2014

Bank Hapoalim

Annual Report 2014

The Bank Hapoalim Group Major Subsidiaries & Affiliates

Commercial Banks
Bank Hapoalim B.M.
Bank Hapoalim (Switzerland) Ltd.
Bank 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) 100% owned by Bank Pozitif

Consolidated Financial Highlights

	2014	2013	**2014**	2013
	NIS millions		USD millions*	
Total Assets	**407,794**	380,020	**104,858**	97,717
Net Profit	**2,740**	2,548	**705**	655
Credit to the Public	**263,980**	251,600	**67,879**	64,695
Deposits from the Public	**297,230**	276,525	**76,428**	71,104
Shareholders' Equity	**31,361**	28,834	**8,064**	7,414

* US dollar figures have been converted at the representative exchange rate prevailing on December 31, 2014, NIS 3.889=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 280 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 255 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 some 30 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 and the CEO

Dear Stakeholders,

On behalf of the Board of Directors and the Board of Management, we are proud to present the annual financial statements of the Bank Hapoalim Group for 2014. During the year, Bank Hapoalim continued to implement our strategic plan for the years 2013-2015, attaining impressive business achievements and yielding 9.0% return on shareholders' equity, in line with our objectives.

A New Strategic Plan: Continuity and Momentum

In 2014, 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: efficiency, growth drivers, and technology. This plan is a direct continuation of the strategic plan of 2009, which solidified the Bank's position as Israel's leading financial institution. During the year, management successfully executed the strategic plan, while maintaining profitability under changing market conditions in a low-interest rate environment. Concurrently, management continued to drive the efficiency effort, which has become a way of life at Bank Hapoalim. The Bank's management acted decisively, in recognition of the new competitive arena emerging in the Israeli economy, which has placed banks in direct competition with existing and new players throughout the value chain in the financial industry. Return on equity stood at 9.0% and annual earnings reached NIS 2,740 million in 2014. 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.

Global Economy – Variations in Growth Rates of Economies Around the World

The American economy left the great financial crisis of 2008 behind in 2014, displaying impressive resilience, in contrast to the brittle growth of the European economy and the severe weakness of the Japanese economy. In the emerging economies, growth rates fell slightly and the risk level of sovereign debt rose, continuing a trend from 2013. The differences in growth rates contributed to the strengthening of the dollar against the euro and the yen. According to estimates by the International Monetary Fund, the overall growth rate of the global economy reached 3.3% in 2014, the same as in 2013. The steep drop in oil prices during the year benefited the global economy but was damaging to oil producers. Monetary policies in the developed countries remained highly expansionary, despite signs of a change in trend at the central bank in the US, expected to be expressed in 2015.

Economic Environment in Israel

The Israeli economy posted 2.9% growth in 2014. Economic growth remains stable, although Operation Protective Edge in the third quarter dampened growth significantly for that quarter, and probably caused slight deceleration in annual terms. Also, there were hopes that natural gas from the Tamar field and the achievements of the high-tech industry would lead to a higher growth rate for the Israeli economy. The labor market stabilized at a low unemployment rate of about 6%, with a high workforce participation rate. Surveys indicate that the participation rate in the ultra-orthodox (Haredi) and Arab-Israeli sectors is rapidly rising – an important process of deep societal change with long-term implications. The real-estate market continued to seethe, following a partial calm while the market waited for government solutions. Pent-up demand for housing pushed prices of homes up by 4.5%, according to a survey by the Central Bureau of Statistics. The consumer price index decreased by 0.2% over the last year. Inflation is currently low in most countries around the world, due to factors including the sharp drop in prices of oil and commodities. In Israel, competition has intensified in several areas, such as telecommunications and food, which led to lower prices. The government's policy of lowering the cost of living also had an impact. The Bank of Israel interest rate was lowered incrementally in 2014, from 1.0% to 0.25%. The rate cuts were aimed at helping to halt the appreciation of the shekel and stimulate the economy.

Leaders in a Competitive Market

As Israel's largest bank, we have capably served every part of our extensive client base, providing individual focus and adaptation to the needs of the various segments of the population. In 2014 we proved our commitment to growth drivers – distinct customer segments whose economic activity is growing faster than the average in the economy – while placing emphasis on reinforcing our technological infrastructure, with innovation and creativity. Concurrently, the Bank continued to increase the number of its retail banking customers, maintain its leadership in financing of infrastructures and corporations, and grow consistently in the commercial banking segment, in which we raised the Bank's market share and achieved impressive growth in revenues and in the number of clients. The Bank continues to uphold its deep commitment to the small business sector, in recognition of the importance of this sector to the Israeli economy. This is reflected in a stronger value offer, the creation of innovative products, and ongoing guidance, financing, and consulting for this client segment. In 2014, we focused on the commercial banking segment, with great success; the bank's market share increased, with strong growth in revenues and in the number of customers. The Bank's momentum in the Arab-Israeli community has changed the terms of competition in this sector, bringing the power and excellence of Bank Hapoalim to the forefront. We have also reinforced the Bank's value offer for the high-tech sector by deploying a focused, skilled service infrastructure. In 2014, 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 and achieving a breakthrough in commercial banking, we also reduced concentration in the credit portfolio, in a process combining growth, profitability, and risk diversification.

The Bank also continued to expand its capital base in 2014, in line with its multi-year trajectory for increasing capital, with a focus on sustainable profitability in its core banking business. At the end of the year, the Bank's capital-adequacy ratio stood at 9.3%. Bank Hapoalim increased its net profit in 2014, despite a challenging interest rate environment, a gradual economic slowdown, and damage to revenues caused by a more stringent regulatory regime.

Prepared to Compete

As the fiscal year of 2014 draws to a successful close, we are looking ahead to a future of continued fruitful activity. The Board of Directors' three-year plan is based on an in-depth analysis of the economic, regulatory, and business environment and relies on capable and resolute execution by the Bank's management. The plan is grounded in a clear-eyed view of the changes in the global and Israeli banking industry, and calls for completion of management's efficiency plan alongside enhancement of revenue drivers and positioning of the Bank as the industry leader in technology and in product and service innovation across all business lines.

Cultivation of Human Resources and Labor Relations

Bank Hapoalim has continued to promote and develop our most 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 led the Israeli banking industry in contribution to the community in 2014. 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 others. This is the sixth consecutive year in which the Bank has published a Sustainability and Corporate Social Responsibility Report. Like the previous editions, this report earned the highest score from the international organization GRI. The Bank is listed on the global FTSE4GOOD index, considered the world's leading index for sustainability and socially responsible investment.

Commitment to Markets and Stakeholders

We believe in our ability to generate a double-digit return on equity for our shareholders over the medium to long term. This target reflects the Bank's risk appetite in light of the changes in the economic environment and ever-increasing competition.

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), 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.

We would like to take this opportunity to express our deepest gratitude to our customers, who continue to express their confidence in us every day; to our 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

Zion Kenan
President and Chief Executive Officer

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.

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.

Amir Aviv
Head of International Banking
Mr. Aviv was appointed to the Board of Management in December 2013. 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 BA in Business from the Cardiff Business School at the University of Wales and a Master's degree from the London Business School.

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.

Dan Koller
Head of Financial Markets
Mr. Koller joined Bank Hapoalim in 1999 and was appointed to the Board of Management in 2008. Before his current appointment on December 1, 2013, Mr. Koller served as Head of International Banking (2012-2013) and Chief Risk Officer (2008-2012).
Prior to 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.

Avraham Kochva

Head of Information Technology

Mr. Kochva joined Bank Hapoalim in 2011 and was appointed to the Board of Management on August 1, 2014. Before joining the Board, he served as Head of the Development Division – Information Technology Area (2011-2014). Before 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.

Jacob Orbach

Head of Coporate 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 on July 6, 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.

Ari Pinto

Head of Retail Banking

Mr. Pinto has been with Bank Hapoalim since 1980 and was appointed to the Board of Management in 2009 as Head of Corporate Strategy. He assumed his current position in November 2013. Prior to joining the Board, he served as Retail Credit and Mortgages Division Manager (2007-2009), and as Human Resources Division Manager (2002-2007). 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.

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. Before his current appointment, 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 M.B.A. from Bar Ilan University; and a Bachelor degree in Law and Accounting from Tel Aviv University.

Efrat Yavetz

Head of Human Capital, Advising and Resources

Ms. Yavetz has been with Bank Hapoalim since 1988 and was appointed to the Board of Management in 2009. Before her current appointment, 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.

Board of Directors

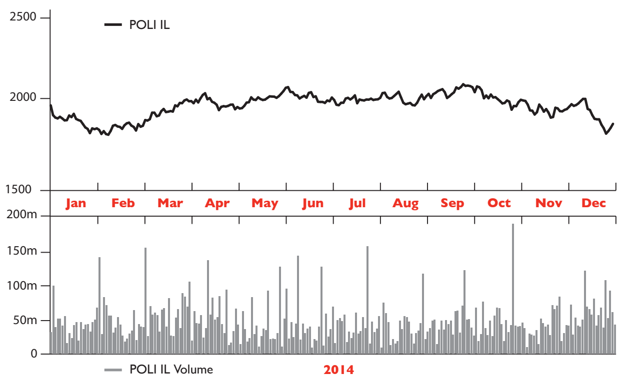
Yair Seroussi
Chairman of the Board of Directors

Mali Baron
Amnon Dick
Irit Izakson
Moshe Koren
Yacov Peer
Efrat Peled
Nehama Ronen
Dafna Schwartz
Ido Stern
Yair Tauman
Imri Tov
Meir Wietchner
Yosef Yarom
Nir Zichlinskey

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, 2014 1,323,208,692 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)
2014	2,078	1,774
2013	1,961	1,507
2012	1,632	1,060

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
2014	2.07
2013	1.93
2012	1.90

Dividend Policy

Bank Hapoalim's dividend policy is to distribute up to 30% of annual net operating profit to its shareholders.
In 2013, the Board of Directors approved a quarterly dividend payout of 15% of net profit.
The dividends paid over the last three years were:

	Dividend Per Share	Total Paid NIS Millions
2014	0.34	412
2013	0.29	382
2012	-	-

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, 2013 were:

Public	78.5%
Controlling stake	20.83% of which:
Arison Holdings (1998)	20.2%
Salt of the Earth	0.63%

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 that are 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,Hong Kong 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. Bank 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.

Kazakhstan

Bank Pozitiv, headquartered in Almaty, is a wholly owned subsidiary of Bank Pozitif. The Bank is mainly active in retail 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 and has 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**
- **Montreal**
- **Paris**
- **Mexico City**
- **Panama City**
- **Santiago**

2014

Bank Hapoalim

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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 34 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.

Board of Directors' Report for 2014

At the meeting of the Board of Directors held on March 9, 2015, it was resolved to approve and publish the consolidated financial statements of Bank Hapoalim B.M. for the year ended December 31, 2014.

Description of the General Development of the Bank Group's Business

Activities of the Bank Group and Description of Business Developments

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, 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 255 branches, which provide the full range of banking services.
- In addition to its banking business, the Bank Group also engages in related activities, mainly in the areas of credit cards and the capital market. In the credit-card sector, the Bank Group, through a subsidiary (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 credit cards as well as credit cards issued by others. The Bank Group's capital-market activity includes the provision of services for the execution of trading transactions in securities (brokerage), securities custody services, research and consulting, services for financial asset managers, investment portfolio management, and issuance underwriting and 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, Latin America, and Asia, 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 and Kazakhstan. 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 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 New York, while expanding its service package and improving its capabilities in the areas of products, marketing, and customer service.

The principal developments and changes that occurred during 2014 are detailed below.

Development of the Bank Group's Business

Net profit of the Bank Group attributed to shareholders of the Bank totaled approximately NIS 2,740 million in 2014, compared with profit in the amount of approximately NIS 2,548 million in 2013.

Net return on equity attributed to shareholders of the Bank was 9.0% in 2014, compared with 9.2% in 2013.

Basic net profit per share of par value NIS 1 amounted to NIS 2.07 in 2014, compared with NIS 1.93 in 2013.

Total assets of the Bank Group as at December 31, 2014 amounted to approximately NIS 407.8 billion, compared with approximately NIS 380.0 billion at the end of 2013, an increase of 7.3%.

Net total credit to the public amounted to NIS 264.0 billion as at December 31, 2014, compared with NIS 251.6 billion at the end of 2013, an increase of 4.9%.

Total deposits from the public amounted to NIS 297.2 billion as at December 31, 2014, compared with NIS 276.5 billion at the end of 2013, an increase of 7.5%.

Total shareholders' equity amounted to NIS 31.4 billion as at December 31, 2014, compared with NIS 28.8 billion at the end of 2013, an increase of 8.8%.

The total capital adequacy ratio as at December 31, 2014 was 14.60%, compared with 14.61% on January 1, 2014.

The common equity Tier 1 capital ratio as at December 31, 2014 was 9.29%, compared with 9.08% on January 1, 2014.

Principal Data of the Bank Hapoalim Group

	For the year ended Dec. 31			Change vs.	
	2014	2013	2012	2013	2012
	NIS millions				
Profit and Profitability					
Net financing profit***	**8,684**	8,423	8,415	3.1%	3.2%
Fees and other income	**5,338**	5,241	5,222	1.9%	2.2%
Total income	**14,022**	13,664	13,637	2.6%	2.8%
Provision for credit losses	**425**	874	987	(51.4%)	(56.9%)
Operating and other expenses	**9,140**	*9,024	*8,886	1.3%	2.9%
Net profit attributed to shareholders of the Bank	**2,740**	*2,548	*2,506	7.5%	9.3%

	For the year ended Dec. 31			Change vs.	
	2014	2013	2012	2013	2012
	NIS millions				
Balance Sheet – Principal Data					
Total balance sheet	**407,794**	*380,020	*376,194	7.3%	8.4%
Net credit to the public	**263,980**	251,600	249,182	4.9%	5.9%
Securities	**58,778**	60,912	52,070	(3.5%)	12.9%
Deposits from the public	**297,230**	276,525	271,411	7.5%	9.5%
Bonds and subordinated notes	**33,671**	33,980	35,677	(0.9%)	(5.6%)
Shareholders' equity	**31,361**	*28,834	*26,561	8.8%	18.1%
Net total problematic credit risk**	**12,721**	16,279	13,284	(21.9%)	(4.2%)
Of which: net impaired balance sheet debts**	**5,389**	6,817	6,701	(20.9%)	(19.6%)

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** Net of the individual allowance, the allowance according to the extent of arrears, and the collective allowance in respect of problematic credit risk.

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

Principal Data of the Bank Hapoalim Group (continued)

	2014	2013	2012
Main Financial Ratios			
Net loan to deposit ratio	**88.8%**	91.0%	91.8%
Net loan to deposit ratio including bonds and subordinated notes	**79.8%**	81.0%	81.1%
Shareholders' equity to total assets	**7.7%**	7.6%	7.1%
Common equity Tier 1 capital according to Basel 3	**9.3%**	-	-
Total capital according to Basel 3	**14.6%**	-	-
Ratio of core capital to risk-adjusted assets according to Basel 2	**-**	*9.3%	*8.8%
Ratio of total capital to risk-adjusted assets according to Basel 2	**-**	*15.5%	*15.6%
Financing margin from regular activity(1)	**2.17%**	2.12%	2.31%
Cost-income ratio(4)	**61.0%**	*62.8%	*63.8%
Total income to assets(2)	**3.7%**	*3.7%	*3.8%
Total expenses to assets(3)	**2.4%**	*2.4%	*2.5%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.16%**	0.34%	0.39%
Net return of profit attributed to shareholders of the Bank on equity	**9.05%**	*9.24%	*10.02%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**2.07**	*1.93	*1.90

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

(1) Financing profit from regular activity (see the Board of Directors' report, in the section Profit and Profitability – Development of Financing Profit) is divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.

(2) Total income divided by the average balance of total assets.

(3) Total operating and other expenses, divided by the average balance of total assets.

(4) Does not include provision for efficiency plans and provision with regard to banking services to US clients.

Principal Data of the Bank Hapoalim Group (continued)

	For the three months ended				
	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013
	NIS millions				
Profit and Profitability					
Net financing profit***	**2,146**	2,160	2,322	2,056	2,073
Fees and other income	**1,438**	1,304	1,297	1,299	1,394
Total income	**3,584**	3,464	3,619	3,355	3,467
Provision for credit losses	**363**	80	(3)	(15)	(59)
Operating and other expenses	**2,501**	*2,219	*2,255	*2,165	*2,591
Net profit attributed to shareholders of the Bank	**478**	*734	*781	*747	*633

	Dec. 31, 2014	Sept. 30, 2014	March 31, 2014	Dec. 31, 2013	Dec. 31, 2013
	NIS millions				
Balance Sheet – Principal Data					
Total balance sheet	**407,794**	*393,989	*370,156	*376,635	*380,020
Net credit to the public	**263,980**	257,826	252,066	250,232	251,600
Securities	**58,778**	57,190	63,800	65,333	60,912
Deposits from the public	**297,230**	281,760	268,935	276,014	276,525
Bonds and subordinated notes	**33,671**	34,073	30,533	31,314	33,980
Shareholders' equity	**31,361**	*31,100	*30,308	*29,623	*28,834
Net total problematic credit risk**	**12,721**	13,362	13,483	14,205	16,279
Of which: net impaired balance sheet debts**	**5,389**	5,719	6,038	6,305	6,817

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** Net of the individual allowance, the allowance according to the extent of arrears, and the collective allowance in respect of problematic credit risk.

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

Principal Data of the Bank Hapoalim Group (continued)

	For the three months ended				
	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013
Main Financial Ratios					
Net loan to deposit ratio	**88.8%**	91.5%	93.7%	90.7%	91.0%
Net loan to deposit ratio including bonds and subordinated notes	**79.8%**	81.6%	84.2%	81.4%	81.0%
Shareholders' equity to total assets	**7.7%**	*7.9%	*8.2%	*7.9%	*7.6%
Common equity Tier 1 capital according to Basel 3	**9.3%**	*9.3%	*9.5%	*9.4%	-
Total capital according to Basel 3	**14.6%**	*14.6%	*14.9%	*14.9%	-
Ratio of core capital to risk-adjusted assets according to Basel 2	**-**	-	-	-	*9.3%
Ratio of total capital to risk-adjusted assets according to Basel 2	**-**	-	-	-	*15.5%
Financing margin from regular activity(1)(2)	**2.12%**	2.21%	2.31%	2.09%	2.13%
Cost-income ratio(5)	**56.4%**	*62.5%	*60.8%	*64.5%	*62.0%
Total income to assets(3)	**3.7%**	*3.7%	*3.9%	*3.6%	*3.7%
Total expenses to assets(4)	**2.5%**	*2.4%	*2.4%	*2.3%	*2.8%
Provision for credit losses as a percentage of the average recorded balance of credit to the public(1)	**0.54%**	0.12%	(0.00%)	(0.02%)	(0.09%)
Net return of profit attributed to shareholders of the Bank on equity(1)	**6.23%**	*9.87%	*10.89%	*10.67%	*9.20%
Basic net earnings per share in NIS attributed to shareholders of the Bank	**0.36**	*0.55	*0.59	*0.57	*0.48%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

(1) Calculated on an annualized basis.

(2) Financing profit from regular activity (see the Board of Directors' report, in the section Profit and Profitability – Development of Financing Profit) is divided by total financial assets after allowance for credit losses, net of non-interest bearing balances in respect of credit cards.

(3) Total income divided by the average balance of total assets.

(4) Total operating and other expenses, divided by the average balance of total assets.

(5) Does not include provision for efficiency plans and provision with regard to banking services to US clients..

Forward-Looking Information

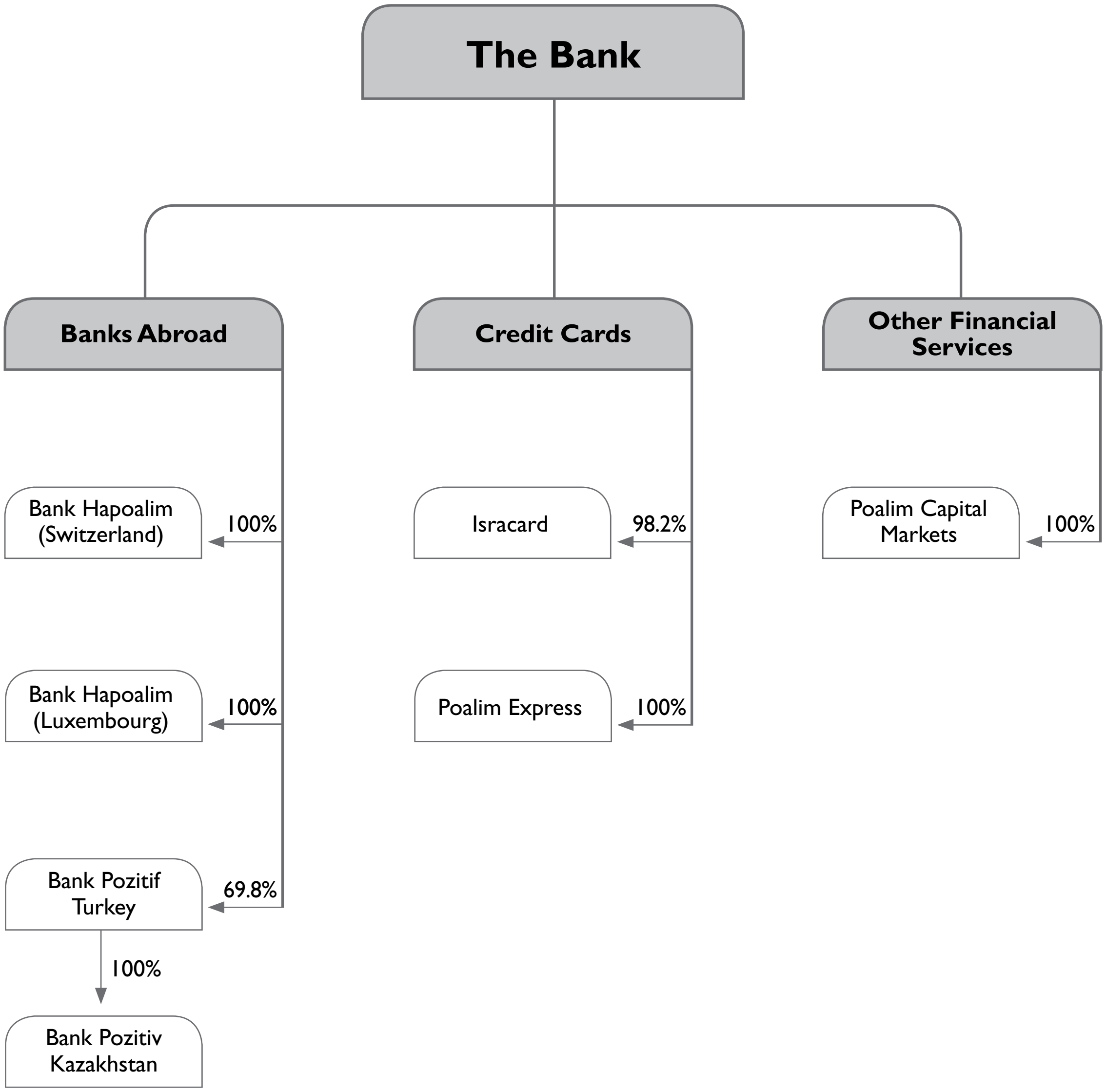
Some of the information in this report that does not refer to historical facts constitutes forward-looking information, as defined in the Securities Law. The Bank's actual results may differ materially from those included in forward-looking information, as a result of a large number of factors, including changes in capital markets in Israel and globally, macro-economic changes, changes in geopolitical conditions, regulatory changes, 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 "we believe," "expect," "forecast," "estimate," "intend," "plan," "aim," "may change," and similar expressions, as well as words such as "plan," "target," "wish," "should," "can," or "will." Such forward-looking information and 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.

Chart of Holdings

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 No. 662 of the Supervisor of Banks regarding the statement of data on principal subsidiaries in financial statements of banking corporations).

Ratings of the Bank

The following ratings have been assigned to the Bank by rating agencies in Israel and abroad:

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating:					
	Moody's	A1	P-1	Stable	September 2014
	S&P	A+	A-1	Stable	February 2015
	Fitch Ratings	A	F1	Stable	November 2014
Bank Hapoalim:					
	Moody's	A2	P-1	Negative	October 2014
	S&P	A-	A-2	Stable	October 2014
	Fitch Ratings	A-	F1	Stable	May 2014
Local rating (in Israel):					
	S&P Maalot	AAA		Stable	October 2014
	Midroog	Aaa	P-1	Stable	March 2014

In March 2014, the rating agency Midroog reaffirmed the Bank's rating with no change, and upgraded its rating outlook to Stable (from Negative).
In May 2014, the rating agency Fitch reaffirmed the Bank's long-term rating (with no change) and upgraded its short-term rating to FI (from F2).
In September 2014, the rating agency S&P reaffirmed the sovereign foreign currency rating to A+. The country rating outlook remains stable.
In September 2014, the rating agency Moody's reaffirmed the sovereign foreign currency rating to A1. The country rating outlook remains stable.
In October 2014, the rating agency S&P upgraded the Bank's rating to A- (from BBB+) The rating outlook remains stable.
In October 2014, the rating agency S&P Maalot upgraded the Bank's local rating to AAA (from AA+). The rating outlook remains stable.
In October 2014, the rating agency Moody's reaffirmed the Bank's rating with no change, and changed its rating outlook to Negative (from Stable).
In November 2014, the rating agency Fitch reaffirmed the country rating (with no change), and changed its rating outlook to Stable (from Positive).
In February 2015, the rating agency S&P reaffirmed the sovereign foreign currency rating to A+. The country rating outlook remains stable.

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 several trusts that have holdings in the Israeli companies noted below, which own shares of the Bank.

Arison Holdings (1998) Ltd. (hereinafter: "Arison Holdings") 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).

Arison Investments Ltd. (a sister company of Arison Holdings; hereinafter: "Arison Investments"), through a wholly-owned subsidiary, holds the entire share capital of Salt of the Earth Ltd., which holds shares comprising approximately 0.63% of the share capital of the Bank.

Near the date of publication of the Financial Statements, the Arison Group (through Arison Holdings and Arison Investments) holds a total of approximately 20.83% (20.63% fully diluted) of the share capital of the Bank.

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, 2014, is NIS 1,323,208,692 par value, composed of 1,323,208,692 ordinary shares of par value NIS 1 each. This is the issued capital following the subtraction of 14,168,419 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 1,324,484,529 par value, following the subtraction of the balance of 12,892,582 Treasury Shares.

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

Sale of Shares by an Interested Party of the Bank

On August 17, 2014, Salt of the Earth Ltd. sold 8,750,000 shares of the Bank in consideration for a total of NIS 176 million, in an off-market transaction. The quantity sold constitutes 0.67% of the capital of the Bank.

On June 20, 2013, Salt of the Earth Ltd. sold 14,619,883 shares of the Bank in consideration for a total of NIS 250 million, in an off-market transaction. The quantity sold constitutes 1.1% 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 compensation plan, as detailed in Note 13B to the Financial Statements. Up to December 31, 2014, the Bank purchased 25,153,853 shares, at a cost of approximately NIS 408 million.

