.A. in Political Science and Computer Science, Bar Ilan University, Ramat Gan; M.B.A., Northwestern University, Chicago. Serves as Head of Global Strategy for the Arison Group and as Chairman of the Miya Group. Member of the board of directors of the following companies: Miya S.a.r.l., Miya Lux Holdings S.a.r.l., Miya Water Holdings Ltd., Miya Water Projects Ltd, Dorot Management Control Valves Ltd., Miya Water SA (Proprietary) Ltd., Miya Water Mexico, V.DEC S.A., Miya NL Holdings BV, Miya NL Projects BV, Miya Australia Holdings PTY Ltd., Miya Lux Holdings S.A.R.L., Swiss IP Branch, Miya Voda D.O.O., Romiya (subsidiary of Miya Water S.R.L.), Miya Columbia S.A.S., Miya Puerto Rico LLC., 4Water Supplies (Pty) Ltd. In the last five years or during part of that period, served as a director at the following companies: Storwize Inc. (Delaware-US), Veritec Consulting Inc., Miya Brasil Soluções em Engenharia Hidráulica Ltda, Four Integrity Group Ltd., Miya Bahamas Ltd., Miya Manila Water Projects Inc., and WRP Consulting Engineers (Proprietary) Ltd., and S.C. Miya S.R.L.; however, he no longer serves at these companies. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: <u>Board of Directors of the Bank (cont.)</u>

Name and personal details	Occupation in the last five years
Nir Zichlinskey Identification Number: 022085468 Date of birth: Oct. 8, 1965 Citizenship: Israeli Address: P.O.B. 2303, Savyon	Member of the following Board Committees: the Audit Committee and the Information Technology Committee. The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Member of the Board of Directors of the Bank as of September 10, 2007. B.A. in Business Administration (specialized in Accounting and Finance), Management College, Rishon Lezion; M.B.A. (specialized in Finance), Ben Gurion University; Ph.D. in Political Science, Bar Ilan University. CPA. Owner of the SRI Global Group, a leading business group in Israel in the area of investments based on the SRI (Socially Responsible Investment) model. The group operates through four main sectors: SRI Investment, SRI Funds, SRI Consulting, and SRI Training. CEO of the following companies: Socially Responsible Investments (SRI) Ltd. and Zichlinskey Ltd. Member of the board of directors at the following companies: Shikun & Binui Ltd., Shikun & Binui - SBI Infrastructures Ltd., Shikun & Binui Real Estate Ventures Ltd., Shikun & Binui Renewable Energy Ltd., Shikun & Binui Solel Boneh Construction and Infrastructure Ltd., Shikun & Binui - Solel Boneh - Infrastructures Ltd., Shikun & Binui Water Ltd., Socially Responsible Investment (SRI) Consulting Ltd., Migdalor Investments (SRI) 2009 Ltd., Central Company for Social Finance Services (SRI) Ltd., Jerusalem Technology Investments (JTI) Ltd., and Paz Training Ltd. Member of the governing board of the Friends of Rabin Medical Center Foundation, member of the presidency of the charitable association Yad B'Yad, member of the board of trustees and the finance committee of the College of Management Rishon Lezion, social business partner of Matan – Investing in the Community, and trustee of WIZO – Women's International Zionist Organization. Founder and president of the Israel Directors' Union Ltd. President of the Nova Project – management in the service of the community. Member of the leading committee of the Social Initiative Center of the town of Savyon. Chairman of the Pioneer Students for Israel Foundation. For approximately twenty years, lecturer at the business administration and accounting departments for undergraduate and graduate studies at Tel Aviv, Hebrew, and Bar Ilan Universities, the Interdisciplinary Center Herzliya, the College of Management, Peres Academic Center, Ashkelon Academic College, and Ruppin Academic Center In the last five years or during part of that period, served as chairman of the board of directors of the following companies: S.R.I. Finance Global Group Ltd. and S.R.I. Master; however, he no longer serves at these companies. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Imri Tov Identification Number: 005018155 Date of birth: Nov. 24, 1939 Citizenship: Israeli Address: Adam Hacohen 3, Tel Aviv	Chairman of the Remuneration Committee of the Board of Directors and of the Remuneration Committee in its expanded format. Member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Audit Committee; the Finance and Prospectus Committee; the Investment Approval Committee; the Risk Management and Control Committee; the Overseas Banking and International Activity Committee; and the Corporate Governance Committee. Serves as an external director, as defined in Section 240 of the Companies Law; has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of February 5, 2009. The six-year term of service of Mr. Imri Tov as an external director of the Bank ended on February 5, 2015. The election of Mr. Imri Tov for an additional three-year term of service as an external director of the Bank was approved by the annual general meeting of shareholders of the Bank on November 30, 2014. B.A. in Economics and Political Science, Hebrew University of Jerusalem; M.A. in Economics and Business Administration, Hebrew University of Jerusalem. Director of companies; business consultant; consultant and researcher in defense economics. Member of the board of directors of the following companies: MTA Holdings Ltd., Amanet Management and Systems Ltd. (external director), and Plasan Sasa Ltd. Member of the Paratrooper Veterans of the Liberation of Jerusalem and Crossing of the Canal Foundation (Registered Non-Profit Association), the Paratrooper Heritage Foundation, and the executive board of HaGesher Theater. In the last five years or during part of that period, served as a director at the following companies: Shufersal Ltd. (external director), Granit Hacarmel Investments Ltd. (external director), and IC Green Energy (ICG) Ltd.; however, he no longer serves there. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Yosef Yarom Identification Number: 12017539 Date of birth: Mar. 6, 1941 Citizenship: Israeli and Argentinian Address: Brenner 48, Kiryat Ono	Member of the following Board Committees: the Audit Committee and the New Products Committee. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of March 21, 2011. The three-year term of service of Mr. Yosef Yarom as an external director of the Bank ended on March 21, 2014. The election of Mr. Yosef Yarom for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on March 12, 2014. M.A. in Law, Faculty of Law and Social Sciences, National University of Cordoba, Argentina. Licensed to practice law in Israel. Lecturer on auditing in the business sector at Haifa University. Member of the National Library Council Ltd. In the last five years or during part of that period, served as a director at the following companies: Bank Massad Ltd. and UBank Ltd.; however, he no longer serves at these companies. Also served as a member of the audit committee of the Movement for Quality Government in Israel and as a member of the credit committee of Dash Provident Funds Management Ltd. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Oded Eran Identification Number: 053378824 Date of birth: May 28, 1955 Citizenship: Israeli and German Address: Tzamarot 171/6, Herzeliya	Serves as a director of the Bank as of February 18, 2016. M.A. in Law, Tel Aviv University; M.A. in Literature, Tel Aviv University; B.A. in Law, Tel Aviv University; B.A. in Humanities, Open University. Member of the Board of Directors of the Bank as of February 18, 2016. Special consultant to the law firm Goldfarb Seligman & Co. External lecturer at the Department of Law, Tel Aviv University. Director and controlling shareholder of the companies: Oded Eran Law Office; Minortil Ltd. Director at The Whole Person Association – Israeli Organization for the Prveention of Discrimination Based on Body Weight Ltd. In the last five years or during part of that period, served as a member of the executive board of the Migdalor Association for the Promotion and Distribution of Contemporary Culture; however, he no longer serves there. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.
Yacov Peer Identification Number: 052242609 Date of birth: Apr. 16, 1954 Citizenship: Israeli Address: Rimalt Elimelech 4, Ramat Gan	Member of the following Board Committees: the Finance and Prospectus Committee and the Audit Committee. Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the “Companies Law”)); has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Serves as a director of the Bank as of October 6, 2010. The three-year term of service of Mr. Yacov Peer as an external director of the Bank ended on October 6, 2013. The election of Mr. Yacov Peer for an additional three-year term of service as a director of the Bank was approved by the annual general meeting of shareholders of the Bank on September 12, 2013. B.A. in Economics, Ben-Gurion University; M.B.A., Industrial Engineering and Management, Ben-Gurion University. Financial and management consultant for small businesses. Member of the Friends of Rabin Medical Center Foundation. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Efrat Peled Identification Number: 027224773 Date of Birth: May 16, 1974 Citizenship: Israeli Address: Hanarkisim 19, Ramat Gan	Member of the following Board Committees: the Overseas Banking and International Activity Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the Corporate Governance Committee; and the Remuneration Committee in its expanded format. Serves as chairperson of the board of directors and CEO of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., and Arzaf B (97) Ltd.; and as CEO of SAFO LLC and Arzaf C Ltd., which are controlled by the holder of the permit for control of the Bank. Member of the Board of Directors of the Bank as of January 24, 2007. B.A. in Economics and Accounting, Tel Aviv University; M.B.A., EMBA Kellogg Recanati International Program, Tel Aviv University and Northwestern University; Certificate in Land Assessment, Tel Aviv University. Chairperson of the board of directors and CEO of the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., and Arzaf C Ltd.; and CEO of SAFO LLC. Member of the board of directors of the following companies: Shikun & Binui Ltd., Av-Ar Capital Investments 1997 Ltd., Salt of the Earth Ltd., Arison Investments USA LLC, and Arshav Holdings Ltd. Member of the board of directors of the Weizmann Institute of Science. In the last five years or during part of that period, served as a director at the following companies: Biomedical Investments (1997) Ltd., 4Integrity Group LLC, Miya S.a.r.L., and Miya Luxembourg S.a.r.L.; however, she no longer serves at these companies. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.
Moshe Koren Identification Number: 1228998 Date of Birth: Jul. 8, 1938 Citizenship: Israeli Address: Ben Yehuda 5, Kiryat Ono	Member of the following Board Committees: the Credit Committee; the Transactions with Related Parties Committee; the Finance and Prospectus Committee; the Risk Management and Control Committee; the New Products Committee; and the Remuneration Committee in its expanded format. The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Member of the Board of Directors of the Bank as of August 3, 1992. B.A. in Economics and Statistics, Hebrew University; graduate of Financial Statement Analysis courses. Banking and financial advisor. The director is an "accounting and financial expert" for the purposes of attaining the "minimum number" of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Reuven Krupik Identification Number: 013482518 Date of Birth: Aug. 22, 1951 Citizenship: Israeli and Argentinian Address: Ha'Emek 3, Hod Hasharon	Serves as an external director (as defined in Proper Conduct of Banking Business Directive No. 301 of the Bank of Israel; eligibility terms for his election are similar to the eligibility terms for the election of external directors as required under the Companies Law, 1999 (hereinafter: the "Companies Law")); has professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Member of the Board of Directors of the Bank as of February 18, 2016. B.A. in Social Sciences (specialized in economics and political science), Hebrew University of Jerusalem; B.A. in Law, Tel Aviv University; graduate of business course at the Kellogg Recanati Center, Tel Aviv University. Director of companies, business entrepreneur. Chairperson of the board of directors of Gamida Cell Ltd.; director at Recanati Winery Ltd. Member of the executive board of the Institute for Medical BioMathematics (Registered Non-Profit Association). In the last five years or during part of that period, served as CEO of Clal Biotechnology Industries Ltd.; partner, chairperson of the board, and CEO of Arte Venture Group Ltd; chairperson of the board of the following companies: Mediwound Ltd., D-Pharm Ltd., Biocancell Ltd., and Andromeda Biotech Ltd.; and as a member of the board of directors of the following companies: CureTech Ltd., Campus Bio Management Ltd., and NIK Ltd.; however, he no longer serves in these positions.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Dafna Schwartz Identification Number: 050172667 Date of Birth: Aug. 8, 1950 Citizenship: Israeli Address: Hasavyon 4, Rehovot	Chairperson of the Audit Committee of the Board of Directors. Member of the following Board Committees: the Transactions with Related Parties Committee; the Remuneration Committee; the Remuneration Committee in its expanded format; and the IDB Derivative Claims Committee. Serves as an external director, as defined in Section 240 of the Companies Law; has accounting and financial expertise and professional qualification (as defined in Section 240(A1) of the Companies Law). The director is not an employee of the Bank, or of a subsidiary, related company, or interested party of the Bank. Member of the Board of Directors of the Bank as of April 6, 2012. Professor at Ben Gurion University. B.A. in Economics, Tel Aviv University; M.A. in Agricultural Economics and Administration, Hebrew University of Jerusalem; Ph.D. in Economics, Hebrew University of Jerusalem. Serves as an academic staff member at Ben Gurion University, head of the Entrepreneurship and Innovation course of study in the Department of Business Administration, chairperson and director of the Bengis Center for Entrepreneurship and Innovation at the Guilford Glazer Faculty of Business & Management, and member of the board of governors of Ben Gurion University of the Negev. Practices as an economic and business consultant in Israel and overseas (Prof. Dafna Schwartz Economic and Business Development Ltd.). Member of the National Council for Research and Development. Member of the general assembly of the Achva Academic College of Education (Registered Non-Profit Association). Member of the board of directors of Strauss Group Ltd. (external director). In the last five years or during part of that period, served as a director at the following companies: Teva Pharmaceutical Industries (external director), Oil Refineries Ltd. (external director), Rotem Industries Ltd., Albaad Massuot Yitzhak Ltd., Discount Bank, and Giron Development and Construction Ltd. (external director); however, she no longer serves at these companies. Served as a member of the expert group on: "Policy relevant research on entrepreneurship and SME's" (EU), European Commission, Enterprise and Industry Director General; however, she no longer serves there. The director is an “accounting and financial expert” for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and the regulations.

Standard 26: Board of Directors of the Bank (cont.)

Name and personal details	Occupation in the last five years
Ido Stern Identification Number: 031571904 Date of Birth: Mar. 19, 1978 Citizenship: Israeli Address: Pinkas 76, Tel Aviv	Chairman of the IDB Derivative Claims Committee; member of the following Board Committees: the Investment Approval Committee; the Corporate Governance Committee; and the Overseas Banking and International Activity Committee. Deputy general manager and legal counsel at Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf B 97 Ltd., Arzaf Ltd., and Av-Ar Capital Investments 1997 Ltd., which are controlled by the holder of the permit for control of the Bank. Member of the Board of Directors of the Bank as of September 24, 2012. L.L.B., Hebrew University of Jerusalem; Program for Leadership Development (PLD), Harvard Business School, Boston. Member of the boards of directors of the following companies: Shikun & Binui Ltd. and Salt of the Earth Ltd.

Standard 26A: Senior Officers of the Bank

Name and personal details	Occupation in the last five years
Zion Kenan Identification Number: 053508594 Date of Birth: Sep. 3, 1955 Citizenship: Israeli	President and CEO as of August 27, 2009. Member of the Board of Management as of September 30, 2001. B.A. in Social Sciences and Humanities, Open University; M.A. in Social Sciences and Humanities, Tel Aviv University.
Ari Pinto Identification Number: 069042505 Date of Birth: Dec. 22, 1961 Citizenship: Israeli	Member of the Board of Management as of September 8, 2009. Deputy CEO; COO (Chief Operating Officer). Responsible for strategy, resources, and operations. B.A. in Business Administration, New England College, Henniker, US; M.A. in Public Administration, Clark University, Boston, US. Certificate in Applied Roles of Directors, Israel Management Center; certificate in General Management, Bar Ilan University. From October 2013 to February 2016, Head of Retail Banking. From September 2009 to October 2013, Head of Corporate Strategy. Chairman of the board of directors of the following companies: Avuka Hevra le Hashkaot Ltd., Mivnim Vetsiud Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., Ramchal Poalim Ltd., BAMI Nechasim Ltd., and Bitan Investments and Mortgages Ltd. Served as chairman of the board of directors of the following companies: Poalim Mortgages Insurance Agency (2005) Ltd. and Poalim Afikim Ltd., and as a member of the board of directors of the following companies: Isracard Ltd. and Europay (Eurocard) Ltd.; however, he no longer serves in these positions.
Amir Aviv Identification Number: 029443264 Date of Birth: Mar. 30, 1972 Citizenship: Israeli	Member of the Board of Management as of December 1, 2013. Member of the Board of Management. B.A. in Business, Cardiff University, England; M.B.A., London Business School, England. From November 2009 to November 2013, CEO of Poalim Capital Markets Ltd. Mr. Amir Aviv will resign from the Board of Management of the Bank and from the Bank on March 31, 2016. From December 1, 2013, to February 2016, served as Head of International Banking. On March 31, 2016, Mr. Amir Aviv will end his service as chairman of the boards of directors of the following companies: PAM Holdings Ltd., Poalim Asset Management (UK) Ltd., and Bank Hapoalim (Switzerland) Ltd., and as a member of the boards of directors of the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Bank Hapoalim (Switzerland) Ltd., Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, and the Center for Educational Technology (Public Benefit Company).

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Jacob Orbach Identification Number: 053906467 Date of Birth: Apr. 2, 1956 Citizenship: Israeli	Member of the Board of Management as of July 6, 2014. Head of Corporate Banking. B.A. in Economics, Tel Aviv University. From January 2010 to July 5, 2014, Chief Internal Auditor, with the status of a Member of the Board of Management, Head of Internal Audit in Israel and Abroad. Chairman of the boards of directors of the following companies: Poalim Trust Services Ltd., Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., and Diur B.P. Properties (1993) Ltd. Member of Advisory Group in New York.
Eti Ben-Zeev Identification Number: 023571540 Date of Birth: Dec. 12, 1967 Citizenship: Israeli	Member of the Board of Management as of February 14, 2010. Head of Information Technology. B.A. in Mathematics and Computer Science, Tel Aviv University; M.B.A., Tel Aviv University. From August 2014 to January 2016, Application Development Division Manager. From April 2010 to August 2014, Infrastructure Division Manager. Chairperson of the board of directors of Poalit Ltd.
Efrat Yavetz Identification Number: 058677881 Date of Birth: Apr. 4, 1964 Citizenship: Israeli	Member of the Board of Management as of October 1, 2009. Head of Customer and Stakeholder Relations as of February 22, 2016. Head of Human Capital, Advising, and Resources until January 31, 2016. B.Sc. in Biochemistry and Human Nutrition, Hebrew University of Jerusalem; M.B.A., Tel Aviv University. From October 2009 to January 2016, Head of Human Capital, Advising, and Resources. Member of the executive board of the Poalim for the Community Foundation. Served as chairperson of the board of directors of the following companies: Avuka Hevra le Hashkaot Ltd., Otsar Bavel Ltd., Nichsei Bavel Ltd., Mivnim Vetsiud Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., Ramchal Poalim Ltd., BAMI Nechasim Ltd., and Bitan Investments and Mortgages Ltd.; however, she no longer serves at these companies.
Tsahi Cohen Identification Number: 022007587 Date of Birth: Sep. 29, 1965 Citizenship: Israeli	Member of the Board of Management as of July 1, 2012. Chief Risk Officer. B.Sc. in Aeronautical Engineering, Technion, Haifa; M.B.A., Tel Aviv University. Head of the Corporate Headquarters in the Corporate Banking Area at Bank Hapoalim from 2004 to June 2012.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Avraham Kochva Identification Number: 013570890 Date of Birth: Dec. 8, 1961 Citizenship: Israeli and American	Member of the Board of Management as of August 1, 2014. Head of Innovation as of February 23, 2016. B.A. in Political Science and Economics, Bar Ilan University; M.B.A., University of Derby, United Kingdom. From August 2015 to February 14, 2016, Head of Information Technology. From May 2011 to July 2014, Development Division Manager in the Information Technology Area. From May 2010 to April 2011, Head of Defense Sector at HP Israel; responsible for the company's business development with the defense sector. From 2007 to May 2010, CEO and one of the founders of the start-up company VeNotion Technologies. Chairman of the board of directors of the following companies: Isracard Ltd. and Europay (Eurocard) Israel Ltd. Served as chairman of the board of directors of Poalit Ltd.; however, he no longer serves in this position.
Ofer Levy Identification Number: 052222577 Date of Birth: Feb. 15, 1954 Citizenship: Israeli	Member of the Board of Management as of May 1, 2006. Chief Accountant. B.A. in Accounting and Economics, Tel Aviv University. CPA. Member of the board of directors of the following companies: Poalim Express Ltd., AMI Trustees Ltd., Yefet Nominees Ltd.
Ilan Mazur Identification Number: 007447386 Date of Birth: Oct. 31, 1946 Citizenship: Israeli	Member of the Board of Management as of August 31, 2003. Chief Legal Advisor of the Bank. LL.B., Hebrew University of Jerusalem. Member of the board of directors of Bank Hapoalim (Switzerland) Ltd.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Yadin Antebi Identification Number: 028078525 Date of Birth: Oct. 31, 1970 Citizenship: Israeli	Member of the Board of Management as of July 23, 2013. Head of Finance, CFO. B.A. in Accounting and Economics, Hebrew University of Jerusalem; M.B.A. (specialized in Finance), Hebrew University of Jerusalem. CPA. From February 2011 to July 2012, CEO of Dash Investment House. Chairman of the board of directors of Yadin Antebi Consulting Ltd.; member of the board of directors of Sure-Ha International Ltd.; member of the executive board of A Different Lesson (Registered Non-Profit Association). Served as chairman of the board of directors of the following companies: Poalim Mortgages Insurance Agency (2005) Ltd. and Poalim Ofakim Ltd.; and as a member of the board of directors of the following companies: Dash Provident Funds Ltd. and Tachlit Exchange Traded Notes Ltd.; however, he no longer serves at these companies.
Dan Alexander Koller Identification Number: 028051910 Date of Birth: Sep. 8, 1970 Citizenship: Israeli	Member of the Board of Management as of January 1, 2008. Head of Financial Markets and International Banking. B.A. in Economics and Business Administration, Hebrew University; M.A. in Economics and Business Administration, Hebrew University. From December 2013 to February 23, 2016, Head of Financial Markets; as of February 24, 2016, also Head of International Banking. From July 2012 to November 2013, Head of International Banking. From January 2008 to June 2012, Head of Risk Management. Chairman of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets - Investment House Ltd., Poalim Capital Markets Ltd., Bank Hapoalim Nominee Company Ltd., Poalim Financial Holdings Ltd., Hapoalim Hanpakot Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Hapoalim Nechasim (Menayot) Ltd., Opaz Ltd., Continental Poalim Ltd., Hapoalim American Israeli Ltd., Pekaot Poalim Ltd., and Bank Hapoalim (Switzerland) Ltd.; member of the board of directors of the following companies: Hapoalim International N.V., Tel Aviv Stock Exchange Ltd. Served as a director of the following companies: Poalim Asset Management (UK) Ltd., PAM Holdings Ltd.; however, he no longer serves at these companies.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Ronen Stein Identification Number: 022537021 Date of Birth: Nov. 6, 1966 Citizenship: Israeli	Member of the Board of Management as of February 14, 2016. Head of Retail Banking. B.A. in Economics, Hebrew University of Jerusalem; B.A. in Law, Interdisciplinary Center Herzliya. Licensed attorney – Israel Bar Association. Licensed investment advisor – Israel Securities Authority. From February 2015 to February 2016, CEO of the credit-card companies Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd. From 2010 to January 2015, Retail Banking Division Manager. Chairman of the board of directors of the following companies: Poalim Mortgages Insurance Agency (2005) Ltd. and Poalim Ofakim Ltd., and member of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., and Poalim Express Ltd. Served as chairman of the board of directors of the following companies: Tzameret Mimunim Ltd., Isracard Mimun Ltd., and Isracard (Nechasim) 1994 Ltd.; and as a director at Global Factoring Ltd.
Zeev Hayo Identification Number: 057069676 Date of Birth: Feb. 24, 1961 Citizenship: Israeli	Serves as Chief Internal Auditor as of July 14, 2014. Chief Internal Auditor, Head of Internal Audit in Israel and Abroad. B.A. in Accounting and Economics, Tel Aviv University. CPA. From January 2012 to July 2014, Operational Services Division Manager in the Financial Markets Area. From August 2006 to January 2012, Operational Services for Financial Asset Managers Division Manager. Serves as chief internal auditor of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., Peilim - Portfolio Management Company Ltd. Served as CEO and director at Poalim Financial Holdings (1993) Ltd.; however, he no longer serves there. Served as chairman of the board of directors of the following companies: Poalim Egoz Hevra Finansit Ltd., Poalim Shaked Hevra Finansit Ltd., Tevuat Poalim Ltd., Shoresh Poalim Ltd., and Mishor Poalim Ltd.; however, he no longer serves at these companies. Served as a director at the following companies: Nominees Company of Bank Hapoalim Ltd., Tel Aviv Stock Exchange Ltd.; however, he no longer serves at these companies.

Standard 26A: Senior Officers of the Bank (cont.)

Name and personal details	Occupation in the last five years
Ronit Shapira Identification Number: 054667613 Date of Birth: Dec. 22, 1956 Citizenship: Israeli	Serves as Secretary of the Bank as of July 1, 2015. B.A. in Business Administration, New England College, Henniker, New Hampshire, United States; M.A. in Human Resource Management, University of Derby, United Kingdom. From March 2004 to June 2015, Operations and Inter-Division Coordination Department Manager in the Retail Banking Area. Member of the executive board of the Poalim for the Community Foundation (Registered Non-Profit Association).
Ron Weksler Identification Number: 024218422 Date of Birth: Jul. 5, 1969 Citizenship: Israeli	Served as Member of the Board of Management and Head of Corporate Strategy from November 1, 2013, to February 4, 2016.
Yoram Weissbrem Identification Number: 007041809 Date of Birth: Jun. 14, 1948 Citizenship: Israeli	Served as Secretary of the Bank from April 4, 1995, to June 30, 2015.
Eli Cohen Identification Number: 027760628 Date of Birth: Jul. 6, 1970 Citizenship: Israeli	Head of Marketing Strategy, Service, and CSR as of January 15, 2011. As of February 8, 2016, reports directly to the COO, and not to the CEO of the Bank, and is therefore no longer considered an officer of the Bank.

Standard 26B: Independent Authorized Signatories

None.

Standard 27: Accountants of the Bank

Ziv Haft, Certified Public Accountants, 48 Menachem Begin Rd., Tel-Aviv.

Somekh Chaikin, Certified Public Accountants, 17 Ha'arba'ah St., Tel Aviv.

Standard 28: Details of Changes in the Memorandum and Articles of the Bank

The general meeting of shareholders of the Bank, held on February 18, 2016, approved the addition of Article 24E to the Articles of the Bank; the amendment of the heading preceding Section 24 in the Articles of the Bank; and the amendment of Article 17 of the Articles of the Bank. With regard to the content of the aforesaid amendments, see the Immediate Report regarding the convening of the general meeting published by the Bank on January 13, 2016 (Reference No. 2016-01-009607).

Standard 29

A. Recommendations of the board of directors to the general meeting, and resolutions that do not require approval by the general meeting:

1. Dividend distribution – For details regarding dividend distribution, see the Board of Directors' Report, page 63.
2. Changes in capital – None.
3. Changes in the Memorandum and Articles of the Bank – Recommendations to the general meeting to amend the Articles – see details in Standard 28 above.
4. Redemption of shares – None.
5. Early redemption of bonds – None.
6. Transactions not at market terms between the Bank and an interested party of the Bank – None.

B. Resolutions of the general meeting passed in contradiction of the recommendations of the Board of Directors – None.

C. Resolutions of the special general meeting – See details in Standard 22 above with regard to the resolution of the general meeting of February 18, 2016, to grant exemption letters to directors and officers of the Bank, and to reapprove the granting of indemnification letters to directors and officers of the Bank in the granting of indemnification letters to whom the controlling shareholder may have a personal interest. In addition, in the aforesaid special general meeting, the shareholders resolved to amend the remuneration policy of the Bank (addition of directives concerning exemption of officers). For additional information, see the Immediate Report on the convening of the meeting published by the Bank on January 13, 2016 (Reference No. 2016-01-009607).

On March 31, 2015, the general meeting of the Bank resolved to elect Ms. Dafna Schwartz as an external director pursuant to the Companies Law, for an additional period of three years, from April 6, 2015, to April 5, 2018.

Standard 29A

1. Approval of actions under Section 255 of the Companies Law, specifying the name and position of the officer, the date and details of the action, the date of approval of the action, a description of the processes by which the action was approved, and the arguments for its approval:

   On February 26, 2015, the Board of Directors accepted the updated declarations of the directors and officers and resolved to affirm that despite the fact that the double service of the directors and/or officers listed below and/or of their spouses and/or relatives as a director or a general manager or an interested party of the companies listed beside their names below is considered a situation in which a conflict of interest apparently exists, in that the Bank may provide banking services to these companies, the Board of Directors has established that this does not harm the best interests of the Bank:

   A. Irit Izakson – Azrieli (Israel) Foundation (Registered Non-Profit Association), Hillel Israel Ltd.

   B. Yair Seroussi – Institute for National Security Studies; Eli Horowitz Institute of Strategic Management, Tel Aviv University.

   C. Yair Tauman – 100 Chicos Ltd.

   D. Meir Wietchner – Miya Bahamas Ltd., S.C. Miya Water S.R.L.

   E. Amnon Dick – Radio Eco 99 Ltd., Rala Management and Development (2014) Ltd., Eco Sharon Management and Development Ltd., Nicevend Ltd.

   F. Dafna Schwartz – National Council for Research and Civil Development.

   G. Yair Tauman (relative of the officer – brother-in-law Michael Tamir) – Michael Tamir, CPA.

   H. Amir Aviv (relative of the officer – brother-in-law Ami Biton) – Mekimi Ltd.

   I. Zeev Hayo (relative of the officer – wife Yael Hayo) – Opal S.I. International Ltd., Explore Asian Inc.

   J. Efrat Peled (relative of the officer – brother Gavriel Sharaf) – Star Shipping Services (India) Private Ltd., Star Lanka Shipping (Private) Ltd.

   K. Avi Kochva – VeNotion Technologies, Poalim Ltd.

   L. Eli Cohen – Menachem Begin Heritage Foundation.

   M. Nir Zichlinskey – Tel Aviv University, Bar Ilan University.

   N. Yosef Yarom – National Library Ltd.

   O. Yadin Antebi – Sure-Ha International Ltd.

   P. Ari Pinto – Poalim Mortgages Insurance Agency Ltd., Poalim Ofakim Ltd.

   Q. Jacob Orbach – Poalim Trust Services Ltd., Diur B.P. Ltd., Diur B.P. Properties (1993) Ltd., Diur B.P. Investments (1992) Ltd.

   In addition, on August 31, 2015, the Board of Directors accepted the updated declarations of the directors and officers and resolved to affirm that despite the fact that the double service of the directors and/or officers listed below and/or of their spouses and/or relatives as a director or a general manager or an interested party of the companies listed beside their names below is considered a situation in which a conflict of interest apparently exists, the Board of Directors has established that this does not harm the best interests of the Bank:

   A. Nir Zichlinskey – Ashkelon Academic College, Peres Academic Center.

   B. Yair Tauman – Rewire (O.S.G) Research and Development Ltd., Gamesmartltd.com.

Standard 29A (cont.)

C. Amnon Dick – Migad Logistics Y.A. Limited Partnership, Migad Logistics Ltd.

D. Yacov Peer (relative of the officer – son-in-law Shai Ben Hemo) – Chemitec Ltd., Chemitec Rehabilitation Ltd., P.L.T. Financial Services Ltd.

E. Dafna Schwartz (relative of the officer – son-in-law Avi Raz) – Aloni Haft Global Capital Ltd., Toplog Entrepreneurship Management and Logistics.

F. Efrat Peled (relative of the officer – spouse's son-in-law Cedric Shumard) – Bernard Controls Asia Finance Manager.

G. Ron Weksler – Young Business Leadership Ltd. (Public Benefit Company).

H. Avi Kochva – Isracard Ltd., Europay (Eurocard) Israel Ltd.

In accordance with the aforesaid determination by the Board of Directors that the double service does not harm the best interests of the Bank, the Board of Directors approved their continued service at the Bank, pursuant to Section 255 of the Companies Law.

The Board of Directors also approved the transactions and actions performed in the past between the aforesaid companies and the Bank prior to the appointment of the aforesaid directors and/or officers, and before they and/or their spouse and/or their relative had a personal interest in transactions and/or actions in the ordinary course of business.

The Board of Directors also affirmed that it finds no fault in the continued provision to the aforesaid companies by the Bank of the full range of banking services (excluding credit), in Israel and overseas, which it provides to its other customers with a similar volume of activity. All banking services and the terms thereof shall be determined such that the aforesaid companies receive identical terms to those granted to other customers of the Bank performing similar transactions, and do not receive benefits not granted to other customers in the ordinary course of the Bank's business and under similar circumstances. The required approval pursuant to the provisions of Section 255 of the Companies Law was granted under the condition that the terms for receiving the aforesaid banking services are in accordance with the procedures of the Bank and within and according to the authority and the procedures of the Board of Directors.

With regard to deposits, the terms of account management, and credit for the companies listed above – specific approval shall be given by the function authorized to approve the credit at the Bank and/or by the Transactions with Related Parties Committee of the Board of Directors, as required pursuant to Proper Conduct of Banking Business Directive 312 of the Bank of Israel, and pursuant to and in accordance with the procedures of the Bank and the framework of authority and procedures of the Board of Directors, and under terms approved by the Bank for others who are not "interested parties" in transactions with the Bank, and who execute similar transactions with the Bank. This approval constitutes an update of previous approvals resolved by the Board of Directors at various times.

2. Approval of actions under Section 254(A) of the Companies Law which were not approved – None.

3. Exceptional transactions that require approval under Section 270(1) of the Companies Law – None.

Standard 29A (cont.)

4. Exemption, insurance, or commitment to indemnify officers, as defined in the Companies Law, in effect at the reporting date – As at the date of the report, all of the directors and officers of the Bank have exemption letters, indemnification commitments, and officers' insurance. For additional information, see Standard 22.

Ofer Levy	Ronit Shapira
Chief Accountant	Secretary of the Bank

Tel Aviv, February 28, 2016

Periodic Report 2015

Corporate Governance Questionnaire

INDEPENDENCE OF THE BOARD OF DIRECTORS

1. In every reporting year, two or more external directors served at the corporation: **True**

   Director A: **Imri Tov**

   Director B: **Dafna Schwartz**

   Number of external directors serving at the corporation as at the date of publication of this questionnaire: **7 directors (2 external directors appointed pursuant to the Companies Law, and 5 directors considered external pursuant to Directive 301 of the Supervisor of Banks).**

2. A. The number of independent directors serving at the corporation as at the date of publication of this questionnaire: **7/15** (2 external directors appointed pursuant to the Companies Law, and 5 directors appointed pursuant to Directive 301 of the Bank of Israel, who fulfill the definition of an 'independent director," in that they fulfill the terms of qualification for the appointment of an external director set forth in Sections 240(B)-(F) of the Companies Law, and the Audit Committee affirmed the directors' independence on January 24, 2011, July 28, 2013, and January 7, 2016).

   B. The corporation **has not** established a minimum rate/number of independent directors in its articles.

3. An examination was conducted in the reporting year with the external directors (and the independent directors), and it was found that they fulfilled the directives of Section 240(B) and (F) of the Companies Law, in the reporting year, with regard to the lack of affinity of the external (and independent) directors serving at the corporation, and that they fulfilled the required conditions for service as external (or independent) directors: **True**.

4. None of the directors who served at the corporation during the reported year report to the general manager, directly or indirectly (with the exception of a director who is a representative of the employees, if the corporation has employee representation): **True.**

5. All directors who gave notice of the existence of a personal interest in the approval of a transaction on the agenda of a meeting did not attend that discussion and did not participate in such voting (with the exception of a discussion and/or voting under circumstances according to Section 278(B) of the Companies Law): **True.**

6. A controlling party (including a relative thereof and/or a person acting on behalf thereof), who is not a director or other senior officer of the corporation, was not present at the meetings of the board of directors held during the reporting year: **Ms. Shari Arison was invited to participate in the meeting of the Board of Directors held on December 27, 2015, for a presentation on the subject of the Doing Good Model. With the exception of this meeting, a controlling party (including a relative thereof and/or a person acting on behalf thereof), who is not a director or senior officer of the corporation, was not present at the other meetings of the board of directors held during the reporting year**.

QUALIFICATION AND SKILLS OF DIRECTORS

7. The articles of the corporation **do not** contain a directive restricting its ability to immediately terminate the service of any directors of the corporation who are not external directors: **True.**

8. The corporation has prepared a training program for new directors in the area of the business of the corporation and in the area of the law applicable to the corporation and to the directors, as well as a program for continued training of serving directors, adapted, among other matters, to the position held by the director at the corporation: **True.**

   This program was operational during the reporting year.

9. A. A minimum required number of directors on the board of directors who must have accounting and financial expertise has been established at the corporation: **True.**

   The minimum number established: **2**.

   B. Number of directors who served at the corporation during the reporting year:

   Directors with accounting and financial expertise:

   14 directors from January 1, 2015, to December 11, 2015;

   13 directors from December 11, 2015, to December 27, 2015;

   12 directors from December 27, 2015, to December 31, 2015.

   Directors with professional qualification:

   1 director from January 1, 2015, to December 31, 2015.

10. A. The composition of the board of directors included members of both sexes throughout the reporting year: **True.**

    B. The number of directors of each sex serving on the board of directors of the corporation as at the date of publication of this questionnaire:

    Men: 11; Women: 4.

MEETINGS OF THE BOARD OF DIRECTORS (AND CONVENING OF THE GENERAL MEETING)

11. A. The number of meetings of the board of directors held during each quarter of the reporting year:

First quarter 2015: **7**

Second quarter 2015: **6**

Third quarter 2015: **5**

Fourth quarter 2015: **13**

B. Beside each of the names of the directors who served at the corporation during the reporting year, note the percentage of meetings of the board of directors in which he or she participated (in this subsection, including meetings of the committees of the board of directors of which he or she is a member, as noted below), which were held during the reporting year (in reference to the term of his or her service):

Director's name	Percent participation in meetings of the board of directors	Percent participation in meetings of the audit committee (for directors who are members of that committee)	Percent participation in meetings of the committee for the examination of financial statements (for directors who are members of that committee)	Percent participation in meetings of additional committees of the board of directors in which the director is a member (note the name of the committee)
Yair Seroussi	97%	Not a member of the committee	Not a member of the committee	Credit committee – 97% Investment approval committee – 100% Overseas banking and international activity committee – 100% New products committee – 100% Corporate governance committee – 100% Finance and prospectus committee – 100% Risk management and control committee – 94% Remuneration committee to which additional directors were invited as committee members (pursuant to Section 38(E) of Directive 301 of the Supervisor of Banks) – 93%
Irit Izakson	100%	Not a member of the committee	Not a member of the committee	Finance and prospectus committee – 100% Risk management and control committee – 100% Credit committee – 95% New products committee – 100%
Mali Baron	100%	97%	100%	Transactions with related parties committee – 100% Credit committee – 100% Corporate governance committee – 100% Risk management and control committee – 100%
Amnon Dick	100%	Not a member of the committee	Not a member of the committee	Investment approval committee – 100% Overseas banking and international activity committee – 100% Information technology committee – 100% New products committee – 100% Remuneration committee to which additional directors were invited as committee members (pursuant to Section 38(E) of Directive 301 of

				the Supervisor of Banks) – 100%
Meir Wietchner	97%	Not a member of the committee	Not a member of the committee	Information technology committee – 100% Overseas banking and international activity committee – 100%
Nir Zichlinskey	100%	97%	97%	Information technology committee – 100%
Yair Tauman	81%	Not a member of the committee	Not a member of the committee	Investment approval committee – 80% IDB Derivative Claims Committee – 100%
Imri Tov	100%	100%	100%	Remuneration committee – 100% Credit committee – 100% Transactions with related parties committee – 100% Finance and prospectus committee – 100% Investment approval committee – 100% Risk management and control committee – 100% Overseas banking and international activity committee – 100% Corporate governance committee – 100%
Yosef Yarom	100%	100%	100%	New products committee – 100%
Yacov Peer	100%	100%	100%	Finance and prospectus committee – 100%
Efrat Peled	100%	Not a member of the committee	Not a member of the committee	Overseas banking and international activity committee – 100% Finance and prospectus committee – 100% Risk management and control committee – 100% Corporate governance committee – 100% Remuneration committee to which additional directors were invited as committee members (pursuant to Section 38(E) of Directive 301 of the Supervisor of Banks) – 100%
Moshe Koren	97%	Not a member of the committee	Not a member of the committee	Credit committee – 100% Transactions with related parties committee – 100% Finance and prospectus committee – 100% Risk management and control committee – 100% New products committee – 100% Remuneration committee – 100% Remuneration committee to which additional directors were invited as committee members (pursuant to Section 38(E) of Directive 301 of the Supervisor of Banks) – 95%
Nehama Ronen	92%	Not a member of the committee	Not a member of the committee	Remuneration committee – 100% Corporate governance committee – 80%
Dafna Schwartz	93%	100%	100%	Transactions with related parties committee – 97%

				Remuneration committee – 100% IDB Derivative Claims Committee – 100%
Ido Stern	100%	Not a member of the committee	Not a member of the committee	IDB Derivative Claims Committee – 100% Investment approval committee – 100% Overseas banking and international activity committee – 100% Corporate governance committee – 100%

12. The board of directors held at least one discussion during the reporting year regarding the management of the business of the corporation by the general manager and the officers who report to the general manager, when they were not present, after giving them the opportunity to express their position: **True.**

SEPARATION OF THE DUTIES OF THE GENERAL MANAGER AND THE CHAIRPERSON OF THE BOARD OF DIRECTORS

13. A chairperson of the board of directors served at the corporation throughout the reporting year: **True.**
14. A general manager served at the corporation throughout the reporting year: **True.**
15. In a corporation where the chairperson of the board of directors also serves as the general manager of the corporation and/or exercises the authority of the general manager, the double service has been approved in accordance with the directives of Section 121(C) of the Companies Law.
    ☒Not relevant.
16. The general manager is not a relative of the chairperson of the board of directors: **True.**
17. A controlling party or a relative thereof does not serve as the general manager or as a senior officer of the corporation, except as a director: **True.**

THE AUDIT COMMITTEE

18. The following persons did not serve on the audit committee during the reporting year:

    A. A controlling party or a relative thereof: **True.**

    B. The chairperson of the board of directors: **True.**

    C. A director employed by the corporation or by a controlling party of the corporation or by a corporation under a controlling party's control: **True.**

    D. A director who regularly provides services to the corporation or to a controlling party of the corporation or to a corporation under a controlling party's control: **True.**

    E. A director whose primary livelihood depends on the controlling party: **True.**

19. No person not permitted to be a member of the audit committee, including a controlling party or a relative thereof, was present at the meetings of the audit committee during the reporting year, except in accordance with the directives of section 115(E) of the Companies Law: **True.**

20. The legal quorum for discussion and for the passing of resolutions at all meetings of the audit committee held during the reporting year was a majority of the members of the committee, where the majority of those present were independent directors, and at least one of those present was an external director: **True.**

21. The audit committee held at least one meeting during the reporting year in the presence of the internal auditor and the external auditor, without the presence of officers of the corporation who are not members of the committee, with regard to flaws in the business management of the corporation: **True.**

22. For all meetings of the audit committee attended by a person not authorized to be a committee member, such attendance was approved by the chairperson of the committee and/or was at the request of the committee (with regard to the legal counsel and secretary of the corporation who is not a controlling party or a relative thereof): **True.**

23. Arrangements were in effect during the reporting year, established by the audit committee, with respect to the treatment of complaints of employees of the corporation regarding flaws in business management and with respect to the protection to be given to employees who make such complaints: **True.**

24. The audit committee (and/or the committee for the examination of the financial statements) obtained satisfactory assurance that the volume of work and the fees of the external auditor with respect to the financial statements in the reporting year were appropriate in order to adequately perform the auditing and reviewing work: **True.**

DUTIES OF THE COMMITTEE FOR THE EXAMINATION OF THE FINANCIAL STATEMENTS (HEREINAFTER: THE COMMITTEE) IN ITS PRELIMINARY WORK PRIOR TO THE APPROVAL OF THE FINANCIAL STATEMENTS

25. A. The period of time (in days) established by the board of directors as a reasonable period for the submission of recommendations of the Committee in advance of the meeting of the board of directors in which the financial statements are approved: **3 days**, to the extent possible.

B. The actual number of days elapsed from the submission of the recommendations to the board of directors to the date of approval of the financial statements:

Report for the first quarter of 2015:	**2 days.**
Report for the second quarter of 2015:	**2 days.**
Report for the third quarter of 2015:	**1 day.**
Annual report 2015:	**5 days.**

C. The number of days elapsed from the submission of the draft of the financial statements to the directors to the date of approval of the financial statements:

Report for the first quarter of 2015:	**2 days.**
Report for the second quarter of 2015:	**2 days.**
Report for the third quarter of 2015:	**2 days.**
Annual report 2015:	**2 days.**

26. The external auditor of the corporation attended all meetings of the Committee and of the board of directors in which the financial statements of the corporation referring to the periods included in the reporting year were discussed: **True.**

27. All of the following conditions were fulfilled by the Committee during the entire reporting year and until the publication of the annual report:

A. The number of members did not fall below three (at the date of the discussion by the Committee and the approval of the financial statements, as noted): **True.**

B. All of the conditions set forth in Section 115(B) and (C) of the Companies Law (with regard to the service of members of the audit committee) were fulfilled: **True.**

C. The chairperson of the Committee is an external director: **True.**

D. All of the members are directors and the majority of members are independent directors: **True.**

E. All of the members have the ability to read and understand financial statements, and at least one of the independent directors has accounting and financial expertise: **True.**

F. The members of the Committee made a declaration prior to their appointment: **True.**

G. The legal quorum for discussions and for passing of resolutions in the Committee is a majority of its members, provided that the majority of those present are independent directors, including at least one external director: **True.**

REMUNERATION COMMITTEE

28. In the reporting year, the committee consisted of at least three members, and external directors were a majority of the committee (at the date of the discussion in the committee): **True.**

29. The terms of service and employment of all members of the remuneration committee in the reporting year are in accordance with the Companies Regulations (Rules for Remuneration and Expenses of External Directors), 2000: **True.**

30. The following persons did not serve on the remuneration committee during the reporting year:

    A. A controlling party or a relative thereof: **True.**

    B. The chairperson of the board of directors: **True.**

    C. A director employed by the corporation or by a controlling party of the corporation or by a corporation under a controlling party's control: **True.**

    D. A director who regularly provides services to the corporation or to a controlling party of the corporation or to a corporation under a controlling party's control: **True.**

    E. A director whose primary livelihood depends on the controlling party: **True.**

31. A controlling party or a relative thereof were not present at the meetings of the remuneration committee during the reporting year, unless the chairperson of the committee determined that the presence of any of them was required for the presentation of a particular matter: True.

32. The remuneration committee and the board of directors did not exercise their authority pursuant to sections 267A(C), 272(C)(3), and 272(C1)(1)(c) for the approval of a transaction or remuneration policy despite the objection of the general meeting of shareholders: **True.**

INTERNAL AUDITOR

33. The chairperson of the board of directors or the general manager of the corporation is the organizational supervisor of the internal auditor of the corporation: **True.**

34. The chairperson of the board of directors or the audit committee approved the work plan in the reporting year: **True.**

35. Volume of employment of the internal auditor at the corporation in the reporting year: **100% position.**

    A discussion of the findings of the internal auditor was held (by the audit committee or the board of directors) during the reporting year: **True.**

36. The internal auditor is not an interested party of the corporation, a relative thereof, an external auditor, or anyone acting on behalf thereof, and does not maintain material business ties with the corporation, a controlling party of the corporation, a relative thereof, or corporations under their control: **True.**

TRANSACTIONS WITH CONTROLLING PARTIES

37. The controlling party or a relative thereof (including a company under the control thereof) is not employed by the corporation and does not provide the corporation with management services: **True.**

38. To the best of the corporation's knowledge, the controlling party does not have additional business in the area of activity of the corporation (in one or more areas): **True.**

Mr. Yair Seroussi **Chairman of the Board**	**Ms. Dafna Schwartz** **Chairperson of the Audit Committee***

* The committee also serves as the committee for the examination of the financial statements.

Bank Hapoalim B.M.

Report on Risks

Pillar 3 Disclosure and Additional Information Regarding Risks

As at December 31, 2015

2015

bank hapoalim

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Table list

Introduction

This publication of the Report on Risks serves as a supplement and expansion of information accompanying the financial reporting of Bank Hapoalim B.M. on the subjects of risk and capital management. The information presented below in the Report on Risks, as required by the reporting directives of the Bank of Israel, includes disclosure requirements issued by the Basel Committee and risk disclosure requirements based on other sources, including disclosure requirements issued by the Financial Stability Forum (FSF) and disclosure requirements issued by a task force established by the Financial Stability Board (FSB) in order to improve risk disclosure at banking corporations. Additional information concerning risks, as specified in the reporting directives, which is not based on the disclosure requirements published by the Basel Committee is marked "AI" at the beginning of the paragraph.

Forward-Looking Information

Most of the information in this report that does not refer to historical facts (even if it is based on processing of historical data) constitutes forward-looking information, as defined in the Securities Law, 1968. The actual results of the Bank may differ materially from those included in forward-looking information, including, among other factors, as a result of changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, accounting changes, changes in taxation rules, and other changes not under the Bank's control, which may lead to the failure of estimates to materialize and/or changes in the Bank's business plans. Forward-looking information is marked by words or phrases such as "forecast," "plan," "objective," "risk estimate," "scenario," "extreme scenario," "risk assessment," "correlation," "distribution," "we believe," "expect," "predict," "estimate," "intend," "plan," "aim," "may change," "should," "can," "will," or similar expressions. Such forward-looking expressions involve risk and uncertainty, because they are based on management's estimates regarding future events, which include changes in the following parameters, among others: economic conditions, public tastes, interest rates in Israel and overseas, inflation rates, new legislation and regulation in the area of banking and the capital market, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects related to the Bank's image, technological developments, manpower-related matters, and other areas that affect the activity of the Bank and the environment in which it operates, the materialization of which is uncertain by nature. The information presented below is based, among other things, on information known to the Bank and based, among other things, on publications by various entities, such as the Central Bureau of Statistics, the Ministry of Finance, the Bank of Israel, the Ministry of Housing, and other entities that publish data and estimates regarding the capital markets in Israel and globally.

This information reflects the Bank's current viewpoint with regard to future events, which is based on estimates, and is therefore subject to risks and uncertainty, as well as to the possibility that expected events or developments may not materialize at all or may only partially materialize, or that actual developments may be the opposite of expectations.

A. General Disclosure Principle

Pursuant to the instructions of the Bank of Israel, the disclosure declarations in the annual financial report of the Bank are also valid for the Report on Risks – Pillar 3 Disclosure and Additional Information Regarding Risks.

This report includes new disclosures required for the first time, some of which are presented this year without comparative figures.

B. Applicability of Implementation

The applicability of implementation refers to the working framework for the capital measurement and adequacy of Bank Hapoalim.

In general, the capital requirements of the Bank are based on its consolidated financial statements, which are prepared according to Israeli GAAP and the directives and guidelines of the Supervisor of Banks.

According to Israeli GAAP, subsidiaries controlled directly or indirectly by the Bank are consolidated in the financial statements, but different consolidation rules sometimes apply for the purposes of the supervision of capital. However, as at December 31, 2015, there are no differences between the consolidation base according to GAAP and the supervisory consolidation base for the purposes of capital adequacy.

There are no significant prohibitions or restrictions on the transfer of supervisory capital within the Group, with the exception of Bank Pozitif, for which any capital beyond the Pillar 1 requirements is not available at the level of the Group, and against which capital is therefore allocated within Pillar 2 calculations. With regard to the limits established in the Bank of Israel's permit for the acquisition of control of the Bank in connection with the distribution of retained earnings, see Note 25 to the Financial Statements for 2015.

For further details regarding the principal subsidiary and affiliated companies of the Bank, see Note 15C to the Financial Statements for 2015.

C. Capital – Structure and Capital Adequacy

Structure of Supervisory Capital and Composition of Capital

Capital measurement is based on the division of capital into Tier 1 capital (which includes common equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital.

Common equity Tier 1 capital includes the components of shareholders' equity and minority interests in the capital of consolidated companies, net of surplus capital in respect thereof. The main supervisory adjustments and deductions from common equity Tier 1 capital are intangible assets and goodwill; net deferred taxes receivable, the realization of which is based on future profitability of the banking corporation; net deferred taxes receivable in respect of timing differences; unrealized profits and losses resulting from changes in the fair value of liabilities, arising from changes in the own credit risk of the banking corporation; investment in own ordinary shares, including commitment to acquire own shares subject to contractual agreements; and investments in the share capital of financial corporations not consolidated in the public reports of the banking corporation.

Additional Tier 1 capital includes innovative hybrid capital instruments not eligible for recognition in supervisory capital under the Basel 3 directives, which are therefore deducted gradually, in accordance with the transitional directives. Non-innovative hybrid capital instruments have characteristics such as: a maturity date of no less than 49 years; not secured by any form of collateral; rights under the instruments are subordinated relative to all creditors of the Bank; the instruments include mechanisms for the absorption of losses on a current basis (suspension of interest and principal payments, and forced conversion into shares under circumstances established for those instruments); and they do not accrue interest and principal not paid on time, in any way (except in the case of payment in the form of shares), including in cases in which interest and principal payments are suspended. Innovative hybrid capital instruments are those that meet the definition of non-innovative capital instruments but also include an incentive for the Bank to carry out redemptions, such as a mechanism for an increase in the interest rate after a certain number of years.

Tier 2 capital includes the collective allowance for credit losses, innovative hybrid capital instruments, and subordinated notes. The capital instruments and subordinated notes are not eligible for recognition in supervisory capital under the Basel 3 directives, and are therefore being deducted gradually, in accordance with the transitional directives. The innovative hybrid capital instruments have the characteristics of innovative capital instruments included in additional Tier 1 capital, with the following exceptions: they can be cumulative; there is no requirement to convert them into shares; and the rights arising from the instruments are subordinated to all creditors of the Bank except holders of additional Tier 1 capital instruments.

The main characteristics of the subordinated notes are: a term to maturity of no less than five years; issued without collateral; rights under the instruments are subordinated to the claims of other creditors of the Bank, except creditors holding Tier 1 capital and Tier 2 capital instruments; and of the amount thereof recognized as Tier 2 capital, as noted, 20% shall be deducted at the beginning of each year in the last five years before their maturity date (in the case of a subordinated note settled in installments, such a deduction shall be made from each installment).

The capital instruments and subordinated notes that are no longer eligible as supervisory capital are recognized as of January 1, 2014, up to a ceiling of 80% of the balance thereof in supervisory capital as at December 31, 2013. In each subsequent year, this ceiling shall be lowered by an additional 10%, up to January 1, 2022. In 2015, the capital instruments and subordinated notes are recognized up to a ceiling of 70% of the balance thereof in supervisory capital as at December 31, 2013.

Limits on the Structure of Capital

Proper Conduct of Banking Business Directive 202 sets limits on the structure of capital:

1. Tier 2 capital shall not exceed 100% of Tier 1 capital, after the required deductions from this capital.
2. Capital instruments eligible for inclusion in Tier 2 capital shall not exceed 50% of Tier 1 capital, after the required deductions from this capital. This limit does not include capital instruments included in Upper Tier 2 capital prior to the inception of this directive, in the amount of the balance of such instruments as at December 31, 2013, and in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299 (Supervisory Capital – Transitional Directives).

Hybrid capital instruments recognized as Tier 1 capital are issued by the Bank. Capital instruments recognized as Tier 2 capital are issued by the Bank and through its wholly-owned subsidiaries Hapoalim Hanpakot and Hapoalim International N.V.

For details regarding subordinated notes, see Note 21 to the Financial Statements.

Calculation of the Capital Ratio

Table C.1: Calculation of the ratio of capital to risk-adjusted assets

	December 31, 2015	December 31, 2014
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier 1 capital	**33,246**	(1)31,482
Additional Tier 1 capital	**1,709**	1,954
Total Tier 1 capital	**34,955**	(1)33,436
Tier 2 capital	**14,593**	16,041
Total overall capital	**49,548**	(1)49,477
2. Weighted balances of risk-adjusted assets		
Credit risk	**317,891**	(1)311,329
Market risks	**4,562**	5,269
Operational risk	**22,671**	22,275
Total weighted balances of risk-adjusted assets	**345,124**	(1)338,873
3. Ratio of capital to risk-adjusted assets		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**9.63%**	(1)9.29%
Ratio of Tier 1 capital to risk-adjusted assets	**10.13%**	(1)9.87%
Ratio of total capital to risk-adjusted assets	**14.36%**	(1)14.60%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(2)9.07%**	(2)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(2)12.57%**	(2)12.50%

(1) As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Annual Financial Statements for 2015. If the adoption had been carried out in 2014, the common equity Tier 1 capital ratio would have been 9.25% as at December 31, 2014, and the total capital ratio would have been 14.56%.

(2) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively. With regard to the balance of housing loans, see Note 30A(2) to the Annual Financial Statements for 2015.

Table C.1: Calculation of the ratio of capital to risk-adjusted assets (continued)

	December 31, 2015	December 31, 2014
	%	
4. Significant subsidiaries		
Isracard		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**19.94%**	*18.85%
Ratio of Tier 1 capital to risk-adjusted assets	**19.94%**	*18.85%
Ratio of total capital to risk-adjusted assets	**20.96%**	*19.79%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(1)9.00%**	(1)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(1)12.50%**	(1)12.50%
Bank Hapoalim Switzerland		
Ratio of common equity Tier 1 capital to risk-adjusted assets	**24.11%**	21.09%
Ratio of Tier 1 capital to risk-adjusted assets	**24.11%**	21.09%
Ratio of total capital to risk-adjusted assets	**24.20%**	21.17%
Minimum common equity Tier 1 capital ratio required by local regulation	**8.00%**	8.00%
Minimum total capital ratio required by local regulation	**11.20%**	11.20%
Bank Pozitif	Basel 2(2)	
Ratio of Tier 1 capital to risk-adjusted assets	**16.34%**	17.51%
Ratio of total capital to risk-adjusted assets	**17.10%**	18.15%
Minimum total capital ratio required by local regulation	**12.00%**	12.00%

* Retrospective implementation of guidelines of the Supervisor of Banks concerning capitalization of software costs.
(1) Minimum capital ratio required according to the directives of the Supervisor of Banks as of January 1, 2015.
(2) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Table C.2: Composition of capital for the purpose of calculating the ratio of capital to risk-adjusted assets

	December 31, 2015	December 31, 2014
	NIS millions	
Tier 1 capital		
Paid-up common share capital and premium	**8,094**	8,004
Retained earnings	**24,720**	*22,243
Non-controlling interests in equity of consolidated subsidiaries	**148**	224
Unrealized profits from adjustments of securities available for sale to fair value	**451**	961
Other capital instruments	**(34)**	*153
Amounts deducted from Tier 1 capital	**(133)**	(103)
Total common equity Tier 1 capital	**33,246**	*31,482
Innovative hybrid instruments	**1,709**	1,954
Total Tier 1 capital	**34,955**	*33,436
Tier 2 capital		
Hybrid capital instruments and subordinated notes	**1,150**	1,331
Collective allowances for credit losses before the effect of related tax	**3,915**	3,837
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**9,528**	10,873
Amounts deducted from Tier 2 capital	**-**	-
Total Tier 2 capital	**14,593**	16,041
Total eligible capital	**49,548**	*49,477

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

For further details, see Note 25 to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet

	December 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions				
Common equity Tier I capital					
Common equity Tier I capital – instruments and retained earnings					
Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier I capital	**8,094**		8,004		1+2
Retained earnings, including dividends proposed or declared after the balance sheet date	**24,720**	**4**	*22,243		3
Cumulative other comprehensive income and disclosed retained earnings	**417**	**(203)**	*1,114		4A+4B
Common equity Tier I capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**-**		-		
Ordinary shares issued by subsidiaries of the banking corporation which were consolidated and are held by a third party (non-controlling interests)	**148**	**58**	224	103	5
Common equity Tier I capital before supervisory adjustments and deductions	**33,379**		*31,585		
Common equity Tier I capital – supervisory adjustments and deductions					
Stabilization adjustments of valuations	**-**	**-**	-	-	
Goodwill, net of deferred taxes payable	**-**	**-**	-	-	
Other intangible assets, excluding mortgage service rights, net of deferred taxes payable	**-**	**-**	7	-	6+7
Deferred tax assets, realization of which depends on future profitability of the banking corporation, excluding deferred tax assets arising from timing differences	**19**	**29**	11	45	8
Total cumulative other comprehensive income in respect of cash flow hedges of items not presented in the balance sheet at fair value	**(2)**	**(2)**	(1)	(5)	9
Negative difference between provisions and expected losses	**-**	**-**	-	-	

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions				
Increase in equity capital due to securitization transactions	**-**	**-**	-	-	
Unrealized profits and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the banking corporation	**7**	**10**	-	-	10
Surplus of amount funded over provision, net of deferred taxes payable to be extinguished if the asset becomes impaired or is deducted, in accordance with the Public Reporting Directives	**-**	**-**	-	-	
Investment in own ordinary shares held directly or indirectly (including commitments to purchase shares under contractual agreements)	**20**	**31**	9	37	
Mutual cross-holdings in ordinary shares of financial corporations	**-**	**-**	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation (in an amount greater than 10% of common equity Tier 1 capital)	**-**	**-**	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	
Mortgage service rights in amounts exceeding 10% of common equity Tier 1 capital	**-**	**-**	-	-	
Deferred tax assets arising from timing differences in amounts exceeding 10% of common equity Tier 1 capital	**89**	**134**	*77	*310	13

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions				
Amounts of mortgage service rights, deferred taxes receivable arising from timing differences, and investments at a rate greater than 10% of the ordinary share capital issued by financial corporations, exceeding 15% of the common equity Tier 1 capital of the banking corporation	**-**	**-**	-	-	
Of which: in respect of investments at a rate greater than 10% of the ordinary share capital issued by financial corporations	**-**	**-**	-	-	
Of which: in respect of mortgage service rights	**-**	**-**	-	-	
Of which: deferred taxes receivable arising from timing differences	**-**	**-**	-	-	
Additional supervisory adjustments and deductions established by the Supervisor of Banks	**-**	**-**	-	-	
Of which: in respect of investments in the capital of financial corporations	**-**	**-**	-	-	
Of which: in respect of mortgage service rights	**-**	**-**	-	-	
Of which: additional supervisory adjustments to common equity Tier 1 capital	**-**	**-**	-	-	
Supervisory adjustments to common equity Tier 1 capital subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**-**	**-**	-	-	
Deductions applicable to common equity Tier 1 capital because the additional Tier 1 capital and Tier 2 capital are insufficient to cover the deductions	**-**	**-**	-	-	
Total supervisory adjustments and deductions in common equity Tier 1 capital	**133**	**202**	*103	*387	
Common equity Tier 1 capital	**33,246**		*31,482		

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions				
Additional Tier 1 capital					
Additional Tier 1 capital – instruments					
Additional Tier 1 share capital instruments issued by the banking corporation, and premium on such instruments	**-**		-		
Of which: classified as equity in accordance with the Public Reporting Directives	**-**		-		
Of which: classified as a liability in accordance with the Public Reporting Directives	**-**		-		
Additional Tier 1 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**1,709**		1,954		11B
Additional Tier 1 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors	**-**		-		
Of which: additional Tier 1 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from additional Tier 1 capital	**-**		-		
Additional Tier 1 capital before deductions	**1,709**		1,954		

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions				
Additional Tier 1 capital – deductions					
Own investment in capital instruments included in additional Tier 1 capital, held directly or indirectly (including commitments to purchase instruments under contractual agreements)	**-**	**-**	-	-	
Mutual cross-holdings in capital instruments included in additional Tier 1 capital	**-**	**-**	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	
Additional deductions established by the Supervisor of Banks	**-**	**-**	-	-	
Of which: in respect of investments in the capital of financial corporations	**-**	**-**	-	-	
Of which: additional deductions from Tier 1 capital	**-**	**-**	-	-	
Deductions from additional Tier 1 capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**-**	**-**	-	-	
Deductions applicable to additional Tier 1 capital because Tier 2 capital is insufficient to cover the deductions	**-**	**-**	-	-	
Total deductions from additional Tier 1 capital	**-**	**-**	-	-	
Additional Tier 1 capital	**1,709**		1,954		
Tier 1 capital	**34,955**		*33,436		

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions				
Tier 2 capital					
Tier 2 capital – instruments and provisions					
Instruments issued by the banking corporation (not included in Tier 1 capital) and premium on such instruments	-		-		11A
Tier 2 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	**1,150**		1,331		11B
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	**9,528**		10,873		
Of which: Tier 2 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from Tier 2 capital	**9,528**		10,873		11B
Collective allowances for credit losses before the effect of related tax	**3,915**		3,837		12
Tier 2 capital before deductions	**14,593**		16,041		
Tier 2 capital – deductions					
Own investment in Tier 2 capital instruments, held directly or indirectly (including commitments to purchase instruments under contractual agreements)	**-**	**-**	-	-	
Mutual cross-holdings in Tier 2 capital instruments of financial corporations	**-**	**-**	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation	**-**	**-**	-	-	

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions/percent				
Additional deductions established by the Supervisor of Banks	**-**	**-**	-	-	
Of which: investments in the capital of financial corporations	**-**	**-**	-	-	
Of which: additional deductions from Tier 2 capital	**-**	**-**	-	-	
Supervisory adjustments to Tier 2 capital subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**-**	**-**	-	-	
Total supervisory adjustments to Tier 2 capital	**-**	**-**	-	-	
Tier 2 capital	**14,593**		16,041		
Total capital	**49,548**		*49,477		
Weighted risk-adjusted assets					
Total weighted risk-adjusted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	**344,152**		*337,705		
Of which: credit risk assets	**316,919**		*310,161		
Of which: market risk assets	**4,562**		5,269		
Of which: operational risk assets	**22,671**		22,275		
Total weighted risk-adjusted assets	**345,124**		*338,873		

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions/percent				
Capital ratios and capital preservation cushions					
Common equity Tier 1 capital	**9.63%**		*9.29%		
Tier 1 capital	**10.13%**		*9.87%		
Total capital	**14.36%**		*14.60%		
Minimum requirements established by the Supervisor of Banks					
The minimum required common equity Tier 1 capital ratio is 9% from January 1, 2015, to December 31, 2016, and 10% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2%.	**9.07%**		9.00%		
The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 13.7%.	**12.57%**		12.50%		
Amounts below the deduction threshold (before risk weighting)					
Investments in the capital of financial corporations which do not exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**1,437**		1,417		

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.3: Composition of supervisory capital, by components, with references to the supervisory balance sheet (continued)

	December 31, 2015		December 31, 2014		References
	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions/percent				
Investments in the capital of financial corporations which exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	**553**		130		
Mortgage service rights (net of deferred taxes payable)	**-**		-		
Deferred tax assets arising from timing differences, below the deduction threshold	**3,333**		*3,156		
Ceiling for inclusion of provisions in Tier 2					
Provision eligible for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling	**3,915**		3,837		
Ceiling for inclusion of provision in Tier 2 under the standardized approach	**3,974**		3,892		
Provision eligible for inclusion in Tier 2, with reference to exposures based on the internal ratings approach, before application of the ceiling	**-**		-		
Ceiling for inclusion of provision in Tier 2 based on the internal ratings approach	**-**		-		
Capital instruments not eligible as supervisory capital, which are subject to the transitional directives					
Current ceiling amount for instruments included in common equity Tier 1 capital subject to the transitional directives	**-**		-		
Amount deducted from common equity Tier 1 capital due to the ceiling	**-**		-		
Current ceiling amount for instruments included in additional Tier 1 capital subject to the transitional directives	**1,709**		1,954		
Amount deducted from additional Tier 1 capital due to the ceiling	**708**		485		
Current ceiling amount for instruments included in Tier 2 capital subject to the transitional directives	**10,678**		12,204		
Amount deducted from Tier 2 capital due to the ceiling	**426**		1,021		

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.4: Composition of the supervisory balance sheet, with references to the components of supervisory capital

	December 31, 2015	December 31, 2014*	References to components of supervisory capital
	Consolidated supervisory balance sheet		
	NIS millions		
Assets			
Cash and deposits with banks*	**64,976**	54,974	
* Of which: collective allowance for credit losses included in Tier 2 capital	**(3)**	(4)	12
Securities*	**62,884**	58,778	
* Of which: investments in capital of financial corporations that do not exceed 10% of the share capital of the financial corporation	**1,437**	1,417	
* Of which: other securities	**61,447**	57,361	
Securities borrowed or purchased under agreements to resell	**119**	476	
Credit to the public	**282,911**	268,160	
* Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold	**421**	-	
Allowance for credit losses*	**(4,414)**	(4,180)	
* Of which: collective allowance for credit losses included in Tier 2 capital	**(3,318)**	(3,247)	12
* Of which: allowance for credit losses not included in supervisory capital	**(1,096)**	(933)	
Net credit to the public	**278,497**	263,980	
Credit to governments	**2,564**	1,861	
Investment in equity-basis investees*	**143**	135	
* Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold	**132**	130	
Buildings and equipment	**3,409**	3,475	
Intangible assets and goodwill*	**-**	7	
* Of which: goodwill	**-**	-	
* Of which: other intangible assets	**-**	7	6
Assets in respect of derivative instruments	**12,789**	16,244	
Other assets*	**6,257**	7,864	
* Of which: deferred tax assets**	**3,604**	3,599	
** Of which: deferred tax assets attributed to timing differences, over 10% of common equity Tier 1 capital	**223**	387	13
** Of which: deferred tax assets excluding those attributed to timing differences	**48**	56	8
** Of which: other deferred tax assets	**3,333**	3,156	
* Of which: surplus of amount funded over provision	**-**	-	
* Of which: additional other assets	**2,653**	4,265	
Total assets	**431,638**	407,794	

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.4: Composition of the supervisory balance sheet, with references to the components of supervisory capital (continued)

	December 31, 2015	December 31, 2014*	References to components of supervisory capital
	Consolidated supervisory balance sheet		
	NIS millions		
Liabilities and Capital			
Deposits from the public	**321,727**	297,230	
Deposits from banks	**4,773**	4,322	
Government deposits	**354**	455	
Securities lent or sold under agreements to repurchase	**83**	42	
Bonds and subordinated notes*	**34,475**	33,671	
* Of which: subordinated notes not recognized as supervisory capital	**7,498**	7,719	
* Of which: subordinated notes recognized as supervisory capital**	**12,387**	14,158	
** Of which: eligible as supervisory capital components	**-**	-	11A
** Of which: ineligible as supervisory capital components and subject to transitional directives	**12,387**	14,158	11B
Liabilities in respect of derivative instruments*	**13,806**	16,777	
* Of which: in respect of own credit risk	**17**	-	10
Other liabilities	**23,201**	23,686	
* Of which: collective allowance for credit losses included in Tier 2 capital	**594**	586	12
* Of which: liability in respect of deferred tax attributed to pensions	**-**	-	
* Of which: liability in respect of deferred tax on intangible assets	**-**	-	7
Total liabilities	**398,419**	376,183	

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.4: Composition of the supervisory balance sheet, with references to the components of supervisory capital (continued)

	December 31, 2015	December 31, 2014*	References to components of supervisory capital
	Consolidated supervisory balance sheet		
	NIS millions		
Shareholders' equity*	**33,032**	31,361	
* Of which: ordinary share capital and premium, retained earnings, other comprehensive income, and capital reserves**	**33,032**	31,361	
** Of which: ordinary share capital	**1,329**	1,323	1
** Of which: premium on ordinary shares	**6,765**	6,681	2
** Of which: retained earnings	**24,724**	22,243	3
** Of which: cumulative other comprehensive income***	**101**	945	4A
*** Of which: adjustments for presentation of securities available for sale at fair value	**451**	961	
*** Of which: net losses in respect of cash-flow hedges	**(4)**	(6)	9
*** Of which: net adjustments from translation, after hedge effects	**(8)**	(10)	
** Of which: capital reserves from a benefit due to share-based payment transactions	**113**	169	4B
* Of which: senior share capital	**-**	-	
** Of which: eligible as supervisory capital components	**-**	-	
** Of which: ineligible as supervisory capital components and subject to transitional directives	**-**	-	
* Of which: other capital instruments	**-**	-	
** Of which: eligible as supervisory capital components	**-**	-	
** Of which: ineligible as supervisory capital components and subject to transitional directives	**-**	-	
Non-controlling interests*	**187**	250	
* Of which: non-controlling interests attributable to common equity Tier 1 capital	**148**	224	5
* Of which: non-controlling interests attributable to additional Tier 1 capital	**-**	-	
* Of which: non-controlling interests attributable to Tier 2 capital	**-**	-	
* Of which: non-controlling interests not attributable to supervisory capital	**39**	26	
Total capital	**33,219**	31,611	
Total liabilities and capital	**431,638**	407,794	

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

Table C.5: Statement of Flow of Changes in Components of Supervisory Capital

	For the year ended December 31, 2015				
	Common equity Tier 1 capital	Additional Tier 1 capital	Total Tier 1 capital	Tier 2 capital	Total capital
	NIS millions				
Balance as at December 31, 2014*	**31,482**	**1,954**	**33,436**	**16,041**	**49,477**
Changes in capital components:					
Ordinary share capital	**6**	**-**	**6**	**-**	**6**
Premium on ordinary shares	**84**	**-**	**84**	**-**	**84**
Net profit for the period attributed to shareholders of the Bank	**3,082**	**-**	**3,082**	**-**	**3,082**
Dividend	**(569)**	**-**	**(569)**	**-**	**(569)**
Effect of adoption of new accounting rules concerning employee benefits, included in retained earnings**	**(36)**	**-**	**(36)**	**-**	**(36)**
Unrealized losses from adjustments of securities available for sale to fair value	**(510)**	**-**	**(510)**	**-**	**(510)**
Unrealized gains in respect of cash-flow hedges	**2**	**-**	**2**	**-**	**2**
Translation adjustments of autonomous affiliated units overseas	**2**	**-**	**2**	**-**	**2**
Benefit due to share-based payment transactions	**(56)**	**-**	**(56)**	**-**	**(56)**
Proceeds on shares and amounts received in consideration for options to purchase shares	**-**	**-**	**-**	**-**	**-**
Effect of adoption of new accounting rules concerning employee benefits, included in other comprehensive income**	**(135)**	**-**	**(135)**	**-**	**(135)**
Non-controlling interests in share capital of consolidated subsidiaries**	**(76)**	**-**	**(76)**	**-**	**(76)**
Other	**-**	**-**	**-**	**-**	**-**
Total change before supervisory adjustments and deductions	**1,794**	**-**	**1,794**	**-**	**1,794**

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

** After adjustments, as required in the transitional directives in Directive 299.

Table C.5: Statement of Flow of Changes in Components of Supervisory Capital* (continued)

	For the year ended December 31, 2015				
	Common equity Tier 1 capital	Additional Tier 1 capital	Total Tier 1 capital	Tier 2 capital	Total capital
	NIS millions				
Change with the effect of supervisory adjustments and deductions:					
Goodwill and intangible assets	**(7)**	**-**	**(7)**	**-**	**(7)**
Deferred taxes, realization of which is based on the future profitability of the banking corporation**	**8**	**-**	**8**	**-**	**8**
Deferred tax assets attributed to timing differences (over 10% of common equity Tier 1 capital)**	**12**	**-**	**12**	**-**	**12**
Pension fund with defined benefits recorded in the balance sheet as an asset	**-**	**-**	**-**	**-**	**-**
Total cumulative other comprehensive income in respect of cash flows of items not presented in the balance sheet at fair value**	**(1)**	**-**	**(1)**	**-**	**(1)**
Increase in capital due to securitization exposures	**-**	**-**	**-**	**-**	**-**
Unrealized gains and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the Bank**	**7**	**-**	**7**	**-**	**7**
Self-investment in ordinary shares (held directly or indirectly)**	**11**	**-**	**11**	**-**	**11**
Mutual cross-holdings in ordinary shares of financial corporations	**-**	**-**	**-**	**-**	**-**
Investments in share capital of financial corporations, where the investment does not exceed 10% of the capital of the financial corporation	**-**	**-**	**-**	**-**	**-**
Investments in share capital of financial corporations, where the investment exceeds 10% of the capital of the financial corporation	**-**	**-**	**-**	**-**	**-**
Threshold deduction – amount in excess of 15% of common equity Tier 1 capital	**-**	**-**	**-**	**-**	**-**
Total change in supervisory adjustments and deductions	**30**	**-**	**30**	**-**	**30**
Decrease in supervisory capital instruments	**-**	**(245)**	**(245)**	**(1,526)**	**(1,771)**
Capital instruments issued	**-**	**-**	**-**	**-**	**-**
Change in collective allowances for credit losses before the effect of related tax	**-**	**-**	**-**	**78**	**78**
Other	**-**	**-**	**-**	**-**	**-**
Balance as at December 31, 2015	**33,246**	**1,709**	**34,955**	**14,593**	**49,548**

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

** After adjustments, as required in the transitional directives in Directive 299.

Most of the changes in the components of supervisory capital in 2015 resulted primarily from net profit for the period, in the amount of NIS 3,082 million, which was offset by dividend distribution in the amount of NIS 569 million and unrealized losses from securities available for sale in the amount of NIS 510 million.

Capital Adequacy

The Bank's Approach to Capital Adequacy Assessment

The Bank applies the capital measurement and adequacy directives based on the Basel 2 and 3 directives, as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211 and the file of questions and answers.

The Basel 2 directives are based on three pillars:

- Pillar 1 – Includes the manner of calculation of the supervisory minimum capital requirements in respect of credit risks, operational risk, and market risk.
- Pillar 2 – Sets forth internal processes (ICAAP – Internal Capital Adequacy Assessment Process) to be used by banks to assess the required capital in respect of risks in aggregate, including those not covered by Pillar 1 (such as credit concentration, interest-rate risk in the banking book, liquidity risks, settlement risks, and strategic risks), as well as a review process to be performed by the Supervisor of Banks.
- Pillar 3 – Market discipline; establishes the type and extent of information to be presented in reporting to the public on the risks to which banks are exposed. This pillar requires the disclosure of both quantitative and qualitative information, in order to enable the market to estimate the extent of the bank's exposure to risk factors.