Changes in the capital of the Bank from January 1, 2014, to near the date of publication of the Financial Statements:

Up to the date of publication of the financial statements, a decrease of 3,908,639 ordinary shares occurred in the issued and paid-up capital of the Bank. The decrease resulted from a net increase in the quantity of shares purchased by the Bank for the purposes of remuneration plans, less shares transferred to employees upon the exercise of options and Restricted Stock Units (hereinafter: "RSU").

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

7,076,826 stock option units issued to employees of the Bank under the 2010-2012 plan.

4,040,703 RSU issued to senior executives.

The grant of RSU in 2014, as a deferred payment of 50% of the annual bonus in respect of that year, pursuant to the Remuneration Plan (2014), has not yet been performed. The allocation of these RSU is expected to take place after the publication of the Financial Statements for 2014. The options and RSU will be exercised into shares from the pool of shares purchased by the Bank for that purpose.

For further details regarding RSU granted to the Chairman of the Board of Directors, the CEO, and senior executives of the Bank, see Note 16 to the Financial Statements.

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 has received approval from the Supervisor of Banks to distribute dividends at a rate of 15% of its annual profit, subject to compliance with the trajectory that has been established for the development of the core capital ratio.

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, provided that 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 further established that the minimum total capital ratio of all banking corporations shall stand at 12.5% by January 1, 2015, and that in addition, the minimum total capital ratio of banking corporations of significant importance shall stand at 13.5% by 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.

On September 28, 2014, the Supervisor of Banks issued an additional directive pursuant to which each banking corporation must increase its common equity Tier 1 capital target at a rate representing 1% of the balance of its housing loans, by January 1, 2017. The banking corporations are required to increase 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 directives described above, in aggregate, the Bank will be required to maintain a common equity Tier 1 capital ratio of approximately 10.2% as of January 1, 2017, as noted 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 compensation program. 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, 2014 totaled NIS 22,243 million, of which a total of approximately NIS 2,734 million cannot be distributed as dividends, as mentioned.

Details regarding dividend distribution beginning January 1, 2013:

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 15% of net profits, the Board of Directors resolved on March 9, 2015, to distribute a dividend in respect of the profits of the fourth quarter of 2014, in the amount of approximately NIS 70 million, or NIS 0.05262 per share of par value NIS 1. The Board of Directors set the record date for payment of the dividend at March 18, 2015 and the date of payment at March 31, 2015.

Details of dividends paid:

Date of declaration	Date of payment	Dividend per share in agorot	Dividend paid in cash in NIS millions
November 23, 2014	**December 15, 2014**	**8.83**	**117**
August 13, 2014	September 3, 2014	9.00	119
May 21, 2014	June 12, 2014	8.00	106
March 19, 2014	April 10, 2014	8.00	106
November 26, 2013	December 18, 2013	7.00	92
August 28, 2013	September 30, 2013	7.00	92
July 10, 2013	August 5, 2013	7.00	92

Capital and Capital Adequacy

As of January 1, 2014, the Bank has implemented the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211. The Basel 3 directives establish significant changes in the calculation of supervisory capital requirements, with regard to the following matters, among others:

- Components of supervisory capital;
- Deductions from capital and supervisory adjustments;
- Accounting for exposures to financial corporations;
- Accounting for exposures to credit risk in respect of impaired debts;
- Capital allocation in respect of CVA risk in derivative financial instruments activity.

The amendments to the aforesaid directives are in effect as of 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," which is aimed at making it possible to comply with the new requirements regarding supervisory capital within the implementation of Basel 3 and establishing a transitional period until full implementation.

Among other matters, the transitional directives address supervisory adjustments and deductions from capital, as well as capital instruments not eligible for inclusion in supervisory capital, according to the new criteria established in the Basel directives. Specifically, pursuant to the transitional directives, 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 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; this ceiling will be lowered by an additional 10% in each subsequent year, until January 1, 2022.

In addition, a circular of the Supervisor of Banks entitled "Basel Disclosure Requirements Concerning the Composition of Capital" was published on August 29, 2013. This circular establishes updated disclosure requirements which banks are required to include as part of the adoption of the Basel 3 directives. Accordingly, the note on capital adequacy in the Annual Financial Statements for 2014 includes disclosure of comparative figures for the preceding year prepared in accordance with the Basel 2 directives, as adopted by the Supervisor of Banks, as well as disclosure of comparative figures as at January 1, 2014, prepared in accordance with the Basel 3 directives.

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, 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 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 effect of the additional directives on the capital ratios of the Bank as at January 1, 2017 is estimated at approximately 0.2%, according to the balance of housing loans at the reporting date.

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.

	Dec. 31, 2014	Jan. 1, 2014	Dec. 31, 2013
	Basel 3[(1)]		Basel 2[(2)]
	NIS millions		
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Core Tier 1 capital	**31,482**	*28,966	[(4)]*28,195
Tier 1 capital, after deductions	**33,436**	*30,920	[(4)]*30,664
Tier 2 capital, after deductions	**16,041**	15,697	16,341
Total overall capital	**49,477**	*46,617	[(4)]*47,005
2. Weighted balances of risk-adjusted assets			
Credit risk	**311,329**	*292,522	*276,537
Market risks	**5,269**	4,748	4,748
Operational risk	**22,275**	21,769	21,769
Total weighted balances of risk-adjusted assets	**338,873**	*319,039	*303,054
	%		
3. Ratio of capital to risk-adjusted assets			
Ratio of common equity Tier 1 capital to risk-adjusted assets/ratio of core capital to risk-adjusted assets	**9.29%**	*9.08%	*9.30%
Ratio of Tier 1 capital to risk-adjusted assets	**9.87%**	*9.69%	*10.12%
Ratio of total capital to risk-adjusted assets	**14.60%**	*14.61%	*15.51%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**[(3)]9.00%**	[(3)]9.00%	
Minimum total capital ratio required by the Supervisor of Banks	**[(3)]12.50%**	[(3)]12.50%	9.00%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning Jan. 1, 2014. Data as at Jan. 1, 2014 are based on balances as at Dec. 31, 2013. The effect of the transition to the Basel 3 directives on Jan. 1, 2014, is a decrease of 0.22% in the common equity Tier 1 capital ratio and a decrease of 0.9% in the total capital ratio.

(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until Dec. 31, 2013.

(3) The minimum capital ratio required according to the directives of the Supervisor of Banks from Jan. 1, 2015 to Dec. 31, 2016. As of Jan. 1, 2017 the minimum required common equity Tier 1 capital ratio is 10%, and the minimum required total capital ratio is 13.5%. Beginning Jan. 1, 2015, a capital requirement will be added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement will be implemented gradually, during the course of eight quarters, up to Jan. 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 Jan. 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 4A.2 to the Financial Statements.

(4) Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

The common equity Tier 1 capital ratio as at December 31, 2014 was 9.29%, compared with a common equity Tier 1 capital ratio of 9.08% as at January 1, 2014.

The ratio of total capital to risk-adjusted assets as at December 31, 2014 was 14.60%, compared with a total capital ratio of 14.61% as at January 1, 2014.

Total capital as at December 31, 2014 amounted to approximately NIS 49,477 million, compared with NIS 46,617 million as at January 1, 2014. The increase in the capital base mainly resulted from net profit, excluding the dividend paid, and from an increase in adjustments in respect of the presentation of securities available for sale at fair value.

Risk-adjusted assets as at December 31, 2014 amounted to NIS 338.9 billion, compared with NIS 319.0 billion as at January 1, 2014. The increase in risk-adjusted assets mainly resulted from an increase in corporations' risk assets.

Economic and Financial Review

Developments in the Global Economy

The global economy in 2014 was characterized by uneven trends. Growth in the United States was strong, while in Europe growth stagnated and inflation was near zero, to the point of worries over deflation. The situation in the emerging economies was uneven as well. In Asia, trends were mostly positive; positive standouts were the Indian and Chinese economies. By contrast, Russia fell into an economic and financial crisis; Brazil is also experiencing GDP contraction. Looking ahead, risk to the recovery of the global economy remains high, mainly due to concerns over worsening of the Eurozone economies and further deterioration in Russia, which may affect additional economies as well. Overall for the year, according to estimates by the International Monetary Fund, the global economy grew at a rate of 3.3%, similar to the growth rate in 2013. The growth rate of the developed economies was 1.8%, while growth in the developing markets slowed to 4.4%. The inflation environment in the developed countries remained very low; one of the contributing factors was the steep drop in oil prices in the second half of 2014, by about 50% since June 2014. Due to the restrained level of activity and low inflation, monetary policies in the developed countries remained highly expansionary. The interest rate in the Eurozone decreased to a historically low 0.05%, and the European Central Bank began to buy bonds, at a monthly volume of EUR 60 billion. In Japan, the quantitative expansion plan has continued at a more intense pace. The interest rate in the United States remained near zero, at 0.25%, but bond purchases were terminated in October 2014. The relatively strong growth in the United States, and the expectations that it would be the first of the developed countries to raise its interest rate, strengthened the dollar against most other currencies during the second half of 2014.

In the United States, growth stabilized at a similar pace to 2013. The growth rate reached 2.4% in 2014, and was even higher in the second half of 2014. Activity in the real-estate industry steadied in 2014, as private consumption and industrial activity continued to expand, and employment figures mostly pointed to ongoing improvement: the unemployment rate fell to 5.6% in December 2014, and approximately 2.95 million new jobs were added to the American economy in 2014. In the Eurozone, growth in 2014 was positive but low, at 0.8%, following two years of recession. Germany remained a positive standout, while Spain showed impressive recovery, with 1.4% growth. The labor market remained vulnerable; the average unemployment rate in the Eurozone is still above 11.5%, and annual inflation is low enough to evoke fears of deflation. The risk premiums of Italy, Spain, Ireland, and Portugal fell significantly during 2014. In Greece, a new government was formed in January 2015, following elections. The government opposes the strict austerity measures applied in Greece, and is negotiating with the European Union and the European Central Bank to ease the austerity policy while maintaining credit lines to the Greek government and banks. This conflict is threatening Greece's continued membership in the Eurozone.

On January 15, 2015, the Swiss central bank announced the cancellation of the floor on the exchange rate against the euro, which had been set at 1.2 for the preceding three years. The bank also lowered the target range for the three-month Libor interest rate by half a percentage point, so that it stands in a range between 0.25% to 1.25%. In response to these steps, the Swiss franc appreciated sharply, by 18% against the euro and 13% against the dollar, by the end of January 2015.

Economic Activity in Israel

According to the early estimate by the Central Bureau of Statistics, the Israeli economy grew by 2.9% in 2014, versus 3.2% in 2013. The slower growth was influenced by factors including Operation Protective Edge during the third quarter of 2014, in which growth was at zero. In the fourth quarter of 2014, the economy grew at a rapid annualized pace of 7.2%; the effect of the military operation on economic activity can therefore be said to be limited. Growth over the last year was largely based on expansion of private consumption and public consumption, with slow expansion in exports and a decrease in real investments in the economy. The increase in private consumption was particularly notable in durable goods, and was likely influenced by the low interest rate. The increase in public consumption primarily resulted from high defense expenditures. The weakness in exports of goods and services was influenced by the appreciation of the shekel until the middle of 2014, and by the damage to incoming tourism caused by Operation Protective Edge.

The labor market continued to show strength, with the unemployment rate falling to an average level of 5.9%, versus 6.2% in 2013. The increase in the workforce participation rate also continued.

The residential construction industry was one of the issues at the head of the economic and political agenda. The government attempted to promote a plan to reduce value-added tax to zero for eligible buyers, as well as "target price" projects, in which land would be sold at a discount. These plans led to a steep 30% drop in purchases of new homes. Ultimately, the VAT reduction for eligible buyers was not approved, and the Knesset was dissolved. Beginning in September 2014, purchases of homes returned to the levels of 2013. According to a survey by the Central Bureau of Statistics, prices of homes rose by 4.5% in 2014.

Fiscal and Monetary Policy

The budget deficit in 2014 amounted to NIS 29.9 billion, or 2.8% of GDP. Tax revenues increased by 5.9%, while expenses grew by 3.5%. The government's budget for 2015 has not been approved by Knesset, due to its dissolution. Until a new government is formed (elections have been scheduled for March 17, 2015), the 2015 budget is being administered in accordance with the budget for the preceding year, and the government cannot deviate from the proportional share of the cumulative budget for the period.

The Bank of Israel interest rate was lowered three times during 2014, reaching 0.25% in September 2014. The rate cuts were performed amid relatively moderate economic growth, inflation below the lower limit of the target range, and an attempt to weaken the shekel exchange rate. The interest rate was lowered to 0.1% as of March 2015.

Inflation and Exchange Rates

The known consumer price index decreased by 0.1% in 2014. Excluding the housing item, the CPI decreased by 1.4%. The declines in prices resulted from exogenous factors, such as prices of commodities and fuel, as well as local factors, such as an increase in competition in the communications and retail sectors. The consumer price index for January 2015 decreased sharply, by 0.9%. As at February 2015, inflation expectations for the coming twelve months remain lower than the central bank's target.

The shekel depreciated by 12.0% against the dollar and 3.1% against the effective currency basket in 2014. The shekel began to weaken in August 2014, mainly reflecting the strengthening of the dollar against most other currencies. During 2014, the Bank of Israel purchased approximately USD 7 billion in conversion transactions, of which approximately USD 3.5 billion within a purchasing plan designed to offset the effect of natural-gas production on the exchange rate. Concurrently with the depreciation of the shekel, the volatility of the exchange rate increased considerably, both in historical terms and in terms of the implied volatility in options.

Financial and Capital Markets

Equity markets in the developed economies posted gains, but the performance of developing economies' equity markets was disappointing, with declines on average. Overall for the year, the TA-100 index was up by 6.7%, reaching a record level towards the end of the year. During most of the year, changes in the stock index in Tel Aviv were aligned with the trend in the developed markets, with the exception of August and September 2014, likely due to the increase in geopolitical risk in Israel. The S&P 500 index rose by 11.4% in 2014, while the MSCI EM (emerging markets) index fell by 6% (all in terms of local currencies). Turnovers in equities in Tel Aviv rose during the last quarter of 2014, reaching an average of NIS 1,365 million for the fourth quarter; the annual daily average was low, at NIS 1,213 million, similar to the average for 2013, NIS 1,172 million.

The bond market was up, influenced by the low interest rate and by the decrease in inflation expectations. The CPI-linked government bond index rose by 5.8%, and the unlinked bond index rose by 7.2%. The corporate bond index decreased by 2.6% in the last quarter of 2014, and rose by 1.5% for the year. Yield spreads over government bonds increased in the second half of 2014.

				Rate of change	
	2014	2013	2012	**2014**	2013
	Points				
Consumer price index:					
November ("known")	**102.1**	102.2	100.3	**(0.1%)**	1.9%
	In NIS				
Exchange rate as at December 31:					
USD exchange rate	**3.889**	3.471	3.733	**12.0%**	(7.0%)
EUR exchange rate	**4.725**	4.782	4.921	**(1.2%)**	(2.8%)
CHF exchange rate	**3.929**	3.897	4.077	**0.8%**	(4.4%)
GBP exchange rate	**6.064**	5.742	6.037	**5.6%**	(4.9%)
TRY exchange rate	**1.666**	1.606	2.088	**3.7%**	(23.1%)

	2014	2013	2012
As at December 31:			
Bank of Israel Interest rate	**0.25%**	1.00%	2.00%

Critical Accounting Policies and Critical Accounting 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 as estimates and evaluations on "critical" matters. The Bank's Board of Management is of the opinion that the estimates and evaluations used 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 concerning the measurement and disclosure of impaired debts, credit risk, and allowance for credit losses, the Bank has implemented the US accounting standards in this area (ASC 310) and the position statements of the banking 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 with respect to individual or collective allowances, 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 on 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 to the Bank, 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 in the various sectors of the economy, with a division between problematic and non-problematic credit, as well as on actual rates of net charge-offs starting January 1, 2011. This calculation also takes additional data into consideration, 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. The rates of collective allowances are established using a methodology established in congruence with the directives of the Supervisor of Banks, taking the factors noted above into consideration.

In this context, note that on January 19, 2015, a circular was issued by the Supervisor of Banks updating the Public Reporting Directives on "Collective Allowance in Respect of Credit to Private Individuals." Pursuant to the circular, in establishing the allowance for credit losses, banking corporations and credit-card companies 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 qualitative factors determined by the Supervisor of Banks, at a rate of no less than 0.75% of the balance of not-problematic consumer credit. Credit risk arising from receivables in respect of bank credit cards without interest charges was excluded from this calculation.

Pursuant to the circular, the Bank is preparing to develop and implement a methodology for calculating the collective allowance, taking into consideration a qualitative adjustment coefficient, as required in the directives. The Bank has also implemented the guidelines set forth in the directives of the Supervisor concerning the rate of the qualitative adjustment, at 0.75% above the average past losses in the five-year period ended at the reporting date. As a result of the implementation, the allowance for credit losses increased by a total of approximately NIS 179 million, before tax. The increase in the balance of the allowance was allocated to the statement of profit and loss.

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.

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, orderly 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 hundreds of leading financial institutions worldwide. In addition, the fair value of some of the nonmarketable securities in Israeli currency are accounted for using the method of the present value of future cash flows, based on the discount interest rate received from the quoting company (chosen by the Capital Market, Insurance, and Savings Division at the Ministry of Finance).

Due to the implementation of FAS 157 (ASC 820-10), 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 period ended on December 31, 2014, no significant decrease was observed in volumes of activity that could indicate a lack of liquidity in the market, requiring adjustment to fair value of these instruments.

Set out below are data regarding the adjustment of assets and liabilities in respect of derivative instruments, as noted above, as at December 31, 2014:

	NIS millions
Assets in respect of derivative instruments	**16,391**
Adjustment for credit risk of assets in respect of derivative instruments	**(136)**
Liabilities in respect of derivative instruments	**16,818**
Adjustment for credit risk of liabilities in respect of derivative instruments	**-**

For further details, see Note 1F(1) to the Financial Statements.

Employee Benefit Obligations

Some of the provisions in respect of the Bank's obligations in connection with employer-employee relationships are based, among other considerations, on actuarial calculations. This refers to the obligation to pay the 25-year service grant that each employee is entitled to receive at the end of 25 years of employment at the Bank, the obligation to pay compensation for unutilized sick days, post-retirement benefits, pension obligations for payments to employees who retire earlier than the legal retirement age, and pension obligations for payments to active employees who are expected to retire under preferred retirement terms earlier than the legal retirement age, as well as obligations for severance pay.

Total obligations, calculated based on actuarial estimates, amounted to approximately NIS 3,168 million as at December 31, 2014. The obligations are discounted at a real factor of 4% per year, as stipulated by the Supervisor of Banks, net of the real rate of increase of wages.

Most actuarial calculations are based on assumptions and estimates, which are based on estimates and decisions by management, past experience, and various statistics such as mortality tables, employee departure rates, the real rate of change in salaries over time, etc. These estimates and assumptions are reviewed regularly.

Changes in the various actuarial parameters would lead to results different from those obtained today. Thus, for example, an increase of 1% in the discount rate would result in a reduction of the obligations by a total of approximately NIS 252 million, and a decrease of 1% in the discount rate would increase the aforesaid obligations by a total of approximately NIS 258 million. An increase of 0.5% in the estimated annual rate of increase in wages would cause these obligations to grow by a total of approximately NIS 75 million. An increase of 0.5% in the estimated annual rate of employee departures due to early retirement would cause the aforesaid obligations to increase by a total of approximately NIS 71 million, while a decrease of 0.5% in the estimated annual rate of departure due to early retirement would cause the obligations to decrease by a total of approximately NIS 85 million.

The actuarial assessment of the obligations for employee benefits for the period ended on December 31, 2014, is available at the Magna website of the Israel Securities Authority at www.magna.isa.gov.il.

For details regarding the circular of the Supervisor of Banks concerning the adoption of US accounting rules for employee benefits, see Note 1F(1) to the Financial Statements.

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 taxes receivable, the Bank is required to carry out evaluations and estimates regarding their possible realization in the future.

As at December 31, 2014, the amount of temporary differences for which deferred taxes receivable were recorded amounted to NIS 9,697 million; the amount of losses carried forward for which no deferred taxes receivable were recorded amounted to NIS 514 million; and the amount of losses carried forward for which deferred taxes receivable were recorded amounted to NIS 202 million.

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 resulting 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) Formulation of a watch list – A quantitative and qualitative examination is performed in order to identify and evaluate securities whose value has declined, where the impairment may be other than temporary.

(2) Individual examination – Each security in the watch list is examined individually. This examination is based on considerations including the following:

- 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.

(3) Documentation of the results of the examination, as required pursuant to the rules established at the Bank.

The Bank has established several principles in order to determine whether impairment is other than temporary, and the amount of such impairment, as follows:

- Securities which at the balance sheet date the Bank does not intend to hold, or securities sold after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred.
- Securities whose value has declined by more than 20% relative to their cost, and the impairment has persisted for more than six months, constitute securities in which other-than-temporary impairment has occurred.
- Securities whose value has declined by 40% or more of the cost of the security, at or after the balance sheet date, constitute securities in which other-than-temporary impairment has occurred, unless it can be proven that special circumstances existed.
- Debt instruments that have sustained a significant downgrade of ratings constitute securities in which other-than-temporary impairment has occurred. For this purpose, the Bank defines a reduction of three notches or more leading to a rating below Investment Grade as a significant downgrade.
- Debt instruments in which a default on payments has occurred after the purchase are considered to be securities in which other-than-temporary impairment has occurred, until such time as the payments in respect of the debt instruments are received as scheduled.

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 amounted to approximately NIS 23 million on December 31, 2014.

The provision for impairment of non-financial assets recognized during the period ended on December 31, 2014 amounted to NIS 6 million, of which NIS 5 million in respect of software assets.

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 the 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 under 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 Discharge of its Functions" and in the section "Report on Directors with Accounting and Financial Expertise" in the Annual Financial Statements for 2014.

The Audit Committee and the Finance and Prospectus Committee held discussions regarding the financial statements as at December 31, 2014, 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.

Profit and Profitability

Net profit attributed to the shareholders of the Bank totaled NIS 2,740 million in 2014, compared with profit in the amount of NIS 2,548 million in 2013.

Net return on shareholders' equity was approximately 9.0% in 2014, compared with approximately 9.2% in 2013.

During 2014, the Bank retrospectively implemented the Supervisor of Banks' guidelines concerning capitalization of software costs. Comparative figures were restated. For further details, see Note 1D(2) to the Financial Statements.

Set out below is the condensed statement of profit and loss for the years 2014 and 2013:

	For the year ended Dec. 31		Change
	2014	2013	
	NIS millions		
Interest income	**10,673**	12,961	(17.7%)
Interest expenses	**(2,905)**	(5,018)	(42.1%)
Net interest income	**7,768**	7,943	(2.2%)
Non-interest financing income (expenses)	**916**	480	
Net financing profit**	**8,684**	8,423	3.1%
Provision for credit losses	**425**	874	(51.4%)
Net financing profit after provision for credit losses	**8,259**	*7,549	9.4%
Fees and other income**	**5,338**	5,241	1.9%
Operating and other expenses	**9,140**	*9,024	1.3%
Profit before taxes	**4,457**	*3,766	18.3%
Provision for taxes on profit	**1,729**	*1,271	36.0%
The Bank's share in profits of equity-basis investees, after taxes	**9**	9	
Net profit:			
Before attribution to non-controlling interests	**2,737**	*2,504	9.3%
Loss (profit) attributed to non-controlling interests	**3**	44	
Attributed to shareholders of the Bank	**2,740**	*2,548	7.5%
Return of net profit on equity attributed to shareholders of the Bank	**9.05%**	*9.24%	

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** 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 the 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.

Set out below are details of the composition of net financing profit:

	For the year ended Dec. 31		Change
	2014	2013	
	NIS millions		
Interest income	**10,673**	12,961	(17.7%)
Interest expenses	**(2,905)**	(5,018)	(42.1%)
Net interest income	**7,768**	7,943	(2.2%)
Non-interest financing income	**916**	480	
Total net financing profit	**8,684**	8,423	3.1%

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Interest income	**2,396**	**2,855**	**2,983**	**2,439**	2,755	3,694	3,423	3,089
Interest expenses	**(507)**	**(882)**	**(926)**	**(590)**	(815)	(1,613)	(1,415)	(1,175)
Net interest income	**1,889**	**1,973**	**2,057**	**1,849**	1,940	2,081	2,008	1,914
Non-interest financing income (expenses)	**257**	**187**	**265**	**207**	133	36	168	143
Total net financing profit	**2,146**	**2,160**	**2,322**	**2,056**	2,073	2,117	2,176	2,057

Net financing profit totaled NIS 8,684 million in 2014, compared with NIS 8,423 million in 2013. The increase in financing profit mainly resulted from an increase in profit from regular financing activity, which mainly resulted from an increase in the volume of retail credit and an increase in income in the Financial Management Segment. By contrast, profit from deposits decreased, mainly due to the decrease in the interest rate in Israel, and income in the Corporate Segment decreased, due to a decrease in the volume of credit. In addition, financing profit increased due to the effect of implementation of instructions set forth in the circular of the Supervisor of Banks concerning the adoption of GAAP for US banks on income measurement (hereinafter: FAS 91), beginning January 1, 2014. In this item, the main effect of the instructions took the form of an increase in income from early repayment fees. Fees charged for early repayments executed after January 1, 2014, are recognized immediately within interest income. However, income from fees charged for early repayments executed up to January 1, 2014, are allocated to financing profit over a period of three years. Income from adjustments of derivative instruments to fair value also increased, while profits from bonds and shares and from the effect of hedging of investments in subsidiaries overseas decreased, due to changes in exchange rates.

Developments in total net financing profit are set out below:

	For the year ended Dec. 31		Change
	2014	2013	
	NIS millions		
Profit from regular financing activity[(1)]	**7,661**	7,397	3.6%
Income from realization and adjustments to fair value of bonds	**343**	469	(26.9%)
Profit from investments in shares	**136**	140	(2.9%)
Effects of FAS 91[(4)]	**246**	-	
Adjustments to fair value of derivative instruments[(2)]	**215**	165	30.3%
Interest income on problematic debts not previously recorded	**132**	153	(13.7%)
Financing income (expenses) from hedging of investments overseas[(3)]	**(49)**	99	(149.5%)
Reported profit	**8,684**	8,423	3.1%

Quarterly developments in total net financing profit are set out below:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Profit from regular financing activity[(1)]	**1,954**	**1,915**	**1,997**	**1,795**	1,838	1,922	1,864	1,773
Income from realization and adjustments to fair value of bonds	**60**	**88**	**102**	**93**	81	50	214	124
Profit (loss) from investments in shares	**(7)**	**33**	**39**	**71**	32	55	1	52
Effects of FAS 91[(4)]	**62**	**47**	**63**	**74**	-	-	-	-
Adjustments to fair value of derivative instruments[(2)]	**84**	**61**	**73**	**(3)**	47	21	34	63
Interest income on problematic debts not previously recorded	**18**	**41**	**43**	**30**	49	43	40	21
Financing income (expenses) from hedging of investments overseas[(3)]	**(25)**	**(25)**	**5**	**(4)**	26	26	23	24
Reported profit	**2,146**	**2,160**	**2,322**	**2,056**	2,073	2,117	2,176	2,057

(1) Financing profit excluding exceptional effects, and excluding effects arising mainly from the timing of recording in accounting.
(2) 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.
(3) The effect of hedging the asymmetry in the tax liability in respect of exchange rate differences in investments in subsidiaries overseas, which are not taken into account in the income base for the purpose of the calculation of the provision for tax, in contrast to exchange rate differences in respect of sources of financing. The Bank hedges against tax exposure in respect of investments overseas by providing surplus financing sources against such investments.
(4) Effect of implementation of the directives of FAS 91, beginning Jan. 1, 2014. For further details, see Note 1.(D)(1).

Set out below are principal rates of interest income and expenses:

	For the year ended Dec. 31		
	2014	2013	2012
Rate of income on interest-bearing assets	**3.19%**	3.86%	4.44%
Rate of expense on interest-bearing liabilities	**1.15%**	*1.91%	*2.37%
Overall interest spread	**2.04%**	*1.95%	*2.07%
Net interest income as a percentage of the balance of interest-bearing assets	**2.32%**	2.37%	2.52%

* Reclassified.

The decrease in the rate of income on assets and in the rate of the expense on liabilities in 2014, as compared to 2013, resulted from the decrease in the interest rate in Israel. The increase in the overall interest spread resulted from an increase in interest income, due to the effects of the implementation of FAS 91, which led to an increase in income from early repayment fees recognized within interest income, as noted above. This increase was offset by the 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 2014 to 2013, indicates that changes in the volume of average balance sheet balances caused an increase in net interest income in the amount of NIS 310 million, and changes in interest rates caused a decrease in the amount of NIS 485 million.

Set out below are the developments in total net financing profit, before provision for credit losses, by principal segment of activity(1):

	For the year ended Dec. 31		Change
	2014	2013*	
	NIS millions		
Segment			
Households Segment	**2,103**	2,125	(1.0%)
Private Banking Segment	**902**	1,020	(11.6%)
Small Business Segment	**1,180**	1,108	6.5%
Commercial Segment	**896**	819	9.4%
Corporate Segment	**1,854**	*2,052	(9.6%)
Financial Management Segment	**1,749**	*1,299	34.6%
Total net financing profit	**8,684**	8,423	3.1%

* Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" below.
(1) Net financing profit includes the sum of net interest income plus non-interest financing income, as noted above.

The decrease in financing profit in the retail banking segments in Israel in 2014, in comparison to 2013, mainly resulted from a decrease in the interest rate in Israel. This decrease was mainly offset by an increase in the volume of credit.

The increase in financing profit in the Commercial Segment resulted from an increase in the volume of credit.

The decrease in financing profit in the Corporate Segment resulted from a decrease in the volume of credit.

The increase in financing profit in the Financial Management Segment resulted from an increase in income from adjustments to fair value of derivative instruments, and from implementation of the guidelines set forth in the circular of the Supervisor of Banks concerning adoption of GAAP for US banks on income measurement (hereinafter: "FAS 91") as of January 1, 2014. In this item, the main effect of the guidelines was expressed in an increase in income from early repayment fees. Fees charged for early repayment after January 1, 2014, are allocated to financing profit over a period of three years. By contrast, profits from bonds and shares decreased.

The provision for credit losses totaled NIS 425 million in 2014, compared with a total of NIS 874 million in 2013. The decrease mainly resulted from income in respect of a net individual allowance in the amount of NIS 189 million in 2014, compared with a net provision in the amount of NIS 222 million in 2013. Most of the decrease resulted from recoveries (reduction of the allowance and recovery of debts) in the amount of NIS 1,205 million in 2014, compared with a total of NIS 749 million in 2013.

The provision in respect of the individual allowance, before the effect of recoveries, totaled NIS 1,016 million in 2014, compared with NIS 971 million in 2013.

In 2014, the net provision in respect of the collective allowance amounted to NIS 614 million, mainly arising from an increase in allowance rates, and from the implementation of the guidelines in the circular of the Supervisor of Banks concerning the rate of the qualitative adjustment of the collective allowance in respect of credit to private individuals. A provision in the amount of NIS 179 million was recorded due to the implementation of these guidelines. In 2013, a net collective provision in the amount of NIS 652 million was recorded, which included an update of the minimum collective allowance for credit losses in respect of housing loans, in the amount of NIS 84 million, in accordance with the letter of the Supervisor of Banks concerning an update of the guidelines on residential property.

For further information regarding movements in the balance of the allowance for credit losses, see Note 4 to the Financial Statements.

Set out below are details regarding the provision for credit losses in respect of debts and in respect of off-balance sheet credit instruments**:

	For the year ended Dec. 31	
	2014	2013
	NIS millions	
Individual provision for credit losses	**1,016**	971
Decrease in individual allowance for credit losses and recovery of charged off debts	**(1,205)**	(749)
Net individual provision (income) for credit losses	**(189)**	222
Net provision in respect of the collective allowance for credit losses and net charge-offs of debts examined on a collective basis	**614**	652
Total provision for credit losses*	**425**	874
* Of which:		
Net provision for credit losses in respect of commercial credit risk	**138**	635
Net provision for credit losses in respect of housing credit risk	**(37)**	108
Net provision for credit losses in respect of other private credit risk	**326**	130
Net provision for credit losses in respect of risk of credit to banks and governments	**(2)**	1
Total provision (income) for credit losses	**425**	874
Provision as a percentage of total credit to the public:		
Rate of increase in individual allowance	**0.39%**	0.38%
Gross provision for credit losses as a percentage of the average recorded balance of credit to the public***	**0.62%**	0.64%
Provision for credit losses as a percentage of the average recorded balance of credit to the public	**0.16%**	0.34%
Net charge-offs in respect of credit to the public as a percentage of the average recorded balance of credit to the public	**0.06%**	0.38%
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	**3.73%**	24.70%

** 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.

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Set out below are details of the provision for credit losses as a percentage of the average recorded balance of credit to the public, by principal segment of activity:

	For the year ended Dec. 31				Change
	2014		2013		
	NIS millions		NIS millions		
Households Segment	**241**	**0.36%**	229	0.35%	5.2%
Private Banking Segment	**76**	**0.21%**	53	0.16%	43.4%
Small Business Segment	**190**	**0.69%**	143	0.56%	32.9%
Commercial Segment	**91**	**0.29%**	14	0.05%	550.0%
Corporate Segment	**(177)**	**(0.21%)**	446	0.47%	(139.7%)
Financial Management Segment	**4**	**0.26%**	(11)	(0.63%)	136.4%
Total	**425**	**0.16%**	874	0.34%	(51.4%)

Fees and other income totaled NIS 5,338 million in 2014, compared with NIS 5,241 million in 2013.

	For the year ended Dec. 31		Change
	2014	2013	
	NIS millions		
Fees			
Account management fees	**980**	968	1.2%
Securities activity	**1,047**	911	14.9%
Financial product distribution fees(1)	**218**	188	16.0%
Management, operations, and trust services for institutional entities(2)	**45**	50	(10.0%)
Credit cards	**1,674**	1,597	4.8%
Credit handling(3)	**173**	342	(49.4%)
Financing transaction fees	**545**	529	3.0%
Conversion differences	**277**	275	0.7%
Foreign trade activity	**124**	116	6.9%
Net income from credit portfolio services	**40**	33	21.2%
Life insurance and home insurance fees	**46**	49	(6.1%)
Other fees	**38**	57	(33.3%)
Total fees	**5,207**	5,115	1.8%
Other income	**131**	126	4.0%
Total fees and other income	**5,338**	5,241	1.9%

(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds.
(3) Influenced by the implementation of FAS 91. For further details, see Note 1(D).

Details of fees and other income by quarter are set out below:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Fees								
Account management fees	**251**	**249**	**233**	**247**	254	241	236	237
Securities activity	**287**	**245**	**253**	**262**	239	214	226	232
Financial product distribution fees(1)	**59**	**55**	**54**	**50**	48	43	49	48
Management, operations, and trust services for institutional entities(2)	**11**	**11**	**11**	**12**	12	12	13	13
Credit cards	**426**	**426**	**418**	**404**	429	408	376	384
Credit handling(3)	**64**	**43**	**39**	**27**	95	69	88	90
Financing transaction fees	**143**	**135**	**132**	**135**	147	130	131	121
Conversion differences	**75**	**59**	**71**	**72**	72	70	69	64
Foreign trade activity	**31**	**30**	**34**	**29**	31	30	29	26
Net income from credit portfolio services	**11**	**10**	**10**	**9**	7	8	9	9
Life insurance and home insurance fees	**11**	**12**	**11**	**12**	13	12	12	12
Other fees	**8**	**8**	**11**	**11**	10	17	16	14
Total operating fees	**1,377**	**1,283**	**1,277**	**1,270**	1,357	1,254	1,254	1,250
Other income	**61**	**21**	**20**	**29**	37	24	28	37
Total fees and other income	**1,438**	**1,304**	**1,297**	**1,299**	1,394	1,278	1,282	1,287

(1) Mainly mutual funds.
(2) Mainly in respect of management and operational services provided to provident funds.
(3) Influenced by the implementation of FAS 91. For further details, see Note 1(D).

Fees totaled NIS 5,207 million in 2014, compared with NIS 5,115 million in 2013. Income from the capital market resulting from activity in securities and distribution of financial products increased, due to an increase in the volume of activity; income from credit cards and fees from financing transactions increased as well. By contrast, income from credit handling decreased by approximately NIS 169 million. This decrease partially resulted from the implementation of FAS 91 as of January 1, 2014 (for details, see Note 1D(1) to the Condensed Financial Statements). Fees previously recorded upon receipt were spread; and as of this date, certain fees are included in the interest income item, instead of in the fees item, as in the past. The effect of the implementation caused a decrease in fee income in the amount of approximately NIS 259 million, mainly in the credit handling items.

Other income totaled NIS 131 million in 2014, compared with NIS 126 million in 2013. Most of the increase resulted from an agreement to supply IT services to a former subsidiary. In addition, in 2013, profit was recorded from the realization of assets received from realized credit collateral.

Operating and other expenses totaled NIS 9,140 million in 2014, compared with NIS 9,024 million in 2013, an increase of approximately 1.3%.

Details of operating and other expenses are set out below:

	For the year ended Dec. 31		Change
	2014	2013	
	NIS millions		
Salary expenses			
Wages	**4,429**	**,*4,471	(0.9%)
Bonuses and share-based compensation	**481**	523	(8.0%)
Efficiency plan provisions	**390**	**440	(11.4%)
Total salaries	**5,300**	*5,434	(2.5%)
Maintenance and depreciation of buildings and equipment	**1,539**	*1,544	(0.3%)
Amortization and impairment of intangible assets and goodwill	**12**	12	-
Other expenses	**2,289**	2,034	12.5%
Total operating and other expenses	**9,140**	*9,024	1.3%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) of the Financial Statements.
** Reclassified.

Details of operating and other expenses by quarter are set out below:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	NIS millions							
Salary expenses								
Wages	**1,050**	***1,090**	***1,135**	***1,154**	**,*1,097	*1,102	*1,098	*1,174
Bonuses and share-based compensation	**49**	**154**	**155**	**123**	130	142	156	95
Efficiency plan provisions	**390**	**-**	**-**	**-**	**440	*-	*-	*-
Total salaries	**1,489**	**1,244**	**1,290**	**1,277**	1,667	1,244	1,254	1,269
Maintenance and depreciation of buildings and equipment	**397**	***393**	***382**	***367**	*382	*410	*379	*373
Amortization and impairment of intangible assets and goodwill	**3**	**3**	**3**	**3**	3	3	3	3
Other expenses	**612**	**579**	**580**	**518**	539	488	507	500
Total operating and other expenses	**2,501**	***2,219**	***2,255**	***2,165**	*2,591	*2,145	*2,143	*2,145

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) of the Financial Statements.
** Reclassified.

Salary expenses totaled NIS 5,300 million in 2014, compared with NIS 5,434 million in 2013, a decrease of 2.5%. Salary expenses in 2014 include the effect of the efficiency plan, which is primarily based on early retirement, in the amount of approximately NIS 390 million compared with NIS 440 million in 2013. The decrease in salaries in 2014, as compared to 2013, mainly resulted from the effect of the efficiency plans, which led to a decrease of approximately 3.9% in the number of positions. For further details, also see the section "Human Capital."

Expenses for maintenance and depreciation of buildings and equipment totaled NIS 1,539 million in 2014, compared with NIS 1,544 million in 2013, a decrease of 0.3%. The decrease mainly resulted from a decrease in depreciation expenses and building maintenance, offset by an increase in municipal taxes and cleaning expenses.

Other operating expenses totaled NIS 2,289 million in 2014, compared with NIS 2,034 million in 2013, an increase of 12.5%. The increase mainly resulted from a provision in the amount of approximately NIS 196 million, recorded in accordance with the directives of the Supervisor of Banks (for further details, see Note 19E to the Financial Statements). In addition, expenses for fees and IT expenses increased.

The provision for taxes on profit amounted to NIS 1,729 million in 2014, compared with a total of NIS 1,271 million in 2013.

The effective tax rate for the Bank in 2014 reached 38.8%, compared with a statutory tax rate of 37.7%. For further details, see Note 29 to the Financial Statements.

The Bank's share in profits of equity-basis investees after taxes amounted to profit in the amount of NIS 9 million in 2014, similar to 2013.

Non-controlling interests' share in net results of consolidated companies totaled a share in loss in the amount of NIS 3 million in 2014, compared with a share in loss in the amount of NIS 44 million in 2013.

Net profit attributed to shareholders of the Bank of the Bank Group totaled NIS 2,740 million in 2014, compared with NIS 2,548 million in 2013.

Basic net profit per share of par value NIS 1 amounted to NIS 2.07 in 2014, compared with NIS 1.93 in 2013.

Composition and Development of the Bank Group's Assets and Liabilities

The consolidated balance sheet as at December 31, 2014 totaled NIS 407.8 billion, compared with NIS 380.0 billion at the end of 2013.

A. Set out below are the developments in the main balance sheet items:

	Balance as at Dec. 31		Change
	2014	2013	
	NIS millions		
Total assets	**407,794**	*380,020	7.3%
Net credit to the public	**263,980**	251,600	4.9%
Cash on hand and deposits with banks	**54,974**	45,709	20.3%
Securities	**58,778**	60,912	(3.5%)
Deposits from the public	**297,230**	276,525	7.5%
Bonds and subordinated notes	**33,671**	33,980	(0.9%)
Shareholders' equity	**31,361**	*28,834	8.8%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

B. Set out below are the developments in the principal off-balance sheet items:

	Balance as at Dec. 31		Change
	2014	2013	
	NIS millions		
1. Off-balance sheet financial instruments, excluding derivatives:			
Documentary credit	**1,586**	1,270	24.9%
Guarantees and other commitments	**46,717**	42,593	9.7%
Unutilized credit-card credit facilities under the Bank's responsibility	**31,070**	31,066	0.0%
Unutilized credit-card credit facilities under other banks' responsibility	**10,753**	10,011	7.4%
Unutilized revolving overdraft and other credit facilities in on-demand accounts	**40,445**	37,214	8.7%
Irrevocable commitments to grant credit approved but not yet provided, and commitments to provide guarantees	**57,269**	50,879	12.6%
2. Derivative instruments (notional value amounts):			
Interest contracts	**584,217**	376,634	55.1%
Currency contracts	**297,866**	225,822	31.9%
Contracts in respect of shares	**49,184**	32,615	50.8%
Commodity and service contracts (including credit derivatives)	**1,112**	1,923	(42.2%)
Total notional value of derivatives	**932,379**	636,994	46.4%

C. Set out below are the 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, advisory:

	Balance as at Dec. 31		Change
	2014	2013	
	NIS millions		
Securities(1)	**880,532**	840,070	4.8%
Assets of provident funds receiving operational services	**90,930**	83,399	9%
Mutual funds assets(2)	**99,018**	89,400	10.8%
Pension Advisory balances(3)	**23,488**	18,523	26.8%

(1) Including securities balances of provident funds and mutual funds for which the Bank Group provides operational custody.
(2) Value of assets of mutual funds receiving Services related to account management at various volumes.
(3) Balances of study funds and pension products with respect to which pension advisory services were provided.

Credit to the Public

Net credit to the public as at December 31, 2014 amounted to NIS 264.0 billion, compared with NIS 251.6 billion at the end of 2013, an increase of approximately 4.9%. The growth mainly resulted from an increase in retail credit, housing loans, and commercial credit. The increase was offset by a decrease in corporate credit.

Set out below are data regarding the volume of net credit to the public, by linkage segment:

	Balance as at Dec. 31		Change		The segment's share of total credit to the public as at Dec. 31	
	2014	2013			**2014**	2013
	NIS millions					
Israeli currency unlinked	**173,161**	157,885	15,276	9.7%	**65.6%**	62.7%
Israeli currency CPI-linked	**51,955**	55,560	(3,605)	(6.5%)	**19.7%**	22.1%
Foreign currency (including f. c. linked)	**38,488**	37,965	523	1.4%	**14.6%**	15.1%
Non-monetary items	**376**	190	186	97.9%	**0.1%**	0.1%
Total	**263,980**	251,600	12,380	4.9%	**100.0%**	100.0%

Credit in the unlinked shekel segment increased by NIS 15.3 billion in 2014, an increase of approximately 9.7%, mainly resulting from a low interest rate environment. The increase occurred in retail credit, commercial credit, and housing loans.

Credit in the CPI-linked shekel segment decreased by NIS 3.6 billion in 2014, a decrease of approximately 6.5%. The decrease mainly resulted from a decrease in corporate credit.

Credit in the foreign currency (including foreign currency linked) segment increased by NIS 0.5 billion in 2014, an increase of approximately 1.4%. The increase resulted from an increase in credit balances overseas, due to an increase in the USD exchange rate against the NIS, and was offset by a decrease in corporate credit in Israel.

Net credit to the public by segment of activity:

	December 31		Change	
	2014	2013		
	NIS millions			
Households Segment	**70,779**	66,123	4,656	7.0%
Private Banking Segment	**38,141**	34,302	3,839	11.2%
Small Business Segment	**29,339**	26,242	3,097	11.8%
Commercial Segment	**35,301**	*30,730	4,571	14.9%
Corporate Segment	**84,028**	*88,504	(4,476)	(5.1%)
Financial Management Segment	**1,746**	*1,046	700	66.9%
Others and Adjustments	**4,646**	4,653	(7)	(0.2%)
Total	**263,980**	251,600	12,380	4.9%
Of which, consumer credit in Israel excluding housing loans and credit cards:				
Households Segment	**25,521**	22,588	2,933	13.0%
Private Banking Segment	**9,921**	8,859	1,062	12.0%
Small Business Segment	**23,052**	20,392	2,660	13.0%
Total	**58,494**	51,839	6,655	12.8%
Housing loans in Israel:				
Households Segment	**38,708**	37,273	1,435	3.8%
Private Banking Segment	**17,922**	15,940	1,982	12.4%
Small Business Segment	**5,038**	4,663	375	8.0%
Total	**61,668**	57,876	3,792	6.6%

* Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

Housing loans:

	As At Dec. 31	
	2014	2013
	NIS millions	
Credit balances		
Loans from Bank funds	**62,114**	58,294
Loans from Finance Ministry funds*	**2,963**	3,613
Grants from Finance Ministry funds*	**183**	255
Total	**65,260**	62,162

	For the year ended Dec. 31	
	2014	2013
	NIS millions	
Execution		
Loans from Finance Ministry funds:		
Loans	**18**	32
Grants	**10**	24
Total from Finance Ministry funds	**28**	56
Total loans from Bank funds	**12,157**	11,748
Total new loans	**12,185**	11,804
Old loans refinanced from Bank funds	**2,445**	2,449
Total loans extended	**14,630**	14,253

* 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 of bank funds, 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 performed 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 will be conducted during the first half of 2015.

Developments in balances of housing credit:

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 %		
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%
Dec. 31, 2012	1,109	2.1%	17,378	32.1%	13,345	24.7%	21,086	39.0%	1,142	2.1%	54,060	9.8%
Dec. 31, 2011	431	0.9%	16,403	33.3%	13,642	27.7%	17,464	35.4%	1,310	2.7%	49,250	13.7%

* Excluding balances in respect of subsidiaries overseas (as at December 31 2014, a recorded debt balance in the amount of NIS 0 million, as at December 31 2013 a recorded debt balance in the amount of NIS 38 million).

Volume of Problematic Debt

The rate of amounts in arrears out of credit balances and the volume of the allowance for credit losses have decreased continuously over recent years.

Development of amounts in arrears in housing loans and allowance for credit losses (excluding collective allowance)*

	Recorded debt balance (NIS millions)	Amount in arrears of more than 90 days	Rate of arrears	Allowance for credit losses based on extent of arrears (NIS millions)	Rate of allowance for credit losses based on extent of arrears	Problematic debt (NIS millions)	Rate of problematic debt
Dec. 31, 2014	**62,114**	**121**	**0.2%**	**230**	**0.4%**	**1,029**	**1.7%**
Dec. 31, 2013	58,294	129	0.2%	272	0.5%	1,111	1.9%
Dec. 31, 2012	54,060	154	0.3%	290	0.5%	980	1.8%
Dec. 31, 2011	49,250	151	0.3%	294	0.6%	990	2.0%

* Excluding balances in respect of subsidiaries overseas (as at December 31 2014, a recorded debt balance in the amount of NIS 0 million, as at December 31 2013 a recorded debt balance in the amount of NIS 38 million).

Risk Quantification and Measurement – Housing Credit Execution

Housing credit risk is quantified and measured on several levels: the level of the individual customer, the level of the product, 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.

The following table lists various characteristics of housing credit granted by the Bank, on a quarterly basis.

Housing loan data – percentage of total new loans executed

	For the three months ended				
	Dec. 31, 2014	Sep. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013
Characteristics					
Financing rate over 60%	**37.8%**	37.5%	36.5%	34.5%	36.3%
Ratio of repayment to income greater than 40% (for acquisition and in monthly payments)	**2.3%**	5.0%	6.8%	9.1%	10.7%
Financing rate over 60% and repayment rate over 40%	**1.1%**	1.9%	2.4%	2.5%	3.5%
Percentage of execution of floating-rate loans with interest varying at a frequency of less than 5 years(Bank of Israel limitation 33.3%)	**30.2%**	31.4%	31.4%	31.8%	31.7%
Percentage of all-purpose loans	**4.3%**	4.4%	4.8%	4.6%	5.8%
Loans for investment purposes as a percentage of acquisition	**16.4%**	16.9%	17.5%	16.3%	15.6%
Bullet and balloon loans as a percentage of acquisition	**0.5%**	0.5%	1.1%	1.1%	1.3%
Average loan per acquisition (in NIS thousands)	**597**	604	618	637	621
Average original term to maturity for acquisition, in years	**19.3**	19.0	18.4	18.0	18.3

Note that financing rates were calculated pursuant to Reporting Directive No. 876 of the Supervisor of Banks, "Report on Housing Loans."

Risk Quantification and Measurement – Housing Credit Portfolio

The Bank routinely monitors developments in the housing credit portfolio, with reference to many parameters, such as LTV distribution, repayment capability, distribution of credit products in the portfolio, volume of problematic debt, and rate of arrears.

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 steep declines in prices of homes, increases in the interest rate, and increases 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 "Households Segment" section below.

Monthly Discussion of Housing Credit Risks

A monthly discussion is held regarding the development of the various indices, both on the level of the execution of credit and on the level of the overall portfolio, in accordance with the risk appetite defined by the Board of Management of the Bank.

Update of the Guidelines of the Supervisor of Banks Concerning Housing Loans

In light of the rapid growth of the portfolios of loans secured by residential properties, and the increase in prices of homes, the Supervisor of Banks issued guidelines on March 21, 2013 concerning real estate for housing.

Main points of the guidelines:

A. For the purpose of calculation of capital-adequacy ratios, until the 2012 Financial Statements, housing loans were weighted at 35%, with the exception of certain housing loans with a floating-rate component, which have been weighted at 100% since October 2010. Capital in respect of housing loans executed in 2014 shall be allocated according to the following weighting rates:

- Housing loans with an LTV ratio of up to 45% shall be weighted at 35%, with no change to the existing rates.
- Housing loans with an LTV ratio of more than 45%, up to 60%, shall be weighted at 50%, instead of 35%.
- Housing loans with an LTV ratio of more than 60% shall be weighted at 75% for the purpose of capital requirements, instead of 35% or 100%.
- Concurrently, the guidelines cancel the requirement for 100% weighting of loans with an LTV ratio of more than 60% in an amount exceeding NIS 800,000 where the floating-rate component constitutes 25% of the loan; instead, as noted, a weighting of 75% will apply.

B. The capital allocation required in respect of guarantees under the Sale Law, in cases in which the residence has already been handed over to the resident, will be reduced. These guarantees shall be weighted at a credit conversion coefficient of 10%, instead of 20%.

C. In addition, the guidelines establish a requirement for a minimum ratio of the balance of the collective allowance to the balance of housing loans, at 0.35%. This requirement does not apply to housing loans for which an allowance according to the extent of arrears exists.

In July 2014, the Supervisor of Banks issued a circular concerning Proper Conduct of Banking Business Directive 329, "Limits on Housing Loans" (hereinafter: the "Directive"). 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." In addition, the circular 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 falls below 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. These amendments have been implemented as of October 1, 2014.

The directive of the Supervisor of Banks concerning limits on housing loans (mortgages) took effect on September 1, 2014. Main points of the instructions:

A. A banking corporation shall not approve a housing loan (mortgage) where the monthly payment on the mortgage exceeds 50% of the borrower's monthly income. Housing loans where the rate of the monthly payment as a percentage of income is 40% to 50% shall be weighted at 100% for the calculation of the capital-adequacy ratio.

B. A banking corporation shall not approve a housing loan where the part of the housing loan bearing a floating rate of interest as a percentage of the total loan exceeds 66.7% (two thirds). This limit shall apply to floating-rate loans of any duration, and is in addition to the existing limit, pursuant to which the part of a housing loan at a floating rate of interest for a period shorter than five years is limited to one third.

C. A banking corporation shall not approve a housing loan with a final maturity period of more than 30 years.

Overall Credit Risk by Economic Sector

Overall credit risk consists of balance sheet credit risk, which comprises debts (credit to the public; credit to governments; deposits with banks, excluding deposits with the Bank of Israel; and other debts), investments in bonds, securities borrowed or purchased under agreements to resell, and assets in respect of derivative instruments; and off-balance sheet credit risk, which includes guarantees, transactions in off-balance sheet financial instruments, unutilized credit facilities, and commitments to grant credit.

For further details, see Appendix 5 to the Management's Review.