Basel 3 Directives

The Basel 3 directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives, in order to make it possible to comply with the new requirements regarding supervisory capital within the process of implementation of Basel 3 and establish a transitional period until full implementation. Among other matters, the transitional directives concern supervisory adjustments and deductions from capital, as well as capital instruments ineligible for inclusion in supervisory capital according to the new criteria established in the Basel directives. Specifically, pursuant to the transitional directives, the supervisory adjustments and deductions from capital as well as minority interests ineligible for inclusion in supervisory capital shall be deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital are recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling will be lowered by an additional 10% in each subsequent year, until January 1, 2022. From January 1, 2015, to December 31, 2015, deductions as a percentage of supervisory capital stand at 40%, and the ceiling for instruments eligible as supervisory capital is 70%.

Within the implementation of the Basel directives, on April 28, 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 218, Leverage Ratio (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which will serve as a reliable measurement complementary to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

Implementation and Effect of New Regulatory Directives Regarding Capital Measurement and Adequacy

Housing Loans

Proper Conduct of Banking Business Directive 329, Limits on Housing Loans (hereinafter: the "Directive"), consolidates the guidelines and limits concerning housing loans into a single binding document. The Directive redefines the term "payment as a percentage of income." The Directive states that housing loans with payment as a percentage of income exceeding 50% shall not be approved or executed. In cases in which payment as a percentage of income exceeds 40%, the loan shall be assigned a risk weight of 100%. In addition, the Directive limits the amount of loans for which a reduced risk weight may be assigned, pursuant to Section 72 of Proper Conduct of Banking Business Directive 203, to NIS 5 million. Loans in an amount greater than NIS 5 million shall be weighted at 100%. When the amount of a loan is lower than NIS 5 million, the risk weight may be reduced, in accordance with Section 72 of Directive 203, based on the LTV ratio as calculated when the loan was granted.

A capital requirement at a rate representing 1% of the balance of housing loans at the reporting date has been added to minimum capital ratios as of January 1, 2015, as detailed in the capital-adequacy target.

In addition, beginning January 1, 2015, banking corporations are permitted to reduce the risk weight for floating-rate leveraged loans granted between October 26, 2010 and December 31, 2012, from 100% to 75%. The effect is a reduction of risk-adjusted assets as at December 31, 2015, by a total of approximately NIS 463 million, an increase of approximately 0.01% in the common equity Tier 1 capital ratio, and an increase of approximately 0.02% in the total capital ratio.

Implementation and Effect of New Regulatory Directives Concerning Capital Measurement and Adequacy to be Applied in the Future

Capital requirements in respect of exposures to central counterparties (inception July 1, 2016)

On October 22, 2015, the Supervisor of Banks issued the circular, Capital Requirements in Respect of Exposure to Central Counterparties (hereinafter: the "Circular"). The Circular amends Proper Conduct of Banking Business Directives 203 and 204, with the aim of adjusting these directives to the recommendations of the Basel Committee, in all matters related to capital requirements in respect of exposures of banking corporations to central counterparties. The Circular details the new guidelines that will apply to exposures to central counterparties caused by OTC derivatives, transactions in marketable derivatives on the stock exchange, and securities financing transactions. The guidelines draw a distinction between unqualified central counterparties and qualified central counterparties, and set reduced capital requirements for the latter. Among other matters, the guidelines address the following types of exposures:

- Exposures of a banking corporation that is a member of a clearing house to a central counterparty. In general, these exposures should be assigned a risk weight of 2% (versus an exposure value of zero prior to the amendment).
- Exposures of a banking corporation to a client active on the stock exchange. Pursuant to the amendment, the capital requirement for such exposures should be calculated as though referring to a bilateral transaction, including an allocation of capital in respect of CVA risk. The calculation method used pursuant to the directive up to this point – calculation according to the rules of the stock exchange – will be discontinued.
- Exposures of a banking corporation to a client operating through a clearing-house member.
- Transfers by a banking corporation that is a clearing-house member to a risk fund.
- Collateral deposited by a banking corporation with a clearing-house member or with a central counterparty.
- Exposures to an unqualified central counterparty shall be weighted according to the relevant risk weight for the counterparty, while transfers to a risk fund shall be weighted at 1,250%.

The Circular will apply as of July 1, 2016. The Tel Aviv Stock Exchange can be treated as a qualified central counterparty until June 30, 2017.

The Bank is working to update its method of calculating capital ratios and the leverage ratio in accordance with the aforesaid update of the directive. The Bank is also examining the effect of this update on its capital planning, capital targets, and leverage target.

These directives may raise the Bank's capital requirements in respect of such exposures, although at this stage the Bank is preparing for the implementation of the directive and examining the effect of the implementation thereof.

Improving Operational Efficiency

In January 2016, the Supervisor of Banks issued a letter on the subject, "Improving the operational efficiency of the banking system in Israel" (hereinafter: the "Letter"). Pursuant to the Letter, the board of directors of banking corporations shall formulate a multi-year plan to improve efficiency. Banking corporations that meet the conditions established in the Letter will be granted a concession allowing them to spread the effects of the plan over five years in a straight line, for the purposes of the calculation of capital adequacy.

Implementation of the Basel Directives

Implementation of Pillar 1

The implementation of the directives of Pillar 1 includes measurement of the risk exposures used to calculate the required allocation of supervisory capital for these risks.

Table C.6: Methods used by the Bank to calculate supervisory capital for each of the major risk categories

Category	Method used by the Bank
Credit risks	Standardized approach
Market risks	Standardized approach
Operational risk	Standardized approach
Counterparty credit risk	Current exposure approach
Securitization exposures	Standardized approach
Other assets	Based on risk weighting set forth in the Proper Conduct of Banking Business Directives

Implementation of Pillar 2 and the Bank's Approach to the Assessment of its Capital Adequacy

Within the second pillar, the Bank is required to carry out an internal process to assess capital adequacy and establish strategy for ensuring capital adequacy: the Internal Capital Adequacy Assessment Process (hereinafter: "ICAAP"). This process is aimed at ensuring an adequate level of capital in order to support all risks inherent in the Bank's activity, in accordance with the risk appetite policy established and approved by the Board of Directors of the Bank, and in accordance with future plans for development and growth, while developing and applying appropriate risk-management processes. Elements of the process include establishing risk appetite, capital objectives, and capital planning and management processes under a variety of scenarios, including extreme scenarios.

Concurrently, the Supervisor of Banks is required to review and evaluate the ICAAP of the banking corporations, within the Supervisory Review and Evaluation Process (SREP), in order to determine whether the capital and capital objectives are adequate and to require corrective measures where necessary, including through strengthening of corporate governance, risk management, and internal controls. Within this review, the Supervisor may also require corporations to add capital. The supervisory minimum capital ratio required of the bank is established as part of the SREP. The examination of the ICAAP by the Supervisor of Banks constitutes part of the Risk Based Supervision (RBS) working framework, in which the risk profile and quality of risk management at banking corporations are assessed, among other matters.

The Bank submitted its ICAAP document for 2015 to the Bank of Israel at the end of December 2015. In this document, the Bank evaluated risks and the potential effect of its asset mix on its risk profile, and set internal capital objectives based on these evaluations, taking into consideration the supervisory requirements received within the SREP.

AI Capital Adequacy Target

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios, as part of the preparation for the implementation of the Basel 3 directives. Pursuant to the circular, all banking corporations are required to maintain a minimum common equity Tier 1 capital ratio of 9% by January 1, 2015. In addition, banking corporations of significant importance whose total balance sheet assets on a consolidated basis constitute at least 20% of the total balance sheet assets of the banking system in Israel will be required to maintain a minimum common equity Tier 1 capital ratio of 10%, by January 1, 2017.

The Supervisor also determined that minimum total capital ratios of all banking corporations shall stand at 12.5% beginning January 1, 2015, and that in addition, minimum total capital ratios of banking corporations of significant importance shall stand at 13.5% beginning January 1, 2017. The Bank meets the conditions for the definition of a banking corporation of significant importance.

The Supervisor of Banks issued an additional directive on September 28, 2014; pursuant to this directive and the transitional directives for 2014, a capital requirement at a rate representing 1% of the balance of housing loans at the reporting date is added to minimum capital ratios as of January 1, 2015. This requirement is being implemented gradually, over eight quarters, until January 1, 2017. The total effect of this directive, based on the balance of housing loans as at the date of the financial statements, is estimated at approximately 0.2%. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively.

Internal capital target: On April 20, 2015, the Board of Directors of the Bank resolved to increase the planned common equity Tier 1 capital ratio of the Bank, such that it will stand at 10.75% beginning December 31, 2017. This objective is congruent with the risk appetite, risk profile, and development and growth plans, as approved for the planned range.

AI Capital Planning and Management

Capital planning is an annual process with a rolling planning horizon of three years. Capital management is performed routinely. Capital planning and management are considered an integral part of the Bank's strategic and financial plan. Capital planning and management are based on the growth plans of the various business units, with the aim of assessing capital requirements during the period of the plan, and are used in the strategic planning process, in connection with feasibility and capital allocation to units, and in alignment with the detailed risk appetite definitions (see Section D below), as established by the Board of Directors of the Bank, subject to regulatory directives. Accordingly, effective capital management shall ensure:

- Efficient allocation of capital during the ordinary course of business of the Bank.
- A robust capital base serving as a cushion against unexpected risks to which the Bank is exposed, supporting business strategy, and allowing compliance at all times with the regulatory minimum capital requirement. For this purpose, the Bank takes into account not only the current status of capital but also future developments in the capital base and in capital requirements.

- The Bank routinely examines its ability to meet the minimum regulatory capital and leverage targets, as well as the internal objectives that have been set while planning and developing its business. Towards that end, planning of balances of risk-adjusted assets and capital movements (including a net profit forecast, a dividend distribution forecast, changes in capital reserves and deductions from capital, the effect of changes in regulation on the capital base, and a plan for the issuance of various capital instruments, among other matters) is performed each year, for a three-year range. This planning takes the business objectives of the Bank into consideration, and includes an examination of the business environment, including several economic scenarios (extreme scenarios and single-factor scenarios). To the best of the Bank's judgment, the Bank is capable of meeting the capital targets that have been established. Each quarter, the Bank performs an evaluation of the changes in the various parameters that affect its ability to comply with its capital targets in the long term, and carries out changes as necessary.

AI Capital Management Committee

Capital is managed via a senior management committee, headed by the CFO, with the participation of the heads of the Financial Markets, Corporate Banking, Strategy, Comptrolling, and Risk Management Areas, and other senior officers.
Objectives of the committee:

A. To supervise the definition of methodology and construction of infrastructure for advanced capital management at the Bank. The committee formulates methodology and methods of action, and serves as a steering committee for the various initiatives involved in the Bank's transition to advanced capital management. The committee also receives routine updates on the progress of these initiatives and resolves decisions regarding the manner of implementation of advanced capital management concepts at the Bank. Pursuant to the advanced capital management approach, the Bank will:

- Plan for the long term and formulate recommendations regarding the quantity of capital, structure of capital, and manner of capital allocation and usage.
- Maximize economic profit and return on equity over time, subject to its strategy, business needs, and risk appetite, taking into consideration the requirements of the various stakeholders.

B. To routinely monitor the capital-adequacy status of the Bank and formulate recommendations for action as necessary. The committee holds regular discussions of the capital-adequacy status and the outlook for the coming months. Periodically, the committee also discusses long-term forecasts. In view of current and long-term needs, the committee formulates recommendations for courses of action for the Board of Management and the Board of Directors in the area of capital raising, optimization of capital usage, and adjustment of the quantity of risk-adjusted assets due to capital limits.

In order to maintain a thorough and effective capital-management process at the Bank, a specialized department manages the Bank's capital, reporting to the CFO. The department oversees routine administration and control of all matters related to the management and planning of capital at the Bank. Within this role, the department's responsibilities include capital planning, control over capital adequacy and compliance with risk-adjusted asset objectives, contingency plans for extreme scenarios, and proactive capital management according to needs. For that purpose, the department is responsible for monitoring developments in regulation in connection with capital management, in Israel and globally, and advanced capital-management methods at banks worldwide. The unit is also responsible for the implementation of methodologies for the measurement of economic capital and economic profitability. These methodologies are used to make decisions according to risk-adjusted returns at the various levels of management at the Bank.

Measurement of Risk Exposures and Capital Requirements

The measurement of exposures to the various risks may change, according to the volume and quality of the portfolio, methodological and regulatory changes, and changes in exchange rates, among other factors, and depending on the definition of the exposure: financial reporting according to GAAP, establishment of supervisory capital, or the Bank's internal exposure management needs. Risk exposures presented below are based on the rules defined for the calculation of the supervisory capital required in order to support these risks.

Table C.7: Information regarding risk-adjusted assets and regulatory capital requirements in respect of credit risk, market risk, and operational risk (as noted in Proper Conduct of Banking Business Directives 201-209)

	December 31, 2015		December 31, 2014	
	Risk-adjusted assets	Capital requirements(1)	Risk-adjusted assets	Capital requirements(2)
	NIS millions			
Credit risk				
Sovereign debt	**2,115**	**266**	2,593	324
Debts of public-sector entities	**3,138**	**394**	3,105	388
Debts of banking corporations	**5,535**	**696**	7,341	918
Debts of corporations	**131,054**	**16,473**	137,059	17,132
Debts secured by commercial real estate	**63,500**	**7,982**	56,300	7,038
Retail exposures to individuals	**45,427**	**5,710**	40,665	5,083
Loans to small businesses	**7,219**	**907**	6,387	798
Housing loans	**35,849**	**4,506**	33,092	4,137
Securitization	**98**	**12**	97	12
Other assets	**19,431**	**2,442**	(3)19,715	(3)2,464
CVA risk	**4,525**	**569**	4,975	622
Total in respect of credit risk	**317,891**	**39,957**	(3)311,329	(3)38,916
Market risks	**4,562**	**573**	5,269	659
Operational risk	**22,671**	**2,850**	22,275	2,784
Total risk-adjusted assets in respect of the various risks	**345,124**	**43,380**	(3)338,873	(3)42,359
Common equity Tier 1 capital	**33,246**		(3)31,482	
Tier 1 capital	**34,955**		(3)33,436	
Total capital	**49,548**		(3)49,477	

	%	
Ratio of common equity Tier 1 capital to risk-adjusted assets	**9.63%**	(3)9.29%
Ratio of Tier 1 capital to risk-adjusted assets	**10.13%**	(3)9.87%
Ratio of total capital to risk-adjusted assets	**14.36%**	(3)14.60%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(4)9.07%**	(4)9.00%
Minimum total capital ratio required by the Supervisor of Banks	**(4)12.57%**	(4)12.50%

(1) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.57% required by the Supervisor of Banks.
(2) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks.
(3) As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.
(4) The minimum required common equity Tier 1 capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier 1 capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively. With regard to the balance of housing loans, see Note 30A(2) to the Annual Financial Statements for 2015.

[AI] Table C.8: Risk-Adjusted Assets by Segment of Activity

	December 31, 2015							
	Households	Private banking	Small businesses	Commercial	Corporate	Financial management	Other	Total
	NIS millions							
Credit risk								
Activity in Israel	**56,617**	**27,541**	**28,526**	**45,396**	**111,449**	**-**	**-**	**269,529**
Activity overseas	**383**	**5,880**	**-**	**11,284**	**10,527**	**-**	**-**	**28,074**
Total credit risk assets	**57,000**	**33,421**	**28,526**	**56,680**	**121,976**	**16,494**	**3,794**	**317,891**
Market risk	**-**	**-**	**-**	**-**	**-**	**4,562**	**-**	**4,562**
Operational risk	**4,994**	**3,699**	**1,983**	**2,596**	**4,687**	**4,637**	**75**	**22,671**
Total risk-adjusted assets	**61,994**	**37,120**	**30,509**	**59,276**	**126,663**	**25,693**	**3,869**	**345,124**

[AI] Change in Risk-Weighted Assets During the Period

Table C.9: Statement of Changes in Risk-Weighted Assets During the Period

	Credit risk	Market risk	Operational risk	Total risk-adjusted assets
	NIS millions			
Balance as at December 31, 2014*	**311,329**	**5,269**	**22,275**	**338,873**
Changes in volume of portfolio[(1)]	**8,933**	**(707)**	**396**	**8,622**
Changes in quality of portfolio[(2)]	**(284)**	**-**	**-**	**(284)**
Changes in methodology and policy[(3)]	**(1,364)**	**-**	**-**	**(1,364)**
Sales[(4)]	**(349)**	**-**	**-**	**(349)**
Effect of changes in exchange rates	**(374)**	**-**	**-**	**(374)**
Balance as at December 31, 2015	**317,891**	**4,562**	**22,671**	**345,124**

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

(1) The category "changes in volume of portfolio" refers to change in the size of the portfolio, excluding changes that resulted from a change in the quality of the portfolio.

(2) The category "changes in quality of portfolio" mainly refers to changes in the risk weight of transactions and customers, as a result of changes in credit rating or classification.

(3) The category "changes in methodology and policy" mainly refers to the effect of changes in regulatory directives and changes in methodology.

(4) The category "sales" refers to the effect of the sale of 100% of the share capital of JSC Bank Pozitiv Kazakhstan, which was a fully consolidated subsidiary until December 30, 2015.

Leverage Ratio

On April 28, 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive 218, Leverage Ratio (hereinafter: the "Directive"). The Directive establishes a simple, transparent, non-risk-based leverage ratio, which will serve as a reliable measurement complementary to risk-based capital requirements, and which is designed to limit the accumulation of leverage at banking corporations.

The leverage ratio is expressed as a percentage, and is defined as the ratio of the capital measurement to the exposure measurement. Capital, for the purpose of measurement of the leverage ratio, is Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202, taking into consideration the transitional arrangements that have been established. The total exposure measurement is the total of balance sheet exposures, exposures to derivatives and to securities financing transactions, and off-balance sheet items. In general, the measurement is consistent with accounting values, and risk weights are not taken into account. In addition, physical or financial collateral, guarantees, or other credit risk mitigation techniques cannot be used to reduce the exposure measurement, unless otherwise noted in the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Proper Conduct of Banking Business Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, exposure in respect of derivatives is calculated in accordance with Appendix C to Proper Conduct of Banking Business Directive 203; exposures in respect of off-balance sheet items are calculated by converting the notional amount of the items using credit conversion coefficients, as established in Proper Conduct of Banking Business Directive 203.

Pursuant to the Directive, banking corporations shall comply with a leverage ratio of no less than 5% on a consolidated basis. Banking corporations whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system shall comply with a leverage ratio of no less than 6%. Based on the foregoing, the minimum required leverage ratio for the Bank will be 6%.

Banking corporations are required to maintain this leverage ratio as of January 1, 2018. Banking corporations that comply with the applicable minimum leverage ratio requirement at the date of publication of the Directive shall not lower the ratio below the threshold established in the Directive.

The leverage ratio of the Bank and of its significant subsidiaries in Israel is calculated according to Proper Conduct of Banking Business Directive 218, Leverage Ratio. The leverage ratio of banking subsidiaries overseas is presented according to the regulatory directives and required ratios in each jurisdiction, if any.

Table C.10: Leverage Ratio

	December 31, 2015
	NIS millions
A. Consolidated data	
Tier I capital	**34,955**
Total exposures	**492,192**
	%
Leverage ratio	**7.10%**
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**
B. Significant subsidiaries	
Isracard	
Leverage ratio	**12.11%**
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**
Bank Hapoalim Switzerland*	
Leverage ratio	**10.00%**
Bank Pozitif	
Leverage ratio	**12.60%**
Minimum required leverage ratio according to local regulation	**3.00%**

* Local regulation in Switzerland does not impose a minimum leverage ratio requirement.

Table C.11: Comparison of balance sheet assets to exposure measurement, for the purposes of the leverage ratio

	December 31, 2015
	NIS millions
Total consolidated assets as per published financial statements	**431,638**
Adjustment for investments in banking, financial, insurance, or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**-**
Adjustment for fiduciary assets recognized on the balance sheet pursuant to the Public Reporting Directives, but excluded from the leverage ratio exposure measurement	**-**
Adjustments for derivative financial instruments	**(5,454)**
Adjustments for securities financing transactions	**-**
Adjustments for off-balance sheet items	**62,798**
Other adjustments	**3,210**
Exposure for the purposes of the leverage ratio	**492,192**

Table C.12: Leverage Ratio Disclosure

	December 31, 2015
	NIS millions/ percent
On-balance sheet exposures	
On-balance sheet items (excluding derivatives and securities financing transactions, but including collateral)	**422,040**
Asset amounts deducted in determining Tier 1 capital	**(108)**
Total on-balance sheet exposures (excluding derivatives and securities financing transactions)	**421,932**
Derivative exposures	
Replacement cost associated with all derivatives transactions	**3,578**
Add-on amounts for potential future exposure associated with all derivatives transactions	**5,813**
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the Public Reporting Directives	**-**
Deductions of receivables assets for cash variation margin provided in derivatives transactions	**(2,185)**
Exempted central counterparty leg of client-cleared trade exposures	**-**
Adjusted effective notional amount of written credit derivatives	**137**
Adjusted effective notional offsets and add-on deductions for written credit derivatives	**-**
Total derivative exposures	**7,343**
Securities financing transaction exposures	
Gross securities financing transaction assets (with no recognition of netting), after adjusting for sale accounting transactions	**119**
Netted amounts of cash payables and cash receivables of gross securities financing transaction assets	**-**
Central counterparty credit risk exposure for securities financing transaction assets	**-**
Agent transaction exposures	**-**
Total securities financing transaction exposures	**119**
Other off-balance sheet exposures	
Off-balance sheet exposure at gross notional amount	**191,347**
Adjustments for conversion to credit equivalent amounts	**(128,549)**
Off-balance sheet items	**62,798**
Capital and total exposures	
Tier 1 capital	**34,955**
Total exposures	**492,192**
Leverage ratio	
Leverage ratio pursuant to Proper Conduct of Banking Business Directive 218	**7.10%**

D. Risk Assessment and Management

The Bank's activity is accompanied by the following financial risks: credit risks (including concentration risk and counterparty risk), market risks (including exchange-rate risk and interest-rate risk in the banking book), investment risk (share and credit spread risk), and liquidity risk (including financing risk).

Other non-financial risks are mainly compliance risk, legal risk, and operational risks. Additional risks to which the Bank is exposed are handled directly as part of the management of its business: reputation risk, competitive risk, regulatory and legislative risk, economic risk, strategic risk, and environmental risk. The risk management strategy of the Bank Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization. Risk management at the Bank is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting rational risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite.

The Bank has defined the following risks as material risks: credit risk, market risk, investment risk, compliance risk, operational risk, concentration risk, counterparty risk, interest-rate risk in the banking book, liquidity risk, reputation risk, strategic risk, and regulatory risk.

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed have been mapped, taking the possible effects into account. The risk factors and the Board of Management's estimates regarding the risk level of each factor are listed in the following table. The scale for levels of severity of the risk factors is determined with reference to the risk appetite defined by the Bank. This scale consists of five levels of severity for each risk factor. Quantitative metrics have been established for three of the levels (low, medium, and high):

Low severity level – The damage to annual profit due to an extreme event would be smaller than the average annual profit before tax in the ordinary course of business; in other words, the extreme event would not cause the Bank a shift to a loss.

Medium severity level – The damage to annual profit due to an extreme event would be larger than the average annual profit before tax in the ordinary course of business, and would therefore cause the Bank a shift to a loss in at least one of the years of occurrence of the event, and would cause a decrease in the Tier 1 capital ratio; however, the capital ratio would not fall below the Bank's risk capacity (6.5%).

High severity level – The damage to profit due to an extreme event would cause the Tier 1 capital ratio to fall below the risk capacity.

In order to quantify the effect of the risk factors on the Bank's profit and capital ratio, systemic extreme scenarios and single-factor scenarios were examined for most of the risk factors, and the scenario with the more severe effect was used in the risk-factor table.

Note that this quantification refers to the effect on the capital of the Bank. Possible scenarios may involve a decrease in profit, or losses, with a non-negligible effect on the profitability of the Bank; however, the effect of these scenarios on capital adequacy is low, and they are therefore classified at a low level of severity. Also, the opinion of a team of experts is taken into consideration, if the team estimates that the quantitative indices do not sufficiently express the severity of the risk factor, or if it is not possible to determine the risk level of a particular risk factor using reliable quantitative methods. Each risk factor listed in the table below was tested in its own right, under an assumption of independence of each risk factor relative to the other risk factors listed in the table. However, for the risk factors "condition of the global economy" and "condition of the Israeli economy" in the table, systemic scenarios were tested to estimate the effect on profit and on the capital ratio of the combination of a number of risk factors. Note that the risk scenarios simulate a situation in which unexpected damages materialize beyond the expected level of damage events in the regular course of the Group's business.

The Bank also assesses the level of risk using another method, based on expert evaluations of the inherent risk level and of the quality of risk management and the effectiveness of controls. The inherent risk is the aggregate risk inherent in the activity in which the Bank engages, and is defined as the potential loss from this activity. Inherent risk is evaluated from a forward-looking perspective as well as in view of the past, but without taking management and control processes into consideration. Inherent risk is affected by the following factors, among others:

- Past losses and estimated future losses;
- Strategic and business plans, including new products;
- Credit portfolio mix and composition;
- Complexity of the activity;
- Effect of external factors, including the economy, industry, legislation, and technology.

In order to estimate the residual risk, taking into account management and control processes, evaluations by content experts from the second line of defense were added to the model, addressing the quality of risk management and the effectiveness of controls.

The combined estimate using the two methods for the overall assessment of residual risk is presented in the table below, on a scale of five levels of severity. The estimate is performed as an expert evaluation, reflecting the input of the content experts in the various areas, and is subject to all of the qualifications noted with respect to forward-looking information.

AI Table D.1: Severity of Risk Factors

Number	Risk factor	Risk effect
Financial risks		
1.	Credit risk	Medium
1.1.	Risk in respect of the quality of borrowers and/or collateral	Medium
1.2.	Risk in respect of sectoral concentration	Medium
1.3.	Risk in respect of concentration of borrowers/borrower groups	Medium
2.	Market risk	Low-Medium
2.1.	Interest-rate risk	Low-Medium
2.2.	Inflation risk / exchange-rate risk	Low
2.3.	Share price and credit spread risk	Low-Medium
3.	Liquidity risk	Low-Medium
Operational and legal risks		
4.	Operational risk	Low-Medium
5.	Legal risk	Low
Other risks		
6.	Reputational risk	Low-Medium
7.	Strategic and competitive risk	Medium
8.	Regulatory and legislative risk	Medium
9.	Economic risk – condition of the Israeli economy	Medium
10.	Economic risk – condition of the global economy	Medium
11.	Compliance risk*	Medium

* Compliance risk also includes risks arising from the investigation by US authorities, as noted in Note 26E to the Financial Statements. At this stage, the US authorities have not addressed any concrete claims at the Bank; it is therefore not possible to estimate the exposure in this matter reliably.

Risk Management System Structure and Organization

Risk management is performed based on a global view of the Bank's activity in Israel and of activity at the Bank's branches abroad, with due attention to the activity of subsidiaries with significant exposure for the Group. Risks are managed separately by each subsidiary in the Bank Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Bank. The Bank manages the various risks, using hedges for some risks, as detailed below. Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Risk Management Area, taking into account the unique characteristics of the activity of each subsidiary.

The Supervisor of Banks has set forth guidelines concerning risk management in the Proper Conduct of Banking Business Directives. The directives detail the requirements of the Supervisor for the management of the various risks to which a banking corporation is exposed, and stipulate basic principles for the management and control of risks, including suitable involvement in and thorough understanding of risk management by the board of directors of the banking corporation, the management of risks by a risk manager who is a member of the board of management, the employment of tools for the identification and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-review function. The Bank operates in accordance with the guidelines of the Supervisor of Banks.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with risk-appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense:

1. The first line of defense includes the business units within the Areas, including supporting and operational units, that create or take risks, as well as the internal control units within the Areas that provide internal control over the risk creators and risk takers. The management of the business line bears the initial responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.
2. The second line of defense consists of the control units at the Risk Management Area, which is independent of the business Areas. This line is also responsible for presenting an overview of risks; formulating methodologies for risk assessment and for economic capital allocation; independent risk assessment; analysis of the congruence of products and activities with the level of risk appetite and risk capacity established by the Board of Directors; and validating models. The second line of defense contains additional independent control functions, such as accountancy, legal counsel, the secretariat of the Bank, and human resources.
3. The third line of defense consists of the Internal Audit system. Internal Audit operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and through ensuring that the instructions of the Board of Management and of the Board of Directors are implemented, and making recommendations for the reduction of risks through improved controls.

The Board of Directors of the Bank is responsible for delineating the overarching risk strategy and supervising the risk-management framework of the Group, directly or through the Risk Management and Control Committee. Main duties of the Board of Directors in the area of risk management:

- Setting limits for the risk appetite and risk capacity of the Group.
- Approving a risk-management policy consistent with the risk appetite limit, including the establishment of risk limits in the various areas of activity and main risk areas.
- Approving the control philosophy structure for the Group and ensuring that it meets risk-management needs.

- Providing clear guidance to senior management with regard to risk management, based on the recommendations of the Board of Management Risk Management Committee, headed by the CEO, and ensuring that senior management takes the necessary actions in order to identify, measure, monitor, and control risks.
- Approving methodologies for risk assessment and control, and for the allocation of economic capital in respect of risks.
- Supervising and monitoring the implementation of the established risk management policy, examining the actual risk profile, and examining the processes and actions that the Bank must apply in order to comply with all regulatory directives concerning risk management.

The Board of Management is responsible for formulating, instilling, and implementing the risk management framework of the Group, directly or through committees acting on its behalf. Main duties of the Board of Management in the area of risk management:

- Designing a risk-management policy consistent with the risk appetite framework established by the Board of Directors, including risk limits in the various areas of activity and key risk areas, and submitting this policy to the Board of Directors for approval.
- Establishing procedures and risk limits aligned with the policy, appropriate working methods for risk assessment and decision-making processes based on an analysis of return / business benefit and risk, and receiving the appropriate reports, while ensuring compliance with risk-management policy objectives.
- Ensuring the existence of an internal process for capital assessment and for setting capital targets consistent with the risk profile of the corporation and with its control environment.
- Ensuring the existence of adequate resources for risk management in the corporation, including a framework of internal controls, and the existence of comprehensive, effective, independent control and reporting systems for risks.

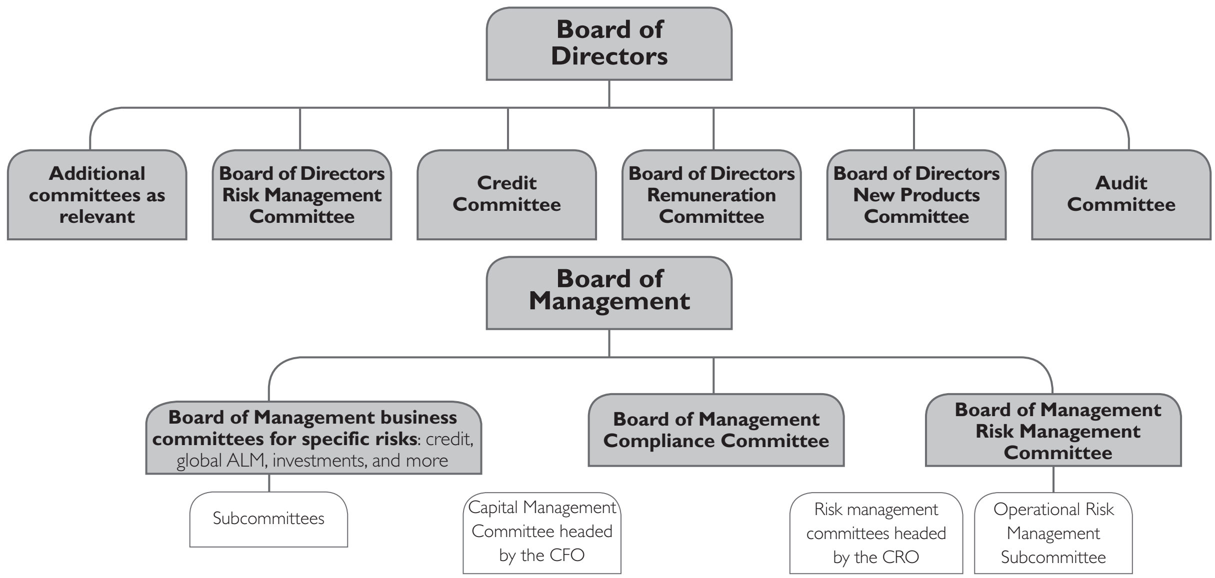
The Chief Risk Officer and the member of the Board of Management responsible for the Risk Management Area is Mr. T. Cohen.

Financial risks are managed by designated members of the Board of Management and under their responsibility. The members of the Board of Management responsible for managing credit risks are Mr. J. Orbach, Head of Corporate Banking, and Mr. A. Pinto, who served as Head of Retail Banking until February 14, 2016; as of that date, the Retail Banking Area is headed by Mr. R. Stein. The member of the Board of Management responsible for managing market, investment, and liquidity risks is Mr. D. Koller.

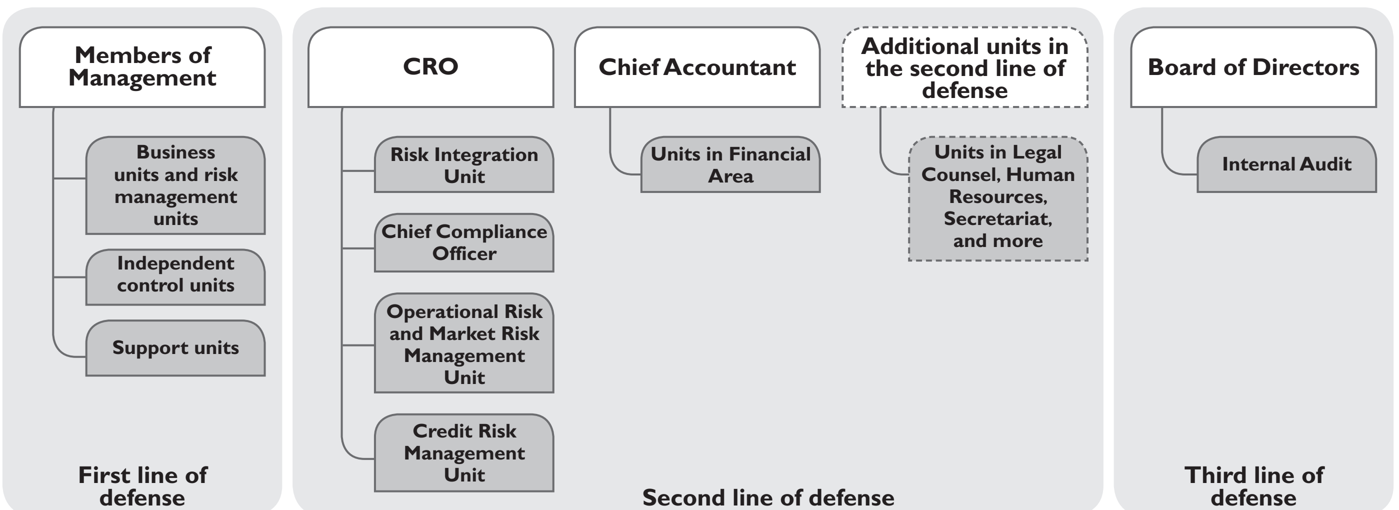
Legal risk is managed by the Chief Legal Advisor, Attorney I. Mazur. Technological risk was managed by Mr. A. Kochva, as Head of Information Technology, until February 14, 2016; as of that date, the Information Technology Area is headed by Ms. E. Ben-Zeev. Operational risk, excluding legal risk and technological risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible.

For further information regarding changes in the structure of the Board of Management of the Bank, see the section "Other Matters" in the Corporate Governance Report.

AI Diagram D.2. Risk Management Governance Diagram of the Bank



AI Diagram D.3. Risk Management Organizational Structure



The Board of Directors' Committee on Risk Management and Control – A Board of Directors' Committee on Risk Management is in operation at the Bank. The committee's mission is to formulate the Bank's risk-management policy, including establishing risk limits in the various areas of activity, examining the Bank's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management. The Board of Directors' Committee on Risk Management and Control and the plenum of the Board of Directors receive reports on risks and on the execution of approved policies at least once each quarter.

The Credit Committee – Among its other responsibilities, the committee makes recommendations to the Board of Directors with regard to the Bank's credit policy; assists the Board of Directors in supervising and monitoring various matters in the area of credit; and examines and approves credit classifications and the allowance for credit losses, in accordance with a hierarchy of authority. The committee also approves certain credits, according to the hierarchy of authority at the Bank.

Additional committees of the Board of Directors are engaged in matters related to risk management, most notably the Board of Directors' Remuneration Committee, the Audit Committee, and the Board of Directors' New Products Committee. For further details regarding the activity of the Board of Directors and the Board Committees, see the Corporate Governance Report.

The Board of Management Committee on Risk Management Headed by the CEO – Responsible for planning the Bank's risk-management policy, risk limits, and reporting and control procedures, and for examining the Bank's overall risk profile and the interactions among the various risk types and factors. The committee submits its reports or recommendations for approval to the committees of the Board of Directors and/or to the plenum of the Board of Directors, as relevant.

The Board of Management Committee on Compliance Headed by the CEO – The committee works to strengthen compliance at the Bank Hapoalim Group and ensure it is accorded high priority. The committee discusses the compliance policy established by the Board of Directors, the implementation of the policy, and closure of gaps.

The committees of the Board of Management listed in the diagram above operate in specific areas of risk, within the risk policies and limits established by the Board of Directors and the Board Committees.

The Risk Management Area – The activities and responsibilities of the Area are consistent with Proper Conduct of Banking Business Directive 310. The primary objective of the Risk Management Area at Bank Hapoalim is to instill an advanced culture of risk management and monitoring at the Bank Group, while formulating risk-management policies and methodologies in line with the goals of the Group and with the Basel directives and the relevant local regulation. The Area ensures the existence and quality of the key risk-management processes of the Group: identification and assessment of risks, establishment of risk capacity and risk appetite limits, establishment of control mechanisms, monitoring of positions, and reporting. The Area leads and coordinates the ICAAP (the annual Internal Capital Adequacy Assessment Process, taking risks into account) and is an active participant in capital management.

The Risk Management Area also operates several committees, headed by the Chief Risk Officer:

Extreme Scenarios and Risk Concentrations Committee – The committee's role is to approve methodologies in the area of extreme scenarios and concentration risk, and to manage the process of testing extreme scenarios and concentration risk at the Bank.

Operational Risk Management Subcommittee – The subcommittee coordinates the activities necessary in order for the Group to comply with the Proper Conduct of Banking Business Directives of the Bank of Israel and with the recommendations of the Basel Committee in the area of operational risk, and it reviews the operational risk profile of the Group, with due attention to findings, surveys, reports, and related activities.