Overall credit risk as at December 31, 2014 totaled NIS 544.3 billion.

Set out below is the development of overall credit risk[(1)], by principal sectors of the economy:

	Dec. 31, 2014		Dec. 31, 2013	
	Total credit risk*	Percent of total	Total credit risk*	Percent of total
	NIS millions		NIS millions	
Economic sector				
Agriculture	**2,830**	**0.5%**	2,927	0.6%
Industry	**54,026**	**9.9%**	47,876	9.3%
Construction and real estate - construction**	**54,399**	**10.0%**	51,413	10.0%
Construction and real estate - real-estate activities	**29,970**	**5.5%**	30,029	5.9%
Electricity and water	**12,414**	**2.3%**	12,615	2.5%
Commerce	**35,726**	**6.6%**	33,761	6.6%
Hotels, hospitality, and food services	**13,574**	**2.5%**	9,957	1.9%
Transportation and storage	**8,924**	**1.6%**	8,876	1.7%
Communications and computer services	**8,687**	**1.6%**	8,946	1.7%
Financial services	**48,950**	**9.0%**	45,470	8.9%
Other business services	**17,012**	**3.1%**	15,508	3.0%
Public and community services	**10,086**	**1.9%**	9,260	1.8%
Total commercial	**296,598**	**54.5%**	276,638	54.0%
Private individuals - housing loans	**58,991**	**10.8%**	55,898	10.9%
Private individuals - others	**88,603**	**16.3%**	84,052	16.4%
Total credit risk to the public	**444,192**	**81.6%**	416,588	81.3%
Total banks***	**52,459**	**9.6%**	40,332	7.9%
Total governments	**47,674**	**8.8%**	55,477	10.8%
Total	**544,325**	**100%**	512,397	100%

* Excluding unutilized credit facilities in credit cards under the responsibility of other banks in the amount of approximately NIS 10,753 million (December 31, 2013: NIS 10,011 million).

** Includes 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, granted to certain purchasing groups currently engaged in the process of construction (December 31, 2013: balance sheet credit risk in the amount of approximately NIS 882 million, and off-balance sheet credit risk in the amount of approximately NIS 1,764 million).

*** Excluding cash balances of the Bank and deposits with the Bank of Israel; before deduction of the allowance for credit losses.

(1) Data regarding total credit risk are presented before deduction of the allowances for credit losses (individual and collective).

Construction and Real Estate

Overall credit risk in the construction and real-estate sectors totaled NIS 84.4 billion as at December 31, 2014.

Set out below is a breakdown of overall credit risk of the Bank Group in the construction and real-estate sectors, by principal areas of activity:

	Balance as at Dec. 31, 2014		
	Balance sheet credit risk	Off-balance sheet credit risk	Total credit risk
	NIS millions		
Construction for commerce and services	**2,355**	**1,439**	**3,794**
Construction for industry	**537**	**102**	**639**
Housing construction	**10,679**	**23,040**	**33,719**
Yield-generating properties	**22,972**	**5,924**	**28,896**
Other	**8,660**	**8,661**	**17,321**
Total construction and real-estate sectors	**45,203**	**39,166**	**84,369**

Set out below are 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, 2014:

	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk	Total
		NIS millions		
Economic sector				
Industry	**5**	**1,028**	**10,607**	**11,635**
Construction and real estate - real-estate activities	**2**	**1,706**	**1,422**	**3,128**
Electricity and water	**1**	**1,717**	**3,351**	**5,068**
Commerce	**1**	**70**	**1,635**	**1,705**
Hotels, hospitality, and food services	**1**	**880**	**323**	**1,203**
Financial services	**4**	**4,561**	**2,747**	**7,308**
Communications and computer services	**1**	**1,294**	**8**	**1,302**
Total	**15**	**11,256**	**20,093**	**31,349**

Of which: 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, 2014:

	Balance sheet credit	Off-balance sheet credit risk	Total
	NIS millions		
Economic sector			
Electricity and water	**1,717**	**3,351**	**5,068**
Industry	**227**	**4,520**	**4,747**
Financial services	**1,569**	**526**	**2,095**
Industry	**-**	**2,000**	**2,000**
Financial services	**309**	**1,510**	**1,819**
Industry	**10**	**1,724**	**1,734**
Total	**3,832**	**13,631**	**17,463**

Credit Risk in Respect of Exposure to Borrower Groups

Set out below are 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, 2014:

	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	**5,436**	**4,104**	**310**	**9,545**	**504**	**9,041**	**18.27%**

(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, primarily including deposits deposited with the Bank, bonds issued by the State of Israel, and deductible indemnification letters of the State of Israel or of financial entities.
(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 Indebtedness of a Borrower and of a Group 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 No. 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.

It is hereby clarified that for the purpose of calculation of the indebtedness, principles were adopted with regard to credit conversion coefficients and permitted deductions in accordance with Proper Conduct of Banking Business Directive No. 203, "Capital Measurement and Adequacy – The Standardized Approach – Credit Risk."

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.

Problematic Debts

A. Segmentation of problematic debts

	Dec. 31, 2014			Dec. 31, 2013		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions					
Impaired credit risk	**6,322**	**676**	**6,998**	7,855	746	8,601
Substandard credit risk	**2,603**	**351**	**2,954**	3,522	277	3,799
Credit risk under special supervision	**3,174**	**1,636**	**4,810**	4,529	1,577	6,106
Total problematic credit risk*	**12,099**	**2,663**	**14,762**	15,906	2,600	18,506
Problematic credit risk net of allowance for credit losses	**10,213**	**2,508**	**12,721**	13,834	2,445	16,279
* Of which, unimpaired debts in arrears of 90 days or more	**1,069**	**-**	**1,069**	1,251	-	1,251

B. Nonperforming assets*

	Balance as at	
	Dec. 31, 2014	Dec. 31, 2013
	NIS millions	
Impaired credit to the public not accruing interest income (NPL)	**5,859**	7,240
Assets received upon settlement of debts	**129**	151
Total nonperforming assets	**5,988**	7,391

* Nonperforming assets include assets of the Bank that do not accumulate interest income. This information is similar to the balance of nonperforming assets presented in the financial statements of banking corporations in the United States. This data is provided in order to give disclosure to the part of the Bank's assets included in the financial statements that does not accumulate interest income.

C. Performing impaired assets

	Balance as at	
	Dec. 31, 2014	Dec. 31, 2013
	NIS millions	
Impaired debts in troubled debt restructuring, accruing interest income	**422**	553
Impaired bonds accruing interest income	**34**	43
Total	**456**	596

Note:
Balance sheet and off-balance sheet credit risk are presented prior to the effect of the allowance for credit losses and prior to the effect of collateral deductible for the purposes of the indebtedness of borrowers and borrower groups.

D. Risk indices

	As at	
	Dec. 31, 2014	Dec. 31, 2013
Balance of impaired credit to the public, as a percentage of the balance of credit to the public*	**2.34%**	3.05%
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*	**0.40%**	0.49%
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%**	1.54%
Balance of collective allowance for credit losses, as a percentage of the balance of credit to the public*	**1.35%**	1.24%
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*	**66.55%**	50.60%
Problematic credit risk in respect of the public, as a percentage of total credit risk in respect of the public*	**3.32%**	4.44%

* Before deducting the allowance for credit losses.

E. 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, 2014 (unaudited)				
In respect of credit to the public	**933**	**230**	**3,017**	**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**	**230**	**3,607**	**4,856**
Composition of the allowance as at December 31, 2013				
In respect of credit to the public	1,038	275	2,630	3,943
In respect of debts other than credit to the public	-	-	6	6
In respect of off-balance sheet credit instruments (included in the item "other liabilities")	108	-	530	638
Allowance for credit losses as at December 31, 2013	1,146	275	3,166	4,587

* Including a collective allowance in respect of debts examined individually and found to be unimpaired.

Cash on Hand and Deposits with Banks

Cash on hand and deposits with banks totaled NIS 55.0 billion at the end of 2014, compared with NIS 45.7 billion at the end of 2013, an increase of approximately 20.3%.

Set out below are details of the balance of cash and deposits with banks:

	Balance as at Dec. 31		Change
	2014	2013	
	NIS millions		
Cash	**2,364**	2,435	(2.9%)
Deposits with the Bank of Israel	**20,429**	22,446	(9.0%)
Deposits with central banks abroad	**23,604**	15,341	53.9%
Deposits with commercial banks in Israel	**404**	115	251.3%
Deposits with commercial banks abroad	**8,173**	5,372	52.1%
Total	**54,974**	45,709	20.3%

Securities

Securities totaled NIS 58.8 billion as at December 31, 2014, compared with NIS 60.9 billion at the end of 2013, a decrease of approximately 3.5%, which mainly resulted from sales and redemptions of government bonds, most of which were offset by purchases of bonds of financial institutions and corporate bonds.
For further details, see Note 3 to the Financial Statements.
For details regarding liens, see Note 14 to the Financial Statements.

Details of the securities of the Bank Group by balance sheet classification are set out below:

	December 31, 2014				
	Depreciated cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Bonds:					
Held to maturity	**509**	**26**	**-**	**535**	**509**
Available for sale	**51,214**	**1,039**	**(66)**	**52,187**	**52,187**
For trading	**3,457**	***19**	***(7)**	**3,469**	**3,469**
Total bonds	**55,180**	**1,084**	**(73)**	**56,191**	**56,165**
Shares:					
Available for sale	**2,170**	**418**	**(25)**	**2,563**	**2,563**
For trading	**55**	***1**	***(6)**	**50**	**50**
Total shares	**2,225**	**419**	**(31)**	**2,613**	**2,613**
Total securities	**57,405**	**1,503**	**(104)**	**58,804**	**58,778**

* Charged to the statement of profit and loss.

	December 31, 2013				
	Depreciated cost	Unrealized gains from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value	Balance sheet value
	NIS millions				
Bonds:					
Held to maturity	471	45	-	516	471
Available for sale	55,572	544	(29)	56,087	56,087
For trading	2,091	*20	*(11)	2,100	2,100
Total bonds	58,134	609	(40)	58,703	58,658
Shares:					
Available for sale	1,748	473	-	2,221	2,221
For trading	40	*-	*(7)	33	33
Total shares	1,788	473	(7)	2,254	2,254
Total securities	59,922	1,082	(47)	60,957	60,912

* Charged to the statement of profit and loss.

For details of the unrealized loss from adjustments to fair value in respect of securities in the available-for-sale portfolio, see Note 3(A)(5) to the Financial Statements.

Investments in Bonds in the Available-for-Sale Portfolio and in the Trading Portfolio

The following table provides additional details regarding the Bank Group's investments in bonds as at December 31, 2014 (in NIS millions):

	Balance sheet value	Total balance sheet value
Government bonds:		
Israeli government	**39,920**	
US government	**1,388**	
Governments of developed countries	**1,842**	
Governments of developing countries	**311**	
		43,461
Bonds of banks and financial institutions:		
Banks in Israel		**641**
Banks in developed countries:		
US	**1,095**	
France	**609**	
UK	**603**	
Netherlands	**543**	
Australia	**436**	
South Korea	**351**	
Sweden	**301**	
Germany	**288**	
Switzerland	**202**	
Japan	**120**	
Others*	**273**	
		4,821
Banks - developing countries		**191**
Financial institutions (other than banks):		
Israel	**178**	
US**	**385**	
Others	**40**	
		603
		6,256

Bonds of corporations, other than banks and financial institutions, by economic sector:

Industry	**2,157**	
Real-estate activities	**732**	
Electricity and water	**704**	
Commerce	**381**	
Transportation and storage	**138**	
Communication and computer services	**979**	
Financial services	**435**	
Other business services	**237**	
Public and community services	**176**	
		5,939
Total investment in bonds		**55,656**

* Includes 8 countries; the highest balance is approximately NIS 85 million.

** Includes 12 issuers the highest balance of one issuer is approximately NIS 144 million.

Investments in Shares

The Bank has investments in tradable shares, non-tradable shares, and mutual funds, broadly diversified, at a total amount of NIS 2,613 million as at December 31, 2014, compared with NIS 2,254 million at the end of 2013.

Deposits

Deposits include deposits from the public, government deposits, and deposits from the Bank of Israel and other banks.

	Balance as at Dec. 31		Change
	2014	2013	
	NIS millions		
Deposits from the public	**297,230**	276,525	7.5%
Deposits from banks	**4,322**	5,303	(18.5%)
Government deposits	**455**	613	(25.8%)
Total	**302,007**	282,441	6.9%

Deposits from the public as at December 31, 2014 totaled NIS 297.2 billion, compared with NIS 276.5 billion at the end of 2013, an increase of approximately 7.5%. This increase resulted from an increase of NIS 9.9 billion in corporate deposits, an increase of NIS 8.1 billion in retail deposits, and an increase of NIS 2.8 billion in deposits in the Financial Management Segment, mainly due to an increase in deposits from large institutional and corporate clients.

Set out below is the distribution of the portfolio of deposits from the public, by linkage segment:

	Balance as at Dec. 31		Change		Share of segment in total deposits from the public as at December 31	
	2014	2013			**2014**	2013
	NIS millions					
Israeli currency unlinked	**184,567**	175,886	8,681	4.9%	**62.2%**	63.6%
Israeli currency CPI-linked	**16,461**	18,368	(1,907)	(10.4%)	**5.5%**	6.6%
Foreign currency (including f. c. linked)	**95,826**	82,081	13,745	16.7%	**32.2%**	29.7%
Non-monetary items	**376**	190	186	97.9%	**0.1%**	0.1%
Total	**297,230**	276,525	20,705	7.5%	**100.0%**	100.0%

Unlinked shekel deposits from the public totaled NIS 184.6 billion as at December 31, 2014, compared with NIS 175.9 billion as at December 31, 2013, an increase of approximately 4.9%. This increase resulted from an increase in corporate deposits and in retail deposits.

CPI-linked shekel deposits from the public totaled NIS 16.5 billion as at December 31, 2014, compared with NIS 18.4 billion as at December 31, 2013, a decrease of approximately 10.4% mainly resulting from a decrease in deposits in the Retail Banking Area.

Deposits from the public in foreign currency (including linked to foreign currency) totaled NIS 95.8 billion as at December 31, 2014, compared with NIS 82.1 billion as at December 31, 2013, an increase of approximately 16.7%. This increase mainly resulted from an increase in the exchange rate of the USD against the NIS, which led to an increase in retail deposits, corporate deposits, and deposits from large institutional and corporate clients; in addition, balances from the Bank's activity overseas increased.

Set out below are details of deposits from the public by size:

	December 31	
	2014	2013
	NIS millions	
Deposit ceiling		
Up to 1	**100,968**	98,342
Over 1 up to 10	**73,445**	70,755
Over 10 up to 100	**48,097**	42,254
Over 100 up to 500	**30,682**	27,344
Over 500	**44,038**	37,830
Total	**297,230**	276,525

Balance of total deposits of the three largest groups* of depositors**:

	2014	2013
	NIS millions	
Group A	**11,672**	9,879
Group B	**3,162**	3,730
Group C	**2,815**	3,491

* "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.

Deposits from the public by segment of activity:

	December 31		Change	
	2014	2,013		
	NIS millions			
Households Segment	**38,501**	36,561	1,940	5.3%
Private Banking Segment	**127,224**	123,315	3,909	3.2%
Small Business Segment	**29,838**	27,622	2,216	8.0%
Commercial Segment	**24,659**	*19,219	5,440	28.3%
Corporate Segment	**27,581**	*23,147	4,434	19.2%
Financial Management Segment	**49,427**	*46,661	2,766	5.9%
Total	**297,230**	276,525	20,705	7.5%

* Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

Bonds and subordinated notes totaled NIS 33.7 billion as at December 31, 2014, compared with NIS 34.0 billion at the end of 2013, a decrease of approximately 0.9%. During 2014, bonds in the amount of approximately NIS 3.8 billion were issued by the Bank Group, and bonds and subordinated notes in the amount of approximately NIS 4.0 billion matured.

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 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 customers with 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 and up to 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 and up to NIS 200 million to the Bank or total indebtedness (to the Bank or to other lenders) is over NIS 10 million and up to 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, 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. and of Banque Hapoalim (Luxembourg) S.A. – Private Banking Segment; customers of the US and UK branches – Private Banking, Commercial, and Corporate Segment; Bank Pozitif and its subsidiary JSC Bank Pozitiv – Households and Commercial Banking 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 provision 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 (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.

Regulatory Changes

As of January 1, 2014, the Bank has applied the instructions set forth in the circular of the Supervisor of Banks concerning the adoption of GAAP for US banks on interest income measurement (ASC 310-20), which among other matters establishes rules for the treatment of credit origination fees, commitments to grant credit, changes in the terms of a debt, and early repayment fees. The directive was implemented prospectively. Following the implementation of the directive, certain fees were classified as interest income in the various segments of activity, and certain income items previously classified as interest income are now stated within the fees item. For further details, see Note 1D(1) to the Financial Statements.

As of January 1, 2014, the Bank has applied the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211. The Bank applied the Basel 2 directives until December 31, 2013. Data on risk-adjusted assets, capital allocation, and return on equity based on risk-adjusted assets were calculated in accordance with the implementation of the relevant directives, as noted. For further details, see the "Capital Adequacy" section below.

Reclassification of Segment Data

Comparative figures for 2013 were reclassified as follows:

1. On January 1, 2014, responsibility for the Bank's business with management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area. Following the implementation of this organizational change, amounts of balances and results of operations in this area were reclassified from the Corporate Segment to the Financial Management Segment.
2 Credit balances in respect of the Bank's activity with foreign financial institutions which were previously recorded in the Corporate Segment were classified, in line with the Bank's organizational structure, into the Financial Management Segment.

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. Net profit attributed to shareholders of the Bank

	For the year ended Dec. 31		Change
	2014	*2013	
	NIS millions		
Households Segment	**185**	166	11.4%
Private Banking Segment	**(137)**	39	(451.3%)
Small Business Segment	**279**	299	(6.7%)
Commercial Segment	**325**	378	(14.0%)
Corporate Segment	**1,147**	**1,030	11.4%
Financial Management Segment	**861**	**601	43.3%
Others and Adjustments	**80**	35	128.6%
Total	**2,740**	2,548	7.5%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

B. Net Credit to the Public by Segment of Activity

	December 31			Change
	2014	2013		
	NIS millions			
Households Segment	**70,779**	66,123	4,656	7.0%
Private Banking Segment	**38,141**	34,302	3,839	11.2%
Small Business Segment	**29,339**	26,242	3,097	11.8%
Commercial Segment	**35,301**	*30,730	4,571	14.9%
Corporate Segment	**84,028**	*88,504	(4,476)	(5.1%)
Financial Management Segment	**1,746**	*1,046	700	66.9%
Others and Adjustments	**4,646**	4,653	(7)	(0.2%)
Total	**263,980**	251,600	12,380	4.9%
Of which, consumer credit in Israel excluding housing loans and credit cards:				
Households Segment	**25,521**	22,588	2,933	13.0%
Private Banking Segment	**9,921**	8,859	1,062	12.0%
Small Business Segment	**23,052**	20,392	2,660	13.0%
Total	**58,494**	51,839	6,655	12.8%
Housing loans in Israel:				
Households Segment	**38,708**	37,273	1,435	3.8%
Private Banking Segment	**17,922**	15,940	1,982	12.4%
Small Business Segment	**5,038**	4,663	375	8.0%
Total	**61,668**	57,876	3,792	6.6%

* Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

C. Deposits from the Public by Segment of Activity

	December 31		Change	
	2014	2,013		
	NIS millions			
Households Segment	**38,501**	36,561	1,940	5.3%
Private Banking Segment	**127,224**	123,315	3,909	3.2%
Small Business Segment	**29,838**	27,622	2,216	8.0%
Commercial Segment	**24,659**	*19,219	5,440	28.3%
Corporate Segment	**27,581**	*23,147	4,434	19.2%
Financial Management Segment	**49,427**	*46,661	2,766	5.9%
Total	**297,230**	276,525	20,705	7.5%

* Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

Set out below are details of the 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			Average balance of deposits from the public		
	For the year ended Dec. 31		Change	For the year ended Dec. 31		Change
	2014	2013		**2014**	2013*	
	NIS millions			NIS millions		
Households Segment	**67,564**	64,782	4.3%	**37,211**	36,838	1.0%
Private Banking Segment	**35,964**	32,829	9.5%	**123,233**	125,651	(1.9%)
Small Business Segment	**27,195**	24,807	9.6%	**27,792**	26,874	3.4%
Commercial Segment	**31,635**	28,322	11.7%	**20,046**	17,640	13.6%
Corporate Segment	**84,182**	*91,128	(7.6%)	**22,953**	23,049	(0.4%)
Financial Management Segment	**1,551**	*1,757	(11.7%)	**44,376**	40,999	8.2%
Others and Adjustments	**4,585**	4,535	1.1%	**-**	-	-
Total	**252,676**	248,160	1.8%	**275,611**	271,051	1.7%

* Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

Set out below are details of the capital attributed to each segment of activity, for the calculation of return on equity[(1)]:

	For the year ended Dec. 31		Change
	2014	2013*	
	NIS millions		
Households Segment	**5,291**	4,704	12.5%
Private Banking Segment	**3,311**	2,912	13.7%
Small Business Segment	**2,413**	2,136	13.0%
Commercial Segment	**4,348**	3,647	19.2%
Corporate Segment	**12,269**	**11,987	2.4%
Financial Management Segment	**2,408**	**2,008	19.9%
Others and Adjustments	**246**	**178	38.2%
Total	**30,286**	27,572	9.8%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

(1) With the adoption of the Basel 3 rules, beginning in the first quarter of 2014, the capital allocation based on risk-adjusted assets in each segment was calculated based on risk-adjusted assets according to Basel 3. The capital allocation in 2013 was calculated based on risk-adjusted assets according to Basel 2.

Off-Balance Sheet Activity

Set out below is the development in balances of holdings in off-balance sheet monetary assets of customers of the Bank Group[(1)]:

	For the year ended Dec. 31		Change	
	2014	2013		
	NIS millions			
Households Segment	**4,850**	4,288	562	13.1%
Private Banking Segment	**182,011**	165,740	16,271	9.8%
Small Business Segment	**12,212**	11,213	999	8.9%
Commercial Segment	**16,240**	15,091	1,149	7.6%
Corporate Segment	**152,854**	*163,131	(10,277)	(6.3%)
Financial Management Segment	**603,295**	*564,006	39,289	7.0%
Total	**971,462**	923,469	47,993	5.2%

* Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

(1) Includes customers' holdings in securities portfolios, including balances of securities of provident funds and mutual funds to which the Bank Group provides operational services, as well as the total assets of provident funds that receive operational services from the Bank.

The Households Segment

General and Segment Structure

The Households Segment 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 255 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," and "Poalim by Telephone." 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.

Two new branches serving the Arab-Israeli sector were opened in 2014; eleven branches were merged. The Bank plans to open new branches and merge additional branches during 2015.

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

On March 18, 2014, a bill was submitted proposing to amend the Housing Loans Law in order to require housing loans to be granted on the condition that the borrower purchases unemployment insurance, to ensure that the mortgage is repaid throughout the period of the borrower's eligibility for unemployment benefits and for a short period thereafter. The proposed insurance requirement would apply to all housing loans granted in the market, not only those loans covered by the Housing Loans Law. Pursuant to the proposal, insurance compensation would be transferred directly to the lending bank. In addition, a duty would apply to notify the borrower that the insurance can be purchased other than through an insurance agent controlled by the bank. A date for discussion of this bill has not yet been set.

On July 15, 2014, the Supervisor of Banks issued a circular consolidating a series of limits imposed from 2010 to the present with regard to the approval of housing loans. The limits concern loan payments as a percentage of the borrower's disposable income, the part of the loan at a floating rate of interest as a percentage of the total credit granted to the borrower, and the rate of financing relative to the acquired and/or pledged asset. In the circular, the Supervisor of Banks established a new directive pursuant to which a housing loan in an amount greater than NIS 5 million shall be weighted at a capital allocation of 100%; the risk weight can be reduced when the amount of the loan falls below NIS 5 million.

A private bill, the Mortgage Guarantee Bill (Amendment – State Guarantee for a Single Home), 2014, was filed on July 21, 2014. The bill proposes granting state guarantees for mortgages, up to 90% of the price of the home, in order to enable non-homeowners to purchase a home even if they do not possess the initial capital. The bill has not been discussed, and it is not possible to determine whether it will be passed or in what formulation.

On July 27, 2014, the Bank of Israel updated the draft proposed amendment of Section 9A of the Banking Law (Customer Service), 1981. Until now, when credit was repaid, banks were required to cancel mortgages recorded with the Land Registry Office and pledges recorded with the Pledge Registrar, cancellation of which did not involve the payment of a fee. Pursuant to the proposed amendment, when credit is repaid, banks would also be required to cancel cautionary notes recorded in favor of the bank. Cancellation of a cautionary note involves the payment of a fee to the Land Registry Office, which the Bank would be required to pay (as well as sending cancellations of a commitment to record a mortgage from the Israel Land Administration or from a housing company). An operational problem is expected with respect to locating and sending cancellation documents to all of the thousands of recognized housing companies (to the Land Administration/housing company and to the borrowers). This is a non-final draft; the content is still under discussion, and it is not possible to predict the final arrangement that may be formulated.

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.

The Supervisor of Banks issued an amendment of Proper Conduct of Banking Business Directive No. 329 on September 28, 2014 (hereinafter: the "Amendment"). The Amendment states that beyond the targets set by the Supervisor of Banks for the common equity Tier 1 capital ratio for banking corporations (9% as of January 1, 2015 for all banking corporations and 10% as of January 1, 2017 for banking corporations of significant importance), banking corporations will be required to raise their common equity Tier 1 capital ratio at a rate representing 1% of the balance of their housing credit portfolio. The capital ratio is to be raised in eight fixed quarterly increments, from January 1, 2015, to January 1, 2017.

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 activities for 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 (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 will take 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, pursuant to which the "housing loan management fee" was canceled effective February 1, 2015.

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 established, 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, and is part of the effort to promote the option of opening an account online and prepare for the provision of online banking services.

The Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive 329 on January 25, 2015: In calculating loan payments as a percentage of income, it has been determined that in addition to the income of the borrower, half of the disposable monthly income of a relative may be taken into account, even if the relative does not acquire an interest in the property, provided that he or she is a first-degree relative (a spouse, parent, sibling, or child), the relative's repayment capability is examined, and the relative is added as a guarantor and pays 20% of the monthly payment via a standing order in the relative's account. In addition, the disposable monthly income of a spouse of the borrower meeting all of the aforesaid conditions and residing in the home with the borrower can be recognized in full.

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 2014, and until near the date of the financial statements. However, there is an ongoing trend of an increase in banking activity through direct channels (automatic teller machines, "Poalim by Telephone," and "Poalim Online").

Technological Changes that May Have a Material Impact on the Segment

The increase in the volume of customers' activity using direct channels continued in 2014, along with continued solidification of the bank's leadership in various areas of direct banking.