Credit Review Committee – The committee discusses credit review reports prepared for major borrowers of Bank Hapoalim and for risk-based samples of the overall credit portfolio of the Bank, and examines the reliability of the credit rating and the fairness of the classifications and allowances of the Group.

Validation Committee – The committee is responsible for monitoring the status of progress on the plan for validation and improvement of the models in use, related validation studies, and monitoring and approval of the set of material models in use.

Board of Management Committee on Debt Classification and Determination of Allowance for Credit Losses – The committee is charged with formulating a methodology for the collective allowance, formulating policy for classifications and individual allowances, credit classifications, and determining individual allowances for credit losses, subject to the hierarchy of authority.

Policy Steering Committee – The committee formulates the credit policy of the Bank.

Board of Management Specialized Committee for Financial Crises – Whenever focused treatment is necessary for a material financial crisis with organization-wide consequences, according to a decision of the Board of Management, the committee shall convene to address and monitor the crisis and its consequences.

[AI] Risk Culture

The Group develops and maintains a risk-management culture that supports awareness of risk, appropriate behavior and judgment in connection with risk taking in the context of corporate governance, and effective risk management; promotes appropriate risk taking; and ensures that emerging risks or risk-taking activities are identified, assessed, escalated, and addressed in a timely manner.

The risk culture instilled at the Bank Group emphasizes the importance of: (1) achieving the proper balance between risk and compensation, in alignment with the Bank's risk appetite; (2) an effective system of controls congruent with the scale and complexity of the Bank; (3) the ability to challenge the quality of risk models, the level of accuracy of the data, the ability of the available tools to measure risks correctly, and the justifications for taking risks; (4) monitoring violation of limits and divergence from established policies, and application of proportional disciplinary proceedings, as necessary; (5) cultivating integrity, with a focus on fair service to customers.

The essential principles of the Bank's risk culture are also expressed in the implementation of the following guidelines:

- The members of the Board of Directors and senior management delineate the core values of the Bank and the expectations for its risk culture, and their conduct reflects the values that have been adopted: integrity, and rapidly addressing any instances of noncompliance that come to light.
- The members of the Board of Directors and Board of Management develop and apply an effective framework of risk appetite, backed by a clear declaration of risk appetite, as detailed below, which is the cornerstone of the Bank's risk-management strategy and is integrated with its overall business strategy.

  Risk appetite: Risk appetite at the Bank constitutes an effective framework for risk management and a key tool linking the organization's strategy, capital allocation, and risk management. The risk appetite document declares the risk appetite of the Bank and of the Group. The Board of Directors establishes the risk appetite framework, taking into consideration the recommendations of the Chief Executive Officer, the Chief Risk Officer, and the Chief Financial Officer, who translate these expectations into targets and limits for the business lines. The risk appetite document also establishes the roles and responsibilities of the Board of Directors and senior management in formulating the risk appetite statement. The risk appetite framework includes policies, processes, controls, and systems used to implement, communicate, and supervise risk appetite.

The risk appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk appetite framework. The risk appetite framework refers to the material risks to the Bank, and establishes the risk profile in alignment with the Bank's business strategy and risk capacity. An effective risk appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework explicitly defines the boundaries within which the Board of Management is expected to operate in order to realize the business strategy of the Bank.

The framework includes the following main components:

- Risk appetite statement: Written formulation of the size and types of aggregate risk that the Bank is interested in bearing in order to achieve its business objectives, including qualitative reports as well as quantitative metrics of profits, capital, risk indicators, liquidity, and other relevant means, as necessary.
- Risk capacity: The maximum level of risk that the Bank is able to sustain without violating capital limits relevant to stress tests, including from the perspective of shareholders and customers. Compliance with the risk capacity shall be examined, among other matters, by applying stress tests designed to estimate the impact on the Bank's profit and to the Bank's capital adequacy as a result of the materialization of a stress test.
- Risk appetite: The maximum total aggregate risk that the banking corporation is willing to bear, within its defined risk capacity, in order to achieve its business objectives in accordance with the strategic plan, under various constraints (such as sources of capital and liquidity, regulatory requirements, risk/return attributes, etc.).
- Risk limits: Quantitative metrics based on forward-looking assumptions, which give practical expression to the aggregate risk appetite declaration of the Bank.

- Remuneration: Documents of principles and standards for remuneration practices are aimed at ensuring effective remuneration management; correlation between remuneration, cautious risk taking, and effective supervision; and involvement of interested parties in remuneration. The remuneration of employees in general, and of senior executives in particular, takes into consideration the risks taken by the employee on behalf of the Bank, and the employee's performance in terms of fulfillment of the risk policy, compliance, and other important policy rules of the Group. The Risk Management Area is involved in establishing remuneration policies and incentives, such as to encourage performance and talent management, and reinforce the desired risk-management behavior (see the section "Remuneration of Employees").
- Responsibility: The risk regime is aimed at achieving full clarity regarding risk ownership, at all levels and in all processes.
- Effective communication and criticism: The risk culture of the Group promotes an environment of effective, open, critical communication, and encourages an environment of open, constructive involvement.
- An orderly system of procedures of the Bank, including limits, authorizations, and escalation processes supporting risk management. Appropriate procedures exist for anonymous reports of suspicions, and employees can use these channels without concern in order to support effective compliance with the risk-management framework.
- The ethical conduct code of the Bank summarizes standards, morals, colleague relationships, relationships with customers and suppliers, contribution to the community, and social and environmental responsibility.

The following risk management policy documents establish, among other matters, corporate governance, including the duties and responsibilities of the Board of Directors, the Chief Risk Officer, and the risk-management function, and the corporate governance framework for risk management, as well as the status, resources, authority, and independence of the risk management and internal audit functions, and their reports to the committees and to the Board of Directors.

- Risk appetite document
- Group risk management policy
- Credit risk management policy document
- Treasury risk management policy document

- Operational risk management policy document
- Policy document – control approach
- Policy document – compliance officer
- Counterparty risk management policy document
- Charter of the Risk Management Area
- Charter of the committees of the board of directors and committees of the board of management

The structure and organization of the risk system and the risk culture described in this section are applicable to all types of risks and to all units of the Bank. Each type of risk is addressed further, separately, as relevant, later in this report.

Credit Risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank under a credit agreement. The credit portfolio is a major component of the asset portfolio of the Bank Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.
Activities that create credit risk include:

1. Balance sheet exposures:
   Current liabilities to the bank, such as credit and mortgages to the public, credit to banks and deposits with banks, credit to governments, investment in bonds (corporate and other), and the balance sheet part (present value) of derivatives and financial instruments.
2. Off-balance-sheet exposures:
   Potential (unrealized) liabilities to the bank, such as guarantees, unutilized commitments to grant credit, unutilized credit facilities, and potential liabilities due to changes in the value of transactions in derivatives and financial instruments.

Credit Risk Management

The goal of credit risk management is to allow the Group to operate, and to ensure that it operates, in accordance with the policies and strategic objectives established and within the risk appetite defined in the area of credit, from the level of the single transaction to the overview of the credit portfolio.
The Bank's credit risk management policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Bank's credit portfolio among a large number of borrowers in different sectors of the economy, among the different linkage segments, and among different geographical regions overseas. The policy of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Bank conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Bank's business objectives are determined in accordance with these surveys and studies.
The credit management system monitors customers' credit exposure. Credit review systems identify, monitor, and report to the responsible function and to managers on negative signs related to borrowers.
Credit risk management is based on the following principles:

1. Independence – The principle of independence is an essential element of proper corporate governance, in order to prevent conflicts of interest and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.

2. Hierarchy of authority – The Bank has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of debt of the borrower or group, the risk rating, and problematic debt classifications, allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committees, as well as the composition of such committees.
3. Comprehensive view of the customer/group – Management of risk groups encompassing several borrowers who are related in terms of risk, such as a company and its subsidiaries, a married couple, etc. The activity of customers and groups is overseen by a customer manager who is responsible for all activities of that borrower/group. Information systems continuously provide customer managers and their staff with a comprehensive view of the activity of the customer/group, including the level of credit risk, and in accordance with Proper Conduct of Banking Business Directive 313.
4. Credit policies – The Board of Directors of the Bank sets forth the credit policy, which is examined and updated routinely, according to changes in the financial markets and in the economy. This policy includes various limits on the credit portfolio, in accordance with the risk appetite of the Bank, including exposure limits by economic sector, country, or financial institution, as a function of the risk level assessed by the Bank. Limits are also imposed on the maximum exposure to a single borrower, according to the credit rating assigned to the borrower, which reflects the borrower's risk level, as well as a maximum limit for a group of borrowers. Credit policy includes the credit risk management policy of the corporation; it formalizes and defines the rules applicable to all parties at the Bank involved with credit risk, and is designed to serve the business goals of Bank Hapoalim, in alignment with its risk policy and risk appetite, and in compliance with regulatory directives.

   Credit policy documents delineate the aspects relevant to each Area (customer type, economic sector, purpose of the loan, etc.), taking risk levels into consideration. Adherence to the guidelines of the credit document in carrying out business operations allows rational management of credit and credit exposures, and serves as a tool for the management of credit risks. The credit policies and procedures are binding for everyone involved in the area of credit at the Bank. The policy specifies the principles and considerations related to credit granting, the authority to grant credit, prohibitions and limits applied to credit granting, and the procedures that establish the Bank's practices and principles in the areas of credit and collateral. The Risk Management Area is responsible for the overall policy of the Bank, and for formulating and coordinating the policies of the business units.
5. Controls and risk identification – The process of reviewing and identifying credit risks is conducted by the three lines of defense. Controls are applied from the level of each individual credit to the level of the portfolio, in the first and second lines of defense, according to materiality thresholds. The Credit Risk Management Unit leads and coordinates reports to the Board of Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, extreme scenarios, and a presentation of general risk indices in Israel and globally.

   In the third line of the defense, Internal Audit is responsible, among other matters, for reviewing the implementation and effectiveness of risk-management procedures and risk-assessment methodologies, including the implementation of risk management and control policy at the Bank.
6. The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various levels. The identification of risk in new products relies on the policy for new products, which specifies the processes to be followed for each new product at the Bank in order to identify all risks involved in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

A quarterly and annual process has been designed in order to identify concentration risk and examine the potential implications of various shocks (financial, political, and others) for the financial robustness of the Bank. This process includes definition, examination, and reporting of the results of extreme scenarios, and mapping of the effects on profit and on capital adequacy.

7. Credit risk is quantified and measured on several levels: the level of the individual borrower, borrower groups by area of activity, sectors of the economy, segments of borrowers, products, and the overall portfolio of the Bank and of the Group. Procedures for risk quantification and measurement and for the ranking of borrowers and of credit have been developed and implemented for each area of activity and type of credit. These processes combine assessments by credit experts with decision-making processes and advanced statistical models.
8. Identification and treatment of borrowers in distress – The Bank has established policies and procedures for the identification and handling of borrowers in distress, including work processes for the identification and treatment of problematic credit, and examination of the fairness of the classification and allowance for such borrowers (for details, see the section "Problematic Debts and Borrowers in Distress").
9. Uniform instruction and training – Employees involved in the area of credit undergo training and instruction on credit, foreign trade, and mortgages. These sessions provide uniform training to all those involved in this area, imparting professional tools and teaching the Bank's policies and principles in the area of credit. Lessons-learned processes based on various credit events are conducted by the units and communicated to the relevant functions, in accordance with the procedures of the Bank.
10. Hedging and risk mitigation – see below.

Structure and Organization of Credit Risk Management Function

Corporate governance for risk management relies on three lines of defense, which are clearly separated from one another.

The approach taken with regard to control of all financial risks at Bank Hapoalim involves identification and assessment of the risks, and control of compliance with the limits established in the various regulations, through three lines of defense. The lines of defense are presented below, according to the degree of their independence from the professional function responsible for taking the risk.

First line of defense:

The business units are responsible for identifying, assessing, measuring, monitoring, mitigating, and reporting all risks inherent in products, activities, processes, and systems under their responsibility, as well as for managing an appropriate control environment in the context of risk management.

The first level of the first line of defense includes the units that manage business activity and create credit risks, in Israel and overseas. Further controls are performed at the second level of the first line of defense, in addition to those carried out in the units that create risk as part of the routine management of their business. This line of defense includes the internal credit and control units within the business areas and at the bank's overseas offices:

- Credit System Operation Division – Corporate Banking Area
- Division administrations and Corporate Credit Unit – Corporate Banking Area
- Retail Credit and Mortgages Division – Retail Banking Area
- Overseas Credit Review Department – International Banking Area
- Banks and Financial Institutions Department – Financial Markets Area
- Exposure and Risk Management System – Financial Markets Area

Second line of defense:

The second line of defense supplements the risk-management activities of the business lines. This function has a reporting structure that is independent of the business lines that generate risk; it is responsible for planning, maintaining, and continually developing the working framework for risk management at the banking corporation.

This line of defense includes:

- The Credit Risk Management Unit, which serves as the independent oversight unit for the management and analysis of credit risks, as part of the second line of defense. The unit reports to the head of the Risk Management Area and is independent of credit underwriting and approval processes.

  The unit is responsible for the following areas:
  - Monitoring credit exposure, the level of credit risk, and compliance with the credit limits of the Group.
  - Running extreme scenarios at the level of the Bank and the Group.
  - Monitoring, measuring, and managing credit concentration risk.
  - Formulating the credit policy of the Bank.
  - Applying controls and tests of various credit focus areas at the Bank, selected using risk-based samples; credit review activities at the branches and subsidiaries of the Bank overseas.
  - Challenging the business function and writing an independent opinion in accordance with Proper Conduct of Banking Business Directive 313 in the approval of substantial credit exposures, in substantial changes in terms of credit, in substantial additions to credit, and in decisions regarding debt arrangements for problematic credit.
  - Overseeing credit classifications and credit losses.
  - Developing methodologies for the calculation of allowances.
  - Development of models for measuring and monitoring credit risk ratings.
- Credit risk management and credit review units at subsidiaries and at the Bank's offices overseas. These units operate in a similar format to the Credit Risk Management Unit at the Bank, in accordance with the Bank's policy on credit risk management.

Third line of defense:

Internal audit operates independently and objectively as a third line of defense. Its goals include helping the organization achieve its objectives by recommending risk mitigation through improved controls. Internal audit operates under laws, regulations, the Banking Rules (Internal Audit), Proper Conduct of Banking Business Directives, professional guidelines of the Institute of Internal Auditors in Israel, guidelines of the Board of Directors' Audit Committee and of the Board of Directors, and management needs.

Credit Risk Management Tools

Credit exposures are automated, allowing analysis and reporting on various dimensions. Information systems continuously provide a comprehensive view of the activity of the customer/group, including the level of credit risk. The comprehensive view of corporate clients is overseen in accordance with Directive 313 of the Bank of Israel and the procedures of the Bank, in order to obtain a full picture of risk groups, reflecting ownership relationships and economic dependency relationships. With regard to retail clients, the Bank has defined risk groups in order to also reflect family connections, joint banking activity, etc. Alerts of events that may indicate worsening of the customer's condition are sent to the desktop of the officer responsible for that customer, based on internal systems and external information.
Credit risk management processes include models for estimating credit risk. Credit risk rating is used to identify changes in the risk level of the borrower and of the portfolio. The Credit Risk Management Unit has developed and implemented models for estimating credit risk, which establish ratings for borrowers and for credit. These models combine assessments by credit experts with advanced statistical models. The rating models are embedded in credit processes at the various Areas and integrated with the processes of making credit decisions, pricing credit, credit policy, identifying customers in distress, and monitoring the quality of the portfolio and of borrowers.
Risk at the level of the overall portfolio of the Group is monitored by the Credit Risk Management Unit. A summary report including credit exposures, risk in the portfolio, trends and changes, special events, and various indicators of risk levels is presented for discussion to the Board of Management of the Bank, the Credit Committee of the Board of Directors, and the Risk Management and Control Committee of the Board of Directors. Additional credit risk management tools include analyses of concentration of the portfolio of exposures and analysis of extreme scenarios.

Hedges and Risk Mitigation

Bank Hapoalim manages credit collateral through a collateral system that includes conservative safety margins. Within collateral policy, principles and rules have been set forth to determine the value of collateral with respect to its type and the type of credit that it secures, such as: the estimated time range and expenses necessary for realization of the collateral, type of indexation, volatility in the value of the collateral, etc. Procedures have also been defined for the processing of collateral and for monitoring changes in collateral and in the value thereof.
Collateral received by the Bank to secure credit includes financial assets, real-estate assets, and other assets. Against credit granted to companies, the Bank also receives collateral in the form of general floating liens on the companies' assets. The Bank examines the use of additional risk mitigation tools, as necessary, including loan sales, acquisition of insurance, and use of credit derivatives. See "Credit Risk Mitigation" later in this section.

Problematic Debts and Borrowers in Distress

The policy for debt classifications and allowances includes indicators for the identification of customers who, according to the Bank's evaluation, may default on their obligations to the Bank. In addition, the Credit Analysis Department and the Credit Review Department in the Risk Management Area determine, in the opinion they prepare, whether the specific customer should be included in the Bank's watch list, whether the customer's rating requires classification, and whether an allowance for credit losses is necessary. Customers identified for supervision and existing watch list customers are discussed as part of the quarterly process of examining the fairness of classifications. These borrowers are supervised and monitored more closely, and the Bank is working to reduce its exposure to them by redeeming credit from the borrowers' resources and/or by obtaining additional collateral from them. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to debt collection units. In addition, the Bank regularly reviews the level of credit risk in borrower portfolios on the basis of conservative assumptions, classifies problematic credit risk according to the directives of the Bank of Israel (impaired, substandard, or under special supervision), and records a sufficient allowance for credit losses in respect of the total credit risk at the Bank.

Classification Definitions

Special supervision

Credit risk under special supervision includes balance sheet and off-balance sheet credit risk with potential weaknesses that should be given special attention by management. If not addressed, these potential weaknesses could result in deterioration of the probability of repayment of the credit or of the status of the Bank as a creditor at a certain future date. Off-balance sheet credit is classified as under special supervision if it is at least possible that the contingent liability in respect of the off-balance sheet item may materialize, and in addition, the debts that may be acquired as a result of the materialization of the contingent liability fit the classification of debts under special supervision.

Substandard

Substandard credit risk includes balance sheet and off-balance sheet credit risk insufficiently protected by the current established value and repayment capability of the borrower or of the pledged collateral, if available. Credit risk assigned this classification must have well-defined weaknesses that jeopardize the realization of the debt, such that there is a clear possibility that the Bank may incur a certain loss if the deficiencies are not remedied. Off-balance sheet credit risk is classified as substandard if there is at least a possibility that the contingent liability in respect of the off-balance sheet item may materialize, and in addition, the debts that may be acquired as a result of the materialization of the contingent liability fit the classification of substandard debts. Credit not examined individually, in respect of which an allowance for credit losses is recognized on a collective basis, is classified as substandard when it becomes debt in arrears of 90 days or more.

Impaired debt

Credit is classified as impaired when, based on up-to-date knowledge and events, the Bank expects to be unable to collect the full amounts owed to it according to the original contractual terms with the customer. A decision regarding the classification of credit as impaired is based on factors including, among others, the condition of arrears of the debt; evaluation of the borrowers' financial condition and repayment capability; existence and condition of collateral; financial condition of guarantors, if any, and their commitment to supporting the debt; and the borrower's ability to obtain third-party financing. In any case, debt evaluated on an individual basis is classified as impaired when the principal or interest in respect of the debt is in arrears of 90 days or more. In addition, in any case in which the terms of a debt were changed in troubled debt restructuring, the debt is classified as impaired debt, unless a minimum allowance for credit losses according to the method of the extent of arrears was recorded in respect thereof before and after the restructuring, in accordance with the appendix to Proper Conduct of Banking Business Directive 314 concerning the fair evaluation of credit risks and fair measurement of debts. Impaired debt returns to the status of unimpaired debt only when there are no principal or interest components in respect of the debt that are due but have not been paid, and the Bank expects the remaining principal and interest to be repaid in full, in accordance with the terms of the contract.

Definition of Debt in Arrears

Debt in arrears

Debt in which principal or interest have not been paid on time, in reference to the contractual repayment terms. A current account or a current drawing account shall be reported as a debt in arrears when the account remains continuously at a negative balance (in the absence of an approved credit facility), or in deviation from the approved credit facility, for 30 days or more; or if, within the credit facility, amounts are credited to the account that are lower than the negative balance and the credit facility, for a period of 180 days. Loans shall be reported as debt in arrears when the principal or interest have not been paid after 30 days have elapsed from the scheduled date of payment according to the contractual repayment terms of the debt.

Allowance for Credit Losses

Individual Allowance

With regard to credit classified as "impaired," the allowance for credit losses is derived from an individual examination of the amount collectible from the customer (cash flows and/or expected realization of collateral), after discounting the amounts according to the expected time of collection and realization. The recoverable amount is determined by applying safety margins aimed at addressing situations of uncertainty regarding the ability to repay the debt. However, because economic variables are involved, there is no certainty that the recoverable amount will not be lower than the established estimate, due to worsening of economic parameters or for any other reason. Debts not expected to be collected within a reasonable period are charged off, in accordance with the rules established in the Bank of Israel's directives.

Customers under supervision and/or customers classified as problematic are examined individually on a quarterly basis, to determine the fairness of the classification and the fairness of the individually examined allowance for credit losses. This examination is performed by the Credit Risk Management Unit and approved by the Head of Risk Management. The Bank applies orderly work processes for this purpose, according to approved authorizations. If a debt is classified as impaired, a recoverable amount is established, and the individual allowance is derived from this amount. These processes are consistent with Proper Conduct of Banking Business Directives 311 and 314.

Collective Allowance

With regard to sound credit or unimpaired problematic credit (substandard or under special supervision), a "collective allowance" is calculated based on the economic sector to which the customer belongs. In order to calculate the collective allowance, the Bank sets two allowance rates for each economic sector, for problematic and sound credit risk, on a quarterly basis, based on an analysis of historical credit losses, net charge-offs, the quality of the credit portfolio in the sector, and an analysis of market trends, in accordance with the instructions of the Bank of Israel.

The process of establishing allowance rates consists of three stages, in accordance with the instructions of the Bank of Israel: calculation of a multi-year average of charge-off rates; adjustment in the event of significant changes over the last year; and establishment of adjustment coefficients. The adjustment coefficients are used to cause the collective allowance rates to reflect changes in the quality of the credit portfolio in the sector, macro-economic trends, and changes in the Bank's procedures and policies for granting credit. The Bank has developed an advanced model for establishing adjustment coefficients, in accordance with the instructions of the Bank of Israel. This model allows the expression of a wide range of environmental risk factors that may affect the rate of credit losses at the Bank, in an automated, consistent, controlled process. Pursuant to the instructions of the Bank of Israel, the adjustment coefficient of sound balance sheet debt in the sector of credit to private individuals shall not be less than 0.75%, and the balance of the collective allowance in respect of housing loans shall not be less than 0.35% of the balance of loans.

Risk Exposures

Table D.4: Segmentation of credit-risk exposures by counterparty and by main types of credit exposures, before allowance for credit losses(1)

	December 31, 2015											
	Sovereign	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure(2)	Average gross credit exposure
	NIS millions											
Loans(3)	**59,351**	**4,549**	**5,490**	**100,821**	**38,527**	**60,447**	**9,657**	**66,495**	**-**	**-**	**345,337**	**335,661**
Bonds(4)	**42,091**	**1,055**	**4,668**	**4,958**	**508**	**-**	**-**	**-**	**-**	**-**	**53,280**	**49,426**
Derivatives(5)	**33**	**868**	**2,617**	**5,915**	**413**	**34**	**73**	**8**	**-**	**-**	**9,961**	**11,150**
Other off-balance sheet exposures	**488**	**2,387**	**2,228**	**73,729**	**54,373**	**51,572**	**3,757**	**2,330**	**195**	**-**	**191,059**	**187,966**
Other assets(6)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**16,233**	**16,233**	**16,708**
Total	**101,963**	**8,859**	**15,003**	**185,423**	**93,821**	**112,053**	**13,487**	**68,833**	**195**	**16,233**	**615,870**	**600,911**

	December 31, 2014*											
	Sovereign	Public sector	Banking corporations	Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure(2)	Average gross credit exposure
	NIS millions											
Loans(3)	45,789	4,460	8,132	102,045	35,487	54,541	8,448	61,240	-	-	320,142	302,307
Bonds(4)	39,637	1,316	5,396	5,196	642	-	-	-	-	-	52,187	55,960
Derivatives(5)	32	1,019	3,212	7,188	352	39	233	11	-	-	12,086	9,634
Other off-balance sheet exposures	1,999	3,468	2,457	78,958	46,901	48,507	3,289	2,327	194	-	188,100	179,031
Other assets(6)	-	-	-	-	-	-	-	-	-	17,062	17,062	15,682
Total	87,457	10,263	19,197	193,387	83,382	103,087	11,970	63,578	194	17,062	589,577	562,614

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.
(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting).
(6) Including cash, investments in financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Exposure to Foreign Countries

Balance sheet exposure to foreign countries as at December 31, 2015 amounted to NIS 58.0 billion, compared with NIS 65.7 billion at the end of 2014.

Off-balance sheet exposure to foreign countries as at December 31, 2015 amounted to NIS 17.5 billion, compared with NIS 17.0 billion at the end of 2014.

The Bank operates in accordance with an ordered policy that sets limits and terms for the exposure to foreign countries.

Table D.5: Total principal exposures to foreign countries[1] as at December 31, 2015 (in NIS millions)

	December 31, 2015												
	Balance sheet exposure[4]									Off-balance sheet exposure[2][4]			
	Cross-border balance sheet exposure			Balance sheet exposure of the banking corporation's offices in foreign countries to local residents			Total balance sheet exposure	Problematic balance sheet credit risk[4]	Impaired debts[4]	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk[4]	Cross-border balance sheet exposure	
	To governments[3]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities						Maturity up to one year	Maturity over one year
Country													
A. United States	**3,583**	**2,055**	**3,826**	**27,190**	**12,808**	**14,382**	**23,846**	**129**	**41**	**9,194**	**55**	**2,096**	**7,368**
B. Switzerland	**-**	**504**	**32**	**7,050**	**-**	**7,050**	**7,586**	**1**	**-**	**229**	**-**	**163**	**373**
C. England	**129**	**4,850**	**3,509**	**75**	**-**	**75**	**8,563**	**1**	**-**	**2,637**	**-**	**1,988**	**6,500**
D. Turkey	**-**	**6**	**13**	**2,055**	**935**	**1,120**	**1,139**	**80**	**84**	**976**	**-**	**16**	**3**
E. Germany	**280**	**1,022**	**297**	**-**	**-**	**-**	**1,599**	**-**	**-**	**155**	**-**	**844**	**755**
F. France	**115**	**2,005**	**612**	**-**	**-**	**-**	**2,732**	**29**	**26**	**1,262**	**-**	**825**	**1,907**
G. Ireland	**-**	**3**	**152**	**-**	**-**	**-**	**155**	**-**	**-**	**206**	**-**	**129**	**26**
H. Spain	**-**	**158**	**65**	**-**	**-**	**-**	**223**	**-**	**-**	**33**	**-**	**28**	**195**
I. Portugal	**-**	**-**	**13**	**-**	**-**	**-**	**13**	**-**	**-**	**-**	**-**	**12**	**1**
J. Greece	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**-**
K. Italy	**-**	**5**	**48**	**-**	**-**	**-**	**53**	**-**	**-**	**154**	**-**	**41**	**12**
L. Others	**1,522**	**2,603**	**7,940**	**66**	**1**	**65**	**12,130**	**125**	**45**	**2,660**	**14**	**4,668**	**7,397**
Total exposures to foreign countries	**5,629**	**13,211**	**16,507**	**36,436**	**13,744**	**22,692**	**58,039**	**365**	**196**	**17,507**	**69**	**10,810**	**24,537**
Of which: total exposure to LDCs	**67**	**269**	**1,012**	**2,055**	**935**	**1,120**	**2,468**	**92**	**94**	**1,627**	**-**	**456**	**892**

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.

Balance sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

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

(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive No. 313.

(3) Governments, official institutions, and central banks.

(4) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral deductible for the indebtedness of a borrower and of a group of borrowers.

Table D.5: Total principal exposures to foreign countries[1] as at December 31, 2014 (in NIS millions) (continued)

	December 31, 2014												
	Balance sheet exposure[4]									Off-balance sheet exposure[2][4]			
	Cross-border balance sheet exposure			Balance sheet exposure of the banking corporation's offices in foreign countries to local residents			Total balance sheet exposure	Problematic balance sheet credit risk[4]	Impaired debts[4]	Total off-balance sheet exposure	Of which: problematic off-balance sheet credit risk[4]	Cross-border balance sheet exposure	
	To governments[3]	To banks	To others	Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities						Maturity up to one year	Maturity over one year
Country													
A. United States	1,148	2,532	4,683	30,731	10,405	20,326	28,689	124	60	9,412	2	3,091	5,272
B. Switzerland	-	547	51	5,174	-	5,174	5,772	-	-	281	-	309	289
C. England	117	5,120	4,075	93	-	93	9,405	2	-	2,404	-	2,738	6,574
D. Turkey	1	11	17	2,509	1,323	1,186	1,215	109	110	1,263	-	21	8
E. Germany	285	1,151	784	-	-	-	2,220	-	-	58	-	1,209	1,011
F. France	62	2,490	587	-	-	-	3,139	31	26	893	-	929	2,210
G. Ireland	-	7	192	-	-	-	199	-	-	239	-	166	33
H. Spain	-	150	11	-	-	-	161	-	-	24	-	46	115
I. Portugal	-	-	1	-	-	-	1	-	-	2	-	-	1
J. Greece	-	-	-	-	-	-	-	-	-	1	-	-	-
K. Italy	1	4	45	-	-	-	50	-	-	95	-	22	28
L. Others	1,430	5,245	7,830	324	-	324	14,829	141	71	2,365	13	6,831	7,674
Total exposures to foreign countries	3,044	17,257	18,276	38,831	11,728	27,103	65,680	407	267	17,037	15	15,362	23,215
Of which: total exposure to LDCs	173	558	898	2,788	1,323	1,465	3,094	137	120	1,736	-	708	921

The line "total LDCs" includes the total exposure to countries defined as Less Developed Countries (LDCs) in Proper Conduct of Banking Business Directive No. 315, "Supplementary Provision for Doubtful Debts." This amount includes data for Turkey, as detailed in the table above.

Balance sheet exposure to a foreign country includes cross-border balance sheet exposure and balance sheet exposure of the offices of the banking corporation in the foreign country to local residents. Cross-border balance sheet exposure includes balance sheet exposure of the offices of the banking corporation in Israel to residents of the foreign country, and balance sheet exposure of the overseas offices of the banking corporation to non-residents of the country in which the office is located.

Balance sheet exposure of the banking corporation's offices in a foreign country to local residents includes balance sheet exposure of the offices of the banking corporation in that foreign country to the residents of the country, less liabilities of those offices (the deduction is performed up to the level of the exposure).

(1) Based on the final risk, after the effect of guarantees, liquid collateral, and credit derivatives.
(2) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limits on indebtedness of a borrower, according to Proper Conduct of Banking Business Directive No. 313.
(3) Governments, official institutions, and central banks.
(4) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts are presented before the effect of the allowance for credit losses, and before the effect of collateral deductible for the indebtedness of a borrower and of a group of borrowers.

For further details, see the section "Economic and Financial Review" in the Financial Statements as at December 31, 2015.

Table D.6: Segmentation of the Portfolio by Term to Maturity and by Principal Type of Credit Exposure[1]

	December 31, 2015					
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[2]
	NIS millions					
Loans[3]	**158,600**	**84,504**	**102,233**	**-**	**-**	**345,337**
Bonds[4]	**13,249**	**25,084**	**14,947**	**-**	**-**	**53,280**
Derivatives[5]	**6,103**	**7,682**	**8,302**	**-**	**(12,126)**	**9,961**
Other off-balance sheet exposures	**25,883**	**161,556**	**3,620**	**-**	**-**	**191,059**
Other assets[6]	**2,619**	**-**	**-**	**13,614**	**-**	**16,233**
Total	**206,454**	**278,826**	**129,102**	**13,614**	**(12,126)**	**615,870**

	December 31, 2014*					
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure[2]
	NIS millions					
Loans[3]	144,504	78,164	97,474	-	-	320,142
Bonds[4]	8,460	23,116	20,611	-	-	52,187
Derivatives[5]	9,639	6,919	8,791	-	(13,263)	12,086
Other off-balance sheet exposures	32,773	151,153	4,174	-	-	188,100
Other assets[6]	2,364	-	-	14,698	-	17,062
Total	197,740	259,352	131,050	14,698	(13,263)	589,577

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.

(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).

(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.

(4) Not including bonds in the trading portfolio, and not including investments in capital of financial corporations.

(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting).

(6) Including cash, investments in non-financial corporations not deducted from capital, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Table D.7: Amount of impaired loans, amount of loans in arrears, individual and collective allowances and provision for credit losses recognized in the statement of profit and loss, and net charge-offs during the period, by principal sector or by principal type of counterparty

	December 31, 2015									
	Total credit risk(1)			Debts(2) and off-balance sheet credit risk (excluding derivatives)(3)						
	Total	Credit execution rating(5)	Problematic(6)	Total*	* Of which: debts(2)	Problematic(6)	Impaired	Credit losses for the year ended December 31, 2015(4)		
								Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
Activity of borrowers in Israel										
Public – commercial										
Agriculture	**2,754**	**2,467**	**39**	**2,747**	**2,062**	**39**	**25**	**1**	**(7)**	**25**
Mining and quarrying	**3,256**	**3,219**	**6**	**2,829**	**2,226**	**6**	**-**	**(4)**	**-**	**7**
Industry	**39,357**	**36,962**	**2,291**	**38,146**	**17,805**	**2,249**	**879**	**(149)**	**(150)**	**469**
Construction and real estate - construction(7)	**57,262**	**54,988**	**1,328**	**56,887**	**20,576**	**1,305**	**637**	**(106)**	**(148)**	**636**
Construction and real estate - real-estate activities	**24,147**	**22,958**	**1,056**	**23,801**	**19,891**	**1,056**	**583**	**(169)**	**(148)**	**515**
Electricity and water supply	**11,054**	**10,986**	**2**	**9,696**	**6,091**	**2**	**1**	**2**	**(1)**	**61**
Commerce	**37,452**	**33,353**	**2,310**	**37,092**	**26,609**	**2,301**	**1,293**	**626**	**298**	**1,170**
Hotels, hospitality, and food services	**10,640**	**9,558**	**266**	**10,608**	**9,432**	**266**	**234**	**(4)**	**5**	**70**
Transportation and storage	**8,914**	**7,967**	**141**	**8,717**	**6,538**	**141**	**96**	**4**	**(2)**	**42**
Information and communications	**6,735**	**5,682**	**913**	**6,246**	**4,029**	**912**	**715**	**91**	**20**	**234**
Financial services	**31,362**	**30,756**	**465**	**26,691**	**13,887**	**465**	**453**	**(16)**	**82**	**218**
Other business services	**12,583**	**11,593**	**171**	**12,555**	**8,311**	**171**	**81**	**34**	**24**	**108**
Public and community services	**8,008**	**7,705**	**55**	**8,001**	**5,997**	**55**	**42**	**(22)**	**(11)**	**51**
Total commercial(8)	**253,524**	**238,194**	**9,043**	**244,016**	**143,454**	**8,968**	**5,039**	**288**	**(38)**	**3,606**
Private individuals - housing loans	**63,161**	**61,919**	**634**	**63,161**	**60,569**	**634**	**-**	**5**	**-**	**389**
Private individuals - other	**90,193**	**85,242**	**999**	**90,171**	**51,825**	**999**	**672**	**174**	**252**	**809**
Total public - activity in Israel	**406,878**	**385,355**	**10,676**	**397,348**	**255,848**	**10,601**	**5,711**	**467**	**214**	**4,804**
Banks in Israel(9)	**4,439**	**4,439**	**-**	**1,374**	**51**	**-**	**-**	**-**	**-**	**-**
Israeli government	**44,907**	**44,907**	**-**	**1,065**	**813**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**(1)456,224**	**434,701**	**10,676**	**399,787**	**256,712**	**10,601**	**5,711**	**467**	**214**	**4,804**

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts(2), bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 256,712, 45,943, 119, 5,656, and 147,794 million, respectively
(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 11,700 million), excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) Including balance sheet credit risk in the amount of approximately NIS 829 million and off-balance sheet credit risk in the amount of approximately NIS 1,029 million extended to certain purchasing groups, which are currently in the process of construction.
(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 6,067 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.
(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D.7: Amount of impaired loans, amount of loans in arrears, individual and collective allowances and provisions for credit losses recognized in the statement of profit and loss, and net charge-offs during the period, by principal sector and by principal type of counterparty (continued)

	December 31, 2015									
	Total credit risk(1)			Debts(2) and off-balance sheet credit risk (excluding derivatives)(3)						
	Total	Credit execution rating(5)	Problematic(6)	Total*	* Of which: debts(2)	Problematic(6)	Impaired	Credit losses for the year ended December 31, 2015(4)		
								Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	NIS millions									
Activity of borrowers overseas										
Public – commercial										
Agriculture	**20**	**20**	**-**	**20**	**17**	**-**	**-**	**-**	**-**	**-**
Mining and quarrying	**1,003**	**1,003**	**-**	**349**	**153**	**-**	**-**	**-**	**-**	**-**
Industry	**6,923**	**6,907**	**14**	**5,385**	**3,225**	**14**	**1**	**(1)**	**6**	**10**
Construction and real estate	**9,566**	**9,397**	**163**	**9,062**	**6,338**	**163**	**123**	**9**	**(22)**	**88**
Electricity and water supply	**2,078**	**2,078**	**-**	**1,905**	**592**	**-**	**-**	**(2)**	**-**	**6**
Commerce	**3,004**	**2,882**	**33**	**2,840**	**2,037**	**33**	**10**	**(1)**	**31**	**9**
Hotels, hospitality, and food services	**2,030**	**1,967**	**64**	**2,002**	**1,731**	**64**	**55**	**8**	**-**	**16**
Transportation and storage	**794**	**782**	**10**	**614**	**548**	**10**	**10**	**1**	**-**	**6**
Information and communications	**1,721**	**1,651**	**202**	**1,186**	**650**	**202**	**-**	**15**	**(4)**	**37**
Financial services	**18,171**	**18,064**	**101**	**13,816**	**8,153**	**101**	**30**	**(2)**	**(5)**	**45**
Other business services	**1,105**	**1,092**	**1**	**940**	**669**	**1**	**1**	**2**	**(3)**	**6**
Public and community services	**898**	**881**	**17**	**691**	**430**	**17**	**17**	**(26)**	**(5)**	**18**
Total commercial(7)	**47,313**	**46,724**	**605**	**38,810**	**24,543**	**605**	**247**	**3**	**(2)**	**241**
Private individuals - housing loans	**569**	**555**	**6**	**569**	**551**	**6**	**-**	**-**	**-**	**3**
Private individuals - other	**3,220**	**3,147**	**46**	**3,183**	**1,969**	**46**	**32**	**6**	**16**	**35**
Total public - activity overseas	**51,102**	**50,426**	**657**	**42,562**	**27,063**	**657**	**279**	**9**	**14**	**279**
Banks overseas(8)	**37,524**	**37,524**	**-**	**25,514**	**24,186**	**-**	**-**	**(1)**	**-**	**3**
Governments overseas	**7,607**	**7,607**	**-**	**1,985**	**1,751**	**-**	**-**	**-**	**-**	**-**
Total activity overseas	(1)**96,233**	**95,557**	**657**	**70,061**	**53,000**	**657**	**279**	**8**	**14**	**282**
Total in Israel and overseas	**552,457**	**530,258**	**11,333**	**469,848**	**309,712**	**11,258**	**5,990**	**475**	**228**	**5,086**

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts(2), bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 53,000, 14,407, 0, 7,132, and 21,694 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 59 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.
(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

Table D.7: Amount of impaired loans, amount of loans in arrears, individual and collective allowances and provisions for credit losses recognized in the statement of profit and loss, and net charge-offs during the period, by principal sector and by principal type of counterparty (continued)

	December 31, 2014***									
	Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
	Total	Credit execution rating[5]	Problematic[6]	Total*	* Of which: debts[2]	Problematic[6]	Impaired	Credit losses for the year ended December 31, 2014[4]: Provision (income) for credit losses	Net charge-offs**	Allowance for credit losses
	NIS millions									
Activity of borrowers in Israel										
Public – commercial										
Agriculture	2,764	2,521	43	2,748	2,084	43	28	(7)	(4)	17
Mining and quarrying	3,175	3,135	8	2,736	2,189	8	-	8	-	11
Industry	42,972	38,696	4,011	41,262	18,635	3,814	1,051	(71)	(19)	479
Construction and real estate - construction[7]	52,498	49,768	1,536	51,989	19,632	1,501	734	(329)	(252)	599
Construction and real estate - real-estate activities	23,244	21,802	1,255	22,862	19,033	1,255	723	152	76	540
Electricity and water supply	11,600	11,554	1	10,140	4,935	-	-	46	(1)	58
Commerce	36,796	33,225	2,505	36,146	25,324	2,504	1,099	386	65	819
Hotels, hospitality, and food services	10,496	9,371	395	10,383	8,762	395	364	(14)	3	76
Transportation and storage	8,383	7,746	149	8,078	6,230	149	110	(30)	17	36
Information and communications	8,183	6,892	1,282	7,450	5,161	1,280	980	29	144	162
Financial services	31,471	29,688	880	25,425	12,769	875	588	(46)	22	316
Other business services	12,352	11,263	181	12,275	8,472	181	99	12	36	102
Public and community services	7,745	7,393	131	7,717	5,753	131	58	(94)	(75)	63
Total commercial[8]	251,679	233,054	12,377	239,211	138,979	12,136	5,834	42	12	3,278
Private individuals - housing loans	58,431	57,103	718	58,431	55,971	718	1	(34)	(2)	385
Private individuals - other	85,120	81,922	917	85,079	48,196	917	644	309	109	884
Total public - activity in Israel	395,230	372,079	14,012	382,721	243,146	13,771	6,479	317	119	4,547
Banks in Israel[9]	5,960	5,960	-	1,753	404	-	-	-	-	-
Israeli government	41,796	41,796	-	1,521	560	-	-	-	-	-
Total activity in Israel	[1]442,986	419,835	14,012	385,995	244,110	13,771	6,479	317	119	4,547

** Reclassified.

*** Comparative figures were reclassified, following the April 2014 circular of the Bank of Israel concerning adoption of the directives of the Central Bureau of Statistics for the uniform classification of economic sectors for 2011, which replaced the classification established in 1993.

(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts[2], bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 244,110, 43,390, 280, 8,088, and 147,118 million, respectively.

(2) Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness (excluding unutilized credit-card facilities under the responsibility of other banks, in the amount of approximately NIS 10,753 million), excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").

(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.

(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.

(7) Including balance sheet credit risk in the amount of approximately NIS 892 million and off-balance sheet credit risk in the amount of approximately NIS 1,402 million extended to certain purchasing groups, which are currently in the process of construction.

(8) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 5,496 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.

(9) Excluding cash balances of the Bank and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

Table D.7: Amount of impaired loans, amount of loans in arrears, individual and collective allowances and provisions for credit losses recognized in the statement of profit and loss, and net charge-offs during the period, by principal sector and by principal type of counterparty (continued)

	December 31, 2014***									
	Total credit risk(1)			Debts(2) and off-balance sheet credit risk (excluding derivatives)(3)						
	Total	Credit execution rating(5)	Problematic(6)	Total*	* Of which: debts(2)	Problematic(6)	Impaired	Credit losses for the year ended December 31, 2014(4)		
								Provision (income) for credit losses	Net charge-offs**	Allowance for credit losses
	NIS millions									
Activity of borrowers overseas										
Public – commercial										
Agriculture	66	29	27	66	45	27	27	13	-	17
Mining and quarrying	586	569	-	339	154	-	-	-	-	-
Industry	6,560	5,275	23	5,125	2,853	24	10	1	9	18
Construction and real estate	8,627	7,036	210	8,180	5,466	210	210	15	3	75
Electricity and water supply	1,803	1,803	-	1,452	337	-	-	(1)	-	6
Commerce	2,823	2,283	86	2,711	1,669	86	37	41	3	40
Hotels, hospitality, and food services	3,078	2,901	66	3,039	2,211	66	50	(5)	-	9
Transportation and storage	529	378	16	391	297	16	16	3	-	4
Information and communications	1,015	980	168	458	278	168	-	(3)	-	16
Financial services	17,479	17,339	49	12,973	7,511	49	49	(17)	1	38
Other business services	1,033	975	3	885	580	2	-	21	8	6
Public and community services	1,320	1,095	25	1,143	785	25	25	28	2	23
Total commercial(7)	44,919	40,663	673	36,762	22,186	673	424	96	26	252
Private individuals - housing loans	560	539	7	560	544	7	-	(3)	-	2
Private individuals - other	3,483	3,389	70	3,391	2,284	70	52	17	11	51
Total public - activity overseas	48,962	44,591	750	40,713	25,014	750	476	110	37	305
Banks overseas(8)	46,499	46,499	-	32,981	31,781	-	-	(2)	-	4
Governments overseas	5,878	5,878	-	2,337	1,301	-	-	-	-	-
Total activity overseas	(1)101,339	(1)96,968	750	76,031	58,096	750	476	108	37	309
Total in Israel and overseas	544,325	516,803	14,762	462,026	302,206	14,521	6,955	425	156	4,856

** Reclassified.
*** Comparative figures were reclassified, following the April 2014 circular of the Bank of Israel concerning adoption of the directives of the Central Bureau of Statistics for the uniform classification of economic sectors for 2011, which replaced the classification established in 1993.
(1) Balance sheet credit risk and off-balance sheet credit risk, including in respect of derivative instruments. Includes debts(2), bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments, and credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, in the amount of NIS 58,096, 12,775, 196, 8,156, and 22,116 million, respectively.
(2) Credit to the public, credit to governments, and deposits with banks, excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").
(3) Credit risk in off-balance sheet financial instruments, as calculated for the purpose of the limit on borrower indebtedness, excluding in respect of derivative instruments.
(4) Including in respect of off-balance sheet credit instruments (presented in the balance sheet under the item "other liabilities").
(5) Credit risk wherein the credit rating at the date of the report is congruent with the credit rating for the execution of new credit, according to the policy of the Bank.
(6) Balance sheet and off-balance sheet credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist which are in arrears of 90 days or more.
(7) The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 103 million, of commercial borrowers, or those extended to purchasing groups currently in the process of construction.
(8) Excluding cash balances of the Bank, and before deducting the allowance for credit losses.

AI Table D.8: Credit Quality** and Arrears

	December 31, 2015					
	Non-problematic	Problematic[1]		Total	Unimpaired debts* – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
	NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	**19,835**	**308**	**433**	**20,576**	**42**	**64**
Construction and real estate - real-estate activities	**18,956**	**445**	**490**	**19,891**	**5**	**16**
Financial services	**13,424**	**11**	**452**	**13,887**	**-**	**1**
Commercial - other	**83,743**	**2,339**	**3,018**	**89,100**	**86**	**167**
Total commercial	**135,958**	**3,103**	**4,393**	**143,454**	**133**	**248**
Private individuals - housing loans[5]	**59,935**	**634**	**-**	**60,569**	**634**	**388**
Private individuals - other	**50,839**	**322**	**664**	**51,825**	**84**	**194**
Total public - activity in Israel	**246,732**	**4,059**	**5,057**	**255,848**	**851**	**830**
Banks in Israel	**51**	**-**	**-**	**51**	**-**	**-**
Israeli government	**813**	**-**	**-**	**813**	**-**	**-**
Total activity in Israel	**247,596**	**4,059**	**5,057**	**256,712**	**851**	**830**
Borrower activity overseas						
Public - commercial						
Construction and real estate	**6,175**	**40**	**123**	**6,338**	**-**	**33**
Commercial - other	**17,840**	**241**	**124**	**18,205**	**-**	**53**
Total commercial	**24,015**	**281**	**247**	**24,543**	**-**	**86**
Private individuals	**2,468**	**20**	**32**	**2,520**	**6**	**34**
Total public - activity overseas	**26,483**	**301**	**279**	**27,063**	**6**	**120**
Banks overseas	**24,186**	**-**	**-**	**24,186**	**-**	**-**
Governments overseas	**1,751**	**-**	**-**	**1,751**	**-**	**-**
Total activity overseas	**52,420**	**301**	**279**	**53,000**	**6**	**120**
Total public	**273,215**	**4,360**	**5,336**	**282,911**	**857**	**950**
Total banks	**24,237**	**-**	**-**	**24,237**	**-**	**-**
Total governments	**2,564**	**-**	**-**	**2,564**	**-**	**-**
Total	**300,016**	**4,360**	**5,336**	**309,712**	**857**	**950**

* For this purpose, "unimpaired debts" include non-problematic debts.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.

(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 30B(2)(c) below.

(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months), accruing interest income.

(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 132 million (December 31, 2014: NIS 156 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 110 million (December 31, 2014: NIS 97 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not yet due for repayment.

AI Table D.8: Credit Quality** and Arrears (continued)

	December 31, 2014					
	Non-problematic	Problematic[1]		Total	Unimpaired debts*** – additional information	
		Unimpaired	Impaired[2]		In arrears of 90 days or more[3]	In arrears of 30 to 89 days[4]
	NIS millions					
Borrower activity in Israel						
Public - commercial						
Construction and real estate - construction	18,751	323	558	19,632	41	204
Construction and real estate - real-estate activities	17,937	454	642	19,033	15	83
Financial services	11,899	286	584	12,769	-	3
Commercial - other	80,767	3,395	3,383	87,545	87	127
Total commercial	129,354	4,458	5,167	138,979	143	417
Private individuals - housing loans[5]	55,254	717	-	55,971	*717	*391
Private individuals - other	47,292	266	638	48,196	75	188
Total public - activity in Israel	231,900	5,441	5,805	243,146	*935	*996
Banks in Israel	404	-	-	404	-	-
Israeli government	560	-	-	560	-	-
Total activity in Israel	232,864	5,441	5,805	244,110	*935	*996
Borrower activity overseas						
Public - commercial						
Construction and real estate	5,256	-	210	5,466	-	-
Commercial - other	16,280	226	214	16,720	9	16
Total commercial	21,536	226	424	22,186	9	16
Private individuals	2,751	25	52	2,828	*7	*23
Total public - activity overseas	24,287	251	476	25,014	*16	*39
Banks overseas	31,781	-	-	31,781	-	-
Governments overseas	1,301	-	-	1,301	-	-
Total activity overseas	57,369	251	476	58,096	*16	*39
Total public	256,187	5,692	6,281	268,160	*951	*1,035
Total banks	32,185	-	-	32,185	-	-
Total governments	1,861	-	-	1,861	-	-
Total	290,233	5,692	6,281	302,206	*951	*1,035

* Restated.
** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets
*** For this purpose, "unimpaired debts" include non-problematic debts.
(1) Credit risk that is impaired, substandard, or under special supervision, including in respect of housing loans for which an allowance based on the extent of arrears exists, and housing loans for which an allowance based on the extent of arrears does not exist, which are in arrears of 90 days or more.
(2) In general, impaired debts do not accrue interest income. For information regarding certain impaired debts restructured in troubled debt restructuring, see Note 30B(2)(c) below.
(3) Classified as unimpaired problematic debts (with the exception of housing loans in arrears of up to 3 months), accruing interest income.
(4) Accruing interest income. Debts in arrears of 30 to 89 days, in the amount of approximately NIS 132 million (December 31, 2014: NIS 156 million) were classified as unimpaired problematic debts.
(5) Includes a balance of housing loans, in the amount of approximately NIS 110 million (December 31, 2014: NIS 97 million) with allowance based on the extent of arrears, for which an arrangement has been signed for the borrower's repayment of the amounts in arrears, where a change has been made in the repayment schedule with regard to the balance of the loan not yet due for repayment.

Table D.9: Allowance for Credit Losses

	December 31, 2015***					
	Credit to the public				Banks and governments	Total
	Commercial****	Housing	Other private	Total		
Recorded debt balance of debts**						
Examined on an individual basis	**142,300**	**-**	**3,159**	**145,459**	**26,801**	**172,260**
Examined on a collective basis(1)	**25,697**	**61,120**	**50,635**	**137,452**	**-**	**137,452**
Total debts**	**167,997**	**61,120**	**53,794**	**282,911**	**26,801**	**309,712**
(1) Of which: allowance for which was calculated according to the extent of arrears	**6,126**	**60,863**	**-**	**66,989**	**-**	**66,989**
Allowance for credit losses in respect of debts**						
Examined on an individual basis	**2,856**	**-**	**126**	**2,982**	**3**	**2,985**
Examined on a collective basis(2)	**375**	**392**	**665**	**1,432**	**-**	**1,432**
Total allowance for credit losses	**3,231**	**392**	**791**	**4,414**	**3**	**4,417**
(2) Of which: allowance for which was calculated according to the extent of arrears*****	**61**	**392**	**-**	**453**	**-**	**453**

	December 31, 2014					
	Credit to the public				Banks and governments	Total
	Commercial****	Housing	Other private	Total		
Recorded debt balance of debts**						
Examined on an individual basis	137,840	-	3,584	141,424	34,046	175,470
Examined on a collective basis(1)	23,325	56,515	46,896	126,736	-	126,736
Total debts**	161,165	56,515	50,480	268,160	34,046	302,206
(1) Of which: allowance for which was calculated according to the extent of arrears	5,599	56,196	-	61,795	-	61,795
Allowance for credit losses in respect of debts**						
Examined on an individual basis	2,682	-	163	2,845	4	2,849
Examined on a collective basis(2)	244	387	704	1,335	-	1,335
Total allowance for credit losses	2,926	387	867	4,180	4	4,184
(2) Of which: allowance for which was calculated according to the extent of arrears*****	*58	*387	-	*445	-	*445

* Restated.

** Credit to the public, credit to governments, and deposits with banks (excluding deposits with the Bank of Israel), excluding bonds, securities borrowed or purchased under agreements to resell, and assets in respect of activity in the Maof market (presented under the item "other assets").

*** For details regarding the initial implementation of the directives of the Supervisor of Banks concerning the collective allowance for credit losses, see Note 1D(6).

**** The balance of commercial debts includes the balance of housing loans, in the amount of approximately NIS 6,126 million, of commercial borrowers, or granted to purchasing groups in the process of construction (December 31, 2014: NIS 5,599 million).

***** Includes the allowance beyond the amount required according to the method of the extent of arrears, calculated on a collective basis, in the amount of approximately NIS 235 million (December 31, 2014: NIS 215 million).
Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 28 million (December 31, 2014: NIS 24 million).

Table D.10: Change in Allowance for Credit Losses

	2015					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	**3,530**	**387**	**935**	**4,852**	**4**	**4,856**
Provision for credit losses(1)	**291**	**5**	**180**	**476**	**(1)**	**475**
Charge-offs	**(918)**	**-**	**(586)**	**(1,504)**	**-**	**(1,504)**
Recoveries of debts charged off in previous years	**958**	**-**	**318**	**1,276**	**-**	**1,276**
Net charge-offs	**40**	**-**	**(268)**	**(228)**	**-**	**(228)**
Other	**(14)**	**-**	**(3)**	**(17)**	**-**	**(17)**
Allowance for credit losses at end of year(2)	**3,847**	**392**	**844**	**5,083**	**3**	**5,086**
(1) Of which: in respect of off-balance sheet credit instruments	**12**	**-**	**(15)**	**(3)**	**-**	**(3)**
(2) Of which: in respect of off-balance sheet credit instruments	**616**	**-**	**53**	**669**	**-**	**669**

	2014					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	3,430	422	729	4,581	6	4,587
Provision for credit losses(1)	138	(37)	326	427	(2)	425
Charge-offs	(897)	(3)	(476)	(1,376)	-	(1,376)
Recoveries of debts charged off in previous years	859	5	356	1,220	-	1,220
Net charge-offs	(38)	2	(120)	(156)	-	(156)
Allowance for credit losses at end of year(2)	3,530	387	935	4,852	4	4,856
(1) Of which: in respect of off-balance sheet credit instruments	41	-	(7)	34	-	34
(2) Of which: in respect of off-balance sheet credit instruments	604	-	68	672	-	672

AI Additional Information Regarding Exposures to Credit Risk

AI Construction and Real Estate

Overall credit risk in the construction and real-estate sectors totaled approximately NIS 91 billion as at December 31, 2015.

AI Table D.11: Segmentation of credit risk of the Bank Group in the construction and real-estate sectors, by principal areas of activity

	Balance as at December 31, 2015		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Construction for commerce and services	**1,822**	**884**	**2,706**
Construction for industry	**453**	**196**	**649**
Housing construction	**11,119**	**26,516**	**37,635**
Yield-generating properties	**22,799**	**5,814**	**28,613**
Other	**11,462**	**9,910**	**21,372**
Total construction and real-estate sectors	**47,655**	**43,320**	**90,975**

AI Credit Risk in Respect of Exposures to Borrowers and to Groups of Borrowers

AI Table D.12: Details of balances of balance sheet credit and off-balance sheet credit risk to borrowers whose indebtedness exceeds NIS 1,200 million, by sector of the economy, as at December 31, 2015

	December 31, 2015			
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**3**	**886**	**7,088**	**7,974**
Construction and real estate - real-estate activities	**2**	**2,065**	**831**	**2,896**
Construction and real estate - construction	**1**	**239**	**1,360**	**1,599**
Electricity and water supply	**1**	**1,808**	**2,290**	**4,098**
Financial services	**4**	**5,039**	**2,617**	**7,656**
Total	**11**	**10,037**	**14,186**	**24,223**

AI Table D.13: Balances of balance sheet credit and off-balance sheet credit risk to the 6 largest borrowers, by sector of the economy, as at December 31, 2015

	December 31, 2015		
	Balance sheet credit	Off-balance sheet credit risk	Total
	NIS millions		
Economic sector			
Industry	**171**	**4,683**	**4,854**
Electricity and water supply	**1,808**	**2,290**	**4,098**
Financial services	**1,848**	**421**	**2,269**
Financial services	**294**	**1,579**	**1,873**
Financial services	**1,801**	**1**	**1,802**
Financial services	**1,096**	**616**	**1,712**
Total	**7,018**	**9,590**	**16,608**

Pursuant to Proper Conduct of Banking Business Directive No. 313, Limits on the Indebtedness of Borrowers and Groups of Borrowers, a limit is imposed on the Bank, among other matters, under which the rate of "indebtedness" of a "borrower" and of a "group of borrowers," as defined in the directive, after subtracting certain permitted amounts as specified in the directive, shall not exceed 15% and 25%, respectively, of the capital of the Bank, calculated according to Proper Conduct of Banking Business Directive 202, Capital Components. The directive further states that the total indebtedness (after subtracting the permitted amounts) of the borrowers, borrower groups, and banking borrower groups, each of whose indebtedness exceeds 10% of the capital of the Bank, shall not exceed 120% of the capital of the Bank.

An update of Proper Conduct of Banking Business Directive 313, Limits on the Indebtedness of Borrowers and Groups of Borrowers, was issued in June 2015. Among other matters, the update restricts the definition of capital to Tier 1 capital (after supervisory adjustments and deductions), as defined in Proper Conduct of Banking Business Directive 202, and updates the limit on the indebtedness of a banking borrower group to a banking corporation, which previously stood at 25% of capital, to 15% of capital. The amendments to the directive took effect on January 1, 2016. With regard to the definition of capital, the following will apply: Tier 1 capital, as in the definition of capital, supplemented by Tier 2 capital, as published in the financial statements as at December 31, 2015. The supplement will be reduced in equal installments over twelve quarters, until it reaches zero on December 31, 2018. For details, see the section "Description of the Bank Group's Business by Segments of Activity – The Corporate Segment" in the Board of Directors' Review.

The Bank conducts monitoring and control processes in order to examine compliance with the limits set forth in Directive 313 with regard to exposure to the indebtedness of borrower groups. In addition, the Bank performs periodic surveys of credit risk in such borrower groups, with an individual examination of the borrowers belonging to the borrower groups, the nature of these borrowers' activities, and the correlations between the borrowers that can affect group-level risk.

AI Table D.14: Details of credit risk balances for each group of borrowers whose net indebtedness on a consolidated basis, in accordance with Proper Conduct of Banking Business Directive 313, "Limits on the Indebtedness of Borrowers and Groups of Borrowers" (hereinafter: Directive 313), exceeds 15% of the capital of the banking corporation (as defined in Directive 313), as at December 31, 2015

	December 31, 2015						
	Balance sheet credit risk(1)	Off-balance sheet credit risk(1)	Of which: Off-balance sheet credit risk in respect of derivative instruments(2)	Gross indebtedness(3)	Deductions(4)	Net indebtedness(5)	Percentage of regulatory capital
	NIS millions						
Borrower group A	**4,827**	**4,134**	**287**	**8,969**	**509**	**8,460**	**17.07%**

(1) After deduction of the balance of charge-offs and the allowance for credit losses calculated on an individual basis.
(2) Off-balance sheet credit risk in respect of derivative instruments, as calculated for the purposes of the limits on indebtedness of borrowers and of borrower groups.
(3) This amount includes third-party guarantees outside the group.
(4) Deductions permitted under Directive 313, mainly including deposits deposited at the Bank, bonds issued by the State of Israel, and deductible indemnity letters of the State of Israel or financial institutions.
(5) The data presented above represent exposure to borrower groups, and are stated after the permitted deductions pursuant to Directive 313, and after deduction of the allowance for credit losses calculated on an individual basis. These data are therefore not comparable with data regarding borrowers' indebtedness provided in other disclosures in the report.

AI Risks in the Housing Loan Portfolio

AI Table D.15: Development of the balance in the housing credit portfolio, by linkage base and as a percentage of the balance in the credit portfolio of the Bank

	Unlinked segment				CPI-linked segment				Foreign currency segment		Total	
	Fixed interest rate		Floating interest rate		Fixed interest rate		Floating interest rate		Floating interest rate		Recorded debt balance in NIS millions	Rate of change during the period
	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %	Balance in NIS millions	Rate in %		
December 31, 2015	**8,785**	**13.1%**	**23,880**	**35.5%**	**13,179**	**19.6%**	**20,724**	**30.8%**	**678**	**1.0%**	**67,246**	**8.3%**
December 31, 2014	4,250	6.8%	21,374	34.4%	13,379	21.5%	22,241	35.8%	870	1.4%	62,114	6.6%
December 31, 2013	2,298	3.9%	19,171	32.9%	12,918	22.2%	22,964	39.4%	943	1.6%	58,294	7.8%

The Bank routinely monitors developments in the housing credit portfolio, and applies various measures to manage risk. Housing credit risks are examined individually, based on the policies and objectives established in the risk appetite set for housing credit, from the level of the individual transaction to an overview of the housing credit portfolio of the Bank.

Risk appetite hedging: The Bank manages and hedges risk appetite, including through limits on various segments, as established in policy discussions of the Board of Management and the Board of Directors, overseen and led by the Risk Management Area. The limits address LTV rates, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, loan durations, geographical distribution, rate of arrears, etc. These indices are also monitored in comparison to the data of the banking system as a whole.

The Bank tracks macro-economic conditions and changes in general, and in the business environment of the industry in particular. Some events require a reexamination of policy, such as a sharp increase in the floating interest rate, steep inflation, an increase in unemployment in the Israeli economy, and a material change in housing prices.

Data are reported on a monthly basis in an Area-level risk forum, headed by the Head of Retail Banking and the Head of Risk Management, and on a quarterly basis as part of the report on developments in the credit portfolio and in credit risk to the Board of Management and Board of Directors.

The Bank uses a statistical model to measure the probability of default and the economic allocation required in the mortgage portfolio. In addition, stress scenarios are applied to the mortgage portfolio, and the effect on the portfolio and on the Bank as a whole is analyzed. These scenarios include a sharp decline in prices of homes, an increase in the interest rate, and an increase in the unemployment rate.

In addition, insurance arrangements are in place (life insurance and building insurance). For loans approved up to November 1, 2012, the Bank also required credit insurance when the LTV ratio was greater than 75%. As of November 1, 2012, loans with an LTV ratio greater than 75% can no longer be approved.

AI Housing Credit Execution

Housing loans are approved based on a hierarchy of authorizations reflecting the nature of the credit application and its inherent risk. Housing credit risk is quantified and measured on several levels: the level of the individual customer and the level of the overall credit portfolio of the Bank. For that purpose, quantification and measurement processes have been developed and implemented, combining assessments by housing-credit experts with statistical models. As part of the quantification of risk, a focused examination of repayment capability is executed, including a test of sensitivity to possible changes in repayment capability as a result of possible changes in the interest rate.

Characteristics of housing credit granted by the Bank:

AI Table D.16: Housing loan data – percentage of total new loans executed

	For the year ended	
	December 31, 2015	December 31, 2014
Characteristics		
Financing rate over 60%	**33.3%**	36.6%
Ratio of repayment to income greater than 40% (for acquisition and in monthly payments)	**0.7%**	5.6%
Financing rate over 60% and repayment rate over 40%	**0.3%**	1.9%
Percentage of execution of floating-rate loans with interest varying at a frequency of less than 5 years (Bank of Israel limit 33.3%)	**30.0%**	31.0%
Percentage of all-purpose loans	**2.7%**	4.5%
Loans for investment purposes as a percentage of acquisition	**16.7%**	16.8%
Average loan per acquisition (in NIS thousands), excluding refinancing of Ministry of Finance loans	**657**	613
Average original term to maturity per acquisition, in years (excluding bridge loans)	**21.6**	20.9
Percentage over 25 years (including refinancing)	**24.7%**	20.8%
Marginal rate of borrower balances over NIS 5 million	**1.23%**	1.48%

Note that financing rates were calculated pursuant to Reporting Directive No. 876 of the Supervisorof Banks, "Report on Housing Loans."

Risk indices have improved in recent years, as reflected in the decrease in the percentage of execution of credit at a financing rate greater than 60%, payments at more than 40% of income, and credit over NIS 5 million. The rate of execution of general-purpose loans and of floating-rate loans also decreased. The average amount of loans and the average maturity period increased.

AI Leveraged Financing

Leveraged financing includes, among other matters, transactions for the financing of means of control of corporations at high financing rates; holding companies, at high financing rates relative to the value of their holdings; financing of subordinate (mezzanine) debt; and financing of the acquisition of operations, when the credit is provided at the acquired company and is at a high financing rate, and exceeds the sector policy for the acquired company. An internal limit is in place for leveraged financing as a percentage of the total capital of the Bank.

Reports on developments in leveraged financing and on compliance with the established limit are submitted each quarter to the Board of Management and the Board of Directors of the Bank, for monitoring of the risks inherent in this type of financing.

The new Proper Conduct of Banking Business Directive 327 and an update of Directive 323 took effect on January 1, 2016.

Proper Conduct of Banking Business Directive 327, Management of Leveraged Loans, establishes an overall risk-management framework for leveraged loans, and formalizes various matters including the definition of a leveraged loan, general policy guidelines, underwriting procedures, quantitative reporting and analysis, classification of leveraged loans, credit analysis, and more. The directive applies to credit granted as of January 1, 2016. The Bank is preparing to update the leveraged financing category and adjust its internal limits in accordance with the new directive.

Proper Conduct of Banking Business Directive 323, Limits on Financing of Equity Transactions (prior to the update the title of the directive was Financing of Acquisition of Means of Control in Corporations) – the update of the directive expands regulation with regard to credit for the acquisition of means of control to encompass equity transactions, which in addition to the financing of means of control, also include acquisition of issued shareholders' equity, acquisition of another corporation or a material part of its assets, and capital distribution.

A| Table D.17: The Bank's exposures to leveraged financing as at December 31, 2015, by economic sector of the borrower

	December 31, 2015			
	Number of borrowers	Balance of balance sheet credit	Balance of off-balance sheet credit	Total*
		NIS millions		
Economic sector[1] of the borrower				
Construction and real estate - construction	**11**	**1,626**	**302**	**1,928**
Construction and real estate - real-estate activities	**12**	**1,011**	**992**	**2,003**
Financial services and insurance services	**13**	**882**	**13**	**895**
Other business services	**3**	**70**	**3**	**73**
Commerce	**11**	**977**	**6**	**983**
Industry	**4**	**912**	**125**	**1,037**
Information and communications	**5**	**507**	**-**	**507**
Mining and quarrying	**4**	**1,442**	**122**	**1,564**
Electricity and water	**-**	**-**	**-**	**-**
Hotels, hospitality, and food services	**-**	**-**	**-**	**-**
Transportation and storage	**-**	**-**	**-**	**-**
Public services	**-**	**-**	**-**	**-**
Agriculture	**-**	**-**	**-**	**-**
Total	**63**	**7,427**	**1,563**	**8,990**

* Net of an individual allowance for credit losses in the amount of approximately NIS 319 million.
(1) Definitions of economic sectors changed following the circular of the Bank of Israel of April 2014.

The Bank's exposures to leveraged financing as at December 31, 2014, by economic sector of the borrower

	December 31, 2014			
	Number of borrowers	Balance of balance sheet credit	Balance of off-balance sheet credit	Total*
		NIS millions		
Economic sector of the borrower				
Construction and real estate - construction	7	135	152	287
Construction and real estate - real-estate activities	11	1,024	1,431	2,455
Financial services and insurance services	25	2,920	305	3,225
Other business services	1	59	-	59
Commerce	7	1,273	12	1,285
Industry	7	2,483	247	2,730
Communications and computer services	2	343	-	343
Electricity and water	-	-	-	-
Hotels, hospitality, and food services	-	-	-	-
Transportation and storage	-	-	-	-
Public services	1	13	-	13
Agriculture	-	-	-	-
Total	61	8,250	2,147	10,397

* Net of an individual allowance for credit losses in the amount of approximately NIS 300 million.

Credit Risk Mitigation: Standardized Approach Disclosures

Implementation of External Credit Ratings

According to the external rating based standard approach implemented at the Bank, credit risk weightings are determined by methods including the attribution of exposure to the counterparty to a transaction, as stated in the directive, taking into account the external credit ratings established by external credit assessment institutions (ECAI), which are used for standardized measurement of credit risk.

ECAI ratings are used to determine the risk weights of the following counterparties:

- Sovereigns
- Public sector
- Corporations
- Banking corporations

For this purpose, the Bank uses data from two rating agencies: Moody's Investor Service and Standard & Poor's Rating Group.

Table D.18: Ratings of the major international rating agencies

	Ratings by rating agencies		Risk weight		
	Moody's	S&P	Corporations	Banks	Sovereign
1	Aaa to Aa3	AAA to AA-	20%	20%	0%
2	A1 to A3	A+ to A-	50%	50%	20%
3	Baa1 to Baa3	BBB+ to BBB-	100%	100%	50%
4	Ba1 to Ba3	BB+ to BB-	100%	100%	100%
5	B1 to B3	B+ to B-	150%	100%	100%
6	Caa1 or lower	CCC+ or lower	150%	150%	150%

During the rating process, customers are identified and the appropriate rating is determined by matching the files of the ECAIs with the data of the counterparties. The data are entered into the calculation system, and the appropriate risk weight is assigned based on the rules established by the Supervisor of Banks. Accordingly, the lower of the credit ratings assigned by either of the two rating agencies noted above is selected.

When there is no rating for the counterparty, the risk weight is calculated according to the defaults defined in the directives of the Bank of Israel. The risk weight for debts of Israeli banks with an original term to maturity of three months or less, denominated and financed in NIS, is 20%. The risk weight for banks is determined by the risk weight of the country in which the bank is incorporated, and is one level below the risk weight derived from the country's rating. For investments in issuances that have a specific issuance rating, the risk weight of the debt is based on such rating, except when the issuer is a banking corporation or a public-sector entity. In these cases, the risk weight is based on the issuer rating, rather than on the specific issuance rating.

Credit Risk Mitigation

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings prepared by international rating agencies.

The following tables present details of gross credit exposure, after deducting the allowance for credit losses on an individual basis, by risk weightings, with segmentation of the exposure by counterparty (segments), before and after credit risk mitigation in respect of recognized collateral.

Table D.19: Amount of gross credit exposures before credit risk mitigation

	December 31, 2015								
	0%	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure(1)
	NIS millions								
Sovereign	**93,626**	**6,178**	**-**	**296**	**-**	**1,863**	**-**	**-**	**101,963**
Public sector	**-**	**3,190**	**-**	**5,668**	**-**	**-**	**-**	**-**	**8,858**
Banking corporations	**318**	**11,685**	**-**	**2,570**	**-**	**429**	**-**	**-**	**15,002**
Corporations	**-**	**2,182**	**-**	**3,237**	**-**	**177,639**	**1,538**	**-**	**184,596**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**93,092**	**551**	**-**	**93,643**
Retail to individuals	**-**	**-**	**-**	**-**	**111,138**	**138**	**669**	**-**	**111,945**
Small businesses	**-**	**-**	**-**	**-**	**13,245**	**97**	**89**	**-**	**13,431**
Housing loans	**-**	**-**	**30,710**	**12,348**	**19,687**	**5,853**	**235**	**-**	**68,833**
Securitization	**-**	**-**	**-**	**-**	**-**	**195**	**-**	**-**	**195**
Others	**2,768**	**-**	**-**	**-**	**-**	**8,763**	**815**	**3,887**	**16,233**
Total	**96,712**	**23,235**	**30,710**	**24,119**	**144,070**	**288,069**	**3,897**	**3,887**	**614,699**

	December 31, 2014*								
	0%	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure(1)
	NIS millions								
Sovereign	77,540	7,232	-	325	-	2,360	-	-	87,457
Public sector	-	3,789	-	6,468	-	6	-	-	10,263
Banking corporations	-	13,366	-	5,071	-	760	-	-	19,197
Corporations	-	1,803	-	3,348	-	184,375	3,165	-	192,691
Secured by commercial real estate	-	-	-	-	-	82,714	514	-	83,228
Retail to individuals	-	-	-	-	102,223	173	564	-	102,960
Small businesses	-	-	-	-	11,599	255	75	-	11,929
Housing loans	-	-	32,569	7,441	14,762	8,563	242	-	63,577
Securitization	-	-	-	-	-	194	-	-	194
Others	2,416	-	-	-	-	10,720	640	3,286	17,062
Total	79,956	26,190	32,569	22,653	128,584	290,120	5,200	3,286	588,558

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).

Table D.20: Amount of net credit exposures after credit risk mitigation

	December 31, 2015								
	0%	20%	35%	50%	75%	100%	150%	250%	Net credit exposure[(1)]
	NIS millions								
Sovereign	**93,626**	**6,178**	**-**	**192**	**-**	**943**	**-**	**-**	**100,939**
Public sector	**1,811**	**3,190**	**-**	**5,668**	**-**	**-**	**-**	**-**	**10,669**
Banking corporations	**318**	**13,644**	**-**	**16,424**	**-**	**329**	**-**	**-**	**30,715**
Corporations	**-**	**2,179**	**-**	**3,142**	**-**	**171,014**	**1,438**	**-**	**177,773**
Secured by commercial real estate	**-**	**-**	**-**	**-**	**-**	**92,601**	**551**	**-**	**93,152**
Retail to individuals	**-**	**-**	**-**	**-**	**93,781**	**138**	**666**	**-**	**94,585**
Small businesses	**-**	**-**	**-**	**-**	**11,896**	**96**	**87**	**-**	**12,079**
Housing loans	**-**	**-**	**30,710**	**12,348**	**19,687**	**5,853**	**235**	**-**	**68,833**
Securitization	**-**	**-**	**-**	**-**	**-**	**195**	**-**	**-**	**195**
Others	**2,768**	**-**	**-**	**-**	**-**	**8,763**	**815**	**3,887**	**16,233**
Total	**98,523**	**25,191**	**30,710**	**37,774**	**125,364**	**279,932**	**3,792**	**3,887**	**605,173**

	December 31, 2014*								
	0%	20%	35%	50%	75%	100%	150%	250%	Net credit exposure[(1)]
	NIS millions								
Sovereign	78,289	7,232	-	227	-	1,642	-	-	87,390
Public sector	1,258	3,789	-	5,718	-	6	-	-	10,771
Banking corporations	-	15,272	-	17,964	-	660	-	-	33,896
Corporations	-	1,803	-	3,348	-	177,412	3,084	-	185,647
Secured by commercial real estate	-	-	-	-	-	81,967	511	-	82,478
Retail to individuals	-	-	-	-	85,907	172	563	-	86,642
Small businesses	-	-	-	-	10,271	255	74	-	10,600
Housing loans	-	-	32,461	7,549	14,762	8,563	242	-	63,577
Securitization	-	-	-	-	-	194	-	-	194
Others	2,416	-	-	-	-	10,720	640	3,286	17,062
Total	81,963	28,096	32,461	34,806	110,940	281,591	5,114	3,286	578,257

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Credit Risk Mitigation: Standardized Approach Disclosures

Collateral management at the Bank is described in the section "Hedging and Risk Mitigation," below. Under the Basel 3 directives, under certain conditions, certain collateral such as guarantees, credit derivatives, and financial instruments held as collateral can be deducted from risk-adjusted assets for the purpose of calculating the capital-adequacy ratio. The deduction of collateral for the calculation of the capital ratio is performed after using safety margins established in the directive. These margins take into account factors including the term to maturity of the collateral, any lack of congruity between the linkage terms of the collateral and of the credit that it secures, and volatility in the value of the collateral.

The eligible financial collateral used by the Bank to calculate capital adequacy and risk mitigation includes deposits that constitute collateral by way of liens, bonds of banking corporations and governments under permanent liens, and shares under lien traded on the primary index. In addition, the Bank uses guarantees of banking corporations, which transfer the exposure from the segment of the guaranteed party to exposure to banking corporations.