Maintaining Mobile Leadership

Poalim Wallet Application

The Poalim Wallet, launched in the first quarter of 2014, offers a package of services for payments, money transfers, and purchases via smartphone. The Poalim Wallet services constitute an upgrade of the Mobile Wallet application offered by the bank in the last three years. The application expands the range of services and transforms the use of the mobile wallet into an advanced consumer experience.

The range of services available through the application was expanded in the second quarter; innovations include:

- Transfers to smartphone contacts – Money can be transferred to contacts without entering their bank-account details, using only the transferee's mobile phone number. Recipients can deposit the funds in an account of their choice, via the application or the Bank's website.
- Mobile ATM – Customers transfer money to themselves, for withdrawal at an ATM; the amount to withdraw and the preferred currency denominations are selected in an interactive smartphone experience. Customers withdraw money from the ATM without using a card, through a text message sent to their mobile phone.
- Scheduling appointments at branches via smartphone – An exclusive feature that allows customers of the Bank to schedule an appointment to receive service at the branch and to track their place in line. This service is being deployed gradually at branches where an appointment management system is in use.
- Location-based CashBack benefits – The service offers customers updates on sales and CashBack benefits in their vicinity.
- Foreign currency at the airport via mobile phone – Foreign currency can be ordered directly via smartphone and picked up on the day of the flight at the Bank's counter at Ben Gurion Airport.

UP Overseas application

A unique smartphone application added in the third quarter, designed to help overseas travelers organize their expenses and maintain sensible financial management. The application can be downloaded free of charge by customers of all banks, and offers an exciting interface for travelers to create shopping lists, set a planned budget for their trip, and most importantly, document all of their expenses during the trip in real time, including the time and location of the purchase and a picture. The application enables travelers to remain aware of their current status relative to the planned budget and the remaining amount they can spend until the end of their trip, at any time. Customers of the Bank can also obtain relevant financial services directly through the application, such as purchasing foreign currency before the trip, picking it up at the airport, applying for a loan for the vacation, and more.

New Tools in the Account Management Application

Mobile services remain a key tool used by customers to monitor their accounts and plan their personal financial behavior. Quick Glance, launched during the third quarter of 2014, is a new feature within the account management application, allowing customers direct access to the most important information – the balance in the account and the expected expenses (to the Bank's knowledge) until the end of the month – quickly and easily, without entering identifying information. When they register for the service, customers can choose to have their account balance and/or expected expenses in the account up to the end of the month, according to the information available to the Bank, displayed when they open the application. The service thereby provides customers genuine added value, enabling them to prepare and plan their expenses. Customers can also choose whether the balance is displayed as an amount or in general as positive or negative, and they can decide which accounts are displayed.

Another new service within the application is the Month End Calculator, which shows customers how much money will be available to them at the end of the month, based on the data known to the Bank (the current account balance, and future expenses and income known to the Bank) as well as expense and income data that customers can add on their own. The Bank thereby strengthens its customers' sense of awareness and control, as a partner in sensible, responsible financial behavior.

Innovations on the Bank's Website

Budget Management Tool

The Bank has upgraded the budget management tool on its website. The new, advanced version allows and encourages customers to manage their budgets through an innovative experience-based interface, which contains visual elements from the world of gamification. Half a million customers are already registered for the budget management tool, which sorts and analyzes all income and expenses in their accounts.

UP Card and UP Active

As part of the ongoing focus on the development of tools allowing sensible financial behavior for customers, the following services have been launched:

- UP Card – A prepaid international card transferable to family members aged 14 or over. The card can be recharged multiple times, and details of purchases can be viewed on the Bank's website. The card combines the advantages of a credit card with the ability to monitor and control expenses.
- UP Active – A service allowing customers to set automatic actions in their accounts for sensible financial management, such as automatic transfers from current accounts to savings, automatic coverage of negative balances using daily interest deposits, automatic orders of checkbooks, automatic transfers to third parties, reminders to carry out payments, and more. UP Active provides advanced services to upgrade customers' accounts, including a user-friendly interface on the website allowing customers to update and customize the service according to their needs, receive information about new services, and view dynamic information on the services they have chosen to activate in their accounts.

TipRanks

A new service was launched on the Bank's website at the beginning of the third quarter of 2014, designed to help customers who trade in foreign securities on stock exchanges in the United States make rational investment decisions. The service is based on a system developed by TipRanks. Within the service, information is provided regarding analyst recommendations and ratings of the analysts' performance according to the success of their forecasts in the past, as compared to the actual performance of the stocks that they cover. The launch of this system is another step in the realization of the Bank's strategy of providing its customers with advanced tools for financial management in all areas, including the capital market.

Innovations at Poalim by Telephone

Poalim Voice

An innovative service for account management through voice identification alone, without the need to enter a password – a leap forward in customers' ability to conduct dialogue with the Bank comfortably and intuitively. Following the completion of a successful pilot during 2013, the service was rolled out to all customers in late 2014.

Innovations in Self-Service Devices

Instant Credit Applications

At the end of the year, an option was added for customers to apply for Instant Credit loans via self-service devices. Customers can select whether to apply immediately, directly via the device, or have a banker contact them to complete the application by telephone. The service launched as a pilot at four branches, and is planned to roll out to all self-service devices during 2015.

In the first quarter of 2014, a new customer agreement booklet was distributed at all branches of the Bank, for all credit cards in accounts. In the new booklet, customers each sign one agreement for all of the cards in their account. This development has immense value in terms of protection of the environment and paper savings, while also reducing the need to sign separate agreements over and over again. Customers who sign the documents when they order a new credit card can also choose to have the card delivered to their home by mail.

Smartwatch

A unique application for Samsung Gear watches, which allows Bank customers with compatible smartphones to quickly view the current balance in their account and their expected expenses through the end of the month on a wristwatch display, without entering identifying information.

Transition to Two Identifiers

As part of the improvement and increased efficiency of processes and improvement of the customer experience online, the account log-in procedure has been amended to require only two identifiers, a user name and password, instead of three (identification number).

Check by Click

An innovative digital service allowing funds to be transferred to a beneficiary without the need for account information, in a simple process, through a personalized certificate that can be sent by e-mail or handed to the recipient in person. This products allows customers who wish to give a gift for a birthday, family occasion, or any other purpose to give money without using a check or cash.

Critical Success Factors in the Segment

- 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.
- Skilled professional personnel.

Main Barriers to Entry and Exit in the Segment

- Establishment and maintenance of a wide-ranging system of branches deployed throughout the country, 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 2014 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.

The Committee on Competitiveness and Regulatory Initiatives Based on the Committee's Recommendations

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.

Changes in the Banking Rules (Service to Customers) (Fees) took effect in February 2015. The changes include: cancellation of the direct-channel fee in transactions executed using direct debit cards; a determination that account ownership confirmation fees shall be charged only beginning with the second notice issued during the year; a determination that in transfers using the ZAHAV real-time transfer system, in amounts up to NIS 1 million, a fee shall be collected in the amount of the fee for a transaction by a bank teller (NIS 6.50); cancellation of management fees for housing loans and non-lhousing loans granted up to July 2008; and cancellation of the deferred payment fee in transactions executed using credit cards from February 2015 forward.

As of February 2015, the definition of a "small business" was changed, such that for customers who have presented documents and have been categorized as small businesses, the categorization shall have no expiration date (prior to the change, the categorization was in effect for one year), unless the Bank addresses a demand to the customer, under circumstances in which the Bank has reasonable basis to assume that the business turnover of the corporation in the last year exceeds NIS 5 million.

Changes in fees in respect of transactions in foreign currencies and withdrawals overseas using charge cards will take effect in April 2015. See the section "Additional Information Concerning Activity in Certain Products," below.

An amendment including the establishment of a uniform price list for small businesses receiving charge card transaction clearing services from credit-card companies will take effect in July 2015 See the section "Additional Information Concerning Activity in Certain Products," below.

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 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.

The Bank is currently reviewing the overall implications of the above-mentioned for the Bank's revenues as well as additional long-term business and operational implications. Based on mapping and examination of the other recommendations of the report which have not yet been implemented, the Bank's estimates indicate that implementation of these recommendations is likely to have a negative impact on the results of its operations; however, these effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

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.

Antitrust Authority Report on Increasing Efficiency and Competition in the Area of Charge Cards

A draft of this report was published for comments from the public in February 2014. The final report was published in September 2014. The report addresses several key subjects, including the introduction of debit cards into the Israeli market, reduction of barriers to allow new players to enter the clearing market, and reduction of costs for businesses through earlier crediting by credit companies.

Main implications of the report: reduction of interchange fees; immediate crediting of businesses in debit transactions and in deferred-charge transactions, with banks required to undertake the cost of the resulting credit days; and imposition of a requirement on credit companies to issue a combined card allowing both debit transactions and deferred-charge transactions. The report was approved by the government on October 22, 2014, but a final implementation date has not yet been set.

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 2012, 2013, and 2014 stood at approximately 22.3%, and 21.2%, and 22.1% (estimated) respectively (according to the Bank of Israel's reports; including purchasing groups).

Main Methods of Coping with Competition

- 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.
- 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.
- 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.
- 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.
- 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.
- Improving work processes, including the multi-channel perspective, and managing and investing in advanced systems.
- 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, personal computer), launch of the Mobile Wallet application, and the Maof simulator designed for customers with greater interest and activity in the capital market.
- 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).
- Preparing for various market scenarios by building flexible infrastructures that allow for an appropriate, rapid response to changes in the competitive environment.

Products and Services

Dan the Saver – In 2014, 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, and monetary grants in the amount of NIS 50-100 were given to customers who opened or maintained a savings plan. Concurrently, the Bank continued to adapt Dan the Saver activities for the Arab-Israeli and Ultra-Orthodox (Haredi) sectors.

Poalim Cash Back – The Cash Back Club, launched in 2012, continued to solidify its standing as the Bank's customer club during 2014. The club offers rebates directly in customers' accounts on credit-card purchases at any of the participating businesses. In the 26 months since the club's launch, rebates in a total amount of NIS 84.5 million have been given to approximately 950,000 customers. The club includes 52 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 UP – In 2014, the Bank launched a range of unique financial services under the brand Poalim UP, designed to allow customers to manage their accounts in the way best suited to them. This range serves as the first step in the process of creating new differentiated current-account tracks for customers. The range of services and the new current-account tracks were launched in the first quarter of 2014. The new current-account tracks represent as an important breakthrough brought to consumers in the household and small-business sectors by the Bank, which has become the first bank to introduce accessibly priced current-account tracks.
UP Card – A prepaid international card drawn from the customer's bank account. The card is transferable to family members aged 14 or over, as it is not imprinted with the account owner's name. Customers can easily recharge the card through any service channel (at a branch or via direct channels), return money from the card to the account, and receive text-message alerts of debits on the card.
UP Active – A service designed to help customers achieve better financial management of their accounts, remain up to date, and improve order and organization in their accounts, simply and conveniently. Among other features, the service offers automatic orders of checkbooks when the existing checkbook has almost run out, automatic withdrawal of daily interest deposits if necessary to cover a negative balance in the account, automatic deposit to savings of positive balances, and more.
UP Smart – A service that allows routine debits in current accounts to be concentrated on one regular monthly debit date, similar to credit-card payments, allowing customers better control over expense management in their accounts. Debits that can be deferred include check payments, cash withdrawals, payments in installments, transfers, and more. The customer can select the day of the month to which the debits are deferred. This service is only offered to customers as part of a track.

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.

Human Capital

The average number of positions of employees of the segment in 2014 was 4,977 (2013: 5,249 positions), of which 619 direct managerial positions (2013: 631 direct managerial positions). 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 the 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 their studies 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.

Taxation

With regard to taxation, see the section "Taxation Status," below.

Legal Proceedings

See Note 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," 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 bank offices, where processes with potential for improvements in services along with improved efficiency are being examined.
- The Bank is completing preparations for the provision of pension advisory services at its branches. These preparations include training dozens of financial and pension advisors who specialize in a comprehensive view of customers' needs and in the provision of comprehensive, objective advice, and the implementation of an advanced, unique advisory system allowing convenient processing and presentation of 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.

Outlook for Development in the Coming Year

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

Pension advising – The Bank has been permitted to engage in pension advising, subject to the provisions of the legal arrangement and the derived permits and directives. At this stage, pension advising services are offered only at some branches of the Bank, and only to some customers; this service will gradually be expanded in the future. The expansion of this activity depends on factors some of which do not depend on the Bank, including: successful operation of the central pension clearing house, which was established to transfer information regarding customers' holdings in pension products between institutional entities and pension advisors and marketers, as well as the enactment of regulations establishing the rates of distribution fees for the distribution of insurance products. For further details regarding the Bank's preparations for the provision of pension advisory services, see the section "Additional Information Concerning Activity in Certain Products."

Condensed operating results and principal data of the Households Segment:

	For the year ended Dec. 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	**76**	**-**	**-**	**(833)**	**(25)**	**(2)**	**(784)**
Non-interest financing income	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Total net financing profit	**1,779**	**92**	**-**	**211**	**20**	**1**	**2,103**
Fees and other income	**450**	**610**	**33**	**70**	**-**	**-**	**1,163**
Total income	**2,229**	**702**	**33**	**281**	**20**	**1**	**3,266**
Provision (income) for credit losses	**244**	**11**	**-**	**(25)**	**11**	**-**	**241**
Operating and other expenses:							
From externals	**2,081**	**471**	**59**	**187**	**43**	**1**	**2,842**
Inter-segmentall	**(63)**	**-**	**9**	**(28)**	**-**	**-**	**(82)**
Profit (loss) before taxes	**(33)**	**220**	**(35)**	**147**	**(34)**	**-**	**265**
Provision for taxes (tax benefit) on profit (loss)	**(13)**	**65**	**(14)**	**58**	**(13)**	**-**	**83**
Net profit (loss):							
Before attribution to non-controlling interests	**(20)**	**155**	**(21)**	**89**	**(21)**	**-**	**182**
Attributed to non-controlling interests	**-**	**(4)**	**-**	**-**	**7**	**-**	**3**
Attributed to shareholders of the Bank	**(20)**	**151**	**(21)**	**89**	**(14)**	**-**	**185**
Return on equity	**(0.8%)**	**18.9%**	**-**	**4.5%**	**(29.2%)**	**-**	**3.5%**
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 (according to Basel 3)	**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	**29**	**-**	**-**	**4**	**-**	**-**	**33**
Total net interest income	**1,777**	**92**	**-**	**211**	**20**	**1**	**2,101**

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

Condensed operating results and principal data of the Households Segment (continued):

	For the year ended Dec. 31, 2013*						
	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	1,615	87	-	1,632	43	4	3,381
Inter-segmental	187	-	-	(1,420)	(22)	(3)	(1,258)
Non-interest financing income	2	-	-	-	-	-	2
Total net financing profit	1,804	87	-	212	21	1	2,125
Fees and other income	501	576	32	85	-	-	1,194
Total income	2,305	663	32	297	21	1	3,319
Provision for credit losses	138	4	-	81	6	-	229
Operating and other expenses:							
From externals	2,171	474	62	184	40	2	2,933
Inter-segmental	(46)	-	9	(31)	-	-	(68)
Profit (loss) before taxes	42	185	(39)	63	(25)	(1)	225
Provision for taxes (tax benefit) on profit (loss)	14	48	(13)	20	(8)	-	61
Profit (loss) after taxes	28	137	(26)	43	(17)	(1)	164
Net profit (loss):							
Before attribution to non-controlling interests	28	137	(26)	43	(17)	(1)	164
Attributed to non-controlling interests	-	(4)	-	-	6	-	2
Attributed to shareholders of the Bank	28	133	(26)	43	(11)	(1)	166
Return on equity	1.3%	17.2%	-	2.4%	(26.3%)	-	3.5%
Average balance of assets	22,363	6,768	-	36,370	288	41	65,830
Average balance of liabilities	36,803	-	-	-	35	-	36,838
Average balance of risk-adjusted assets (according to Basel 2)	22,693	8,311	115	19,316	453	25	50,913
Average balance of mutual funds[2]	-	-	2,365	-	-	-	2,365
Average balance of securities	-	-	1,900	-	-	-	1,900
Average number of employee positions	3,902	737	128	405	41	36	5,249
Balance of net credit to the public	22,588	5,933	-	37,273	291	38	66,123
Balance of deposits from the public	36,519	-	-	-	42	-	36,561
Spread from credit granting activity	1,434	87	-	177	20	1	1,719
Spread from deposit taking activity	354	-	-	-	-	-	354
Other	14	-	-	35	1	-	50
Total net interest income	1,802	87	-	212	21	1	2,123

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) 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 185 million in 2014, compared with NIS 166 million in the preceding year. The increase in profit mainly resulted from a decrease in operating expenses. This increase was offset by a decrease in fees and other income, and a decrease in net financing profit.

Net financing profit totaled NIS 2,103 million in 2014, compared with NIS 2,125 million in the preceding year. The decrease resulted from the decrease in the interest rate in Israel, and its effect on financial spreads on deposits. The decrease was partially offset by an increase in the volume of credit.

Fees and other income totaled NIS 1,163 million in 2014, compared with NIS 1,194 million in the preceding year. The decrease resulted from a decrease in income from credit handling in the segment, in the amount of approximately NIS 28 million. This decrease resulted from the implementation of FAS 91 beginning January 1, 2014 (for further details, see Note 1(D)(1) to the Financial Statements), pursuant to which fees previously recorded upon receipt were spread, and certain fees previously included in the fees item were partially included in the interest income item beginning on that date; and from a decrease in income from account management fees. The decrease was offset by an increase in income from credit cards.

The provision for credit losses totaled NIS 241 million in 2014, compared with NIS 229 million in the preceding year. The increase resulted from an increase in the collective allowance, due to an increase in credit balances, and the effect of the update of the Public Reporting Directives of the Supervisor of Banks concerning "Collective Allowance in Respect of Credit to Private Individuals," with respect to consumer loans, in the amount of NIS 115 million. This increase was offset by a decrease in allowances recorded on an individual basis and by a collective allowance in the amount of NIS 59 million recorded in 2013 due to the initial implementation of the Supervisor's directive updating the guidelines concerning residential property. For further details, see Note 1(E)(4) to the Financial Statements.

Operating and other expenses of the segment amounted to NIS 2,760 million in 2014, compared with NIS 2,865 million in the preceding year. The decrease resulted from a decrease in salary expenses, mainly due to the effect of the efficiency plan, which led to a decrease in the number of positions. For further details, also see the section "Human Capital."

Net credit to the public totaled approximately NIS 70.8 billion as at December 31, 2014, compared with approximately NIS 66.1 billion as at December 31, 2013. The increase resulted from an increase of approximately NIS 2.9 billion in consumer credit in Israel, excluding housing loans and credit cards, which amounted to approximately NIS 25.5 billion, compared with approximately NIS 22.6 billion as at December 31, 2013, and from an increase of approximately NIS 1.4 billion in housing loans, which amounted to approximately NIS 38.7 billion, compared with approximately NIS 37.3 billion as at December 31, 2013.

Deposits from the public totaled approximately NIS 38.5 billion as at December 31, 2014, compared with approximately NIS 36.6 billion as at December 31, 2013.

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:

2014 ended with a mixed trend in the markets. The TA-25 index was up by 10%, while the TA-75 was down by 9.8%. Most of the government bond indices posted gains, at 7% in unlinked bonds and 5.7% in CPI-linked bonds, while short-term CPI-linked bonds were down by 1.5%. The various Tel Bond indices showed a mixed trend as well, with most rising by about 1%; the Tel Bond Unlinked index rose by 4%, while the Tel Bond Yields index was down by 3%. Advisors and clients worked during the year to optimize risk components in portfolios, as reflected in continued rechanneling to foreign shares, as well as reduction and 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 mutual funds, which increased significantly during 2014.

Overseas:

The Bank emphasized increasing the assets of GPB customers held at the Bank Group, defining a strategic objective of increasing the percentage of customers with an asset portfolio of over one million dollars.

Technological Changes that May Have a Material Impact on the Segment

In Israel:

Main Launches in 2014

Changes in the Poalim Advisor Systems

- New financial advising philosophy – The launch of the new financial advising process began this year. This process is based on a new advising philosophy and on a unique, innovative global optimization model; its essence is better financial management and planning.
- BE – A decision-support system for ETFs. An advanced decision-support system for ETFs was launched at all branches of the Bank this year. The system helps perform in-depth, comprehensive analysis of ETFs in order to choose the ETF best suited to the customer's needs. This system joins the range of decision-support tools available within the Poalim Advisor system.

TipRanks

An advanced online service has been launched to provide information about analyst recommendations, with ratings of the analysts based on their performance. The service is integrated with the Bank's website, and is based on a system developed by the Israeli start-up TipRanks. This innovative system helps customers who trade in foreign securities on stock exchanges in the United States make rational investment decisions.

The service has two main advantages: 1. Ratings of the analysts based on their actual success – the algorithm tracks publications by thousands of analysts on dozens of financial websites and examines the quality of each analyst's recommendations on various stocks against the S&P 500 index. The large quantity of data amassed is analyzed to present all relevant information about each analyst to the customer: the analyst's published recommendations, rate of success in beating the S&P 500 index with each recommendation, overall ranking relative to other analysts, and success rate. 2. A list of all analyst recommendations searchable by stock.

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 On Time 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 performed through private-banking units at branches, face to face and by telephone, and via "Poalim by Telephone," both through initiated contacts and in response to customers' calls. Marketing and distribution activities are also conducted through "Poalim Online." 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 the 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.

Marketing to customers abroad is conducted via the Bank's various representative offices, subject to the relevant laws in Israel and in the countries where the activity is conducted.

Another marketing means is the Platinum and Preferred clubs, which are targeted to high-net-worth customers. Service centers for these customers are located in Tel Aviv, Herzliya, Haifa, and Nazareth. A new center in line with high international standards opened at Mamila in Jerusalem, in early September. Customers receive one-on-one service individually tailored to each client according to the client's needs. These customers receive a unique marketing and professional service package adapted to their needs and preferences.

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

Some 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 removal 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 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 some 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. Competition is primarily focused on providing a high level of personalized, professional service; a range of products and services not inferior to those offered by competitors; and the ability to respond rapidly to changes in the market and in customers' tastes.

The Committee on Competitiveness

See the "Households Segment" section above.

Human Capital

The average number of positions of employees of the segment in 2014 was 3,144 (2013: 3,321 positions), of which 614 direct managerial positions (2013: 629 direct managerial positions). 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 comply with 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 19 to the Financial Statements.

Regulatory Changes

See the "Households Segment" section, above.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," 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 and loyalty.

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.

Condensed operating results and principal data of the Private Banking Segment:

	For the year ended Dec. 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**	**157**	**206**	**1,626**
Total income	**974**	**363**	**648**	**50**	**287**	**206**	**2,528**
Provision (income) for credit losses	**71**	**7**	**-**	**(6)**	**4**	**-**	**76**
Operating and other expenses:							
From externals	**1,105**	**234**	**290**	**27**	**344**	**332**	**2,332**
Inter-segmental	**47**	**-**	**167**	**(4)**	**-**	**15**	**225**
Profit (loss) before taxes	**(249)**	**122**	**191**	**33**	**(61)**	**(141)**	**(105)**
Provision for taxes (tax benefit) on profit (loss)	**(98)**	**36**	**75**	**13**	**18**	**(13)**	**31**
Net profit (loss):							
Before attribution to non-controlling interests	**(151)**	**86**	**116**	**20**	**(79)**	**(128)**	**(136)**
Attributed to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Attributed to shareholders of the Bank	**(151)**	**85**	**116**	**20**	**(79)**	**(128)**	**(137)**
Return on equity	**(13.2%)**	**17.4%**	**-**	**2.4%**	**(11.2%)**	**-**	**(4.1%)**
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 (according to Basel 3)	**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**

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

Condensed operating results and principal data of the Private Banking Segment (continued):

	For the year ended Dec. 31, 2013*						
	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	(827)	19	-	496	63	-	(249)
Inter-segmental	1,633	-	-	(456)	61	-	1,238
Non-interest financing income	28	-	-	-	3	-	31
Total net financing profit	834	19	-	40	127	-	1,020
Fees and other income	264	326	534	9	145	200	1,478
Total income	1,098	345	534	49	272	200	2,498
Provision (income) for credit losses	24	3	-	28	(2)	-	53
Operating and other expenses:							
From externals	1,161	237	304	27	249	203	2,181
Inter-segmental	53	-	154	(4)	-	13	216
Profit (loss) before taxes	(140)	105	76	(2)	25	(16)	48
Provision for taxes (tax benefit) on profit (loss)	(46)	27	25	(1)	8	(5)	8
Net profit (loss):							
Before attribution to non-controlling interests	(94)	78	51	(1)	17	(11)	40
Attributed to non-controlling interests	-	(1)	-	-	-	-	(1)
Attributed to shareholders of the Bank	(94)	77	51	(1)	17	(11)	39
Return on equity	(10.0%)	16.3%	-	(0.1%)	2.5%	-	1.3%
Average balance of assets	8,677	3,568	-	14,710	6,129	-	33,084
Average balance of liabilities	106,917	-	-	-	18,734	-	125,651
Average balance of risk-adjusted assets (according to Basel 2)	10,148	5,111	1,071	7,459	7,358	381	31,528
Average balance of mutual funds(2)	-	-	44,459	-	-	600	45,059
Average balance of other assets under management	-	-	-	-	-	837	837
Average balance of securities	-	-	76,192	-	-	29,750	105,942
Average number of employee positions	1,962	349	508	57	255	190	3,321
Balance of net credit to the public	8,859	3,345	-	15,940	6,158	-	34,302
Balance of deposits from the public	104,778	-	-	-	18,537	-	123,315
Spread from credit granting activity	231	19	-	33	65	-	348
Spread from deposit taking activity	557	-	-	-	52	-	609
Other	18	-	-	7	7	-	32
Total net interest income	806	19	-	40	124	-	989

* For details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) 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

The results of the Private Banking Segment in 2014 amounted to a loss of NIS 137 million, compared with profit of NIS 39 million in the preceding year. The decrease mainly resulted from an increase in operating expenses overseas, and a decrease in financing profit in Israel. This decrease was offset by an increase in fees and in other income, and by a decrease in operating expenses in Israel.

Net financing profit in 2014 totaled NIS 902 million, compared with NIS 1,020 million in the preceding year. The decrease resulted from the decrease in the interest rate in Israel which influenced the financial spread on deposits. This decrease was partially offset by an increase in the volume of credit in the segment.

Fees and other income of the segment totaled NIS 1,626 million in 2014, compared with NIS 1,478 million in the preceding year. The increase mainly resulted from an increase in capital-market activity, income from credit cards, and income from international activity attributed to this segment, mainly from Switzerland. By contrast, the segment's income from credit handling decreased by a total of approximately NIS 15 million, as a result of the implementation of FAS 91 beginning January 1, 2014 (for further details, see Note 1(D)(1) to the Financial Statements), pursuant to which fees previously recorded upon receipt were spread, and certain fees previously included in the fees item were partially included in the interest income item beginning on that date.

The provision for credit losses totaled NIS 76 million in 2014, compared with NIS 53 million in the preceding year. The increase resulted from a collective allowance recorded due to the update of the Public Reporting Directives of the Supervisor of Banks concerning "Collective Allowance in Respect of Credit to Private Individuals," with respect to consumer loans, in the amount of NIS 39 million. This increase was offset by a collective allowance in the amount of NIS 20 million recorded in 2013 due to the initial implementation of the Supervisor's directive updating the guidelines concerning residential property. For further details, see Note 1(E)(4) to the Financial Statements.

Operating and other expenses of the segment amounted to NIS 2,557 million in 2014, compared with NIS 2,397 million in the preceding year. The increase mainly resulted from a provision in the amount of approximately NIS 196 million, recorded in accordance with the directives of the Supervisor of Banks and allocated to this segment; for further details, see Note 19E to the Financial Statements. By contrast, a decrease in salary expenses occurred, mainly due to the effect of the efficiency plan. For further details, also see the section "Human Capital."

Net credit to the public totaled approximately NIS 38.1 billion as at December 31, 2014, compared with approximately NIS 34.3 billion as at December 31, 2013. The increase resulted from an increase of approximately NIS 2 billion in housing loans, which totaled approximately NIS 17.9 billion, compared with approximately NIS 15.9 billion as at December 31, 2013, and from an increase of approximately NIS 1 billion in consumer credit in Israel, excluding housing loans and credit cards, which amounted to approximately NIS 9.9 billion, compared with approximately NIS 8.9 billion as at December 31, 2013.

Deposits from the public totaled approximately NIS 127.2 billion as at December 31, 2014, compared with approximately NIS 123.3 billion as at December 31, 2013.

The balance of off-balance sheet monetary assets of the customers of the Bank Group attributed to this segment as at December 31, 2014 totaled approximately NIS 182.0 billion, compared with approximately NIS 165.7 billion as at December 31, 2013. 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 third Year of Small Businesses at the Bank. In 2014, the Bank focused 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 – among others 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. 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, is up to a total of NIS 6 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 "Households Segment" section, 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 2014. However, competition in this sector is increasing, reflected in the development of targeted value 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

Instant Credit for Businesses

Based on an understanding of business clients' needs, an option for receiving instant credit has been added for these clients on the Bank's website, allowing clients to easily and conveniently obtain immediate credit without guarantors or collateral, and without the need to visit a branch. This service represents a leap forward in the ability to make credit solutions available to business clients online, for investments in their business, bridging a cash-flow gap, or private consumption.

Main Barriers to Entry and Exit in the Segment

- Establishment of a broadly deployed 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 2014

- During 2014, the Bank expanded its responsiveness to small businesses by further extending the network of business units at retail branches and of bankers for small businesses, in the widest distribution in Israel, at approximately 235 branches. The Bank is expected to continue this process, in accordance with the strategic trajectory for the Small Business Segment.
- The Bank continued to develop tools to enhance the ability of small businesses to grow and succeed, including the development of various tools to increase the accessibility of banking services through the various direct channels, in order to provide optimal solutions for the financial needs of the businesses.
- Renewal and continued promotion of the "Easy Start" package for businesses getting started, which offers a current-account fee exemption for the businesses' first two years, as part of the Bank's efforts to support the creation of new businesses in Israel.
- Establishment and promotion of a range of specialized loan funds targeted to this sector, 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 (a total allocation of approximately NIS 100 million was also earmarked for the Arab-Israeli and Haredi sectors within this fund in 2014); 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 of the Small and Mid-Sized Business Fund backed by the state, and continued granting of loans through this fund, which is 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.
- Granting of benefits and promotion of collaborations within the Poalim CashBack 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, not only major chains have joined, but also thousands of small businesses, throughout Israel, across all sectors of B2C activity. Participating small businesses benefit from 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 initiated a focus on small businesses throughout the month of January, for the third time, culminating in Small Business Day on January 29-30, 2015. During this event, the public was asked to deliberately prefer and patronize small businesses. The Bank's initiative was joined by local government leaders and municipalities, leading organizations in the Israeli economy, and commercial firms. In past years, tens of thousands of businesses chose to register and join the activity, and benefitted from opportunities for advertising and promotion of their businesses, which also included the small businesses involved in the CashBack Club, providing 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.
In 2014, for the first time, the Poalim CashBack Club conducted continuous marketing efforts calling on customers of the Bank to patronize small businesses near their homes. A different segment of small businesses was chosen every two months for an exceptionally worthwhile offer exclusive to Bank Hapoalim customers (e.g. flower shops, cosmetics, bakeries, garages, and more).

New Products

Drawn check report file – In March 2014, the Bank launched a new service, which enables business clients who use large numbers of checks to monitor and track checks drawn on their accounts. The innovative service is important news for business sector clients, contributing to the minimization of payment on forged checks and reducing the damages paid for such checks by the Bank.
Instant credit for businesses – An innovative, groundbreaking product in Israeli banking, allowing small businesses at Bank Hapoalim to apply for loans in amounts of up to NIS 400,000 through the Poalim Online website, without visiting a branch, and to obtain approval for the loan in real time. Clients can also receive the loan through the Bank's branches, without bureaucracy and without presenting documents. 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.
UP Business – The Poalim UP Business track is designed for small businesses, helping them manage and monitor their expenses, in Israel and overseas, receive updates on the status of the account by text message, and receive benefits on credit cards.

Marketing and Distribution

On Small Business Day, held in January 2014 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, Lahav, Emun Hatzibur (Public Trust), and more. The Bank intends to establish 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.

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 chief competitors (major local banks) as well as on the part of institutional 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.

The Committee on Competitiveness

See the section "The Households Segment," above.

Human Capital

The average number of positions of employees of the segment in 2014 was 1,656 (2013: 1,689 positions), of which 343 direct managerial positions (2013: 340 direct managerial positions). 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 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," below.

Regulatory Changes

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.

Condensed operating results and principal data of the Small Business Segment:

	For the year ended Dec. 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	**865**	**80**	**39**	**15**	**53**	**1,052**
Inter-segmental	**55**	**-**	**12**	**(2)**	**32**	**97**
Profit (loss) before taxes	**246**	**88**	**(6)**	**12**	**103**	**443**
Provision for taxes (tax benefit) on profit (loss)	**96**	**25**	**(2)**	**5**	**40**	**164**
Net profit (loss):						
Attributed to shareholders of the Bank	**150**	**63**	**(4)**	**7**	**63**	**279**
Return on equity	**9.3%**	**28.0%**	**-**	**2.5%**	**21.3%**	**11.6%**
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 (according to Basel 3)	**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**

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

Condensed operating results and principal data of the Small Business Segment(continued):

	For the year ended Dec. 31, 2013*					
	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	877	58	-	157	160	1,252
Inter-segmental	11	-	-	(128)	(27)	(144)
Total net financing profit	888	58	-	29	133	1,108
Fees and other income	440	113	39	4	52	648
Total income	1,328	171	39	33	185	1,756
Provision for credit losses	122	1	-	8	12	143
Operating and other expenses:						
From externals	889	80	40	15	69	1,093
Inter-segmental	47	-	12	(2)	29	86
Profit (loss) before taxes	270	90	(13)	12	75	434
Provision for taxes (tax benefit) on profit (loss)	88	23	(4)	4	24	135
Net profit (loss):						
Attributed to shareholders of the Bank	182	67	(9)	8	51	299
Return on equity	13.4%	24.9%	-	3.3%	20.0%	14.0%
Average balance of assets	16,170	1,263	-	4,469	3,037	24,939
Average balance of liabilities	24,561	2,278	-	-	2,335	29,174
Average balance of risk-adjusted assets (according to Basel 2)	15,290	2,355	88	2,630	2,760	23,123
Average balance of mutual funds[(2)]	-	-	3,639	-	-	3,639
Average balance of securities	-	-	7,153	-	-	7,153
Average number of employee positions	1,343	111	62	30	143	1,689
Balance of net credit to the public	17,072	1,187	-	4,663	3,320	26,242
Balance of deposits from the public	25,214	-	-	-	2,408	27,622
Spread from credit granting activity	735	58	-	22	121	936
Spread from deposit taking activity	137	-	-	-	17	154
Other	16	-	-	7	(5)	18
Total net interest income	888	58	-	29	133	1,108

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) 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 2014 totaled NIS 279 million, compared with NIS 299 million in the preceding year.

Net financing profit in 2014 totaled NIS 1,180 million, compared with NIS 1,108 million in the preceding year. The increase resulted from an increase in the average volume of credit attributed to this segment.

Fees and other income of the segment in 2014 totaled NIS 602 million, compared with NIS 648 million in the preceding year. The decrease mainly resulted from a decrease in income from credit handling in the segment, in the amount of approximately NIS 78 million, due to a decrease in rates of fees for small businesses, in accordance with the directives of the Supervisor of Banks; and from the implementation of FAS 91 beginning January 1, 2014 (for further details, see Note 1(D)(1) to the Financial Statements), pursuant to which fees previously recorded upon receipt were spread, and certain fees previously included in the fees item were partially included in the interest income item beginning on that date. The decrease was offset by an increase in income from account management fees, as a result of an increase in the volume of activity.

The provision for credit losses totaled NIS 190 million in 2014, compared with NIS 143 million in the preceding year. The increase mainly resulted from an increase in the collective allowance, due to an increase in credit balances, and from an update of the Public Reporting Directives of the Supervisor of Banks regarding the "Collective Allowance in Respect of Credit to Private Individuals" for consumer loans, in the amount of NIS 20 million. (for further details, see Note 1(E)(4) to the Financial Statements). This increase was offset by a decrease in allowances recorded on an individual basis.

The segment's operating and other expenses totaled NIS 1,149 million in 2014, compared with NIS 1,179 million in the preceding year. The decrease mainly resulted from a decrease in salary expenses, mainly due to the effect of the efficiency plan. For further details, also see the section "Human Capital."

Net credit to the public as at December 31, 2014 totaled approximately NIS 29.3 billion, compared with approximately NIS 26.2 billion as at December 31, 2013. The increase resulted from an increase in activity in the segment.

Deposits from the public as at December 31, 2014 totaled approximately NIS 29.8 billion, compared with approximately NIS 27.6 billion as at December 31, 2013.

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. During 2014, clients were assigned to the Business Branches according to defined criteria, and managers of these branches have recently been granted credit authority, in a gradual process completed by the end of the year. 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 in this area of Bank Pozitif in Turkey, which provides credit and banking services.

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

2014 was marked by moderate growth and by a decrease in business activity in Israel in the third quarter, influenced by Operation Protective Edge. The segment's customers were affected by the slow growth rate and low interest rates in Israel, as well as by the weakness in global demand and volatility in the exchange rate of the shekel. In view of the conditions in the 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.

The activity of Bank Pozitif in Turkey is affected by the changes in the local market; it is too early to determine the extent of this effect.

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. 2014 was characterized by a slightly higher level of issues than in 2013, on average, and by expansion of private loans granted by institutional entities.

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, which began to operate in 2014.

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 the strategic plan, the Bank increased its market share among customers of this segment in 2014.

Human Capital

The average number of positions of employees of the segment in 2014 was 1,109 (2013: 1,071 positions on average), of which 250 direct managerial positions (2013: 242 direct managerial positions). The increase in the number of positions mainly resulted from the opening of the Business Branches, in response to the business needs of the customers of the Commercial Segment and the Corporate Segment. By contrast, a decrease in the number of employee positions occurred mainly as a result of 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 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 is developing 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 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," below.

Condensed operating results and principal data of the Commercial Segment:

	For the year ended Dec. 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	**398**	**71**	**67**	**66**	**602**
Inter-segmental	**-**	**9**	**-**	**-**	**9**
Profit (loss) before taxes	**202**	**322**	**9**	**(10)**	**523**
Provision for taxes (tax benefit) on profit (loss)	**76**	**126**	**4**	**(4)**	**202**
Net profit (loss):					
Before attribution to non-controlling interests	**126**	**196**	**5**	**(6)**	**321**
Attributed to non-controlling interests	**-**	**-**	**4**	**-**	**4**
Attributed to shareholders of the Bank	**126**	**196**	**9**	**(6)**	**325**
Return on equity	**6.6%**	**11.9%**	**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 (according to Basel 3)	**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**

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

Condensed operating results and principal data of the Commercial Segment (continued):

	For the year ended Dec. 31, 2013*				
	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	578	365	187	80	1,210
Inter-segmental	(145)	(119)	(93)	(40)	(397)
Non-interest financing income	6	-	-	-	6
Total net financing profit	439	246	94	40	819
Fees and other income	174	105	45	9	333
Total income	613	351	139	49	1,152
Provision (income) for credit losses	44	(63)	27	6	14
Operating and other expenses:					
From externals	382	76	51	49	558
Inter-segmental	(1)	8	-	-	7
Profit (loss) before taxes	188	330	61	(6)	573
Provision for taxes (tax benefit) on profit (loss)	59	107	20	(2)	184
Net profit (loss):					
Before attribution to non-controlling interests	129	223	41	(4)	389
Attributed to non-controlling interests	-	-	(10)	(1)	(11)
Attributed to shareholders of the Bank	129	223	31	(5)	378
Return on equity	7.7%	16.7%	7.1%	(2.6%)	10.4%
Average balance of assets	15,584	8,796	3,157	1,428	28,965
Average balance of liabilities	14,981	2,305	2,866	14	20,166
Average balance of risk-adjusted assets (according to Basel 3)	18,249	14,483	4,696	2,047	39,475
Average balance of mutual funds(2)	2,086	-	-	-	2,086
Average balance of securities	11,980	-	-	-	11,980
Average number of employee positions	727	137	153	54	1,071
Balance of net credit to the public	**15,725	9,488	3,862	1,655	30,730
Balance of deposits from the public	**13,175	2,573	3,461	10	19,219
Spread from credit granting activity	379	224	91	37	731
Spread from deposit taking activity	34	10	-	1	45
Other	20	12	3	2	37
Total net interest income	433	246	94	40	813

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.
** Reclassified as described in "General - The Segments and Customer Assignment Criteria" below.
(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 2014 totaled NIS 325 million, compared with NIS 378 million in the preceding year. The decrease resulted from an increase in operating expenses and an increase in the provision for credit losses. This decrease was offset by an increase in net financing profit.

Net financing profit of the segment in 2014 totaled NIS 896 million, compared with NIS 819 million in the preceding year. The increase mainly resulted from an increase in the volume of credit activity in Israel, and from an increase in the volume of activity in the area of services to mid-sized companies (middle-market) at the New York branch.

Fees and other income of the segment totaled NIS 329 million in 2014, compared with NIS 333 million in the preceding year. The decrease mainly resulted from a decrease in the segment's income attributed to the Bank's activity in Turkey, due to a decrease in income from the realization of assets received in respect of settled credit; and from a decrease in the segment's income from credit handling, in the amount of approximately NIS 9 million, mainly due to the implementation of FAS 91 beginning January 1, 2014 (for further details, see Note 1(D)(1) to the Financial Statements), pursuant to which fees previously recorded upon receipt were spread, and certain fees previously included in the fees item were partially included in the interest income item beginning on that date. The decrease was offset by an increase in fees from financing transactions.

The provision for credit losses totaled NIS 91 million in 2014, compared with NIS 14 million in the preceding year. The increase mainly resulted from an increase in allowances recorded on an individual basis, mainly in the Bank's activity in Turkey.

Operating and other expenses of the segment amounted to NIS 611 million in 2014, compared with NIS 565 million in the preceding year. The increase resulted from an increase in the delivery of services to middle-market companies at the New York branch, and from an increase in provisions for efficiency plans attributed to this segment. For further details, also see the section "Human Capital."

Net credit to the public totaled approximately NIS 35.3 billion as at December 31, 2014, compared with approximately NIS 30.7 billion as at December 31, 2013. The increase resulted from an increase in the volume of activity in Israel, and from an increase in activity in the area of services to mid-sized companies (middle-market) at the New York branch.

Deposits from the public totaled approximately NIS 24.7 billion as at December 31, 2014, compared with approximately NIS 19.2 billion as at December 31, 2013. The increase resulted from an increase in the volume of activity in Israel, and from an increase in activity in the area of services to mid-sized companies (middle-market) at the New York branch.

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 four sectors, in each of which Customer Relationship Managers (CRMs) specialize in specific areas. A Credit Management Operations Unit for each sector provides services to all customers in that sector. The Corporate Division also includes a unit responsible for financing and monitoring infrastructure projects, which contains a department specializing in complex foreign-trade transactions, which provides services to all customers of the Area engaged in this activity, and a department that handles 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 PFI/BOT 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 "Composition and Development of the Assets and Liabilities of the Bank Group" above.

Legal Proceedings

See Note 19 to the Financial Statements.

Proper Conduct of Banking Business Directive 311

See the section "Risk Management," 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 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 debt of a borrower and a group of borrowers – Pursuant to Proper Conduct of Banking Business Directive 313, "Limits on Indebtedness of a Borrower and of a Group of Borrowers," the rate of "indebtedness" of a "borrower" and of a "group of borrowers," as defined in the directive, after subtracting 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" (for details, see the section "Capital and Capital Adequacy" 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 indebtedness exceeds 10% of the capital of the Bank, shall not exceed 120% of the capital of the Bank. As at the reporting date, the Bank is in compliance with this limit.

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 this limit.

Sectoral 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 2014.

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 Letter").

The Commissioner's Letter states that the Bank and Bank Leumi LeIsrael Ltd. (hereinafter: "Bank Leumi") can join a consortium arrangement together, without the need to apply for a specific exemption from the Commissioner, only if the aggregate amount of credit which the Bank and Bank Leumi would be required to grant within the consortium exceeds NIS 300 million. This limit does 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.

On December 30, 2014, the Commissioner issued a letter changing the terms established in the Commissioner's Letter (hereinafter: the "Updated Commissioner's Letter"). The Updated Commissioner's Letter states that the Bank and Bank Leumi cannot join any consortium arrangement together without applying to the Commissioner for a specific exemption, regardless of the aggregate amount of credit which the Bank and Bank Leumi would be required to grant within the consortium. In addition, the Updated Commissioner's Letter establishes several changes in the terms for joining a consortium arrangement, in particular changes in the components of the reporting required of the parties to a consortium.

The following are the main points of the updated terms for banking corporations and/or institutional entities (as defined in the Updated Commissioner's Letter) joining a credit consortium:

1. The credit consortium shall be formed 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 members (as defined in the Updated Commissioner's Letter) of the consortium, including through another person acting on the client's behalf.

3. The Bank and 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. No information shall be transferred among the parties that is not necessary for the formation of the specific consortium under discussion. Without prejudice to the foregoing, any such transfer of information shall be performed in a manner that minimizes any threat of damage to competition between the parties.
5. 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 Updated Commissioner's Letter. This documentation shall be retained by each of the parties, and shall be submitted to the Antitrust Authority, as established in the Updated Commissioner's Letter.
6. The terms as established in the Updated Commissioner's Letter shall be in effect until December 30, 2015.

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

2014 was marked by moderate growth and by a decrease in business activity in Israel in the third quarter, influenced by Operation Protective Edge. The segment's customers were affected by the slow growth rate and low interest rates in Israel, as well as by the weakness in global demand and volatility in the exchange rate of the shekel. In view of the conditions in the 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 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 perception 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 2014 were mainly performed 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 and services are marketed and distributed to customers through the Sales and Business Development Department in the Corporate Division, in cooperation with the area-level administrative unit, which began to operate in 2014. The department focuses on support for Customer Relationship Managers. 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 2014 was 696 (2013: 724 positions on average), of which 149 direct managerial positions (2013: 156 direct managerial positions). 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 business 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 19 to the Financial Statements.

Condensed operating results and principal data of the Corporate Segment:

	For the year ended Dec. 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	**1,944**	**755**	**139**	**76**	**2,914**
Inter-segmental	**(818)**	**(261)**	**(19)**	**(40)**	**(1,138)**
Non-interest financing income	**77**	**-**	**1**	**-**	**78**
Total net financing profit	**1,203**	**494**	**121**	**36**	**1,854**
Fees and other income	**349**	**209**	**24**	**4**	**586**
Total income	**1,552**	**703**	**145**	**40**	**2,440**
Provision (income) for credit losses	**138**	**(314)**	**(1)**	**-**	**(177)**
Operating and other expenses:					
From externals	**464**	**116**	**65**	**15**	**660**
Inter-segmental	**65**	**6**	**-**	**-**	**71**
Profit before taxes	**885**	**895**	**81**	**25**	**1,886**
Provision for taxes on profit	**346**	**351**	**32**	**10**	**739**
Net profit:					
Attributed to shareholders of the Bank	**539**	**544**	**49**	**15**	**1,147**
Return on equity	**7.0%**	**14.3%**	**7.4%**	**12.7%**	**9.3%**
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 (according to Basel 3)	**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	**1,052**	**470**	**119**	**36**	**1,677**
Spread from deposit taking activity	**23**	**14**	**-**	**-**	**37**
Other	**51**	**10**	**1**	**-**	**62**
Total net interest income	**1,126**	**494**	**120**	**36**	**1,776**

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

Condensed operating results and principal data of the Corporate Segment (continued):

	For the year ended Dec. 31, 2013*,**				
	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	2,368	1,169	189	145	3,871
Inter-segmental	(1,193)	(539)	(89)	(72)	(1,893)
Non-interest financing income	36	-	37	1	74
Total net financing profit	1,211	630	137	74	2,052
Fees and other income	356	220	17	5	598
Total income	1,567	850	154	79	2,650
Provision (income) for credit losses	284	189	(25)	(2)	446
Operating and other expenses:					
From externals	433	114	43	23	613
Inter-segmental	57	8	-	-	65
Profit before taxes	793	539	136	58	1,526
Provision for taxes on profit	258	175	44	19	496
Net profit:					
Attributed to shareholders of the Bank	535	364	92	39	1,030
Return on equity	7.5%	9.2%	16.1%	11.5%	8.6%
Average balance of assets	57,600	27,103	4,443	3,133	92,279
Average balance of liabilities	27,281	6,435	567	5	34,288
Average balance of risk-adjusted assets (according to Basel 2)	76,978	42,932	6,171	3,669	129,750
Average balance of mutual funds(2)	3,456	-	-	-	3,456
Average balance of securities	125,303	-	-	-	125,303
Average number of employee positions	540	134	36	14	724
Balance of net credit to the public	57,253	24,921	3,788	2,542	88,504
Balance of deposits from the public	17,130	5,851	166	-	23,147
Spread from credit granting activity	1,058	574	92	64	1,788
Spread from deposit taking activity	27	17	2	1	47
Other	90	39	6	8	143
Total net interest income	1,175	630	100	73	1,978

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.
** Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.
(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 2014 totaled NIS 1,147 million, compared with NIS 1,030 million in the preceding year. The increase in net profit resulted from income recorded in the item of provision for credit losses, compared with an expense in the preceding year. This increase was offset by a decrease in net financing profit.

Net financing profit of the segment totaled NIS 1,854 million in 2014, compared with NIS 2,052 million in the preceding year. The decrease mainly resulted from a decrease in average credit balances compared to the same period last year.

Fees and other income totaled NIS 586 million in 2014, compared with NIS 598 million in the preceding year. The decrease resulted from a decrease in income from credit handling, in the amount of approximately NIS 44 million, mainly due to the implementation of FAS 91 beginning January 1, 2014 (for details, see Note 1(D)(1) to the Financial Statements), pursuant to which fees previously recorded upon receipt were spread, and certain fees previously included in the fees item were partially included in the interest income item beginning on that date. This decrease was offset by an increase in net income from credit portfolio services and fees from financing transactions.

Income in the amount of NIS 177 million was recorded under the item of provision for credit losses in 2014, compared with an expense in the amount of NIS 446 million in the preceding year. The change resulted from a decrease in the individual provision, as a result of recoveries (reduction of the allowance and recovery of debts), and from a decrease in the collective provision, mainly due to a decrease in credit balances in this segment.

The segment's operating and other expenses totaled NIS 731 million in 2014, compared with NIS 678 million in the preceding year. The increase resulted from an increase in provisions for efficiency plans attributed to this segment. For further details, also see the section "Human Capital."

Net credit to the public totaled approximately NIS 84.0 billion as at December 31, 2014, compared with approximately NIS 88.5 billion as at December 31, 2013. The decrease mainly resulted from a decrease in credit for the financial services and construction and real estate sectors.

Deposits from the public totaled approximately NIS 27.6 billion as at December 31, 2014, compared with approximately NIS 23.1 billion as at December 31, 2013.

The balance of off-balance sheet monetary assets of customers of the Bank Group attributed to this segment as at December 31, 2014 totaled approximately NIS 152.9 billion, compared with approximately NIS 163.1 billion as at December 31, 2013. 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 "Risk Management," 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 segment 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 – Assets and Liabilities Management

The Financial Management Segment, through the Asset and Liability 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 increased significantly over recent years; this increase has led to greater 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 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 manner 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.

The wholesale rate is set in a uniform manner according to duration and linkage segment for all transactions executed at the Bank. In other words, the rate is not set for a specific asset or liability, other than in exceptional cases in which a specific cost is established for a particular transaction (mainly for large-scale transactions). The wholesale rate is used, among other things, as one of the tools for asset and liability management in the banking book.

In order to improve capabilities for analysis, planning, and management of the Bank's assets and liabilities, the Bank uses an automated ALM system. Analysis performed on this system is based on the capture of data on financial transactions at the Bank and processing that provides users with the ability to perform broad and in-depth analysis of the market risks in the Bank's balance sheet, especially interest rate risk and liquidity risk.

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 in 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; in other words, 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, service agreements have been signed with mutual-fund management companies.

On January 1, 2014, in accordance with a resolution of the Board of Management of the Bank, responsibility for the Bank's business with management companies of provident funds (other than management companies of provident funds managed within insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area. Following the implementation of this organizational change, amounts of balances and results of operations in this area were reclassified from the Corporate Segment to the Financial Management Segment. In addition, credit balances in respect of the Bank's activity with foreign financial institutions which were recorded in the Corporate Segment were classified into the Financial Management Segment.

At the end of 2014, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 90.9 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 99 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. The Bank has studied and implemented these regulations over the last two years, and monitors developments therein. The Bank is also preparing for implementation of the Basel 3 liquidity directives. This regulation may influence the Bank's management of liquidity risk.

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 customers. 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 2014 was 823 (2013: 862 positions on average), of which 265 direct managerial positions (2013: 284 direct managerial positions). 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 different 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 2015 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.

Condensed operating results of the Financial Management Segment:

	For the year ended Dec. 31	
	2014	2013*,**
	NIS millions	
Net interest income:		
From externals	**(727)**	(1,522)
Inter-segmental	**1,684**	2,454
Non-interest financing income	**792**	367
Total net financing profit	**1,749**	1,299
Fees and other income	**376**	358
Total income	**2,125**	1,657
Provision (income) for credit losses	**4**	(11)
Operating and other expenses:		
From externals	**1,029**	959
Inter-segmental	**(240)**	(202)
Profit before taxes	**1,332**	911
Provision for taxes on profit	**477**	373
Profit after taxes	**855**	538
The Bank's share in profits of equity-basis investees, after taxes	**9**	9
Net profit:		
Before attribution to non-controlling interests	**864**	547
Attributed to non-controlling interests	**(3)**	54
Attributed to shareholders of the Bank	**861**	601
Return on equity	**35.8%**	29.9%
Average balance of assets	**120,411**	122,523
Of which: Investments in equity-basis investees	**136**	132
Average balance of liabilities	**103,780**	100,118
Average balance of risk-adjusted assets(1)	**25,978**	21,697
Average balance of assets of provident funds and mutual funds(2)	**90,601**	82,132
Average balance of securities	**504,054**	467,281
Average number of employee positions	**823**	862
Balance of net credit to the public	**1,746**	1,046
Balance of deposits from the public	**49,427**	46,661

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" below.