Table D.21: Details of types of collateral used, with presentation of exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by eligible financial collateral,by counterparty

	December 31, 2015						
	Gross credit exposure(1)	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added(2)	Exposure covered by financial collateral(3)	Net credit exposure(4)
	NIS millions						
Sovereign	**101,963**	**(1,024)**	**-**	**(1,024)**	**-**	**-**	**100,939**
Public sector	**8,858**	**-**	**-**	**-**	**1,811**	**-**	**10,669**
Banking corporations	**15,002**	**(754)**	**-**	**(754)**	**16,923**	**(456)**	**30,715**
Corporations	**184,596**	**(1,198)**	**-**	**(1,198)**	**46**	**(5,671)**	**177,773**
Secured by commercial real estate	**93,643**	**(14)**	**-**	**(14)**	**-**	**(477)**	**93,152**
Retail to individuals	**111,945**	**(15,486)**	**-**	**(15,486)**	**-**	**(1,874)**	**94,585**
Small businesses	**13,431**	**(258)**	**-**	**(258)**	**-**	**(1,094)**	**12,079**
Housing loans	**68,833**	**-**	**-**	**-**	**-**	**-**	**68,833**
Securitization	**195**	**-**	**-**	**-**	**-**	**-**	**195**
Others	**16,233**	**-**	**-**	**-**	**-**	**-**	**16,233**
Total	**614,699**	**(18,734)**	**-**	**(18,734)**	**18,780**	**(9,572)**	**605,173**

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) Including an additional safety coefficient appropriate for exposure to borrowed securities.
(3) After taking safety coefficients into account.
(4) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Table D.21: Details of types of collateral used, with presentation of exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by eligible financial collateral,by counterparty (continued)

	December 31, 2014*						
	Gross credit exposure(1)	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added(2)	Exposure covered by financial collateral(3)	Net credit exposure(4)
	NIS millions						
Sovereign	87,457	(817)	-	(817)	750	-	87,390
Public sector	10,263	(750)	-	(750)	1,258	-	10,771
Banking corporations	19,197	(442)	-	(442)	15,672	(531)	33,896
Corporations	192,691	(1,133)	-	(1,133)	86	(5,997)	185,647
Secured by commercial real estate	83,228	(40)	-	(40)	-	(710)	82,478
Retail to individuals	102,960	(14,280)	-	(14,280)	-	(2,038)	86,642
Small businesses	11,929	(218)	-	(218)	-	(1,111)	10,600
Housing loans	63,577	-	-	-	-	-	63,577
Securitization	194	-	-	-	-	-	194
Others	17,062	-	-	-	-	-	17,062
Total	588,558	(17,680)	-	(17,680)	17,766	(10,387)	578,257

* As reported excluding the effect of the adoption of US GAAP regarding employee benefits, which took effect on January 1, 2015. See Note 1D(1) to the Financial Statements for 2015.
(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).
(2) Including an additional safety coefficient appropriate for exposure to borrowed securities.
(3) After taking safety coefficients into account.
(4) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Credit Risks in Respect of Derivative Financial Instruments

Counterparty credit risk arising from transactions in derivative financial instruments is measured by applying the coefficients stipulated in Proper Conduct of Banking Business Directive 203 to the face value of the transactions, according to the risk weight of the counterparty.

For the activity of Bank customers involving derivative financial instruments, the Bank has developed computerized models for measuring and controlling counterparty risk at the transaction level and the customer level. These models allow the Bank to regularly monitor customers' financial situation. In this activity, credit risk at a particular date is defined as the total of the value of the present position plus potential risk of future losses arising from volatility of the underlying assets in the position of the counterparty, taking into account offsets and correlation between the transactions; this represents the Bank's potential loss in the event of default by the counterparty.

Credit risk arising from transactions in derivative financial instruments in respect of the counterparty to the transaction is measured by applying conservative coefficients to the nominal value of the transactions, or using the scenarios approach, in which the maximum potential exposure of the customer is calculated in a range of different market situations, or using an internal model developed at the Bank. The measurement method is matched to the customer, according to the nature of activity in the customer's derivatives portfolio.

Rules and working procedures have been established in order to determine the required level of collateral for such transactions, as well as rules regarding the actions necessary in order to close exposures, with regard to transactions and customers. Collateral policy is matched to the type of borrower and activity in the area of derivatives. Counterparty exposure limits are set by the appropriate credit authorities at the Bank.

The Bank's policy for activity in derivatives with financial institutions obligated to comply with capital-adequacy requirements is to operate within Credit Support Annex (CSA) agreements to limit exposure. Operational aspects arising from this activity are examined and controlled routinely by a specialized unit.

In order to calculate credit risk exposure in respect of derivative financial instruments, the Bank implements the present exposure method, as established in the directive. In this method, credit risk in respect of derivative financial instruments includes the amounts of the positive fair value of derivatives in the balance sheet, plus add-on values in respect of potential credit risk, calculated by multiplying the face values of the derivatives by the coefficients stated in the directive, taking into account the underlying asset and term to maturity of the instrument.

Pursuant to the directive, transactions in derivatives can be offset for capital-adequacy purposes, provided that the following conditions are fulfilled, among others:

- Existence of a netting contract or agreement with the counterparty creating a single legal obligation covering all of the included transactions, such that the banking corporation has the right to receive, or the obligation to pay, only the net amount of the positive and negative values, revalued to the market, of the single transactions included, in the event that the counterparty fails to meet its obligations due to one of the following reasons: default, bankruptcy, liquidation, or similar circumstances.
- Existence of written, reasoned legal opinions according to which, if the matter were brought to a legal test, the courts and the relevant administrative agencies would find that the banking corporation's exposure is a net amount, based on:
  - The law in the jurisdiction in which the counterparty is registered, and in the case of involvement of a foreign office of the counterparty, also the law in the jurisdiction in which the office is located;
  - The law applicable to the individual transactions;
  - The law applicable to any contract or agreement necessary in order to execute the actual offset.
- Existence of internal procedures aimed at ensuring that the legal characteristics of netting arrangements are examined in light of the possibility of changes in the relevant law. Among other matters, the procedures shall ensure the performance of recurring legal reviews.
- Existence of internal procedures aimed at ensuring that before the transaction is included in the netting set, the transaction is covered by legal opinions that fulfill the criteria established above.
- In addition to counterparty credit risk in respect of the risk of default, the Bank is required to allocate capital to cover the risk of credit valuation adjustment (CVA) losses, in respect of expected counterparty risk in over-the-counter (OTC) derivatives.

Table D.22: Details of Credit Exposures of the Bank Arising from Derivatives

	December 31, 2015					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Equity derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	**8,244**	**3,483**	**1,171**	**11**	**79**	**12,988**
Add-on values	**3,268**	**4,896**	**858**	**3**	**74**	**9,099**
Effect of netting agreements	**-**	**-**	**-**	**-**	**-**	**(12,126)**
Eligible collateral	**-**	**-**	**-**	**-**	**-**	**(1,219)**
Net credit exposure	**11,512**	**8,379**	**2,029**	**14**	**153**	**8,742**

	December 31, 2014					
	Interest-rate derivatives	Foreign-currency and gold derivatives	Equity derivatives	Precious metals	Commodity derivatives	Total
	NIS millions					
Positive gross fair value	8,766	6,235	1,314	15	152	16,482
Add-on values	3,037	4,876	898	7	49	8,867
Effect of netting agreements	-	-	-	-	-	(13,263)
Eligible collateral	-	-	-	-	-	(1,352)
Net credit exposure	11,803	11,111	2,212	22	201	10,734

Table D.23: Details of face value of the Bank's credit-derivatives portfolio, used for risk management in the Bank's credit portfolio

	December 31, 2015		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	**50**	**137**	**187**

	December 31, 2014		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
	Protection acquired	Protection sold	
Credit derivatives	50	136	186

Securitization Exposures

The volume of the Bank's exposure in respect of securitization is approximately NIS 195 million, arising from liquidity lines. The Bank supplies liquidity lines to securitization entities in which third parties serve as the sponsors. The lines supplied by the Bank constitute a relatively small share of the total liquidity lines of these securitization entities. The Bank does not supply credit reinforcement to these entities. The total liquidity lines supplied to securitization entities, as described above, as at December 31, 2015, amounted to NIS 195 million (approximately USD 50 million), compared with NIS 194 million (approximately USD 50 million) at the end of 2014. No withdrawals were executed on any of these lines up to December 31, 2015.

The risk weight applied to the amount of the exposure is determined according to the highest risk weight assigned to a single exposure covered by the instrument.

For further information regarding credit risk and the management thereof, see the Board of Directors' Review within the financial report to the public.

Market Risk

Market Risk Management

Market risk – The risk of loss or decline in value arising from change in the economic value of a financial instrument, or of a particular portfolio or group of portfolios; and on the general level, a change in the economic value of the Bank due to changes in prices, rates, spreads, and other market parameters, including the following:

- **Interest-rate risk –** The risk of loss or decline in value as a result of changes in interest rates in the various currencies.
- **Currency risk –** The risk of loss as a result of changes in exchange rates.
- **Inflation risk –** The risk of loss as a result of changes in the curve of CPI expectations.
- **Share price risk –** The risk of loss as a result of changes in stock prices or in stock indices.
- **Credit spread risk –** The risk of loss as a result of change in the spread between the yield to maturity of corporate bonds traded in the markets and the relevant risk-free interest rate.
- **Volatility risk –** The risk of loss as a result of changes in the volatility rates quoted in the market.
- **Basis spread risk –** The risk of loss as a result of changes in the spreads between different interest-rate curves or different interest bases.

The main risk factors to which the Bank is exposed are NIS interest rates in the linked and unlinked segments, inflation, the NIS/USD exchange rate, and spreads between different interest-rate curves.

Interest-rate exposure in the banking book and exposure to share prices and credit spreads are described in this report in separate sections.

Market risks are managed separately by each subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. The Bank has set risk limits for the Group that also apply to subsidiaries in which the risk level has been defined as significant for the Group. Market and liquidity risks are assessed and controlled based on a uniform methodology at the Group level, under the guidance of the Risk Management Area, taking into account the size of capital and the unique characteristics of the activity of each subsidiary. Exposures to market risks of the subsidiaries are examined by the Market and Liquidity Risk Management Department in the Risk Management Area, and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level.

Structure and Organization

Market risk management is controlled by the Board of Management Global Asset and Liability Management Committee. Policies, including the established limits, are submitted for discussion and approval to the committees of the Board of Management, the committees of the Board of Directors, or the plenum of the Board of Directors, as relevant.

Ongoing activity is conducted by secondary committees, with the participation of senior officers of the Bank; one secondary committee is headed by the Head of Financial Markets and another is headed by the Head of the ALM Division. A local committee also operates in New York. The committees operate on the basis of resolutions passed by the Board of Directors and by its committees regarding exposure to market risks, subject to the directives issued by the Supervisor of Banks or by the local regulator, as relevant.

Risk limits reflect the Bank's risk appetite for market risks – the level of risk which the Board of Management and the Board of Directors are willing to bear in the course of business operations in order to achieve returns or value. The limits are approved by the Board of Directors and fixed in procedures, including, among other things, limits on the sensitivity of the Bank's economic value to changes in the principal risk factors and specific limits for each of the various activities. The Bank's risk appetite is established in terms of VaR and/or sensitivities and/or scenarios.

Market risks at Bank Hapoalim are managed at the Financial Markets Area. Market risks in the banking book are managed by the ALM Division, and market risks in the trading book are managed by the Dealing Room Division (see details and extensive information below).

Market risk assessment and the complementary controls are executed by the Market and Liquidity Risk Management Department, independently and in addition to the monitoring and analysis performed as part of the activity of the Financial Markets Area. This is one of two departments in the Operational and Market Risk Management Unit within the Risk Management Area.

Market risk exposures are identified methodically, by collecting information from trading and non-trading product management systems. This information is analyzed in order to manage and assess the risk, using advanced automated systems adapted to each need, based on commonly accepted pricing models. The models are examined in an orderly validation procedure.

Trading activity is routinely managed and measured using specialized automated systems commonly used in the international markets for these purposes, such as Opics, Summit, and Derivatech, as well as automated systems developed by the Bank. Market risks arising from this activity are also measured using the Algorithmics system.

A) Market Risk Management Policy

Market risk management policy in the Bank Group is reflected in the Group risk-management policy and in the quantitative limits detailed later in this section. Activity in the markets is intended both for hedging exposures that arise from the Bank's activity and service to its customers, and for managing positions within limits. In general, market risk management at the Group is aimed at increasing expected profits, while maintaining approved, controlled risk levels. Exposure to these risks is not a primary source of revenue for Bank Hapoalim.

In the area of the activity of Bank customers involving derivative financial instruments, the Bank has developed computerized models for measuring and controlling counterparty risk at the transaction level and the customer level. These models allow the Bank to regularly monitor customers' situation. In this activity, credit risk at a particular date is defined as the total of the value of the present position plus potential risk of future losses; the potential loss is calculated taking into account the volatility of the underlying assets in the position of the counterparty, taking into account offsets and correlation between the transactions; this represents the Bank's loss in the event of default by the counterparty.

Credit risk arising from transactions in derivative financial instruments in respect of the counterparty to the transaction is measured by applying conservative coefficients to the notional value of the transactions, or using the scenarios approach, in which the maximum potential exposure of the customer is calculated in a range of different market situations, or using an internal model developed at the Bank. The measurement method is matched to the customer, according to the nature of activity in the customer's derivatives portfolio. Rules and working procedures have been established in order to determine the required level of collateral for such transactions, as well as rules regarding the actions in order to close exposures, with regard to transactions and customers, if necessary. Counterparty exposure limits are set by the appropriate credit authorities at the Bank.

For further information, see the section "Credit Risk," above.

The Bank's policy for activity in derivatives with financial institutions obligated to comply with capital-adequacy requirements is to operate within Credit Support Annex (CSA) agreements to limit exposure.

Operational aspects arising from this activity are examined and controlled routinely by a specialized unit.

Market risk exposure procedures

A policy document for treasury risk management in the Group is presented to the Board of Directors for approval each year. As part of the policy, risk procedures are approved, which include an overall framework for the risk estimate in the banking book and at Bank Hapoalim, limits on the overall sensitivity of the Bank to risk factors, and risk limits for the various trading activities. The annual document reflects the work plan of the Financial Markets Area.

The policy documents address events that require reporting, with a procedure for escalation to the Chief Executive Officer and to the Chairman of the Board of Directors, as relevant, including exceptional developments in the markets or other material events.

Table D.24: Main limits on exposures to market risks in the overall activity of the Bank, and separately for trading activity

	Limit	NIS millions	% of active financial capital
Overall Bank Activity	Overall risk estimate (VaR)*	**1,000**	
	Sensitivity of economic value to parallel changes of 1% in interest-rate curves:		
	Unlinked NIS	**620**	
	CPI-linked NIS	**620**	
	Foreign currency	**500**	
	Linkage-base exposures by segment:		
	CPI-linked NIS		**100-/+**
	Foreign currency, including foreign-currency linked		**30-/+**
	Sensitivity to 10% change in NIS/USD exchange rate	**500**	
Of which: Trading Book	Overall risk estimate (VaR)**	**200**	
	Sensitivity of economic value to parallel changes of 1% in interest-rate curves:		
	Unlinked NIS	**120**	
	Foreign currency	**70**	
	Parallel and non-parallel change in NIS/USD basis spread curve***	**180**	
	CPI exposure - net position limit	**4,000**	
	NIS/foreign-currency exposure		**10-/+**

* This limit was lowered to NIS 950 million as of the beginning of 2016.
** This limit was lowered to NIS 150 million as of the beginning of 2016.
*** This limit is in effect as of January 1, 2016.

AI Means for Policy Supervision and Realization

The Board of Directors and the Risk Management and Control Committee receive reports on activity, exposures, results of operations, and execution of approved policy, at least once each quarter. These reports include: a review of topics discussed and reported in committees, including main resolutions; main exposures and risk levels utilized out of approved limits; results of operations; summary of events requiring a report (losses, exceptions from procedures, exceptional events); applications for and approvals of expansion of activities and authorizations for the various activities, according to the hierarchy of authorizations; overview of market risk in the activity of the Bank and at subsidiaries with significant exposures for the Group; and a quarterly report on the control of market risks.

Risk Assessment and Control

First line of defense – the Financial Markets Area and the overseas offices: In addition to risk assessment, examination of results, and routine controls over compliance with limits, operational controls are applied by various units in the Financial Markets Area and at the overseas offices. The additional goals of these controls are to examine the correctness, completeness, and congruence of different databases in different reporting systems, and to identify operational errors.

Second line of defense – identification and assessment of risks, control of limits on the extent of risks, and reporting on findings are performed or controlled by the Risk Management Area, independently of the routine analyses and reports performed as part of the activity of the first line of defense.

The Market and Liquidity Risk Management Department in the Risk Management Area is responsible for the formulation of the market risk assessment methodology of the Bank Group, and for independent complementary control over market risks in the Group.

AI Management of Positions

Market risks in the trading portfolio arise from the Bank's activity as a market maker, trader, and manager of positions on its own behalf. This activity is based on dynamic management of positions, mainly by means of tradable, liquid financial instruments. Changes in the extent of exposures may be rapid, as a function of changes in the markets and of customers' activity. The extent of exposures can usually be changed quickly and adjusted to the desired position.
The Bank's risk level is measured and controlled according to procedures that include, among other things, limits on the sensitivity of economic value to changes in the primary risk factors. In addition, a risk estimate is calculated using the VaR (value at risk) method. The VaR method is used to estimate the maximum potential loss to a corporation resulting from the materialization of market risks within a given period of time and at a level of statistical significance predefined by the Bank and approved by the Board of Directors. The principal limits are detailed in the subsection "Main Limits on Exposure to Market Risks," above. Risk assessments as well as limit control of trading positions are performed at least once daily, both by control units within the Area and by units in the second line of defense.
The VaR estimate for trading activity is performed using a horizon of ten business days, indicating an assumption that it is possible to hedge and sell the positions within ten business days.

AI Portfolio Management Models

Market Risk Assessment Methodology

The methodology used by the Bank to assess market risks has been approved by the Board of Directors and by the Board of Management. This methodology includes both VaR calculations and the application of extreme scenarios (stress tests) to all trading portfolios and to the banking book. The market risk assessment methodology is congruent with the strategic objectives of the Bank and with the requirements of the Basel Committee, and complies with international standards.
The estimate of the risk in trading activity is calculated at least once daily, for a horizon of ten business days, at a significance level of 99%. The higher of the risk-level outcomes of two commonly accepted risk-assessment methods (historical simulation, in which all observations are assigned equal weights; and Monte Carlo simulation, in which recent observations are assigned greater weight) is taken into account. This methodology is compatible with the relevant recommendations of the Basel Committee following the crisis in US markets. The estimate provides a relatively prompt alert of the level of market risk during periods of rising volatility. Full revaluation of the trading portfolio is performed at least once daily, under various scenarios, in order to generate an estimate.
In addition, a backtest procedure is performed routinely in order to examine the validity of the risk-assessment model in the trading portfolio. The number of deviations is examined based on criteria established in the recommendations of the Basel Committee; up to four deviations in approximately 250 observations annually is considered the "green zone" (at a significance level of 99%). The results of this test are reported annually to the Board of Management and to the Board of Directors. One deviation was observed and reported in 2015. According to the results of the test, the model meets the acceptance criteria established by the Basel Committee.
Risk assessment of activity in the banking book, as a complementary control using the VaR method, is performed on a monthly basis, using the historical method, with a one-month horizon.

Limitations of the Methodology for Assessing Risk in Trading Activity at the Bank

1. The Monte Carlo simulation assumes a normal distribution of risk factors. This assumption does not always apply in reality.
2. The historical simulation assumes that the historical behavior of the risk factors will recur in the future, which may not be the case.
3. It is not possible to forecast a sudden change in a risk factor using either of the two methods.
4. With the use of a 99% significance level, losses that could occur beyond that level are ignored.
5. The use of a horizon of ten business days assumes that it is possible to hedge and sell positions within ten business days. In special products, at large market volumes, or during crisis periods, liquidity problems in the market may make it impossible to close or fully hedge positions within this timeframe.
6. The risk estimate is calculated on positions only a few times in the course of the business day.

To mitigate the effect of the said limitations, in addition, stress scenarios are applied in order to examine the potential loss in extreme cases, for all areas of trading activity, as detailed below.

Limitations of the Methodology for Assessing Risk in the Banking Book

1. The credit risk inherent in assets does not constitute a parameter in the calculations made for the purposes of market risk, which focus on quantifying the market risks in the banking book.
2. The information used for the risk estimates is assembled from various automated systems.
3. The use of behavioral models to reflect the optionality of various products.
4. The historical simulation assumes that the historical behavior of the risk factors will recur in the future, which may not be the case.
5. With the use of a 99% significance level, losses that could occur beyond that level are ignored.

To mitigate the effect of the said limitations, in addition, stress scenarios are applied in order to examine the potential loss in extreme cases, as detailed below, and collapse of the behavioral assumptions is tested.

Table D.25: Risk estimates of trading activity (VaR)

	December 31, 2015	Average in 2015
	NIS millions	
Total trading in dealing rooms	**17**	**23**

Methodology for the Application of Stress Tests

The market risk assessment methodology of the Bank includes the application of stress tests to trading portfolios and to the banking book, in addition to VaR calculations.

1. Sensitivity analysis – The sensitivity of the portfolio/activity to the various risk factors is tested by applying scenarios to one risk factor while the other risk factors are held constant. This allows an examination of the effect of the major risk factors on the portfolio. In option portfolios, the combined effect of more than one risk factor is also examined.
2. Worst historical scenario – Based on the history of the last five years. The calculation is performed with a horizon of ten business days for the trading book and one month for the banking book and for the Bank in general.
3. Macro-economic scenarios – Subjective scenarios developed in collaboration with the Economics Department of the Bank.
4. Fixed interest-rate scenarios – A set of scenarios in which the principal interest rates to which the Bank is exposed are stressed through parallel and non-parallel changes
5. Extreme scenarios based on a methodology similar to that used to create VaR scenarios, based on the volatility of risk factors during periods of stress in the markets.

The principles guiding the establishment and application of the scenarios have been approved by the Board of Management Committee and by the Board of Directors.

Capital Requirements in Respect of Market Risks

The Bank is required to maintain a minimum capital ratio in respect of market risks, on the basis of a standardized model defined by the Bank of Israel. The regulatory capital adequacy is calculated for interest-rate and share risks in the areas of trading alone, as defined above, and for currency risks in the banking book and in the trading book.

Table D.26: Capital Requirements in Respect of Market Risks

	December 31, 2015(1)			December 31, 2014(2)		
	Specific risk	General risk	Total	Specific risk	General risk	Total
	NIS millions					
Interest-rate risk	**17**	**387**	**404**	75	414	489
Share risk	**6**	**6**	**12**	6	6	12
Foreign currency exchange-rate risk	**-**	**108**	**108**	-	86	86
Option risk	**-**	**49**	**49**	-	72	72
Total	**23**	**550**	**573**	81	578	659

(1) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.57% required by the Supervisor of Banks. The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 13.7%.

(2) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks.

Operational Risk

Operational risk is defined as the risk of loss resulting from failed or faulty internal processes, human actions, system malfunctions, or external events. The definition includes legal risk, but does not include strategic risk or reputation risk. Failures related to one of the aforesaid factors may cause damage to profitability. The Bank operates control units, including Information Systems Security and Cyber Defense, Business Continuity, Security, the Compliance Officer, and Anti-Money Laundering and Terrorism Financing Prevention, as well as comprehensive procedures and systems in areas related to banking activity, management of human resources, process control, emergency operation, and more.

Operational Risk Management

Operational risk management is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and prudent treatment with regard to operational risks to contribute to managerial decision-making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The goals of operational risk management are:

- To ensure effective supervision and management of operational risks in all units of the Group, including risk ownership and decision making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the Group and the supporting units, with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.
- To establish an internal control structure, in order to promote appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital and economic capital for operational risks.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the Area managers and the managers of subsidiaries in the Bank Group. These activities are overseen by the Operational Risk Management Department in Operational Risk and Market Risk Management Unit, within the Risk Management Area. Routine activity is conducted in the Bank's units and in the Group by a network of operational risk controllers, based on the matrix management principle; controllers report organizationally to Area managers or CEOs of subsidiaries, and receive methodology guidance from the Operational Risk Management Department.

Operational risk management activity is supervised and directed by three forums:

- The Board of Directors' Committee on Risk Management and Control;
- The Board of Management Committee on Risk Management, headed by the CEO;
- The Subcommittee on Operational Risk Management, headed by the Head of Risk Management.

The operational risk management policy was approved by the Board of Management and the Board of Directors of the Bank. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with the Basel 2 standards on Sound Practices. The Bank's activity in this area is conducted according to the rules of Proper Conduct of Banking Business Directive 206, Capital Measurement and Adequacy – Operational Risk, which refers among other matters to regulatory capital allocation in respect of operational risks, and Proper Conduct of Banking Business Directive 350, Operational Risk Management, which is congruent with the updated guidelines in the Basel document of June 2011 on sound practice for operational risk management.

The Bank has operated in accordance with the Basel 2 standardized approach and the corresponding requirements of the Proper Conduct of Banking Business Directives since 2010. The strategic plan for the coming years includes, among other matters, extension and expansion of some of the activities, and adjustment for updates of the relevant documents and regulatory guidelines. The following projects and activities, among others, are underway as part of the standardized approach:

1. Quarterly reports are part of the consolidated risk document, pursuant to the requirements of Proper Conduct of Banking Business Directive 310, Risk Management. The reports are submitted to the Subcommittee on Operational Risk Management, the Board of Management Committee on Risk Management, the Board of Directors' Committee on Risk Management and Control, and the plenum of the Board of Directors. The reports include updates on the implementation of the standardized approach in the Group, work plans, the status of projects in progress, information about operational events, assessments of potential risks, trends, changes in the risk profile, and comparative external information.
2. Collection of information regarding operational events in the Bank Group. A database for this purpose was established in late 2002, and is used, among other things, to analyze events, trends, and patterns and to support the mapping and assessment of operational risks to which the Group is exposed.
3. Key risk indicators (KRIs) for operational risks have been specified, as part of the development of a monitoring and control infrastructure, with respect to products, processes, or institutional risks. The KRI is a metric that can be measured in quantitative terms, and may also include qualitative information indicating the presence of a particular factor or trend. Thresholds have been set for follow-up, escalation, and treatment, as relevant.
4. Lessons-learned processes applied to operational events; relevant information shared among units; organizational learning.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Bank and the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the Bank of Israel on this matter, including monitoring of the implementation of the recommendations. A comprehensive mapping process of operational risks in all units of the Group is performed every three years. Subsequently, the findings are maintained, updated, and expanded through additional analyses, depth analyses, and risk analyses regarding new products and activities.

The goal of this activity is to identify material risk areas, define risk ownership, assess risks (average and extreme), assess the existing controls, and differentiate low risks from material risks that require additional examination and action, based on cost-benefit considerations, according to the following main ways of coping with risks:

- Minimization of the risk through the application of additional controls.
- Transfer of the risk to a third party (e.g. insurance, outsourcing, etc.).
- Absorption of the risk, with appropriate quantification.
- Reduction of the activity that creates the risk.

Additional related activities:

- An automated operational risk management system (Basel 2 – PAMELA) has been implemented at the units of the Group. The system operates in the areas of collection of information regarding operational events, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reports.
- A comprehensive framework of principles and standards has been formulated for the implementation of a uniform control philosophy within the Bank Group. Within this framework, a periodic process is conducted to evaluate the effectiveness of controls.
- Launches of new products or activities, in accordance with the defined policy for the launch of a new product in the Bank Group, are accompanied by examination and analysis of the relevant operational risks involved in the product or activity.

- A methodology infrastructure has been defined for the management of operational risks in material IT processes.
- A special requirement has been established in the policy for advance examination prior to outsourcing of an activity, taking into consideration the risks unique to outsourcing.

The operational risk profile is monitored periodically in relation to the operational risk appetite established in policy, using various parameters. Parameters have been established at the level of the overall Group, and at the level of specific units and processes. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document. In addition, the operational risk environment is monitored using the quantitative metric described below, as defined in one of the comparative surveys of the Basel Committee.

Capital in respect of operational risk is examined in relation to the frequency of materialization of damages greater than EUR 100,000. At the time of the survey, in 2009, with respect to economic capital, this ratio stood at 16.9 on average at banks that apply advanced models, and at 28.9 on average at other banks. A higher ratio indicates a higher level of capital held relative to damages. At the Bank, this figure, calculated based on the Pillar 1 capital requirement in respect of operational risk as at December 31, 2015, stood at 21.

Information security and cyber incident risks

Activity in the area of information security is conducted as required in the directives of the Bank of Israel, the Protection of Privacy Law, 1981, and other laws, as relevant, with the aim of protecting the information-technology system and minimizing information-security risks.

The goal of cyber attacks is to abuse computer systems and networks in technology-based organizations, to destabilize or damage computer-based systems, or to monitor the electronic activity of individuals without their consent. Such attacks can be carried out without the knowledge of the users, and can disrupt routine operations; damage computer services to the point of preventing them from functioning, shutting them down, or slowing them significantly; or collect intelligence and information.

The frequency and severity of cyber incidents to which the Bank is exposed has increased in recent years. There is a possibility that the Bank may incur costs and suffer negative consequences as a result of cyber attacks, such as disruption of the Bank's operations, theft of financial assets of the Bank or of its customers, or damage to reputation, affecting the confidence of customers or of investors. The Bank invests extensive resources (human and technological) to minimize and prevent this risk, but absolute protection cannot be ensured.

Proper Conduct of Banking Business Directive 361, Cyber Defense Management, was issued in March 2015. This directive sets forth basic principles for cyber defense management. Upon publication of the directive, the Bank prepared an action plan for the integration of the requirements of the new directive, in addition to the other directives to which it is subject in this area, such as those concerning business continuity and risk management, all in accordance with the clarifications provided by the Bank of Israel with respect to the manner and dates of implementation.

Cloud computing risks

In June 2015, the Supervisor of Banks issued a letter concerning risk management in a cloud computing environment. The letter sets forth rules aimed at reducing the risks inherent in the use of cloud technology. The letter provides guidance regarding the use of cloud computing while hedging the inherent risks. Permission from the Bank of Israel is required when information is stored by a supplier.

The Bank is examining the potential advantages of cloud computing and the appropriate way of coping with the concomitant operational risks, in congruence with regulatory guidelines and with the appropriate work processes.

Emergency preparedness

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan), in accordance with the Bank of Israel's Directive 355, Business Continuity Management; Directive 357, Information Technology Management; and additional expansions. The Bank's preparedness is based on detailed action plans, working procedures, and periodic tests and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Bank conducted a lateral process to establish policies, define reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency (BIA), and update its action plans based on the prevalent methodologies globally. The action plan involves all Areas of the Bank, through Area-level business continuity officers and designated teams. The BCP is led by a specialized Business Continuity Management Unit, which reports to the Head of Business Continuity of the Bank and to the Head of the Emergency Committee of the Bank (the CTO)

The business continuity policy has also been adopted by the subsidiaries in Israel and globally, and at the Bank's overseas branches, with adjustments, based on the corporate governance policy and on the guidelines of the Bank of Israel. In addition, the Bank holds periodic emergency drills covering operational scenarios as well as complex business scenarios, with the participation of the various units, from branches, regional managements, units, and Areas, to the Board of Management of the Bank. The Bank is establishing a new remote central IT site, to ensure the availability and protection of its central information systems. The setup of the site and the transfer of activity are being carried out in accordance with the established work plan, with ongoing management of the non-routine risks arising from the migration of the systems and data.

The Israel Standards Institute has affirmed that the business continuity management system of the Bank complies with the requirements of the international standard ISO 22301.

As part of its preparedness for business continuity, the Bank is prepared to handle a range of possible scenarios. With respect to emergency scenarios that may cause the Bank to incur significant damage, red-alert systems are monitored and detailed business continuity contingency plans are in place. Extreme scenarios are reviewed and discussed periodically by the Committee on Extreme Scenarios and Risk Concentrations. The activation of a contingency plan is under the responsibility of the Board of Management or of the designated Board of Management committee responsible for the financial aspects of crisis situations; note that a charter for the establishment of such a committee is also part of the contingency plans.

Insurance

The Bank has a banking insurance policy to hedge risks, which includes: (1) banking insurance to cover damages that may arise from embezzlement by employees, loss of documents, forged documents, etc.; (2) professional liability insurance, to protect against claims filed by customers regarding damage caused by negligent banking actions; (3) computer crimes insurance, to cover damages to the Bank and to customers of the Bank as a result of malicious penetration of the Bank's computer systems. The banking insurance policies are subject to exclusions common in insurance policies of banking corporations in Israel (including an exclusion of damage arising from violation of the directives related to money laundering and terrorism financing).

In addition, the insurance structure of the Bank also includes property insurance, third-party insurance, employers' liability, directors' and officers' insurance, and additional insurance policies.

The liability limits in the policies were established by the Bank according to its needs, as part of its overall risk-management policy. Within the fulfillment of the Sound Practice requirements under the Basel guidelines, cooperation and exchanges of information are maintained between the Operational Risk Management Department and the unit that handles banking insurance.

Share and Credit Spread Risk: Investment Risk

Investment Risk Management

"Investment risk" is defined at the Bank as exposure to the stock market, to credit spreads, and to credit risk in the bond and stock markets in the banking book of the Group (as a result of holdings in these products, the Bank may also be exposed to interest-rate risks and/or currency risks and/or liquidity risks, which are managed separately).

Investment portfolio management is a tool for the management of liquidity surpluses, and one of the tools for the management of exposures to interest rates, linkage bases, and liquidity in the banking book. In general, the investment portfolio consists of products traded on the financial markets, for which price quotes can be obtained.

The overall investment framework was established from a global, systemic perspective, with the approval of the Board of Directors of the Bank, which has set limits on the volume of the investment and on risk indices, including a limit on risk appetite and risk capacity in terms of extreme scenarios, and individual limits for the various investment segments, including volume limits by type, geographical diversification limits, rating limits, and more. Investments are performed through instruments defined as permitted.

Risk is managed under the overarching responsibility of the Financial Markets Area, with respect to the implementation of policy in the Group, the allocation of the volume of investment and of limits approved by the Board of Management and Board of Directors, monitoring, guidance, and reporting. Management in practice is performed by units in the Financial Markets Area established for this purpose, using specialized systems. In addition, investment activity is permitted at a limited number of subsidiaries. Managerial responsibility for the activity of each subsidiary rests with the member of the Board of Management responsible for it.

In the second line of defense, the Market and Liquidity Risk Management Department in the Risk Management Area is responsible for formulating methodology for the assessment of investment risks and for independent risk assessment and control. This department also challenges the business unit and provides an independent opinion, pursuant to Proper Conduct of Banking Business Directive 311, prior to material investments.

This activity is subject to all relevant directives and laws in this area, in Israel and in the country in which the branch/subsidiary conducting the activity is located. Due to the complexity of the regulatory directives, specific regulatory procedures have been established for this activity.

Investment risks are identified and measured methodically, by collecting information from the Bank's systems. This information is analyzed using the Bank's risk-management systems, and reported periodically to the committees of the Board of Management and of the Board of Directors.

In the management of the investment portfolio, the Bank is also exposed to credit risks and credit spreads, as well as in its investments in bonds of companies and of foreign governments. According to the definitions of the Bank, Israeli government bonds in NIS and in foreign currency and government bonds of the sovereignty in which a branch/subsidiary operates do not bear investment risk, and are therefore not included in the measurement of investment risk at the Bank.

Investment risk arises at the Bank Hapoalim Group in three frameworks:

1. Investment in tradable products in the investment portfolio, managed under the responsibility of the Financial Markets Area.
2. Non-tradable investments through the subsidiary Poalim Capital Markets (PCM), managed according to the policy of PCM, under the responsibility of its board of directors.
3. Equity-basis investees.

The Group holds shares and bonds primarily for investment purposes (rather than for trading), recorded following accounting policy in the portfolio available for sale; a decrease in the value of these shares and bonds may damage the capital of the Bank. Note that strategic holdings in shares of subsidiaries appear in the balance sheet in reports on related companies.

Shares for which a fair value is available are included in the balance sheet at their fair value on the reporting date. Shares for which no fair value is available are measured in the balance sheet at cost. Unrealized profits or losses from adjustments to fair value are not included in the statement of profit and loss, and are reported net, deducting an appropriate reserve for tax, in a separate item of equity within cumulative other comprehensive income.

Impairment of securities available for sale: Each reporting period, the Board of Management of the Bank determines whether declines in the fair value of securities classified into the available-for-sale portfolio are other than temporary. This examination includes several stages and principles, in accordance with the policy established at the Bank. When other-than-temporary impairment occurs in a security, the cost of the security is written down to its fair value at the balance sheet date and used as the new cost base. The amount of the write-down is charged to the statement of profit and loss.

Positions in Shares in the Banking Book

Table D.27: Details of the Bank's investments in shares in the banking book

	December 31, 2015		December 31, 2014	
	Balance sheet value and fair value	Capital requirements(1)	Balance sheet value and fair value	Capital requirements(2)
	NIS millions			
Investments classified into the trading portfolio	**48**	**(3)12**	50	(3)12
Investments classified into the available-for-sale portfolio	**2,486**	**341**	2,563	345
Total investments in shares	**2,534**	**353**	2,613	357
Of which: traded on the stock exchange	**1,891**		2,001	
Privately held	**643**		612	
Unrealized gains included in supervisory capital	**224**		313	

(1) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.57% required by the Supervisor of Banks. The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 13.7%.
(2) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks.
(3) Including capital allocation with respect to specific market risk and general market risk.

For details regarding investments of the Bank, see Note 12 to the Financial Statements.

For details regarding changes in the risk environment, see "Economic Risk," below.

Interest-Rate Risk in the Banking Book

Interest-rate risk in the banking book refers to the potential effect of changes in the various interest-rate curves on the economic value of capital (i.e. change in the present value of assets and liabilities) and/or on net income interest (accounting income sensitivity). The risk emerges during banking activity, as a result of services to the general public and to the business and financial sectors, and from other activities; this includes interest-rate exposure arising from the management of investment portfolios. The risk arises from differences in the structure of assets and liabilities – gaps between segments, durations, interest bases, interest-rate renewal dates, and more. The Bank focuses on management of the sensitivity of the economic value of the capital of the Bank. Limits apply both to the sensitivity of economic value (including financial subsidiaries under its management and subsidiaries with material risk to the Group), and to the sensitivity of income to scenarios of change in the shekel, CPI-linked, and dollar interest-rate curves, as well as measurements of other interest-rate effects. In order to calculate the sensitivity of economic value to changes in interest rates, the Bank refers to all financial assets and liabilities, while treating part of the balances of current-account deposits of the public as a long-term liability spread over several years, in accordance with a model approved by management and by the Board of Directors each year. Assumptions regarding early repayment of mortgages are also used, in accordance with a model based on statistical analyses and approved by management and by the Board of Directors. Interest-rate exposure management policy is aimed, in congruence with the objectives of the Bank, at achieving the desired structure of exposures in each segment (unlinked shekel; CPI-linked shekel; foreign currency and foreign-currency-linked), in accordance with estimates concerning market variables, and subject to limits. Sensitivity to interest rates is measured, in a controlled manner, at least once each month, with more frequent measurements for exposure management purposes. In general, the goal of interest-rate risk management in the Group is to allow service to customers while taking controlled risks.