(1) Risk-adjusted assets for 2014 were calculated according to Basel 3. Risk-adjusted assets for the same period in the preceding year were calculated according to Basel 2. For further details, see the section "General - The Segments and Customer Assignment Criteria" above.

(2) 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 2014 totaled NIS 861 million, compared with profit in the amount of NIS 601 million in the preceding year.

Net financing profit attributed to this segment amounted to NIS 1,749 million in 2014, compared with NIS 1,299 million in the preceding year. The increase was influenced by an increase in income from adjustments to fair value of derivative instruments, and from implementation of the guidelines set forth in the circular of the Supervisor of Banks concerning adoption of GAAP for US banks on income measurement (FAS 91) as of January 1, 2014. In this item, the main effect of the guidelines was expressed in an increase in income from early repayment fees. Fees charged for early repayment after January 1, 2014, are allocated to financing profit over a period of three years. By contrast, profits from bonds and shares decreased.

Fees and other income of the segment in 2014 totaled NIS 376 million, compared with NIS 358 million in the preceding year. The increase mainly resulted from an increase in income from securities activity in Israel and overseas attributed to this segment, and from an increase in income from the Bank's activity in Turkey attributed to this segment.

Operating and other expenses of the segment in 2014 totaled NIS 789 million, compared with NIS 757 million in the preceding year. The increase resulted from an increase in expenses from securities activity and from an increase in expenses from the Bank's activity overseas attributed to this segment. By contrast, a decrease in salary expenses occurred, mainly as a result of the effect of efficiency plans. For further details, also see the section "Human Capital."

Net credit to the public as at December 31, 2014 totaled approximately NIS 1.7 billion, compared with approximately NIS 1.0 billion in the preceding year.

Deposits from the public as at December 31, 2014 totaled approximately NIS 49.4 billion, compared with approximately NIS 46.7 billion in the preceding year. The increase mainly resulted from an increase 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, 2014, amounted to approximately NIS 603.3 billion, compared with approximately NIS 564.0 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 2014 amounted to NIS 80 million, compared with NIS 35 million in the preceding year. The increase mainly resulted from an increase in income from IT services, following the signing of an agreement for the delivery of IT services to a former subsidiary.

Profit from credit cards in respect of the activity of customers of banks outside the Group and incoming tourism totaled NIS 44 million in 2014, compared with profit in the amount of NIS 35 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, 2014, totaled approximately NIS 4.6 billion, compared with NIS 4.7 billion as at December 31, 2013.

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.

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 Poaley Agudat Israel Ltd., Bank of Jerusalem Ltd., Union Bank Ltd., and U 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, 2014 is 4.2 million, compared with 3.8 million cards as at December 31, 2013.

In 2014, the volume of activity in Isracard Group cards reached NIS 116.9 billion, compared with NIS 110.9 billion in 2013.

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

An exemption for a restrictive arrangement was granted by the Commissioner on September 13, 2012. Pursuant to the exemption, Leumi Card and CAL will be able to clear Isracard brand cards following the payment of an issuer fee, a one-time licensing fee, and an additional amount, the content and extent of which were deemed confidential by the Antitrust Tribunal. In a ruling on March 6, 2014, the tribunal affirmed this decision of the Commissioner, in contradiction of the position of the company.

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 stood at 0.735% as of July 1, 2013. From July 1, 2014 to the end of the period of the Arrangement (December 31, 2018), the average issuer fee stands at 0.7%. 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.

Pursuant to a bill for increasing competition in credit, submitted to Knesset in February 2014, and bills amending the Banking (Licensing) Law submitted to Knesset in March and April 2014, banking corporations would be prohibited from controlling or holding means of control in credit-card companies, or operating such means of control, among other matters. The bill submitted in February 2014 was rejected by the Ministers' Committee on Legislation in November 2014.

A resolution passed on April 2, 2014, by the Ministers' Committee on the Cost of Living states that the Bank of Israel, the Antitrust Commissioner, and the Supervisor of Banks shall consider a number of matters related to the introduction of immediate charge cards as a means of payment. Subsequently, a bill memorandum was published on August 10, 2014, which among other matters authorizes the Antitrust Commissioner to set interchange fee rates for various transactions in charge cards, including an interchange fee at a rate of zero.

The interim report of the Committee for the Examination of the Reduction of Cash Use in the Israeli Economy was published for comments by the public on May 27, 2014. Among other matters, the report contains recommendations for expansion of the use of immediate charge cards and identified rechargeable cards, according to the trajectory presented by the Antitrust Commissioner. The committee published a proposed resolution on July 17, 2014. On October 22, 2014, the government approved the proposed resolution on this matter dated August 6, 2014.

On September 8, 2014, the Israel Antitrust Authority published a report entitled, "Increasing Efficiency and Competition in Charge Cards." The report includes recommendations for expansion of the use of debit cards in Israel and for rapid crediting of businesses in charge-card transactions.

A memorandum of law concerning the reduction of the use of cash was published in January 2015, and an amended version of the memorandum was published in February 2015, aimed at implementing 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 of law grants the Antitrust Commissioner the authority to determine interchange fee rates for transactions in immediate charge cards. The memorandum of law states that a condition for its inception is that immediate charge cards are an available product, similar to deferred charge cards. In February 2015, the government resolved to approve the memorandum of law and to petition to convene the Knesset during its hiatus in order to present the bill for a first reading.

In February 2015, the Bank of Israel published recommendations and measures for expansion of the distribution and use of immediate debit cards in Israel and for increasing competition in the area of debit cards. Within these recommendations, the Bank of Israel will declare the interchange fee for immediate debit transactions a supervised fee, the price of which will be set at a maximum rate of 0.3%, for a period of one year. In addition, the Supervisor of Banks will establish directives for the distribution of immediate debit cards to customers of banks, and rules for immediate monetary settlement in transactions executed using immediate debit cards. Concurrently with the foregoing with respect to debit cards, the Bank of Israel has published a draft directive on implementation of the EMV security standard in both issuance and clearing.

In accordance with the Banking Rules Amendment issued in January 2015, the number of fees collected from small businesses receiving clearing services will be reduced, through the establishment of a uniform price list for common services in this field, beginning July 2015. In addition, pursuant to the amendment, rules concerning fees collected from cardholders have been amended; for example, the deferred payment fee was cancelled with respect to new transactions in installments executed as of February 2015, and the rules regarding the collection of conversion fees will become uniform as of April 2015.

Note that the large number of regulatory procedures, if implemented, may have a material negative effect on the Isracard Group; however, the extent of such an effect cannot be estimated at this stage.

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).

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 1,674 million in 2014, compared with NIS 1,597 million in 2013, an increase of approximately 4.8%.

Set out below is the distribution of the results of operations and principal data in credit cards by segment of activity:

	For the year ended Dec. 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**
Provision for credit losses	**11**	**7**	**2**	**-**	**-**	**-**	**-**	**20**
Net financing profit after provision for credit losses	**81**	**11**	**48**	**16**	**-**	**51**	**-**	**207**
Income from fees	**610**	**345**	**120**	**14**	**9**	**-**	**576**	**1,674**
Operating and other expenses	**471**	**234**	**80**	**9**	**4**	**-**	**514**	**1,312**
Profit before taxes	**220**	**122**	**88**	**21**	**5**	**51**	**62**	**569**
Provision for taxes on profit	**65**	**36**	**25**	**6**	**1**	**14**	**18**	**165**
Net profit:								
Before attribution to non-controlling interests	**155**	**86**	**63**	**15**	**4**	**37**	**44**	**404**
Attributed to non-controlling interests	**(4)**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(5)**
Attributed to shareholders of the Bank	**151**	**85**	**63**	**15**	**4**	**37**	**44**	**399**
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**

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

	For the year ended Dec. 31, 2013*							
	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	87	19	58	18	-	6	-	188
Non-interest financing income	-	-	-	-	-	80	-	80
Net financing profit	87	19	58	18	-	86	-	268
Provision (income) for credit losses	4	3	1	-	-	-	-	8
Net financing profit after provision for credit losses	83	16	57	18	-	86	-	260
Income from fees	576	326	113	12	9	-	561	1,597
Operating and other expenses	474	237	80	8	5	-	514	1,318
Profit before taxes	185	105	90	22	4	86	47	539
Provision for taxes on profit	48	27	23	5	1	21	12	137
Net profit:								
Before attribution to non-controlling interests	137	78	67	17	3	65	35	402
Attributed to non-controlling interests	(4)	(1)	-	-	-	-	-	(5)
Attributed to shareholders of the Bank	133	77	67	17	3	65	35	397
Average balances								
Average balance of assets	6,768	3,568	1,263	228	114	-	4,536	16,477
Average balance of liabilities	-	-	2,278	2,136	9,824	-	399	14,637
Average balance of risk-adjusted assets	8,311	5,111	2,355	143	126	-	-	16,046
Average number of employee positions	737	349	111	12	7	-	571	1,787

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) 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 14 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.

Two pension advising centers were opened in 2013, at the Rehovot branch and the Beer Sheba branch. Six additional pension advising centers opened in 2014, in Nahariya, Afula, Hadera, Petach Tikva, Tel Aviv, and Jerusalem, so that the Bank has a total of eight pension advising centers. Gradual deployment of pension advising centers throughout Israel is planned to continue in 2015.

Since December 2013, it has been mandatory 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 the distribution of 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.

The Ministry of Finance has announced a plan to increase competition in the pension-savings market. The plan includes the following elements, among others:

- The maximum distribution fee for advisory services on pension-saving products, with the exception of study funds, will be 0.2% of accrual and 1.6% of routine deposits (this would replace the current version of the distribution fee regulations, in which the maximum rate is 0.25% of accrual, as detailed therein), or 40% of management fees, whichever is lower. The Bank's fee for advising on study funds will remain at the previous level of 0.25% of accrual.
- Distribution fees will be paid only to the last distributor appointed by the customer. Even if the last distributor is an insurance agent or pension marketer, the advising bank will be denied the distribution fee owed to it in respect of the advisory services, starting on the transition date.

Because the implementation of the plan depends on legislative processes and on the enactment of regulations, at this stage it is not possible to estimate when the plan may be implemented, whether it will be implemented in full, or what its impact will be on the Bank in its capacity as a pension advisor.

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. Investments are managed for local and foreign customers in the Israeli capital market and in capital markets worldwide.

As at December 31, 2014, the company manages portfolios with a monetary value totaling NIS 15.1 billion, compared with NIS 12.5 billion at the end of 2013.

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, service agreements have been signed with mutual-fund management companies.

On January 1, 2014, responsibility for the Bank's business with management companies of provident funds (with the exception of insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area.

At the end of 2014, the volume of assets of provident funds, study funds, and pension funds for which the Bank supplies operational services totaled approximately NIS 90.9 billion. The value of assets of mutual funds for which the unit provides services related to account management, at various volumes, totaled approximately NIS 99 billion.

Within its activity with foreign banks and financial institutions, the Bank also 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 rooms, 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 select 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.

Set out below is the distribution of the results of operations and principal data in the capital market by segment of activity:

	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**	**622**	**39**	**-**	**-**	**520**	**1,240**
Inter-segmental	**9**	**182**	**12**	**6**	**24**	**(233)**	**-**
Profit (loss) before taxes	**(35)**	**50**	**(6)**	**14**	**32**	**15**	**70**
Provision for taxes (tax benefit) on profit (loss)	**(14)**	**62**	**(2)**	**5**	**13**	**6**	**70**
Net profit (loss):							
Attributed to shareholders of the Bank	**(21)**	**(12)**	**(4)**	**9**	**19**	**9**	**-**
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 (according to Basel 3)	**132**	**1,593**	**97**	**45**	**1,068**	**1,520**	**4,455**

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

Set out below is the distribution of the results of operations and principal data in the capital market by segment of activity (continued):

	For the year ended Dec. 31, 2013*,**						
	Households Segment	Private Banking Segment	Small Business Segment	Commercial Segment	Corporate Segment	Financial Management Segment	Total
	NIS millions						
Fees and other income	32	734	39	18	47	279	1,149
Operating and other expenses:							
From externals	62	507	40	-	-	488	1,097
Inter-segmental	9	167	12	7	14	(213)	(4)
Profit (loss) before taxes	(39)	60	(13)	11	33	4	56
Provision for taxes (tax benefit) on profit (loss)	(13)	20	(4)	4	11	1	19
Net profit (loss):							
Attributed to shareholders of the Bank	(26)	40	(9)	7	22	3	37
Average balances							
Average balance of assets of provident funds and mutual funds(1)	2,365	45,059	3,639	2,086	3,456	82,132	138,737
Average balance of other assets under management	-	837	-	-	-	-	837
Average balance of securities	1,900	105,942	7,153	11,980	125,303	467,281	719,559
Average balance of risk-adjusted assets (according to Basel 2)	115	1,452	88	46	1,007	1,450	4,158

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** Reclassified as described in the section "General - The Segments and Customer Assignment Criteria" above.

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

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 2014, excluding exchange rate differences of the subsidiaries overseas, totaled NIS 542 million, compared with NIS 793 million in 2013.

The Bank's investment in subsidiary and affiliated companies totaled NIS 16.4 billion as at December 31, 2014, compared with NIS 15.9 billion at the end of 2013.

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, excluding profit from the sale of shares of MasterCard Inc., totaled NIS 319 million in 2014, compared with NIS 299 million in 2013, an increase of approximately 7%. The net profit in 2014 included profit in the amount of NIS 9 million from the sale of shares of MasterCard Inc., compared with NIS 29 million in the same period last year, and totaled NIS 328 million, similar to the profit in 2013.

The contribution of the Isracard Group to the Bank's operating results after taxes amounted to NIS 327 million in 2014, compared with NIS 339 million in 2013.

The Bank's investment in the Isracard Group totaled NIS 2,461 million on December 31, 2014, compared with NIS 2,140 million at the end of 2013.

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 19C to the Financial Statements.

Poalim Capital Markets and Investments Holdings Group Ltd.

The Poalim Capital Markets Group Ltd. (hereinafter: "Poalim Capital Markets") operates in three main areas: investment-banking activity in Israel and abroad; investments in private-equity funds and direct investments, including technology sector investment funds; and broker-dealer activities in the United States.

In the area of investment banking, Poalim Capital Markets provides a range of services, including financial and strategic consulting for mergers and acquisitions in Israel and abroad, consulting for public and private issues abroad, and guidance of companies in Israel and abroad in investments of various kinds. The Poalim Capital Markets Group also provides, through its equity-basis investee (18.93%) Poalim I.B.I., consulting, underwriting, and management services for public issues in Israel and capital raising through private issues.

In the area of investment in private-equity funds and direct investments, Poalim Capital Markets invests in funds operating in various sectors, including infrastructures, alternative energy, and others; invests in management corporations of private-equity funds; and provides services to these corporations. In addition, Poalim Capital Markets continues to manage venture-capital funds, in accordance with a permit granted by the Bank of Israel.

Broker-dealer activities in the United States are conducted through the wholly owned subsidiary Hapoalim Securities U.S.A. Inc.

The contribution of Poalim Capital Markets to the results of operations of the Bank in 2014 amounted to NIS 43 million, compared with a contribution in the amount of NIS 5 million in 2013.

The Bank's investment in Poalim Capital Markets totaled NIS 863 million on December 31, 2014, compared with NIS 818 million at the end of 2013.

Activity of the Bank Group Abroad

General

The international activity of the Bank Group encompasses approximately thirty locations, and 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.

The key focus of the Bank's strategy is its Global Private Banking (GPB) business and its commercial banking business in New York. 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 sector in the various countries is subject to regulatory supervision by various government agencies in the relevant countries, which includes requirements concerning capital, holdings of liquid assets, compliance, the prohibition of money laundering, etc.

The Bank Group's Activity 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 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 is cooperating with the Swiss authorities and 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 an investigation and can join the arrangement. The US Department of Justice announced that the Swiss Arrangement would not apply to 14 Swiss banks, the activity of which is subject to investigation. 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 an investigation. The aforementioned letter did not specify any claims or requests whatsoever.

From 2011 until the beginning of 2015, 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 US counsel in connection with the investigation against Hapoalim Switzerland and/or the banking activities of other entities in the Bank Group with American clients. During the months of January and February 2015, the Bank's representatives conducted initial meetings with representatives of the New York Department of Financial Services (the "NYDFS") and representatives of the United States Department of Justice in Washington (the "DOJ") and, pursuant to the authorities' requests at this point, the Bank's representatives orally conveyed to them a general overview of the banking activities of the Bank Group with American clients and the differences between the Bank and other banks.

In the context of the aforementioned (separate) meetings, the representatives of the DOJ and the NYDFS stated that they intended to submit a request for information regarding the banking activities of the Bank Group in relation to its American clients (not only regarding the activities of Hapoalim Switzerland). It was also agreed that additional meetings would be conducted regarding this matter. And indeed, on March 5, 2015, the NYDFS issued a document disclosure order referring to its investigation of the Bank Group's activity with American clients.

In light of the preliminary stage of the US authorities' treatment of this matter, and in light of everything stated above and the resultant uncertainty, the Bank does not have sufficient information with regard to the investigation, or with regard to the manner in which the aforementioned US authorities (or any of them) seek to inspect the matters of the Bank and the other entities in the Bank Group.

Since 2011, the Bank Group has been assisted by outside counsel from the United States, Switzerland, and Israel and certain internal reviews have been conducted regarding banking activities with American clients. However, at this preliminary stage, taking into account the fact that, as of the date of this report, the US authorities have not directed any claims against the Bank, it is not known what claims the US authorities have 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 events and results of another Israeli bank in this context, which differ from those of the Bank, and in light of legal opinions and the uncertainty described above, the Bank cannot assess the scope of exposure of Hapoalim Switzerland and the Bank in this matter. The Bank and Hapoalim Switzerland have activities with American clients, within which the scope of activities in Israel is significantly greater than the activities of Hapoalim Switzerland. The Bank does not know the degree to which such facts will impact the possible exposure of the Bank.

These matters, along with the main points of the internal review conducted, were presented to the Bank's Board of Directors and to the board of directors of Hapoalim Switzerland. At this early stage, in light of the aforementioned uncertainty and the absence of a clear and known formula used to calculate the sums which were paid to the various US authorities in the context of the arrangements made by other banks with those authorities, including the Bank Leumi arrangement which was announced in December 2014, the Bank is unable to assess the scope of the aforementioned exposure.

Notwithstanding the above, the Supervisor of Banks, after inspecting the circumstances and for conservative accounting reasons, ordered the Bank to execute a provision with respect to the aforementioned, and later ordered the disclosure of this provision in the Annual Report. Pursuant to the directive of the Supervisor, the Bank included in its financial statements as at December 31, 2014, a provision in the aggregate sum of NIS 196 million against the cumulative exposure of the Bank Group in connection with this matter. The aforesaid provision was accrued over the last three quarters of the year. At the request of the Israel Securities Authority it is noted that the aggregate provision mentioned above was set aside such that a sum of NIS 52 million was included in the financial statements as at June 30, 2014, a sum of NIS 55 million was included in the financial statements as at September 30, 2014, and the remaining balance was included in the financial statements for the fourth quarter of 2014. In accordance with the directive of the Supervisor, the amount of the 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 defined as a Category 2 bank under the Swiss Arrangement, despite the fact that the aforementioned provision relates to the Bank Group as a whole.

In light of all the above, the matters stated above can be summarized as follows:

(a) As of the date of this report and on the basis of its consultation with its outside legal counsels, the Bank does not know how to assess the amounts or the scope of its exposure, due, among other factors, to the preliminary stage of the treatment of this issue.

(b) For more than three years, there was no material contact or correspondence between the US authorities and the Bank or its representatives, and the Bank Group was not presented with claims that may shed light on the scope of the exposure resulting from the investigation of the Bank Group's banking activities with American clients.

(c) The Bank, with the assistance of its outside counsels in the US, Switzerland, and Israel, is conducting certain internal reviews in connection with the Bank Group's banking activities with American clients, the main aspects of which were presented to the Bank's Board of Directors and to the board of directors of Hapoalim Switzerland.

(d) The Bank does not know if or when it will be able to assess the exposure in connection with the aforesaid. The matter is dependent, among other things, upon the development of the process with the US authorities, the conduct of the US authorities, and the information that will be conveyed to the Bank and to its representatives in this context, and information that the Bank will be asked to submit to the US authorities.

(e) The language of this note was coordinated with the Supervisor of the Banks, and details included herein were included at the request of the Israel Securities Authority.

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. Balance Sheet*

	Balance as at Dec. 31	
	2014	2013
	USD millions	
Assets		
Cash on hand and deposits with banks	**8,851**	7,648
Securities	**2,102**	2,169
Securities borrowed or purchased under agreements to resell	**1**	8
Net credit to the public	**5,371**	5,282
Buildings and equipment	**30**	26
Assets in respect of derivative instruments	**96**	74
Other assets	**131**	171
Total assets	**16,582**	15,378

Liabilities and Capital		
Deposits from the public	**8,421**	8,147
Deposits from banks	**6,132**	5,063
Deposits from the government	**20**	-
Securities lent or sold under agreements to repurchase	**11**	70
Bonds and subordinated notes	**625**	600
Liabilities in respect of derivative instruments	**143**	143
Other liabilities	**229**	272
Total liabilities	**15,581**	14,295
Non-controlling interests	**53**	61
Capital means**	**948**	1,022
Total liabilities and capital	**16,582**	15,378

* 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 264 million (December 31, 2013: USD 283 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.

B. Client Assets

	Balance as at Dec. 31	
	2014	2013
	USD millions	
Deposits from the public, bonds, and subordinated notes	**9,046**	8,747
Client assets (off-balance sheet)	**9,448**	9,421
Total	**18,494**	18,168

C. Profit and Loss and Contribution of the Bank's Overseas Offices*

	For the year ended Dec. 31	
	2014	2013
	USD millions	
Net financing profit	**183**	212
Provision for credit losses	**21**	3
Net financing profit after provision for credit losses	**162**	209
Fees and other income	**166**	152
Operating and other expenses	**278**	255
Profit before taxes	**50**	106
Provision for taxes on profit	**26**	39
Net profit (loss):		
Before attribution to non-controlling interests	**24**	67
Attributed to non-controlling interests	**4**	(3)
Attributed to shareholders of the Bank	**28**	64

* 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.

The functional currency of consolidated subsidiaries overseas is defined in accordance with the directives of the Supervisor of Banks (for further details, see Note 1(E)(1) to the Financial Statements). 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 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 3,578 million on December 31, 2014, compared with NIS 3,467 million on December 31, 2013.

The results of operations of the principal overseas offices in 2014 amounted to profit of approximately NIS 104 million (NIS 183 million including exchange rate differences), compared with profit of approximately NIS 223 million (NIS 43 million including exchange rate differences) in 2013.

Set out below are data regarding the investment in the principal overseas offices and their contribution to the net profit of the Bank:

December 31, 2014

	Balance as at Dec. 31, 2014[(1)]	Contribution in 2014 excluding exchange rate differences[(2)]	Return in 2014[(3)]
	NIS millions		
Company			
US branches – USD[(4)]	**834**	**79**	**10.7%**
London branches – GBP[(4)(5)]	**92**	**-**	**0.1%**
Bank Hapoalim (Switzerland) Ltd.	**1,645**	**56**	**3.5%**
Bank Pozitif Group	**495**	**(37)**	**(7.3%)**
Banque Hapoalim (Luxembourg) S.A.	**153**	**(12)**	**(12.2%)**
Other offices	**359**	**18**	**4.3%**
Total	**3,578**	**104**	**2.9%**

December 31, 2013

	Balance as at Dec. 31, 2013[(1)]	Contribution in 2013 excluding exchange rate differences[(2)]	Return in 2013[(3)]
	NIS millions		
Company			
US branches – USD[(4)]	640	118	20.0%
London branches – GBP[(4)(5)]	259	32	13.5%
Bank Hapoalim (Switzerland) Ltd.	1,537	41	2.6%
Bank Pozitif Group	513	29	5.1%
Banque Hapoalim (Luxembourg) S.A.	44	(9)	(18.9%)
Other offices	474	12	2.5%
Total	3,467	223	6.4%

(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 69 million (in the same period last year: NIS 88 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.
(5) In 2013 the Bank resolved to downsize the activity of the London branch and to terminate the provision of credit and private-banking services. The transfer of the remaining loans and deposits was completed during 2014; the branch currently operates in a limited format.

Set out below are 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 Dec. 31		
	2014	2013	Change
	Millions		
US branches – USD*	**32.5**	53.5	(21.0)
London branch – GBP*	**-**	8.8	(8.8)
Bank Hapoalim (Switzerland) Ltd. – CHF	**20.8**	14.9	5.9
Bank Pozitif Group – TRY	**(27.8)**	17.8	(45.6)
Banque Hapoalim (Luxembourg) S.A. – USD	**(3.4)**	(2.5)	(0.9)
Other offices – USD	**5.0**	4.4	0.6

* At the US and London branches, data are before local tax.

Global Private Banking Activity of the Bank Group

Within this framework, the Bank Group provides private customers with 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 a representative office in Russia.

Net profit of Hapoalim Switzerland totaled approximately CHF 20.8 million in 2014, compared with approximately CHF 14.9 million in 2013. The increase in profit resulted from an increase in net interest income and an increase in income from fees, offset by an increase in operating expenses.

The contribution of Hapoalim Switzerland, excluding exchange rate differences and after supplementary taxes in Israel, to the Bank's operating results in 2014 totaled NIS 56 million, compared with NIS 41 million in 2013.

Total capital of Hapoalim Switzerland amounted to approximately CHF 419 million as at December 31, 2014, compared with approximately CHF 395 million at the end of 2013.

The total balance sheet of Hapoalim Switzerland amounted to approximately CHF 3,812 million as at December 31, 2014, compared with approximately CHF 3,419 million at the end of 2013.

The total credit of Hapoalim Switzerland totaled approximately CHF 1,487 million as at December 31, 2014, compared with approximately CHF 1,403 million at the end of 2013.

Total deposits from the public of Hapoalim Switzerland totaled approximately CHF 3,212 million as at December 31, 2014, compared with approximately CHF 2,890 million at the end of 2013.

For details regarding banking activities of the Bank Group with American clients, see Note 19E to the Financial Statements.

Banque Hapoalim (Luxembourg) S.A. (hereinafter: "Hapoalim Luxembourg")

A banking subsidiary, wholly owned by the Bank, engaged in financial and banking activity in and outside of Luxembourg. Hapoalim Luxembourg mainly grants loans to business clients.