Interest-rate risk in the banking book (non-trading market risk) at Bank Hapoalim is managed in the Financial Markets Area by the Asset and Liability Management Division, and separately by each subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. The risk is assessed and controlled based on a uniform methodology at the Group level, under the direction of the Risk Management Area and the Financial Markets Area, taking into account the size of capital and the unique characteristics of the activity of each subsidiary. The subsidiaries' exposure to the risk is examined by the units at the Head Office and reported to the Board of Management and the Board of Directors of the Bank at an appropriate frequency based on the risk level. The Bank has set risk limits for the Group that also apply to its subsidiaries in which the risk level has been defined as significant for the Group.

Market risk exposures are identified methodically, by collecting information from product management systems. This information is analyzed in order to manage and assess the risk, using advanced automated systems adapted to each need, based on commonly accepted models. The models are tested in an orderly validation procedure.

In the banking book in Israel, flows arising from assets and liabilities are produced and analyzed by a designated interest-rate risk management system for all banking products, according to dates of changes in interest rates. Data are also received in separate files from the New York branch and from the subsidiaries with significant exposure for the Group. Concurrently, sensitivity calculations are performed at the Market and Liquidity Risk Management Department in the Risk Management Area, using the risk-management system.

Tools for the management and hedging of exposures in the banking book include pricing policy, bond portfolio management, issuance of debt instruments, off-balance sheet transactions, and more. The Bank's management of non-trading exposures is based, among other things, on forecasts and working assumptions regarding expected developments in financial and capital markets in Israel and worldwide. The Bank uses derivatives and applies hedge accounting rules to hedge part of the interest-rate sensitivity of long-term bonds in foreign currency. The effect of transactions executed in the markets are examined on a weekly basis by the Asset and Liquidity Management Division; the change in economic value arising from changes in markets on the banking book, including hedges, is also examined on a monthly basis.

Table D.28: Data regarding the sensitivity of the capital of the Bank to parallel changes in interest-rate curves (theoretical change in economic value as a result of each scenario)

	December 31, 2015			**Maximum in 2015**		**Minimum in 2015**		December 31, 2014
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease	1% increase
	NIS millions							
Scenario								
Change in CPI-linked interest rate:	**(174)**	**217**	**(19)**	**(229)**	**262**	**(32)**	**54**	(161)
Change in unlinked interest rate:	**(165)**	**200**	**(18)**	**(192)**	**229**	**-**	**-**	(92)
Change in foreign-currency interest rates:	**33**	**(39)**	**4**	**249**	**(265)**	**27**	**(31)**	158

The above table presents an analysis of the sensitivity of the Bank's economic value to changes in interest-rate curves, based, among other factors, on the discounting of expected cash flows by the interest-rate curve, without taking into account the credit risk spread of the counterparty, and with the use of internal models for some products. This differs from a fair-value calculation, which is based on factors including the discounting of expected cash flows by interest rates reflecting the risk levels, according to the accepted practice in financial statements, without internal models.

AI Top and Emerging Risks

Based on the recommendations of the FSB, a top risk is defined as a development currently occurring in the business environment of the Bank that may adversely affect the Bank's results over the course of the coming year. By contrast, with respect to an emerging risk, there is greater uncertainty regarding the timing of materialization of the risk as an occurrence with a material effect on the strategy of the Bank.

The management of risks at the Bank Group is described extensively in this report. During 2015, the Board of Management of the Bank discussed the development of the additional risks described below as top or emerging risks:

- **Macro-economic environment:** The activity of the Bank is dependent on the business environment in Israel and globally; the condition of the global economy; and the economic, political, and security situation in Israel and in the region. It should be taken into consideration that a high level of uncertainty remains with regard to the growth rates that will accompany the recovery of the real economy in Israel and globally in the coming years. The Bank's multi-year strategic plan incorporates the caution necessitated by the risks still present in the global and Israeli economy, and balances risk and return considerations.
- **Regulatory environment in Israel:** Several regulatory initiatives have been formulated over the last few years, with the primary aim of increasing competition in the banking system in Israel. Several additional regulatory initiatives are in the process of being generated. These regulatory initiatives and trends may have an impact on the banking system in general, and on the Bank in particular. At this stage, it is too early to assess and estimate the effect thereof on the Bank.
- **Regulatory environment overseas:** International regulatory reforms with implications for the business of the Bank, in Israel and globally, including Dodd Frank and the Volcker Rule in the United States, and EMIR in Europe.
- **Compliance risk:** The continued trend towards the imposition of fines on banks around the world in connection with the violation of regulatory directives, such as in the area of aiding tax evasion and the prevention of terrorism financing and money laundering.
- **Information security and cyber incident risk:** Continued publications concerning cyber damages, and the resources channeled by the banking industry to cope with this risk.

For details regarding legal claims, see Note 26C to the Financial Statements. For details regarding legal proceedings, see the section Review of Risks in the Board of Directors' and Board of Management Report.

For details regarding notable regulatory initiatives, see Note 37 to the Financial Statements, Regulatory Updates.

AI Compliance Risk

Compliance risk is the risk involved in the failure of the Bank or any of its employees, in any place relevant to the activity of the Bank, to comply with legal or regulative directives. Compliance risk also includes the reputation risk that accompanies failure to comply with such directives.

Although compliance risk may materialize in any case of such noncompliance, and the Bank applies a policy of compliance with all legal and regulatory directives, for the purposes of risk management the main compliance risks against which the Bank endeavors to defend itself can be defined as the following:

- The risk of material damage arising from a regulatory order of any government agency due to noncompliance of the Bank or of any of its employees with directives concerning the prohibition of money laundering and terrorism financing, or deficiencies in processes designed to ensure such compliance, or the absence of such processes (including risk related to the correspondent activities of the Bank).
- The risk of material damage arising from a regulatory order of any government agency due to improper activity of the Bank or of any of its employees in relation to customers of the Bank, tax issues, or noncompliance with specific legal directives in this area.
- The risk of material damage arising from a regulatory order of any government agency due to noncompliance of the Bank or of any of its employees with securities laws.

- The risk of material damage arising from a class-action suit due to noncompliance with directives that regulate the relationship between the Bank and its customers.
- The risk of a criminal suit against the Bank or against its senior executives due to noncompliance in one of the areas noted above.

Risk indicators are used, among other means, to identify key areas of compliance risk and to monitor their development. The key risk areas and the magnitude of the risks stemming from these areas may change in accordance with changes in regulation, enforcement, customer activity, market developments, etc. The Bank uses quantitative and qualitative indicators to measure this risk. These include developments in regulation and enforcement, changes in customers and in certain products, findings of controls and audits, gap surveys, and more.

The Chief Compliance Officer of the Bank serves as the compliance officer pursuant to Proper Conduct of Banking Business Directive 308, the officer responsible for the duties set forth in the Prohibition of Money Laundering and Prevention of Terrorism Financing Law, the supervisor of securities enforcement pursuant to the Law for More Efficient Enforcement Procedures at the Israel Securities Authority, and as the responsible officer pursuant to FATCA. The Chief Compliance Officer and Securities Enforcement Unit consists of the Anti-Money Laundering Department, the Securities Enforcement and Consumer Protection Directives Compliance Department, the International Compliance and Subsidiaries Department, the FATCA Department, and the Administrative Unit.

The mission of the Chief Compliance Officer Unit is to support the achievement of the strategic and business objectives of the Group, while minimizing exposure to compliance and reputation risks. The objectives of the Chief Compliance Officer Unit are:

- To attain full implementation of legislation at all units of the Bank, in Israel and worldwide, with an understanding of the needs of the business units and support for their activity;
- To promote the adoption of professional, values-driven, fair business conduct by the Bank's employees and managers;
- To provide maximum protection to the Bank, its managers, its employees, and its reputation, with full realization of the professional capabilities of the Bank's employees and enhancement of these abilities.

The responsibility for routine management of the compliance aspects of risk at the Bank and for the execution of activities aimed at minimizing this risk lies with the Area managers and the managers of subsidiaries in the Bank Group. Professional responsibility in this field rests with the Chief Compliance Officer Unit in the Risk Management Area. Routine activity is conducted at the Bank's units and in the Group by a network of compliance officers, based on the matrix management principle, with organizational subordination to Area heads or CEOs of subsidiaries, and guidance and control by the Chief Compliance Officer Unit.

The activity of the Chief Compliance Officer and Securities Enforcement Unit is supervised under corporate governance, through:

- The Board of Directors' Committee on Risk Management and Control and Basel 2 Implementation;
- The Board of Management Committee on Compliance, headed by the CEO;
- Quarterly and annual reports to the Board of Directors of the Bank, the CEO, and the Area managers.

The compliance policy of the Group sets rules regarding all of the component areas of the compliance issues described above. This policy includes rules regarding corporate governance and the interaction with subsidiaries and branches outside Israel, and is based on legislation and regulation in Israel. The Bank Group has established an infrastructure to oversee the disclosure requirements with respect to individuals and corporations in the context of FATCA, and is continuing to prepare to comply with the full range of requirements arising from this legislation and from the Israeli regulation in this area. As part of this process, in accordance with the FATCA requirements, the Bank and the relevant subsidiaries have registered on the IRS website, received a Global Intermediary Identification Number (GIIN), and appointed a FATCA officer, as is also required by the agreement between the states. In addition, adjustments were made to work processes and operational systems, and training sessions were provided to all ranks of managers and employees in units that manage customers' funds. The Bank is preparing for the reporting date required according to the agreement between Israel and the United States, subject to legislation and standards to be established in this area. The Bank has also established an overall policy of declared money, including with regard to all foreign-resident customers, aimed at ensuring that only reported funds exist in the accounts of foreign residents throughout the Bank Group.

Proper Conduct of Banking Business Directive 308 amendments took effect on January 1, 2016. The directive expands the responsibilities of the compliance officer in connection with several additional matters, such as taxation of products and customers, protection of privacy, consulting for customers, and conflicts of interest, and requires the Bank to appoint a second-tier function responsible for the applicable legal and regulatory directives. The Bank is preparing for this directive; within this process, a new compliance policy has been established, a charter has been approved for the Compliance Officer, and a plan has been prepared for implementation of the directive.

The activity of the Bank with banks located in the Palestinian Authority requires compliance with various regulatory requirements, in particular in connection with the prevention of money laundering and terrorism financing, and involves monitoring of fund transfers to and from residents of the Palestinian Authority. In June 2006, the Bank decided to terminate services to banks operating within the territory of the Palestinian Authority. Following this decision, the Governor of the Bank of Israel and representatives of the Ministry of Finance requested that the Bank refrain from implementing the decision and to continue to provide certain services, subject to certain restrictions set by the Bank. Further to talks on this subject between the Bank, the Bank of Israel, and the Ministry of Finance, a permit was granted in in November 2006 pursuant to Section 9(D) of the Terrorism Financing Prohibition Law, the significance of which is that the directives of the Terrorism Financing Prohibition Law concerning the "prohibition of transactions in terrorism property" shall not apply to the transactions noted in the permit.

The Bank terminated its activity with banks and branches located in the Gaza Strip at the beginning of 2009, after the government declared Gaza a hostile entity.

Over the years, the Bank repeatedly notified the Bank of Israel and the Ministry of Finance that in view of the problems involved in the provision of banking services to Palestinian banks, the Bank wished to cease providing such services. The Bank is conducting talks with the Bank of Israel and the Ministry of Finance on this subject.

AI Legal Risk

Risk to the Group's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Group, which may cause damage to the Group's profitability. The Group has a structure of internal and external legal counsel.

According to the Bank of Israel's definition, legal risk is "the risk of a loss due to the inability to enforce an agreement by legal actions." Risks of this kind in the Bank's activity may arise from a wide range of diverse circumstances. Thus, for example, risks may arise from the absence of written documentation of contractual engagements between the Bank and its customers, or between the Bank and its suppliers or others, deficient signatures, and/or a lack of details in written agreements; from improperly phrased agreements and/or agreements open to interpretation that does not reflect the Bank's intentions; or from agreements that are subject to cancellation (in full or in part) and/or that include unenforceable provisions or other legal flaws.

The Bank takes a broad approach towards legal risks, and includes in them risks arising from primary and secondary legislative and regulatory directives; rulings of courts, tribunals, and other entities with quasi-judicial authority; risks arising from actions that are not backed by legal counsel or from flawed legal counsel; and risks arising from legal proceedings.

Legal risks are naturally integrated with operational risks, as for example in the case of the possible absence of a full, written, legally signed agreement in a particular transaction, despite the fact that an agreement of the same type exists at the Bank and is used in the ordinary course of its business.

A legal risk management policy document has been approved at the Bank, emphasizing the following points:

- Identifying and addressing areas of material legal risk and appointing the function responsible for implementing the directives.
- Preparing suitable agreements, guidelines, and procedures in order to ensure that risk-prevention measures are implemented.
- Examining the effect of legislative directives (including court rulings) and directives of government agencies, and their implications for the Bank's operation.
- Lesson learning from legislative changes (including court rulings) and applying those conclusions in the legal documents customarily used at the Bank; delivering legal opinions on such matters to the relevant units of the Bank.

With regard to subsidiaries in Israel and abroad, the document draws a general risk-management policy that each subsidiary must adapt and accommodate to its circumstances and operations; mechanisms for reporting to the Head of Legal Risk are also required of these subsidiaries.

Legal counsel submits a quarterly report to the Risk Management Committee of the Board of Management and to the Risk Management Committee of the Board of Directors regarding legal risks that have materialized, in comparison to prior estimates on this matter, as well as statistical information regarding the various types of legal proceedings opened or concluded during the relevant period.

AI Reputational Risk

Reputational risk is defined as present or future risk of damage to income or capital as a result of a negative image in the eyes of relevant stakeholders, such as customers, parties to transactions, shareholders, investors, or regulatory agencies. The reputational risk management policy of the Bank Group has been approved by the Board of Management and the Board of Directors, and is implemented by the units of the Group.

The reputational risk management strategy of the Bank Hapoalim Group states that reputational risks should be prevented, minimized, and controlled. Accordingly, the following objectives have been set at the level of the Group with respect to reputational risk:

- To ensure effective supervision and management of reputational risk.
- To ensure effective communication and identification of reputational risk, with the aim of establishing a reputational risk appetite, in accordance with the strategic goals approved for each unit.

- To establish an internal control structure, with the aim of promoting a culture and values of awareness, transparency, and effectiveness in coping with reputational risks.

The Board of Directors and the Board of Management are responsible for promoting high standards of ethics and integrity and for establishing a culture that emphasizes the importance of internal controls.

AI Regulatory and Legislative Risk

Restrictions and Supervision of the Activity of the Banking Corporation

The Bank operates under laws, regulations, and directives, some of which are unique to the banking system, and some of which, even if not unique, affect material parts of its activity. The Banking Ordinance, the various banking laws, and the Proper Conduct of Banking Business Directives issued from time to time by the Supervisor of Banks constitute the central legal foundation for the Bank Group's activity. Among other matters, they define the boundaries of the activities permitted to the Bank, the activities permitted to the subsidiaries and related companies of the Bank Group, the terms of control and ownership of such companies, the relationships between the Bank and its customers, the usage of the Bank's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.

In addition, the Bank is subject to extensive legislation regulating its activity in the capital market, both on behalf of its customers and on its own behalf (e.g. in the areas of investment advising and customer portfolio management, pension advising, securities laws, and restrictions on insurance activity).

Other laws on specific topics impose specific duties and rules on banks, including the Bank. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation related to housing loans, guarantee laws, etc.

Additional legislation related to the Bank's activity has a strong influence on its conduct. Noteworthy in this area are execution laws, liquidation and receivership laws, laws referring to specific segments (local authorities, mortgage takers, home buyers, the agricultural sector), and various tax laws.

The Bank's activity is subject to supervision and auditing by the Supervisor of Banks as well as other supervisory agencies in specific areas of activity, such as the Israel Securities Authority; the Supervisor of the Capital Market, Insurance, and Savings at the Ministry of Finance; and the Antitrust Commissioner. These agencies carry out audits at the Bank, from time to time, concerning the various areas of activity.

The Bank and its subsidiaries work to comply with the duties imposed upon them under the said legal provisions.

Regulatory Risk Management Methods

Regulatory risk is risk to the Group's income and/or capital arising from legislative processes and/or draft directives of various regulatory agencies that cause changes in the Group's business environment. Such changes may occasionally influence the Group's ability to offer certain services and/or may obligate the Group to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services.

The Regulation Unit assesses and manages regulatory risks by monitoring, identifying, collecting information, assessing, reporting, conducting follow-ups, and applying controls with respect to regulatory developments, as they emerge. The department also supplies opinions, as relevant, with regard to the effect of the forthcoming regulation on the expected business conduct of the various units of the Bank. The unit operates in full cooperation with the relevant professional units of the Bank and at the subsidiaries and offices in Israel and overseas, in order to ensure that regulation is implemented fully and in an effective manner in business terms. With regard to compliance with regulatory directives, see "Compliance Risk," above.

For details regarding notable regulatory initiatives, see the Review of Risks in the Financial Statements.

AI Economic Risk

Risk factors in the economic environment are identified by the Economic Department, which tracks current economic and financial data in Israel and worldwide and professionally evaluates the implications of the data. The department maps potential risks in the economy and in the financial markets, and reports to the relevant teams and committees. Concurrently, the department prepares a set of extreme scenarios with a low probability of future materialization, which in its opinion have significant economic and financial consequences for the economy and for the Bank. The extreme scenarios are updated annually, according to the risk map, and approved by the authorized parties, in accordance with procedures. Concurrently, the Economic Department examines a series of warning indicators that may signal an increase in the probability of an extreme scenario. Warning indicators are reported routinely to the Board of Management Committee on Risk Management.

The Bank translates the market conditions in each scenario into an impact on its business activity, according to the various risk areas, and examines the effect on profitability, capital, and capital adequacy.

Economic Risk – Condition of the Israeli Economy

Risk to the Group's income and capital arising from a slowdown in economic activity or from geopolitical situations, which may have an adverse effect on the condition of some businesses, on income levels, and on unemployment in the Israeli economy. Such a process may cause deterioration in the condition of some of the Group's borrowers, leading to an adverse effect on the probability of collecting credit. Furthermore, a slowdown in economic activity may cause a decline in non-credit income, such as income from capital-market activity and foreign-trade activity, and may cause a change for the worse in the composition of financial resources, such as an increase in the cost of resources and a decrease in their availability.

Economic growth slowed to 2.3% in 2015; exports and investments in the sectors of the economy decreased. The labor market was stable, with 5.3% unemployment. The consumer price index was down by 1.0%, due to a decrease in energy prices and measures taken by the government to reduce the cost of living. Inflation was negative for a second consecutive year. Prices of homes continued to rise, by 7.6% in the twelve months ended in November. The new government adopted a policy of stopping the increase in housing prices, within which the purchasing tax for buyers of second homes rose to 8%-10%, and the "Mechir Lamishtaken" program was announced, in which state land will be marketed at a significant discount relative to current prices.

Economic Risk – Condition of the Global Economy

Risk to the Group's income and capital arising from a significant slowdown in economic activity in the global market, which may have an adverse effect on the condition of some businesses in Israel and on the volume of business activity. This could have a negative impact on the probability of collecting credit and/or reduce income from fees and/or from capital-market activity and/or from the Group's activity abroad and/or from the provision of services related to foreign-trade activity and/or from the activity of foreign investors and/or from the provision of services to Israeli customers with activity abroad.

Global growth decelerated over the last year, mainly due to slower growth in the emerging economies. Growth in the United States stabilized; in Europe, the condition of the high-debt countries showed substantial improvement, although unemployment rates remained high. The growth rate in China slowed from 7.3% to 6.9%, according to official figures. Other estimates point to substantially lower rates. Stock indices in China dropped sharply due to an outflow of capital, and the administration moderated the depreciation of the currency by buying local currency using its foreign-currency reserves. Among the emerging economies, those dependent on exports of commodities, especially oil, suffered. The recession in Russia deepened as the price of oil fell below USD 30 per barrel. Brazil also fell into recession, due to causes including the decline in commodity prices. The flight of capital from emerging markets and the financial destabilization in several countries pose a risk to economic and financial stability over the coming year.

2016 opened on a negative note in global capital markets. Prices of risky assets, such as companies' stocks and bonds, posted sharp declines. By contrast, demand emerged for government bonds, with a considerable decrease in yields to maturity in the long ranges. The continued deceleration of GDP growth in China, the deepening crisis in other emerging markets such as Brazil and Russia, the disappointment over macro-economic data in some Western countries, the continued global decline in oil prices, and the uncertainty surrounding the interest-rate policy of the Federal Reserve in the United States all weighed on the financial markets. The negative trend was notable in the financial sectors, particularly banking, in view of surprisingly negative performance from some of the largest and best-known commercial banks in Europe. This was reflected in a sharp drop in prices of bank shares, and in an increase in risk premiums priced in to the yields to maturity of bank bonds. The profitability of European banks was harmed by a combination of factors: tight regulation that restricted activity in certain segments, large fines imposed on banks, and the negative interest rates of central banks in Europe. Policymakers in Europe and in other Western countries are aware of the importance of maintaining the high credibility of the banking system in the eyes of the public, and in some cases issued declarations of support, in order to ensure continued recovery in the non-financial arena without shocks to the financial system.

Accordingly, and in light of the condition of the Israeli economy, the Bank continues to monitor the risks and segments that may be affected by these changes, and adapt its policies and control activities as necessary. Among other factors, the Bank examines the securities in its investment portfolio in Israel and overseas, its exposure to foreign financial institutions, and risk areas in the credit portfolio that may be influenced by such developments. The Bank continuously complies with the liquidity requirements set in the supervisory directives.

AI Strategic Risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology.

Strategic risk is also a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

The strategic plan of the Bank is a three-year plan approved by the Board of Management and the Board of Directors, and examined and adjusted annually to changes in the business environment in Israel and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives.

The process of formulating the strategic plan encompasses a general examination of the corporation's business and the relevant strategic risks, and a comprehensive planning process. The annual examination of the strategy of the Bank and of the Areas is designed to support the objectives of the Areas and of the Bank as a whole. Within the annual planning process, the Areas and the subsidiaries of the Bank carry out focused strategic projects as part of their strategic plan.

The annual process of managing and assessing strategic risk is an important part of the annual strategic planning process. The annual strategic planning process consists of three main stages, each of which addresses a different aspect of strategic risk management and assessment:

Stage I – Identification of the strategic risks to the Bank in its competitive environment – examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank.

Stage II – Formulation of objectives and of a high-level work plan, adapted to the business environment and to the strategic trajectory.

Stage III – Construction of detailed plans for all Areas, examination of scenarios, and establishment of risk indicators. This stage involves determining the themes, strategic focus areas of the Bank, and strategic maps for the realization of each theme. In addition, strategic maps are created for the Areas, in congruence with the themes, and strategic risk indicators are established – goals and metrics are established for each map (at the process level and at the level of business results), derived from the strategy. This allows strategy to be translated into measurable steps for the various units, making it possible to identify the extent of the Bank's exposure to strategic risk.

Alongside the routine monitoring of developments in the Bank's business environment, the Bank monitors, measures, and applies controls to strategic risk through the Balanced Score Card (BSC) strategic control process. The Bank routinely monitors its achievement of the goals and objectives in the strategic maps created using the BSC methodology, concurrently with the extent to which it achieves its financial objectives. The Bank thereby ensures that the plan leads to the desired results from a business perspective. The BSC strategic control process is conducted by the Strategic Management Center.

AI Environmental Risk

Environmental risk to the Bank is the risk of loss as a result of directives related to the protection of the environment and the enforcement thereof, which may materialize if the Bank bears direct responsibility for an environmental hazard, including the possibility that the Bank may be required to remove an environmental hazard, or may be liable to a third party in respect of an environmental hazard, or as a result of the impairment of realized collateral. This risk may also materialize indirectly as a result of the deterioration of the financial condition of another entity due to environmental costs stemming from directives related to the protection of the environment. Reputation risk may also materialize as a result of the attribution to the Bank of an association with the cause of an environmental hazard.

Environmental risks related to large credit portfolios are monitored by the Corporate Banking Area. Environmental risk related to the Bank's own activity is under the responsibility of the Corporate Social Responsibility Division.

In recognition of its social responsibility, and based on an understanding of the importance of maintaining environmentally sustainable policies, the Bank has formulated a comprehensive, ordered environmental policy. This policy is implemented through an organizational structure and job descriptions, procedures, processes, and control systems. As part of the process of formalizing and controlling its environmental conduct, the Bank received certification under the ISO 14001 standard, which is revalidated annually, in a comprehensive review by a licensed international firm. Extensive description of activities in connection with the environment is presented in the Corporate Social Responsibility Report of Bank Hapoalim, published annually in accordance with the most advanced GRI standard.

The Bank has established policy, working procedures, and methodologies for the identification, specification, and management of environmental risks, in order to address the effect of environmental risk on the credit risk of major borrowers. During the formulation of the process of writing the policies and working procedures, prevalent methodologies at banks overseas were examined, and experts in this field were consulted. The methodology for identification of environmental risks includes, among other matters, reference to the potential environmental risk in an economic sector, as well as individual reference to environmental risks that may have a material effect on the corporation, based on its business activity. The management of environmental risks is part of the overall management of credit risks at the Bank; an assessment of environmental risk is included in evaluations of the quality of credit granted to customers by the Bank.

The Bank or any senior officer of the Bank were not a party, during the reported period, to any material legal or administrative proceeding related to the environment, as noted in Section 28 of the First Addendum to the Securities Regulations.

E. Liquidity Risk

Liquidity risk – Liquidity risk is defined as present or future risk to the stability and profits of the Bank arising from an inability to sustain the cash flow required for its needs. Liquidity risk at the Bank is defined as the ability of the Bank to repay its liabilities on schedule, including during times of stress, without damage to its routine operations within the work plans of the Bank and without incurring exceptional losses.

Refinancing risk – The risk of inability to raise new resources to replace resources that have matured, or that the reissue may be performed at durations and terms that damage the Bank's net interest income. This risk is managed as part of liquidity risk. In light of the financing sources described above, the Bank does not view this risk as a material risk in its own right. The Bank accords high importance to raising resources that are stable and highly diversified.

Table E.1: Liquidity Coverage Ratio - Limited Banking Corporation and Consolidated Subsidiaries, for the Three-Month Period Ended December 31, 2015

	Total unweighted value*	Total weighted value**
Total high-quality liquid assets		
Total high-quality liquid assets (HQLA)		**90,364**
Cash outflows		
Retail deposits from individuals and from small business customers, of which:	**179,369**	**13,583**
Stable deposits	**55,424**	**2,771**
Less stable deposits	**83,935**	**9,621**
Deposits for a period greater than 30 days (Section 84 of Proper Conduct of Banking Business Directive 221)	**40,010**	**1,191**
Unsecured wholesale financing, of which:	**114,063**	**71,858**
Operational deposits (all counterparties) and deposits in networks of cooperative banks	**1,477**	**369**
Non-operational deposits (all counterparties)	**112,396**	**71,299**
Unsecured debts	**190**	**190**
Secured wholesale financing	**198**	**39**
Additional liquidity requirements, of which:	**118,584**	**21,355**
Outflows related to derivative exposure and other collateral requirement	**13,882**	**11,439**
Outflows related to loss of funding on debt products	**-**	**-**
Credit and liquidity facilities	**104,702**	**9,916**
Other contractual funding obligations	**10,994**	**10,994**
Other contingent funding obligations	**56,888**	**2,309**
Total cash outflows	**-**	**120,138**
Cash inflows		
Secured lending (e.g. reverse repos)	**109**	**109**
Inflows from fully performing exposures	**26,324**	**18,095**
Other cash inflows	**17,466**	**10,408**
Total cash inflows	**43,899**	**28,612**

	Total adjusted value***
Total high-quality liquid assets (HQLA)	**90,364**
Total net cash outflows	**91,526**
Liquidity coverage ratio (%)	**99%**

* Unweighted values shall be calculated as outstanding balances maturing or callable within 30 days (for inflows and outflows), based on three monthly observations, in accordance with the transitional directives.

** Weighted values shall be calculated after the application of respective haircuts (for HQLA) and outflow rates (for inflow and outflow) based on three monthly observations, in accordance with the transitional directives.

*** Adjusted values shall be calculated after the application of: (1) haircuts and inflow and outflow rates; and (2) any applicable caps (i.e. caps on level 2B and level 2 assets for HQLA and cap on inflows).

On September 28, 2014, the Supervisor of Banks issued a circular adding Proper Conduct of Banking Business Directive 221, Liquidity Coverage Ratio, which adopts the recommendations of the Basel Committee with regard to the liquidity coverage ratio (LCR) in the banking system in Israel. The LCR refers to a horizon of thirty days, in a stress scenario, and is aimed at ensuring that banking corporations maintain high-quality liquid assets that cover the corporation's liquidity needs during that timeframe, in accordance with the scenario described in the directive. The directive establishes the method of calculation of the LCR, including a definition of characteristics and operational requirements for the "high-quality liquid assets" (the numerator) and the applicable safety haircut coefficients, and defines the net expected cash outflows in the stress scenario defined in the directive for the coming thirty calendar days (the denominator). This flow includes, among other matters, some withdrawal of various types of deposits, in accordance with the coefficients in the scenario, some utilization of credit facilities provided by the Bank, and more, with the deduction of repayment during the month of credit granted by the Bank, at certain coefficients, etc. Classifications of bonds, types of deposits, types of credit facilities, etc., and the applicable haircut coefficients were established in the directive. Accordingly, a change in the volume or composition of liquid assets, a change in the volume of any of the types of deposits defined in the directive, changes in the volume of credit facilities and guarantees subject to a liquidity requirement, etc., may lead to a change in the ratio.

Pursuant to the transitional directives, a minimum requirement of 60% has been established, beginning April 1, 2015, increasing to 80% on January 1, 2016 and to 100% from January 1, 2017, forward. However, during times of financial stress, banking corporations will be permitted to fall below these minimum requirements. Separate requirements apply in total currencies and in foreign currency, at the level of the standalone banking corporation and consolidated, and the ratio is calculated accordingly. A banking corporation that does not comply with the ratio is required to report immediately to the Supervisor of Banks; after three days of deviation, the corporation must submit a plan for compliance with the minimum requirement.

The ratio for the standalone banking corporation is calculated daily, and reported as an average of daily observations. The consolidated ratio and the ratio for the significant banking subsidiaries is calculated on a monthly basis, in accordance with the transitional directives, and reported as the average of three monthly observations. Credit-card companies are exempt from independent calculations, but are included in the consolidated data.

In general, the LCR according to Proper Conduct of Banking Business Directive 221 is stricter than the internal models applied at the Bank. During the quarter, the average consolidated ratio (as noted, an average of three monthly observations) was 99%, and the average standalone ratio (an average of daily observations) for the banking corporation was 92%, versus the minimum requirement of 60%. The ratio rose during the quarter, as compared to the preceding quarter, due to an increase in liquid assets, as a result of an increase in deposits exceeding the increase in credit, a change in the mix of assets, and improvements in measurement. There is some volatility from day to day during the month, and some interchange between NIS and foreign currency, mainly due to activity in derivatives.

The liquid assets of the Bank mainly consist of Israeli government bonds in NIS and in foreign currency, US government bonds in foreign currency, and deposits with central banks (the Bank of Israel and the Federal Reserve). Part of the liquid assets are held by the Bank, and part are held by the subsidiaries. The Bank takes into consideration possible restrictions on the transfer of liquidity between some subsidiaries and the Bank, particularly banking subsidiaries overseas. Accordingly, some of the subsidiaries hold liquid assets for times of crisis (or a credit line from the parent company), according to need, and the Bank does not rely on these assets. The standalone liquidity ratio is calculated using a stricter assumption, and does not include liquid assets which the Bank estimates it will be able to transfer during a crisis from some of the subsidiaries. The Bank manages the liquidity coverage ratio, and accordingly its liquid assets, with a separation of NIS and foreign currencies. For details of liquid assets by level and for pledged and unpledged assets, see tables below.

The main source of funding of the Bank is deposits from retail customers and small businesses in Israel, which generate low liquidity risk relative to other resources. In addition, the Bank obtains financing through issues, deposits from corporate and financial companies, and more. Funding in foreign currency include deposits of private customers and corporate customers in Israel, non-residents, Global Private Banking customers, Israeli companies abroad, issues of CDs and other instruments secured by the FDIC in the United States, and issues of bonds abroad (through the subsidiary Hapoalim International). Deposits from corporate and financial entities with a maturity date of up to one month are subject to high outflow coefficients, pursuant to the directive, and therefore have a relatively large contribution to cash outflow. The Bank monitors the concentration of funding sources, in various breakdowns, in both NIS and foreign currency, and complies with the internal limits in this area. The Bank does not rely on funding from the capital market as a major financing source.

Derivatives create a large inflow and a large outflow, and lead to redirection of liquid assets and net cash outflow between NIS and foreign currency, but their net contribution in all currencies is low. The Bank does not consider collateral which it is required to deposit against derivatives activity as liquid assets; volatility in the volume of this deposit is taken into consideration, as required in the directive.

The Bank calculates its standalone liquidity ratio on a daily basis, divided into NIS and foreign currency. The Bank tracks this ratio at the subsidiaries (which are required to comply with internal liquidity limits adjusted to the nature of their operations), and calculates the ratio on a consolidated basis, on a monthly basis, in accordance with the transitional directives. The calculation of the consolidated ratio takes into consideration limits that may apply to the transfer of liquidity from some of the subsidiaries during a crisis, particularly banking subsidiaries overseas. The standalone banking corporation ratio is reported as an average of daily observations, while the consolidated ratio is reported as the average of three monthly observations. The Board of Directors of the Bank has adopted an internal limit stricter than the regulatory LCR requirement, both for the standalone banking corporation and consolidated.

Liquidity and refinancing risks are managed based on a global view of the Bank's activity in Israel, and at its overseas branches and subsidiaries with significant liquidity risk for the Group. Liquidity risk at the Bank, in foreign currency and in NIS, is managed and controlled routinely at the ALM Division, in accordance with Group policy, with the aim of ensuring the ability to cope competitively even in exceptional supply and demand situations in the financial markets. Current liquidity management is under the responsibility of the ALM Division, and is executed through NIS and foreign-currency liquidity units, and through corresponding units at the subsidiaries. Reports to Board of Management committees are submitted on a monthly basis; reports to Board of Directors committees are submitted on a quarterly basis. Additional reports to internal functions for monitoring and management purposes are submitted more frequently. The business plan of the Bank takes future liquidity requirements and risks into consideration. The Market and Liquidity Risk Management Department in the Risk Management Area routinely monitors liquidity using internal and environmental parameters, independently reports the risk level to the committees of the Board of Management and the Board of Directors, and challenges the parameters in the various models related to liquidity.

In addition to the measurement of the liquidity ratio according to Proper Conduct of Banking Business Directive 221, as described above, the Bank applies additional tools and monitors additional indicators of liquidity risk, in accordance with Proper Conduct of Banking Business Directive 342. These indicators include, among other matters, an internal liquidity risk model similar to the LCR. This model is based on the proven stability of deposits at the Bank over long periods, and includes various scenarios with respect to rollover and maturity rates of assets and liabilities. A liquidity ratio is calculated in each scenario; this ratio is not to fall below the minimum level specified in the directive. Scenarios applied in the internal model refer to various market conditions, and specifically to a Bank specific scenario, a systemic scenario, and a combined scenario. In each scenario, the liquidity gap for a period of up to one month is examined against liquid assets. The scenarios differ primarily in the assumptions regarding rollover of deposits and haircut coefficients for liquid assets. The Bank also applies models for longer and shorter periods; an NSFR-based model for a period of one year; depositor concentration indices; an early warning system (a system that monitors indicators that may point to a risk of a crisis situation); and more; some of these indices are subject to internal and/or regulatory limits. The Bank also monitors various liquidity ratios at the subsidiaries (which are required to comply with both internal liquidity limits adapted to the nature of their operations, and the limits of the local regulator).
[AI] The Bank maintains a liquidity cushion for stress situations; maintains a balance sheet structure, and in particular a resource structure, that brings liquidity risk to a low level; monitors early warning systems to identify liquidity stress situations as early as possible; and maintains contingency funding for crisis situations, which includes convening committees, reporting requirements, and a series of steps for coping with possible stress, according to scenarios.

[AI] Table E.2: Details of liquid assets, by level, as required in the Basel directives

	Balance at report date	Average in reported quarter
Level 1 assets	91,261	88,704
Level 2A assets	1,132	1,120
Level 2B assets	503	540
Total HQLA	92,896	90,364

A regulatory limit applies in Switzerland and in New York to the use of the liquidity reserve of these entities. The Bank's scenarios assume the use of liquidity of the subsidiaries / New York branch taking the limits of each entity into consideration.

[AI] Table E.3:Pledged and Unpledged Available Assets*

	Fair value balance as at December 31, 2015		
	Total balance in the balance sheet	Of which: pledged**	Of which: unpledged
Cash and deposits with banks	**64,976**	**2,784**	**62,192**
Israeli government bonds	**43,642**	**9,136**	**34,506**
Foreign government bonds	**5,622**	**551**	**5,071**
Bonds of financial institutions in Israel	**634**	**-**	**634**
Bonds of foreign financial institutions	**4,737**	**-**	**4,737**
Bonds of others in Israel	**2,048**	**-**	**2,048**
Bonds of foreign others	**3,667**	**42**	**3,625**
Shares of others	**2,534**	**-**	**2,534**
Total securities	**62,884**	**9,729**	**53,155**

* In addition, other assets in the amount of NIS 741 million are pledged.
** Includes pledges above the requirement.

F. Remuneration Disclosure

1. Entities Supervising Remuneration

The supervising entities of the remuneration are the Board of Directors of the Bank, through the Remuneration Committee of the Board of Directors. The Remuneration Committee consists of three members, among them, in 2015, two external directors and another director (such director's service ceased on December 13, 2015, and another director was appointed to the committee in her stead). The chairman of the committee is an external director. The powers of the Remuneration Committee are those granted to it in accordance with the applicable law – inter alia, in accordance with the provisions of the Companies Law, 1999, and the directives of the Supervisor of Banks (Proper Conduct of Banking Business Directive 301 and Proper Conduct of Banking Business Directive 301A), and as defined in the procedures of the Bank. The Remuneration Committee supervises the implementation of the remuneration policy and of the remuneration plans, and for that purpose is assisted by the risk management, control, and audit functions of the Bank. The Remuneration Committee, with the assistance of the risk management, control, and audit functions of the Bank, as necessary, has designed and designs the means of control to ensure that the principles of the remuneration policy are maintained, in such a manner as to ensure on a regular basis that the actual remuneration of the officers, the risk and performance indicators, and the results thereof are consistent with the chosen remuneration mechanisms and with the policy objectives, and adjustments may be made as necessary.

The Committee is also assisted in its work by external advisors – economic (Cognum Financial Consulting Ltd.) and legal (Goldfarb Seligman Law Offices) – who advise the committee with respect to the remuneration policy and remuneration plans in accordance with applicable laws, and in connection with information required by the Committee in order to make informed decisions, remuneration approval processes at the Bank, and various controls, all as required by the applicable laws.

The remuneration policy of the Bank contains a chapter addressing the Bank Group, which applies similar principles to those of the Bank's remuneration policy to selected subsidiaries of the Bank in Israel, while with respect to the overseas subsidiaries and overseas branches of the Bank, there are certain adjustments which apply, in order to adjust the remuneration to the laws that apply in the relevant country and to the terms of the labor market there.

Table F.1: Key Employees of the Bank

	Quantity in 2015	Quantity in 2014
Key employees of the Bank		
Chairman, CEO, and members of management	**14**	15
Other officers	**4**	3
Senior executives	**119**	116
Chief Economist	**1**	1
Traders	**9**	9
Managers subordinate to CEO	**4**	4
Total	**151**	148

2. Planning and Structure of Remuneration Processes

The main characteristics and objectives of the policy are described below, including a reference to the way in which the Bank ensures that employees engaged in risk management, compliance, auditing, and accounting are remunerated without dependence upon the business under their supervision.

General – The Bank aspires to remunerate officers and executives for their work and contribution to the Bank, and to retain them over the long term, while creating appropriate incentives and linking their best interests with the best interests of the Bank and of its stakeholders, in alignment with the goals of the Bank, its work plans, and its policies from a long-term perspective. The remuneration policy is consistent with the Bank's vision and strategy and with its work plans and risk appetite, and its purpose is to lead to maximizing the Bank's value, while emphasizing the Bank's stability and the interchange between achieving returns and taking risks.

The main goals of the remuneration policy are:

- To motivate officers to act to create long-term economic value for the Bank and its stakeholders, in a manner that strengthens the connection between remuneration and the creation of value for the stakeholders in general and for shareholders of the Bank in particular.
- To adjust the remuneration to the Bank's vision, to the overall strategic plan of the Bank and of its secondary units, and to the work plan derived from the strategic plans. Accordingly, remuneration incentives shall also be adjusted to the long-term objectives formulated in the strategic plan and in periodic work plans.
- To adjust the total remuneration to the risk appetite of the Bank.
- To maintain the Bank's competitiveness in recruiting and retaining high-quality personnel for senior executive positions; the remuneration amounts shall be proportionate and shall take into consideration the terms of the market and the structure of the remuneration at the Bank.
- To comply with regulatory requirements – the officers' remuneration shall include a component reflecting attainment of the general objectives of the Bank with respect to risk management and compliance with laws, regulatory directives, and the procedures of the Bank.
- To promote a remuneration structure that prevents harm to working relationships at the Bank.
- To adjust remuneration to the type of officers' activities and responsibilities, and to their skills.

- Remuneration for functions of the organizational functions that are involved in supervision and control shall be determined based on standards that take into consideration the importance and sensitivity of these roles. The bonus budget for these functions shall be determined according to the cost of capital, and shall increase or decrease by up to 20% based on the attainment of key performance indicators (hereinafter: "KPIs"), to be established in advance by the supervisors of the executives in the supervision and control functions, according to the role of the executive. Pursuant to the Bank's remuneration plan of 2010, which was adopted prior to the approval of the remuneration policy (the "2010 Remuneration Plan"), the budget for the aforesaid executives was established in part according to the rate of return on equity, and in part as a multiple of the monthly salary, partly subject to the executive's KPIs and partly according to a supervisor's opinion, which is given to each of the above executives by a designated panel as determined for such purpose in the 2010 Remuneration Plan.

3. Description of the ways in which present and future risks are taken into consideration in the remuneration process

The annual and multi-annual work plans are constructed, among other matters, with reference to the volume and types of the risks that the Bank is willing to undertake. The achievement of objectives of the work plan, including capital-adequacy targets, and the achievement of a surplus return over the required cost of capital set the threshold for the distribution of bonuses. This objective is also achieved through a ceiling on variable remuneration, and through postponement of the payment of part of the annual bonus, which is contingent on the Bank's performance in future years, so that executives are exposed to the consequences of materialization of the risks that they take, and their remuneration decreases if or when the risks materialize in the future.
Risk management, control, and audit functions at the Bank assisted the Board of Directors of the Bank and the Remuneration Committee of the Board of Directors in ensuring that risk indicators and performance indicators used in the remuneration mechanisms of the officers are consistent with the objectives of the remuneration policy and provide assurance of the effectiveness of the remuneration mechanisms.
The principal risks taken into consideration by the Bank in applying remuneration indicators include credit and centralization risks, market risks, operational risks, and compliance risks.

4. Description of ways in which the banking corporation links performance during the measurement period with remuneration levels

The main performance indicator for the Bank is the attainment of the required rate of return on equity, as detailed in the Bank's remuneration policy. The main individual performance indicators are established according to the work plans of the Bank, and are drawn from different fields, such as finance; customers; processes, including long-term projects; and technological infrastructures and human resources. Lateral objectives are also integrated in the individual objectives, based on the needs of the organization, such as objectives related to efficiency, employee satisfaction, and intra-organizational service.
Once a year, within the approval process of the annual bonus, the Bank examines the correlation between the degree of success of the unit as reflected in scores on the indicators, and the degree of its success as reflected in BSC.
In exceptional cases, the objectives shall be presented for discussion at the end of the year, in aggregate, in order to make changes.

5. Description of ways in which the banking corporation adjusts remuneration in order to take longer-term performance into consideration

In general, variable remuneration shall consist, among other components, of an annual bonus contingent upon the financial performance of the Bank, based on risk-adjusted profit and the cost of capital of the Bank, and shall also be determined according to the attainment of measurable quantitative and qualitative individual key performance indicators (the model for establishing the bonus budget for traders differs from the foregoing description, and takes into account factors including the specific performance of the group and room to which they belong).

50% of the annual bonus shall be spread over three years, in a manner that compensates for unsatisfactory performance during that period, if any, and shall be paid in share-based instruments (usually in the form of restricted stock units (RSU), with a vesting condition of an ROE difference of no less than -5%), provided that the variable remuneration in a given year is higher than 1/6 of the fixed remuneration in that year; otherwise, the deferral shall not be performed, all subject to the applicable law. Pursuant to the 2010 Remuneration Plan, executives' annual bonus shall be accrued, for each executive, in a "bonus bank." 60% of that amount (or 50% for members of management) shall be paid at the end of each year, and the remaining amount will continue to accumulate in the bonus bank. In the event of an annual net loss from regular activities, or a material deviation from the capital-adequacy ratio, the payment shall be deferred until annual profit is presented, or until the deviation from capital adequacy ceases, as the case may be.

Pursuant to the remuneration policy, the Remuneration Committee and the Board of Directors shall be authorized to subtract up to 50% of the annual bonus of an executive (with the exception of the Chairman of the Board and the CEO), in cases in which the financial or business position of the Bank makes it necessary, and/or due to reasons related to the functioning of the executive or reasons to be explained by such organs.

The remuneration policy states that in the event that the audited financial statements of the Bank for a given year are amended, such that if the amount of the bonus owed to the executive in respect of that year had been calculated based on the amended data the executive would have received a bonus in a different amount, the executive shall reimburse the Bank for, or the Bank shall pay the executive, as relevant, the difference between the amount of the bonus received or the amount unpaid by the Bank, as relevant, and the amount to which the executive is entitled based on the said amendment, provided that, if the executive has left the Bank, no more than three years have elapsed from the end of the executive's employment at the Bank.

6. Description of different vehicles of variable remuneration used by the banking corporation and of the considerations in the use of such different vehicles

Half of the variable remuneration is paid in cash, and the other half is paid as deferred remuneration. The deferred variable remuneration is usually paid in the form of restricted stock units. However, the Bank's subsidiaries in general, and the subsidiaries overseas in particular, have the possibility for such remuneration to be paid in the form of phantom restricted stock units (or to be deferred and paid in cash). The foregoing also applies to employees on assignment overseas for the Bank, for tax reasons.

Table F.2: General quantitative information

	2015	2014
Number of meetings held by the principal entity supervising remuneration during the reported year:	**19**	29
Total remuneration paid to the members of the principal entity supervising remuneration during the reported year (in NIS millions):	**0.3**	0.5
Number of senior officers and other key executives who received variable remuneration during the reported year:	**233**	226
Number of guaranteed bonuses granted during the reported year:	**-**	-
Total guaranteed bonuses granted during the reported year (in NIS millions):	**-**	-
Number of signing bonuses granted during the reported year:	**-**	-
Total signing bonuses granted during the reported year (in NIS millions):	**-**	-
Number of severance payments granted during the reported year:	**4**	6
Total severance payments granted during the reported year (in NIS millions):	**1**	2
Total deferred compensation paid to senior officers and other key employees in the reported year (in NIS millions):	**87**	95

Table F.3: Total deferred compensation not yet paid to senior officers and other key employees (in NIS millions)

	2015	2014
Cash	**68**	73
Shares*	**-**	-
Share-based instruments	**90**	100
Other forms	**-**	-

* Does not exist at the Bank.

Table F.4: Additional details of the remuneration amount in respect of the reported year for senior officers and other key employees (in NIS millions)

		2015				2014			
		Senior officers		Other key employees		Senior officers		Other key employees	
		Undeferred	Deferred	Undeferred	Deferred	Undeferred	Deferred	Undeferred	Deferred
Fixed compensation	Cash-based	**36**	**-**	**187**	**-**	34	-	184	-
	Shares and share-based instruments	**-**	**4**	**-**	**6**	-	9	-	24
	Others	**4**	**-**	**10**	**-**	9	-	21	-
Variable compensation	Cash-based	**13**	**9**	**45**	**18**	7	8	33	16
	Shares and share-based instruments	**-**	**9**	**-**	**29**	-	4	-	13
	Others	**1**	**-**	**1**	**-**	1	-	1	-

Table F.5: Quantitative information on the exposure of senior executives and other key employees to implicit adjustments

	2015	2014
Total unpaid amount of balance of deferred remuneration and retained remuneration exposed to explicit and/or implicit retroactive adjustments (in NIS millions)	**165**	179
Total amount of deductions during the reported year due to explicit retroactive adjustments (in NIS millions)	**-**	-
Total amount of deductions during the reported year due to implicit retroactive adjustments (in NIS millions)*	**4**	14

* Contingent RSU forfeited due to partial fulfillment of return differences, relative to the return difference that confers entitlement to the maximum amount.

Yair Seroussi
Chairman of the
Board of Directors

Zion Kenan
President and
Chief Executive Officer

Tsahi Cohen
Senior Deputy Managing Director,
Chief Risk Officer (CRO)

Tel Aviv, February 28, 2016

Glossary

Active market

A market in which transactions in an asset or liability are executed at a sufficient frequency and volume in order to provide pricing information on a regular basis.

Appreciation

Strengthening of the value of a currency in relation to other currencies.

Auxiliary corporation

A corporation that is not a banking corporation in its own right, and which engages only in an area of activity permitted to the banking corporation that controls it, excluding occupations permitted exclusively to banking corporations by law.

Average duration

Weighted average term to maturity of the principal and interest payments on a bond.

B2B

Business to business - A business activity in which a product is sold or a service is provided by an organization to another organization.

B2C

Business to consumer - A business activity in which a product is sold or a service is provided to an end consumer.

Balloon loan

A loan in which only interest payments are performed throughout the loan period, and the principal is paid in full at the end of the period; in some cases, the interest is also paid at the end of the period.

Bullet loan

A loan in which only interest payments are performed throughout the loan period, and the principal is paid in full at the end of the period; in some cases, the interest is also paid at the end of the period.

Bank of Israel interest rate

The interest rate at which the Bank of Israel lends or borrows money to or from banking corporations. This rate is established by the monetary committee of the Bank of Israel.

Banking corporation

A bank, foreign bank, mortgage bank, investment financing bank, business promotion bank, financial institution, or join services company.

Basel

Basel 2/Basel 3 - Risk-management regulations for banks, established by the Basel Committee, which is engaged in supervision and setting standards for supervision of banks worldwide.

Benchmark scenario

A possible outline of security-related, operational, economic, or other events that may cause a significant operational disruption for the banking corporation, used as a relevant outline in planning solutions.

Bid-ask spread

The spread between a proposed buying and selling price. Essentially, the difference between the highest price that a buyer is willing to pay for an asset and the lowest price at which the seller is willing to sell it.

Black-Scholes model

A model for pricing options, including a current value technique that reflects the time value and the internal value of the option.

Bond

A security that constitutes a certificate of obligation to pay a debt, in which the issuer promises to pay the holder of the bond the amount of principal issued, plus interest/coupon payments, at fixed intervals or upon fulfillment of a particular condition; a financial instrument that can be used by the government and by firms to borrow money from the public.

BOT

Build Operate Transfer - A financing arrangement for public projects, in which a private entity receives a franchise from a public entity to finance, plan, build, and operate a public facility for a limited period, at the completion of which the ownership of the project is transferred to the government.

Branch

Any place where a banking corporation takes monetary deposits or conducts business with its customers, including a mobile branch, but excluding a facility which customers can use to execute transactions in their account with a banking corporation, including loans.

Business continuity management

An organization-wide approach encompassing policy guidelines, standards, and procedures aimed at protecting the Bank's existence as an active, robust financial entity and its ability to continue to provide optimal service to its customers even during emergencies and significant operational disruptions.

CBS

Central Bureau of Statistics - An organization endowed with the legal authority to collect and distribute official data about the society and economy of Israel.

Class action

A claim filed on behalf of a group of people who have not given the representative claimant power of attorney, which raises essential questions of fact or law common to all members of the group.

Clearing

A financial process of debiting and crediting customers.

Cloud computing

IT resources, IT infrastructure, or IT systems accessed from a remote computer through the Internet or a dedicated communication line.

Consortium

A credit transaction in which several financial entities grant a joint loan to a borrower.

Control

The ability to direct the activity of a corporation, excluding ability arising solely from performance of the duties of a director or other office of the corporation. A person necessarily controls a corporation if they hold half or more of a certain type of means of control of the corporation.

Controls and procedures concerning disclosure

Other controls and procedures of the banking corporation designed to ensure that the information that the banking corporation is required to disclose in its reports is recorded, processed, summarized, and reported in accordance with the Public Reporting Directives of the Supervisor of Banks. "Controls and procedures concerning disclosure" include, among other matters, controls and procedures designed to ensure that the information that the banking corporation is required to disclose, pursuant to the Public Reporting Directives of the Supervisor of Banks, is collected and transmitted to the management of the banking corporation, including the chief executive officer and the chief accountant, in an appropriate manner in order to allow decisions to be made at the proper time in connection with the disclosure requirements.

CPI

Consumer price index - An index published by the Central Bureau of Statistics, measuring monthly changes in the prices of products and services that compose the "consumption basket" of an average family. The Central Bureau of Statistics publishes the index of changes in prices in the preceding month on the 15th day of each month.

Credit granting activity

Loan granting, commitments to grant loans, refinancing or restructuring of loans, organization of letters of credit, creation of loan syndications.

Credit facility

The maximum withdrawal amount that a banking corporation agrees to accept in withdrawals from a customer's current account with a negative balance.

Credit-card company

An auxiliary corporation that issues credit cards or clears payments executed using credit cards.

Current account

A bank account used to conduct incoming and outgoing cash transactions.

Current drawing account

A business current account with a credit facility.

CVA

Credit valuation adjustment - Calculation of credit risk in derivatives reflecting the potential expected loss to the bank in the event of default by the counterparty.

Cyber incident

An event in which Internet infrastructures and Internet services are a main component of an attack on computer systems and/or IT systems and infrastructures are attacked by, or on behalf of, antagonists (external or internal to the banking corporation), which may lead to the materialization of exposure, disruption, or blocked access to information or information systems, including an attempt at such an attack, even if no actual damage results.

Damage

An unwanted consequence, including disruption, interruption, or suspension of activity; theft of an asset; collection of business intelligence; or harm to reputation or public trust.

Debt

A contractual right to receive money on demand, or at fixed or fixable intervals, recognized in the balance sheet of the banking corporation as an asset (e.g. deposits with banks, bonds, securities purchased or sold in agreements to resell, credit to the public, credit to the government, etc.). Debts do not include deposits with the Bank of Israel or assets in respect of derivative instruments.

Debt contingent on collateral

Debt expected to be repaid exclusively from the collateral, where there are no other available and reliable repayment sources.

Deflation

An ongoing decrease in the consumer price index.

Depreciation

Weakening of the value of a currency in relation to other currencies.

Derivative claim

A claim filed by a claimant on behalf of a company due to a cause of the company. Under the appropriate conditions, any shareholder or director of a company is permitted to file a derivative claim.

Derivative instrument

A financial instrument or future contract, the value of which is derived from the value of an underlying asset, for which a market exists wherein its value can be determined.

Dodd-Frank Act

Federal regulations passed by the United States Congress in 2010 with the aim of increasing stability, transparency, and efficiency in the US financial system, particularly in the market for OTC derivatives. Government agencies have been established in accordance with these regulations in order to supervise, enforce, and monitor the performance of large financial entities.

Dormant shares

Shares held directly by the company itself or by a subsidiary under its control. These shares are denied rights to capital or voting in the company.

Emergency

A period in which the economy is operated in emergency mode, in accordance with Government Resolution 1716 of July 6, 1986; Government Resolution 1080 of February 13, 2000; and any other government resolution on this matter; declaration of a special situation on the home front pursuant to Section 9C of the Civil Defense Law, 1951; or declaration of a state of emergency by the Supervisor.

EMIR

European Market Infrastructure Regulation - Regulation adopted by the European Union in 2012 in order to increase stability, transparency, and efficiency in derivatives markets in the European Union, particularly in the market for OTC derivatives.

Exchange rate

The rate for conversion of currencies.

Extreme scenario

A possible outline of security-related, operational, economic, or other events that may cause a significant operational disruption for the banking corporation, used as a relevant outline in planning solutions.

FATCA

Foreign Accounts Tax Compliance Act - An American law aimed at improving tax enforcement, pursuant to which financial entities outside the United States must report to the US tax authorities on accounts maintained with them and owned by anyone obligated to report to these authorities, even if not a resident of the United States.

FDIC

Federal Deposit Insurance Corporation - The Federal Deposit Insurance Corporation in the United States.

Financial asset

Cash; an equity instrument of another entity; a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity, with potential preferred terms for the entity; or a contract to be settled, or possibly to be settled, with equity instruments of the entity.

Financial instrument

Any contract that creates a financial asset in one entity and a financial liability or equity instrument in another entity.

Fixed-term deposits

Deposits in which the depositor does not have the right or authorization to withdraw funds for six days from the date of the deposit.

Floating/current lien

A lien on all of the assets and operations of a company, or on some at the time, as they are from time to time, but subject to the authority of the company to create special liens on its assets, or on some of its assets.

GDP

Gross domestic product - The total added value of all local producers (output less interim consumption), plus net taxes (taxes less support for products) not included in the output value. Gross domestic product is also obtained by a summation of the expenditure on end consumption, plus gross investment and exports, less imports. Gross domestic product is also obtained by a summation of the primary revenue distributed by domestic production units – the remuneration of salaried employees, plus the gross operational surplus, mixed revenues, and net taxes on production and on imports.

GRI

Global Reporting Initiative - An international standard for reporting on sustainability and corporate social responsibility.

Guarantees

Formal contractual engagements that legally require a third party to pay a debt, if the direct debtor is unable to do so.

Hedge

A financial transaction the goal of which is to reduce exposure arising from another financial transaction or from a portfolio of exposures.

Housing loan

A loan that fulfills one of the following criteria, provided that it is not granted for the purposes of a business:

(1) The loan is intended for the purchase or lease of a residence, or for the construction, expansion, or renovation of a residence;

(2) The loan is intended for the purchase of a lot for the construction of a residence, or for the purchase of a right to a residence in return for key money;

(3) The loan is granted through a mortgage of a residence;

(4) The loan is intended to finance full or partial early repayment of a loan as noted in subsections (1) and (2).

ICAAP

Internal Capital Adequacy Assessment Process - An internal process to assess capital adequacy and establish strategy to ensure the capital adequacy of banking corporations. The process is designed to ensure that banking corporations hold adequate capital to support all of the risks inherent in their activities, and that they develop and apply appropriate processes to manage risks. Among other elements, the process includes setting capital targets, performing capital planning processes, and examining the condition of capital under a variety of extreme scenarios.

Indebtedness

As defined in Proper Conduct of Banking Business Directive 313.

Inflation

An ongoing rise in prices, which causes a decrease in the value of money. Inflation is measured according to the rate of change in the consumer price index.

Internal control over financial reporting

A process planned by or under the supervision of the chief executive officer and the chief accountant, or someone who fulfills the same role, and influenced by the board of directors of the banking corporation, management, and other employees, in order to obtain a reasonable degree of confidence with regard to the reliability of financial reporting and with regard to the preparation of the financial statements for external purposes in compliance with generally accepted accounting principles and with the directives and guidelines of the Supervisor of Banks.

Inventory of high-quality liquid assets

Assets are considered high-quality liquid assets if they can be converted to cash easily and quickly, with a minor loss or no loss in value.

LDC

Less developed country - A country classified by the World Bank as having low or medium revenue.

Legal entity

Any legal structure used to perform actions or hold assets. Companies, partnerships, and limited partnerships are examples of such structures.

Libor interest rate

The interbank interest rate at which banks trade credit with one another.

Lien

Collateral given to a lender by a borrower to guarantee payment owed.

LTV

Loan to value ratio - The amount of a loan (including an unutilized approved credit facility) as a percentage of the pledged asset (according to the banking corporation's share in the pledge).

Macro-economic scenario

A possible outline of security-related, operational, economic, or other events that may cause a significant operational disruption for the banking corporation, used as a relevant outline in planning solutions.

MAGNA

Electronic due disclosure system of the ISA - An information system for online acceptance and distribution of all of the reports required of entities supervised by the Israel Securities Authority: corporations, mutual-fund managers, trustees, investment advising companies, portfolio management companies, and underwriters.

Management

Those responsible for the achievement of the goals of an entity, and authorized to establish policies and make decisions for the achievement of such goals. Management usually includes the members of the board of directors, the chief executive officer, the chief operating officer, the deputy to the chief executive officer responsible for the main activities of the business (such as sales, administration, or finance), and others who fulfill similar decision-making functions.

Maof market

TASE market of future and financial instruments - A market for derivative instruments traded on the Tel Aviv Stock Exchange.

Material weakness

A deficiency or a combination of deficiencies in the internal control over financial reporting, such that there is a reasonable possibility that material misstatement in the annual or quarterly financial statements of the banking corporation may not be prevented or may not be discovered in time.

Means of control

Pursuant to the Banking (Licensing) Law, 1981, any one of the following:

(1) The right to vote at the general assembly of a company or at the corresponding body of another corporation;

(2) The right to appoint a director of a corporation, and for this purpose:

(a) Anyone who appoints a director of a corporation shall be considered to have the right to appoint the director;

(b) A corporation, an officer of which is appointed as a director of another corporation, and the controlling party of such a corporation, necessarily have the right to appoint the director;

(3) The right to participate in the profits of the corporation;

(4) The right to the balance of assets of the corporation upon liquidation, after settlement of its liabilities.

Microfinance loan

A loan granted as part of a microfinancing project for small businesses with low financial capabilities that would be ineligible for credit under standard conditions.

Middle market

Commercial activity conducted with mid-sized businesses, usually in the United States.

MTM

Mark to market - Revaluation of a derivative instrument based on price quotes from relevant markets, or in the absence thereof, based on alternative evaluation methods.

NPL

Non-performing loan - Impaired credit not accruing interest income.

Obligo

Total liabilities of the customer to the Bank.

Off-balance sheet credit

Instruments such as commitments to grant credit and guarantees (excluding derivative instruments).

Off-balance sheet financial instruments

Instruments such as commitments to grant credit and guarantees (excluding derivative instruments).

On-demand deposits

Deposits other than fixed-term deposits.

Option

A contract between two parties (the option writer and the option buyer); the option writer grants the option buyer the right to buy or sell a particular asset for a predetermined price, usually at a predetermined time.

OTC derivative

Over-the-counter derivative - A derivative instrument in which financial institutions contract during the ordinary course of business, for which a market exists wherein its value can be determined.

Phantom shares

An instrument granting cash compensation based on the value of shares of the company, without entitlement to receive the share.

Public

Excluding the government, foreign governments, and banks.

Recovery

Rehabilitation of a business activity, after the activity has been disrupted, to a satisfactory level in order to meet business obligations.

Restrictive arrangement

An arrangement between people who manage businesses in which at least one of the parties restricts itself in a manner that may prevent or reduce business competition between that party and the other parties to the arrangement, or some of them, or between that party and a person who is not a party to the arrangement.

Retrospective implementation

Implementation of a new accounting policy with respect to transactions, events, or other situations as though the policy had always been implemented.

Securitization

A transaction in which loans and bank credit are transformed into long-term loans, through bonds.

Subordinated notes

Notes in which rights are subordinate to the claims of all other creditors of the banking corporation, excluding other notes and notes of the same type.

Subsidiary

A company in which another company holds 50% or more of the notional value of issued share capital, or of voting power, or is authorized to appoint half or more of its directors or its chief executive officer.

Supervisory capital

Supervisory capital comprises two tiers: Tier 1 capital and Tier 2 capital, as defined in Proper Conduct of Banking Business Directive 202.

Syndication

A transaction in which several lenders jointly grant a loan to a single borrower, but each lender provides a loan to the borrower in a specific amount and has the right to repayment by the borrower. Groups of lenders frequently finance loans together when the amount granted is higher than the amount that any one lender is willing to lend.

Tier 1 capital

Going-concern capital, including common equity Tier 1 capital and additional Tier 1 capital, as defined in Proper Conduct of Banking Business Directive 202.

Tier 2 capital

Gone-concern capital, as defined in Proper Conduct of Banking Business Directive 202.

Total capital ratio

Total capital is the total of Tier 1 capital and Tier 2 capital. The total capital ratio is calculated by dividing total capital by risk-adjusted assets.

Turnover

Annual sales volume or annual revenue volume.

VaR

Value at risk - A commonly used statistical model for the quantification of market risks. The model uses historical data to assess the maximum expected loss in respect of a particular position or portfolio, for a defined time horizon, at a defined significance level.

Vesting period

The period in which all defined terms must be fulfilled for the maturation of a share-based payment arrangement.

VIE

Variable interest entity - Contractual interests, ownership interests, or other monetary interests that vary according to changes in the fair value of the net assets of the entity, which do not include variable interests.

Volcker Rule

The Volcker Rule is American legislation applicable to certain banking corporations, which imposes prohibitions and restrictions related to proprietary trading and investment activity and/or sponsorship of covered funds, as defined in the Volcker Rule.

(Translation from the Original Hebrew)

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February 15, 2016

To
Bank Hapoalim

Re: Actuarial Evaluation of Liabilities in respect of Employee Benefits

Identity of the Actuary

I have been requested by Bank Hapoalim to evaluate its liability towards pensioners and employees with respect to the retirement period and other benefits as well its liability with respect to reserves for enlarged severance compensation and budget-based pensions for senior employees as at December 31, 2015 (the "Liability"), in accordance with the Reporting to the Public Regulations of the Supervisor of Banks.

Other than carrying out this actuarial evaluation, I have no business connections with Bank Hapoalim, its subsidiary companies, companies associated with the Bank, any interested party of the Bank or anyone else, that are liable to raise any doubts as to my objectivity. There is no dependence between myself and the Bank and my work was not affected by any restrictions or specifications which could have affected my work.

I have acted as the external actuary of the Bank since 2006. I have a M.Sc. degree from Columbia University, am a member of the International Actuarial Association and the Israel Association of Actuaries, with 18 years' experience in the field of actuarial evaluations. I provide actuarial services to large companies in the economy including to insurance companies.

The Scope of the Actuarial Opinion

In order to calculate the liabilities of the Bank, I have relied on data provided to me by the Bank. My requests to receive information and data were complied with satisfactorily for the purpose of evaluating the Liability for purposes of the financial statements. I have checked the reasonableness and adequacy of the data which included a comparison of such data with the data for the year to which the statement refers and with the data for the previous years.

The actuarial assumptions employed by me in my work, as well as the methods for evaluating the Liability were determined by me, to the best of my professional judgment, subject to the regulations, directives and principles specified below.

The Opinion

I have evaluated the liabilities according to generally accepted actuarial principles, the Reporting to the Public Regulations and generally accepted accounting principles.

After examining the foregoing data, I have concluded that the data is reasonable and satisfactory, and that it may be relied upon for the purpose of my evaluation.

The Liability set out in the actuarial report is, to the best of my knowledge and evaluation, an appropriate liability for covering the liabilities of the Bank towards pensioners and employees with respect to the retirement period and other benefits as well as its liability with respect to reserves for enlarged severance compensation and budget-based pensions for senior employees.

I agree that this opinion may be published as part of the financial statements of the Bank as at December 31, 2015.

Yours faithfully,

David Engelmayer, Actuary

Actuarial Evaluation of the Liabilities in respect of Employee Benefits

The groups of employees at the Bank as at December 31, 2015 are set out below:

Active employees – This group comprises all of the employees employed at the Bank as at the day of the actuarial evaluation. This group is divided into four sub-groups:

- **Temporary employees –** New employees of the Bank whose maximum term of employment is up to 4 years (when this term is over these employees end their employment at the Bank or become permanent employees).

- **Permanent employees –** Permanent employees whose terms of employment are regulated collectively, in collective agreements and arrangements formulated from time to time between the Bank and the employees' union at the Bank.

- **Employees under personal contract –** Employees whose terms of employment are regulated by personal contracts, such that the collective agreements and arrangements do not apply to them.

- **Employees under executive personal contract –** Certain employees in the upper echelon of management (including members of the Board of Management), whose terms of employment are regulated by personal contracts, such that the collective agreements and arrangements do not apply to them.

Pensioners – Employees who have retired from the Bank. This group is divided into two sub-groups:

- **Pensioners according to law –** Employees who have retired at the age of retirement prescribed by law.

- **Pensioners who have taken early retirement –** Employees who have retired prior to the age of retirement prescribed by law.

Survivors – The spouse of the pensioner or the employee.

A Description of the Benefits Granted:

Pensions for retired employees – Pensioners who have taken early retirement are entitled to a monthly pension until the age of retirement prescribed by law, for men (67) or the number of years as determined by the retirement agreement, whichever is lower. The monthly cost includes the following components:

1. Salary according to the components in respect of which a pension is payable according to the projected rate of the pension at the end of early retirement period.
2. VAT on salaries
3. Convalescence pay
4. Pension fund deposits

Enlarged compensation to employees under executive personal contract – Employees under an executive personal contract are entitled to severance payments at the rate of 250% should the Bank decide to dismiss them or to terminate their employment when the term of the contract comes to an end. With respect to some of the senior employees, should the Bank decide to dismiss any of them or when they reach a point in time when the sum of their age and their seniority exceed 75, then they will be entitled to take early retirement and to choose between receiving enlarged severance payments at the rate of 250% and receiving a monthly pension at variable rates (up to a pension at the rate of 70%) to be paid to them until such time as they reach the age of retirement according to the law. The accumulation rate for a member of the Board of Management ranges from between 2% - 2.67% per year, depending upon seniority and his position, up to a maximum rate of 70%. With respect to senior employees who are not members of the Board of Management, the accumulation rate ranges from between 1.5% - 2.55% per year depending upon seniority and his position, up to maximum rate of 70%. A member of the Board of Management or a senior employee, who reaches the age of 62, can retire along the track of a budget-based pension or 100% severance pay.

Early retirement pensions for active employees – The provision was calculated for active employees who in the estimation of the Board of Management, are expected to retire before the age of retirement prescribed by law. Early retirement pensions are payable on the basis of eligible salary and according to a rate of accumulation which the employee would have reached at the age of retirement prescribed by law, up to a maximum rate of 70% or according to the accumulation rate just before retirement, with a maximum addition of up to 16% over and above the present accumulation (which represents a period of early retirement pension of no more than 8 additional years), whichever is the lower.

Enlarged compensation for active employees – For active employees who in the estimation of the Board of Management are expected to retire before the age of retirement prescribed by law, along the track of enlarged compensation, a liability was calculated based on a projection of the compensation payable, based on past experience.

Holiday gift – A gift granted every year, at Passover and at New Year's, to the group of active employees and pensioners. Where the employee has passed away, the gift is given to his survivors.

Convalescence – The pensioners' group is entitled to receive, every year, the value of 9 days' convalescence. This amount is payable once every year. This benefit will be given only to those persons retiring by the end of June 2014.

Collective insurance – Pensioners taking early retirement are entitled to the Bank's participation in collective insurance in case of death. This amount varies from employee to employee according to rank at retirement and according to a variable insurance tariff. This benefit is payable until the employee reaches the age of retirement as prescribed by law.

Nursing care insurance, life insurance and health insurance – Pensioners according to the law can choose to continue the insurance coverage for nursing care insurance, life insurance and health insurance which they had before reaching the age of retirement, without the need for any underwriting. The Bank participates in covering these insurances subject to an established budgetary ceiling.

Country club – The pensioners' group (including the survivors), are entitled to the Bank's participation in membership of a country club, fitness club or swimming pool. This benefit is payable once every year and is limited by budget.

Summer camps – The pensioners' group is entitled to the Bank's participation in the financing of the cost of summer camp for up to two children / grandchildren. The benefit is dependent upon the family situation of the pensioner, the number and ages of his children and grandchildren. This benefit is limited by budget. This benefit will be given only to those persons retiring by the end of June 2014.

25 – years service grant – Active employees are entitled to receive one month's salary by way of a grant at the end of 25 years of employment. This benefit is accumulated in proportion to the overall period. Only active employees who attain the relevant seniority before the age of retirement prescribed by law are entitled to the grant.

Sick leave – Active employees are entitled to receive 25 days' sick leave per year. There is no ceiling to the number of days of sick leave which can be accumulated. Should the utilization of such leave be less than the accumulation of sick leave, compensation / a grant is payable upon retirement on account of the balance which has not been utilized (irrespective of whether the employee retires at the age of retirement according to law or whether he takes early retirement). In case of death, sick leave is given as compensation / a grant to the survivors. A sick leave grant is a function of the extent to which sick leave has been utilized, as set out below:

Extent of Utilization	Payment Conversion Rate
More than 65%	0%
36% - 65%	15%
Less than 36%	20%

Normal Severance Pay: An employee who is fired is entitled to the payment of his last salary multiplied by his seniority, less his accumulated personal severance pay fund (if any). An employee who reaches retirement age is not entitled to the bank's standard supplementation of severance pay.

Assumptions on Which the Calculation Is Based:

1. **Capitalization rate –** According to the directives of the Bank of Israel, from January 1, 2015 the cap rate based on a risk-free interest curve (government bonds linked to the index in Israel), plus an average margin of corporate bonds rated AA and up in the United States (the difference between the yield on corporate bonds rated AA and up and the yield on government bonds in the United States).

2. **Age of retirement**– 67 for men, 64 for women.

3. **Growth in salary** – The rate of the rise in the salary - fluctuates between 0.5%-7.5% in real terms, according to the age of the employee.

4. **Utilization of country club benefit** – The degree of utilization of this benefit is a function of gender and age based on utilization patterns and past experience.

5. **Departure rates** – The rates of departure on terms of enlarged severance pay and on terms of early retirement have been established in accordance with the Bank's experience taking into consideration the age of the employee, gender. The departure rates reflect the projections of the Board of Management and its resolutions regarding the retirement of employees on preferred terms and based on research carried out among employees of the Bank and including departure data commencing from 1997. The current departure rates were updated according to a study of the bank employees' departures.

6. **Linkage to the index** – The value of the holiday gift, the country club and the summer camp is not linked to the index. The amount of the insurances and the budget based pensions are linked to the consumer price index. The value of the convalescence is not linked to the index until it reaches the level of convalescence prescribed by law.

7. **Mortality rate** – The evaluation is based on up-to-date mortality tables for insurance companies and the method of calculation is as set out in circular 2013-1-2 which is the most recent to have been published.

8. **Disability rate –** The disability basis is determined in accordance with circular 2013-3-1 of the pension funds which is the most recent to have been published.

Method of Calculation:

The actuarial method of calculation which was used to evaluate the Liability is the unit of projected entitlement method. According to this method, the evaluation includes all of the benefits which each employee is expected to receive, the benefits being attributed on the basis of the straight-line method relative to seniority as against the projected period of service.

The Results of the Actuarial Evaluation:

Following is a table of the actuarial Liability:

	December 31, 2015	**December 31, 2014**
	NIS in millions	
Early retirement and severance	2,590	2,692
25 years service grant	37	37
Sick leave	283	389
Other benefits upon and after termination of employment	589	621
Total	**3,599**	**3,739**

Sensitivity Analysis:

Following are sensitivity analyses of the amount of the Liability to a change of 1% in the interest rate applied to capitalization, 1% index change, 1.0% in the annual salary increase, non-increase of salary (“cumulative benefit” basis) and a change of 1.0% in the projected departure rate of employees in the ages eligible for early retirement:

	Actuarial Liability as of 31.12.2015	Sensitivity to change in the interest rate applied to capitalization				Sensitivity to index change				Sensitivity to change in the rate of salary increase						Sensitivity to change in the departure rate			
		1.0% increase	% change	1.0% decrease	% change	1.0% increase	% change	1.0% decrease	% change	1.0% increase	% change	1.0% decrease	% change	No salary increase	% change	1.0% increase	% change	1.0% decrease	% change
Early retirement and severance	2,590	2,408	(7%)	2,805	8%	2,590	0%	2,590	0%	2,756	6%	2,449	(5%)	2,477	(4%)	2,770	7%	2,402	(7%)
25 years’ service grant	37	35	(6%)	40	7%	37	0%	37	0%	40	7%	35	(7%)	34	(9%)	37	0%	37	0%
Sick leave	383	348	(9%)	425	11%	383	0%	383	0%	425	11%	347	(9%)	359	(6%)	385	0%	381	0%
Other benefits	589	527	(10%)	663	13%	556	(6%)	629	7%	589	0%	589	0%	589	0%	590	0%	587	0%
Total	**3,599**	**3,317**	**(8%)**	**3,933**	**9%**	**3,566**	**(1%)**	**3,640**	**1%**	**3,809**	**6%**	**3,420**	**(5%)**	**3,458**	**(4%)**	**3,782**	**5%**	**3,407**	**(5%)**
Difference		**(282)**		**334**		**(33)**		**41**		**210**		**(179)**		**(141)**		**183**		**(192)**	