During 2013, the necessary infrastructure was created at Hapoalim Luxembourg in order to grant corporate credit to clients with an affinity to Israel operating in Europe. As of the fourth quarter of 2013, Hapoalim Luxembourg absorbed the former clients of the London branch, while also granting credit to new clients. As at December 31, 2014, credit totaled USD 570 million, compared with USD 121 million at the end of 2013. The balance of shareholders' equity of Hapoalim Luxembourg totaled approximately USD 39 million at the end of 2014.

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, 2014, the Bank Group's customers have holdings in funds of international financial entities with which PAM collaborates totaling approximately USD 2.9 billion, compared with USD 2.5 billion on December 31, 2013. 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 three branches, in Montevideo, Punta del Este, and Colonia.

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 Local Activity primarily focuses on private companies with annual turnovers of up to USD 500 million. Concurrently, the Bank will 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. In line with the strategic decision of the Bank to expand its activity in the United States, the Bank opened a new representative office in Los Angeles, which mainly focuses on mid-sized companies and offers 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.

Set out below are balance sheet and result data of the US branches:

The profit of the US branches, before local taxes, totaled approximately USD 33 million in 2014, compared with approximately USD 54 million in 2013. The decrease in profit mainly resulted from the effect of actuarial provisions, due to the decrease in the interest rate and a change in mortality tables. In operating activity, financing income and fees increased, offset by an increase in the allowance for credit losses.

Total capital means of the US branches amounted to approximately USD 240 million as at December 31, 2014, compared with approximately USD 209 million on December 31, 2013.

The total balance sheet of the US branches as at December 31, 2014, totaled approximately USD 9.7 billion, compared with approximately USD 7.5 billion on December 31, 2013.

Total credit of the US branches amounted to approximately USD 2.6 billion as at December 31, 2014, compared with approximately USD 2.2 billion at the end of 2013.

Total deposits from the public at the US branches amounted to approximately USD 3.9 billion as at December 31, 2014, compared with approximately USD 3.4 billion at the end of 2013.

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.

The London Branch

In 2013, the Bank decided to downsize the activity of its London branch, and to gradually terminate the provision of credit and private-banking services. The transfer of the balance of loans and deposits was completed during 2014. The branch retains only limited activity.

Activity in Emerging Markets

The Bank Group currently operates in Turkey and Kazakhstan through the Bank's holdings in the shares of Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi in Turkey, and its stake in JSC Bank Pozitiv in Kazakhstan.

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, wholly owned by Bank Pozitif. The bank provides banking services to business and private customers.

Set out below are details regarding the balance sheet and results of the Bank Pozitif Group:

The loss of the Bank Pozitif Group totaled approximately TRY 27.8 million (approximately USD 11.9 million) in 2014, compared with profit of approximately TRY 17.8 million (approximately USD 8.2 million) in 2013. The loss resulted from a decrease in non-interest financing income, due to 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. In addition, operating expenses increased and other income decreased as compared to 2013, when profit was recorded from the realization of assets seized by the Bank.

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 37 million in 2014, compared with a positive contribution of approximately NIS 29 million at the end of 2013.

Total equity of the Bank Pozitif Group amounted to TRY 409 million (approximately USD 175 million) as at December 31, 2014, compared with approximately TRY 435 million (approximately USD 201 million) at the end of 2013.

Total assets of the Bank Pozitif Group amounted to approximately TRY 1,905 million (approximately USD 0.8 billion) as at December 31, 2014, compared with approximately TRY 2,293 million (approximately USD 1.1 billion) at the end of 2013.

Total net credit to the public of the Bank Pozitif Group amounted to approximately TRY 1,366 million (approximately USD 585 million) as at December 31, 2014, compared with approximately TRY 1,676 million (approximately USD 776 million) at the end of 2013. The decrease in credit mainly resulted from early repayments due to economic conditions in Turkey. Credit is primarily financed through the issuance of bonds denominated in Turkish lira, as well as through deposits from banks.

Total deposits from the public at the Bank Pozitif Group amounted to approximately TRY 129 million (approximately USD 55 million) as at December 31, 2014, compared with approximately TRY 188 million (approximately USD 87 million) at the end of 2013.

The Bank's investment in the Bank Pozitif Group totaled NIS 495 million as at December 31, 2014, compared with approximately NIS 513 million at the end of 2013. The decrease mainly resulted from the Bank Pozitif Group's losses.

General Information and Additional Matters

Fixed Assets and Facilities

	December 31			
	2014			2013
	Cost	Accrued depreciation	Balance	Balance
	NIS millions			
Buildings and land (including installations and improvements to rented properties)	**4,089**	**2,094**	**1,995**	1,931
Equipment, including computers, furniture, and vehicles	**2,149**	**1,627**	**522**	510
Software	**3,922**	**2,964**	**958**	*991
Total	**10,160**	**6,685**	**3,475**	*3,432

* Retrospective implementation - for details regarding the of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) of the Financial Statements.

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 180 properties with an area of 214 thousand square meters, of which 158 buildings with an area of 103 thousand square meters used as branches, and 22 buildings with an area of 111 thousand square meters used as management offices and auxiliary space. In addition to the buildings under its ownership, the Bank Group rents 204 buildings with an area of 133 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 7 to the Financial Statements.

IT Infrastructures

General

The Bank has two central IT sites: a main production site and a backup and development site, to ensure maximum survivability. The Bank's core system, located at the production site, is installed on an IBM mainframe computer. As part of the process of improving the availability and survivability of the system of mainframe computers, in late 2014, the Bank replaced and upgraded its MF computers to EC12 models, in response to growth needs and as part of the preparation for the move to the Rotem site (the Bank's new IT site; see details below). The two computers have aggregate power of more than 14,000 MIPS (million instructions per second). 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. 471 external ATMs, 125 internal ATMs, 282 external check-deposit machines, 321 internal check-deposit machines, 106 AdKan information stations, and 270 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, a main production site and a backup site. The total storage volume on the central computer at all three sites is approximately 300 TB. The total storage volume on the Open Systems at both sites is approximately 2.4 PB. The data of the central computer and the Open Systems are backed up on magnetic media. The total backup volume for the central computer at the three sites is 1.6 PB. Three robotic systems, made by IBM, are used to back up the data of the central computer, one at each site. Data of the Open Systems are backed up by writing to disks with a total volume of 1 PB at the three sites, and two robotic systems made by Quantum, one at each main IT site, with a total volume of approximately 10 PB. Information backups are saved in two identical copies, one at each 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 production site and 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. In the Bank's systems, information security is implemented on several levels and circuits, 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 is planning to establish a new Data Center. The planned structure will be 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 is in progress, and the process of migration to the new facility is being planned.

Syndication project – A credit syndication transaction is business collaboration by several financial corporations to finance investment-intensive projects. The goal of the project is to create an infrastructure for the Bank's management of syndication transactions and automation of the relevant manual processes.

Project for liens on financial assets in accounts – Allows current liens to be applied to NIS/foreign currency deposits in an account, and permanent liens to be applied to securities accounts, under certain conditions, offering better service to business clients along with more effective management.

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.

Poalim UP – An innovative project in the banking industry, creating a leap forward in bank-account management by offering customers choices and the ability to customize the account for their specific needs. Tools are also provided to help customers manage their accounts better, make the right financial decisions, and maintain control over the activity in their accounts, with transparency, fairness, and choice.

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. For details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

Details of expenses and investments in information-technology systems carried out in 2014 are set out below:

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	**63**	**-**	**-**	**63**
Outsourcing costs, including consultants' fees	**164**	**-**	**-**	**164**
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**

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 45 million (December 31, 2013: NIS 0 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 172 million (December 31, 2013: NIS 128 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 amounts expended by the information-technology system, including routine expenses for communications and telephones, mail, rent, taxes, electricity, etc.

Additions to assets[1] in respect of the information-technology system not charged as expenses in 2013

	Software*	Hardware[3]	Other	Total
	NIS millions			
Costs in respect of wages and related expenses	*92	-	-	*92
Outsourcing costs, including consultants' fees	173	-	-	173
Costs of acquisitions or usage licenses[4][5]	101	79	1	181
Costs of equipment, buildings, and land	-	-	16	16
Total	*366	79	17	*462

Balances of assets[2] in respect of the information-technology system as at December 31, 2013

	Software*	Hardware[3]	Other	Total
	NIS millions			
Total depreciated cost	*1,082	256	69	*1,407
Of which: in respect of wages and related expenses	*371	-	-	*371

Expenses in respect of the information-technology system as included in the statement of profit and loss in 2013

	Software*	Hardware[3]	Other	Total
	NIS millions			
Expenses in respect of wages and related expenses	*430	82	4	*516
Expenses in respect of acquisitions or usage licenses not discounted to assets	177	63	14	254
Outsourcing expenses, including consultants' fees	44	6	2	52
Depreciation expenses	*351	125	14	*490
Other expenses	104	37	[6]79	220
Total expenses	*1,106	313	113	*1,532

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.
(1) Including prepaid expenses in respect of the information-technology system in the amount of NIS 45 million (December 31, 2013: NIS 0 million).
(2) Including prepaid expenses in respect of the information-technology system in the amount of NIS 172 million (December 31, 2013: NIS 128 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 amounts expended by the information-technology system, including routine expenses for communications and telephones, mail, rent, taxes, electricity, etc.

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.
- **Excellence in service –** Setting standards for a high level of service; proactively providing service to Bank units; matching the service package to the unique needs of internal clients.

Set out below are data regarding the headcount of the Bank Group, in terms of positions[(1)]:

	2014		*2013		*2012	
	Annual average	Year-end balance	Annual average	Year-end balance	Annual average	Year-end balance
The Bank:						
In Israel	**10,387**	**10,139**	10,877	10,629	11,205	11,029
Abroad	**288**	**283**	319	302	372	372
Bank total	**10,675**	**10,422**	11,196	10,931	11,577	11,401
Subsidiaries:						
In Israel	**1,631**	**1,636**	1,649	1,658	1,689	1,705
Abroad	**658**	**625**	647	651	648	663
Subsidiaries total	**2,289**	**2,261**	2,296	2,309	2,337	2,368
Bank Group total	**12,964**	**12,683**	13,492	13,240	13,914	13,769

* In light of the retrospective implementation of the guidelines of the Supervisor of Banks concerning the capitalization of software costs, headcount data were restated with respect to the effect of the positions of employees whose wages were capitalized to fixed assets. The effect of the retrospective implementation led to an increase in wage expenses, and to a concurrent increase of approximately 285 employee positions in each of the years 2012 and 2013. For further details regarding the retrospective implementation, see Note 1D(2) to the Financial Statements.

(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, less 344 positions of employees whose wages were capitalized to fixed assets in 2014 (415 positions in 2013; 453 positions in 2012).

Principal changes in the headcount of the Bank Group in 2014 in comparison to the end of 2013 are set out below. The average number of positions in the Bank Group decreased by 528 in 2014, in comparison to the average number of positions in 2013, as follows:

- The average number of positions in Israel decreased by 490. 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 branches overseas decreased by 31 on average, due to cutbacks in the number of positions at branches and closure of representative offices.
- The number of positions at subsidiaries in Israel decreased by 18.

Set out below is the distribution of the average number of employee positions in the Bank Group by segment of activity[(1)]:

	2014	*2013
Households	**4,977**	5,249
Private Banking	**3,144**	3,321
Small Businesses	**1,656**	1,689
Commercial	**1,109**	1,071
Corporate	**696**	724
Financial Management	**823**	862
Others and Adjustments	**559**	576
Total	**12,964**	13,492

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

(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 17.9 years in 2014, similar to in 2013. The average age of employees of the Bank was 43.7 in 2014, similar to 2013.

In 2014, approximately 65.7% of all employees of the Bank were women, compared with 65% in 2013. In the Bank's senior management (department heads at the Head Office, branch managers, and above), the percentage of women in 2014 was 40.6%, compared with 39.2% in 2013 (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 62.2% in 2014 (59.5% in 2013). 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 2014, 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 Annual Financial Statements for 2014, at a total amount of NIS 390 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 2015.

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 15 and 16 to the Financial Statements.

Cost and Wages per Employee Position**

Set out below are details of cost per employee position and wages per employee position at the Bank (in NIS thousands):

	2014	*2013
Cost per employee post, excluding bonuses	**354**	342
Cost per employee post, including bonuses	**394**	383
Salary*** per employee post, excluding bonuses	**201**	203
Salary*** per employee post, including bonuses	**234**	236

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.
** 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, shall rise 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 and 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 2014, approximately 56,250 training days were held at the Poalim Campus, in about 618 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. In addition, the school has the role of preserving and reinforcing all employees' professional preparedness to fulfill their duties. In 2014, short, focused training sessions on a variety of topics in banking were developed and conducted; professional coaching days were held for executives; and 14 sessions of courses for senior executives in various areas of banking were conducted.

New learning system – The process of implementing the new learning system at the Bank continued during 2014; the system has now been absorbed at all units of the Bank, allowing employees to maintain readiness and professional skill at all times. The system contains a personal menu for each employee, according to position, based on an identification of needs and ongoing mapping of knowledge gaps in the field. In the branch network, employees receive brief learning elements to be performed each week, according to position. 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 School of Management and Leadership currently conducts basic and advanced training programs in management for all ranks of managers within the Bank. In 2014, over 1,500 executives at various levels participated in training days and executive development programs. 52 branches of the Bank participated in the Team Leadership program in 2014; the program emphasizes team management, empowerment of individuals, and development. In addition, a new Team Leadership program adapted for Head Office department heads was launched.

Organizational Culture and Climate

Ethical Code

The Bank considers the ethical code to be a foundation of its organizational culture. The ethical and behavioral code of the Bank encompasses standards, morals, relationships among colleagues, relationships with customers and suppliers, contribution to the community, and social and environmental responsibility. The ethical code serves as a compass guiding proper behavior, and is known as the ethical and behavioral code. The ethical code has been in place at the Bank since 2004. Due to the importance accorded to the code by the Bank, the Head of Human Capital, Advising and Resources has been assigned responsibility for ethics at the Bank and for the promotion of this area at the Bank. In 2014, all employees of the Bank studied and passed a tutorial presenting the recommended technique for coping with ethical dilemmas; the procedure on acceptance of gifts was updated; and discussions of ethical issues were held in professional courses for senior executives.

Vision of the Bank

Over the last four 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.

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.

Intra-Organizational Communication

Bank Hapoalim views its employees as full partners in its business and organizational processes. In order to maintain employees' sense of identification and high commitment, 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.

Liquidity and Raising of Sources of Funds at the Bank

Monetary Tools of the Central Bank

There are several means available to the Bank of Israel in order to establish the liquidity level of the banking system. The monetary activity of the Bank of Israel is divided into two types:

- Activity during a liquidity month – A liquidity month is defined by the Bank of Israel as a period of 4-5 weeks, ending on the last Wednesday of the calendar month. Activity is conducted through loan and/or deposit auctions for the commercial banks, including monthly, weekly, and daily auctions, as well as through monetary loans and/or deposits at interest rates different by ±0.25% from the Bank of Israel interest rate.
- Activity over periods longer than a liquidity month – According to economic conditions in Israel and globally, the Bank of Israel determines the desired liquidity position for the banking system. The Bank of Israel can apply expansionary monetary policies leading the system to high liquidity surpluses, or contractionary monetary policies that lead the system to liquidity deficits.

The monetary interest rate of the Bank of Israel, which stood at an annual rate of 1.0% at the beginning of 2014, was reduced by 0.25% at the end of February, to 0.75%, by an additional 0.25% at the end of July, to 0.50%, and to 0.25% at the end of August. At the end of February 2015 the rate was reduced to 0.1%.

The following are the means used by the central bank:

- Setting the basic interest rate for the Israeli economy.
- Makam (T-Bill) auctions – The Bank of Israel maintains balances of Makams (short-term notes) of approximately NIS 130 billion. By decreasing or increasing this balance, it changes the liquidity position of the banking system.
- Intervention in the foreign currency market – The Bank of Israel buys or sells foreign currency from or to the banking system.
- Intervention in the government bond market – The Bank of Israel buys or sells government bonds.
- Operation of repo auctions – Activity of the Bank of Israel with the banks and institutional entities.

At the end of 2014, the liquidity surpluses of the banking system totaled NIS 119 billion, compared with NIS 104 billion at the end of 2013, an increase of approximately NIS 15 billion.

The following actions increased liquidity:

- Foreign currency purchases by the Bank of Israel during the aforesaid period, in a total amount of approximately NIS 25 billion (approximately USD 7.0 billion, of which approximately USD 3.5 billion to offset the effects of natural-gas production).
- The government's fiscal and capital-market actions led to an inflow of approximately NIS 1 billion.

The increase in liquidity was offset by the following factors:

- The Bank of Israel increased Makam issues by a total of approximately NIS 3 billion during the year.
- The amount of money in public circulation increased by approximately NIS 5 billion.
- The banks' liquidity requirement increased by a total of approximately NIS 3 billion.

The Bank of Israel announced the cancellation of the 10% liquidity requirement for swap transactions by foreign residents and for future NIS/foreign currency conversion transactions, beginning October 30, 2014.

For reasons of caution, the Bank continues to deposit a large part of its liquidity balances in foreign currency with the Federal Reserve Bank in the United States, at low interest rates, and invests some of its liquidity surpluses, mainly in bonds of high-rated countries and financial institutions.

The Bank monitors its overall liquidity position daily, as well as its liquidity position in NIS and in foreign currency (including the overseas offices) separately. In addition to the monitoring of its current liquidity position, the Bank estimates liquidity risk using an internal model. The risk estimate is executed under various assumptions referring to different market conditions for the Israeli banking system and for the Bank.

Capital and Debt Raised from the Public

The Bank Group raises resources through both public and private issues of bonds and subordinated notes, which serve as part of the supervisory capital of the Bank.

The balance of bonds and notes totaled NIS 33.7 billion as at December 31, 2014, compared with NIS 34.0 billion as at December 31, 2013. In 2014, bonds in the amount of approximately NIS 3.8 billion were issued by the Bank Group, and bonds and subordinated notes in the amount of approximately NIS 4.0 billion matured.

The balance of subordinated notes issued by the Bank as at December 31, 2014 is approximately NIS 5.0 billion, of which tradable notes in the amount of approximately NIS 0.9 billion.

In addition, the Bank, through its wholly owned subsidiaries, Hapoalim Hanpakot and Hapoalim International, which are primarily engaged in raising monetary resources in Israel and overseas, respectively, issues bonds and notes of various types (which constitute part of the supervisory capital of the Bank), and deposits the proceeds of the issuance with the Bank.

As at December 31, 2014, the balance of notes issued by the Bank Group is approximately NIS 16.9 billion, and the balance of bonds is approximately NIS 11.8 billion.

For further details regarding bonds and subordinated notes issued by the aforesaid entities, see Note 11 to the Financial Statements.

Taxation Status

A. Tax Laws Applicable to Group Companies

Income Tax

The rate of corporation tax stood at 26.5% in 2014, and 25% in 2013. The effect of the change in the rate of corporation tax in 2013 was reflected in the financial statements as at December 31, 2013, in an increase in the balance of deferred taxes in the amount of approximately NIS 103 million, and a concurrent decrease of the provision for taxes in the same amount.

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 and 17.58% in 2013. The rate of wage tax applicable to the Bank rose on June 2, 2013, from 17% to 18%, from June 2013 onwards.

As a result of the change in the rate of tax in 2013, the Bank included an increase in the balance of deferred taxes in the amount of approximately NIS 39 million, and an increase in the balance of liabilities in respect of employee benefits in the amount of approximately NIS 21 million, before related tax effects, in its financial statements for 2013.

Combined Tax Rates

Taxes on profits of banking corporations include a corporation tax imposed pursuant to the Income Tax Ordinance, and a profit tax imposed 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			
2012	16.33%	25.00%	35.53%
2013*	17.58%	25.00%	36.22%
2014 onwards**	18.00%	26.50%	37.71%

* As a result of the increase in value-added tax at the rate of 18% as of June 2, 2013.
** As a result of the increase in corporation tax as of January 1, 2014.

Consolidated companies incorporated outside Israel are taxed according to the tax laws in the countries in which they are located

On May 13, 1986, an agreement was signed between the Bank and the Tax Assessment Officer for Large Enterprises, regulating tax payments in Israel in respect of profits of the Bank's subsidiaries abroad. Under the terms of the agreement, as of 1978, the Bank's share of the profits of its subsidiaries abroad is included in the Bank's tax assessment. The agreement stipulates that this does not indicate that these companies are liable for taxes in Israel or that the laws of the State of Israel apply to them, and that the agreement does not create a precedent. The agreement signed was in effect until 1988. However, based on an understanding between the Bank and the Tax Assessment Officer for Large Enterprises, the agreement remains in effect until either of the parties gives notification of its cancellation.

Set out below are the statutory tax rates applicable to the principal subsidiaries abroad:

United States:	35.0%
Switzerland:	21.4%
United Kingdom:	24.0%
Turkey:	20.0%

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 provisions 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. For further details, see Note 29 to the Financial Statements.

B. Additional Information

For additional data concerning the provision for taxes in the Bank Group, final tax assessments, tax assessments in dispute, losses accrued for tax purposes, and the difference between statutory tax rates and effective tax rates, see Note 29 to the Financial Statements.

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 provisions 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 reports 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 an immediate debit bank 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.

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 proceedings in material amounts to which the Bank Group is a party, see Note 19D to the Financial Statements.

(B) Other proceedings

1. On March 9, 2010, a petition to certify a derivative claim against the Bank was filed with the District Court of Tel Aviv Jaffa, in which the court was asked to permit the petitioner 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 in December 2005; 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 currently known as Bank Pozitif Kredi Ve Kalkinma Bankasi A.S. (hereinafter: "Bank Pozitif") by Tarshish (hereinafter: the "Acquisition Agreement"), as well as the compensation in the amount of NIS 88 million (according to the petition) paid to RP in 2008 in connection with the same agreement (hereinafter: the "Compensation").

According to the petitioner, the Defendants, jointly and separately, caused the Bank damage in the amount of NIS 88 million, and they should compensate the Bank for this amount. Against Mr. Dan Dankner, the claimant alleges 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.

On July 11, 2010, an additional petition was filed with the District Court of the Central District to certify a derivative claim against Mr. Dan Dankner, members of the Board of Directors of the Bank who served as directors in February 2008, Tarshish, and RP (hereinafter, jointly: the "Defendants"), and against the Bank as a formal defendant, in which the petitioner asks the court for permission to file a derivative claim on behalf of the Bank against the Defendants, and to obligate them, jointly and separately, to pay the Bank the sum of approximately NIS 72 million. This petition concerns the Acquisition Agreement and the Compensation, which, according to the petitioner, was higher by USD 20 million than the compensation agreed upon in the Acquisition Agreement. The petitioner alleges that the payment to RP was performed by the Bank in violation of the duty of loyalty of some of the Defendants, and in violation of the duty of care of the other Defendants.

On October 19, 2010, the President of the Supreme Court ruled to unify the proceedings in the two Demands. On February 10, 2011, the District Court ordered an amended claim to be filed, unifying the two claims (hereinafter, jointly: the "Unified Claim").

In October 2012, the State's Attorney indicted Mr. Dan Dankner, who served as Chairman of the Board of Directors of the Bank until August 1, 2009, for actions carried out during his term of service on the Board of Directors, including with respect to matters and facts central to the Unified Claim. Subsequent to the indictment, the petitioners filed a consensual petition to postpone the hearing of the amended petition until a verdict is reached in the criminal case against Mr. Dan Dankner. 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 the directors or of any of the other parties to the case or of any officer of the Bank, past or present, with regard to any of the allegations noted in the claim and in the petitions to certify a derivative claim. 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, and the possibility of objecting to the agreement within 21 days of the publication. In addition, in accordance with the instructions of the court, on January 18, 2015, the settlement agreement was submitted for perusal by the Supervisor of Banks, who is entitled to express his position within 30 days. On February 17, 2015, the State's Attorney requested an extension of 30 additional days for the presentation of the position of the Supervisor of Banks, and noted that the Supervisor of Banks had also submitted the proposed arrangement for perusal by the Ministry of Justice and the Israel Securities Authority.

2. On December 3, 2013, a petition was filed with the District Court of Tel Aviv Jaffa, by a petitioner claiming to be a shareholder of the Bank, for the disclosure of documents prior to filing a petition to certify a derivative claim (hereinafter: the "Disclosure Petition"). The Disclosure Petition is primarily based on a draft of an audit report prepared by the Bank of Israel. In the Disclosure Petition, the petitioner requests disclosure of various documents concerning loans and/or credit granted by the Bank to various borrowers who are the subject of the aforesaid draft audit report. After the Bank submitted its response and a hearing was held on this matter, the court handed down an interim ruling pursuant to which the final report of the Bank of Israel would be submitted only to the court for its perusal. In another interim decision, the court ruled that documents concerning two of the borrowers who are the subject of the report should also be submitted only to the court for its perusal.

After the requested documents were delivered to the court in a sealed envelope, the court determined, on November 10, 2014, that the Bank should submit the same documents to the petitioner as well, with the petitioner to sign a confidentiality letter. The Bank filed for and obtained a stay of the execution of this ruling, and filed for permission to appeal this ruling to the Supreme Court. On January 1, 2015, a petition was filed with the court on behalf of the Supervisor of Banks at the Bank of Israel, to allow the Supervisor of Banks to submit his position regarding the disclosure of the supervisory report. On January 19, 2015, the Supreme Court ruled to submit the petition for permission to appeal for a response from the petitioner and from the Supervisor of Banks. A ruling on this petition has not yet been given.

3. On February 2, 2014, a petition was filed with the District Court of Tel Aviv Jaffa, by a petitioner claiming to be a shareholder of the Bank, for the disclosure of documents prior to filing a derivative claim (hereinafter: the "Disclosure Petition"). Within the Disclosure Petition, the court was asked to order the Bank to disclose and permit the petitioner to peruse various documents, in connection with credit in the amount of NIS 150 million allegedly granted by the Bank to Tomahawk Investments Ltd. (hereinafter: "Tomahawk").

The petitioner claims to require the disclosure of the documents in order to examine the possibility of filing a derivative claim on behalf of the Bank against officers of the Bank, in respect of, among other matters, violation of the norms of corporate governance, due to the approval of the aforesaid credit while most of the members of the credit committee of the Bank had a conflict of interest for various reasons, and violation of the duties of loyalty and care of the directors of the Bank, in that they approved the credit without collateral and after releasing existing collateral.

On July 24, 2014, the court gave its ruling, ordering the transfer of the documents referenced in the Disclosure Petition to the petitioner. The Bank filed for and obtained a stay of this ruling, and filed for permission to appeal the ruling to the Supreme Court. A ruling on this petition has not yet been given.

4. On June 29, 2014, The Movement for Quality Government in Israel filed a petition 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.

5. A petition to certify a derivative claim was filed with the District Court of Tel Aviv Jaffa on March 1, 2015, in which the court was asked to grant the petitioner permission to file a claim on behalf of the Bank 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").

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 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 aforesaid payment.

Objectives and Business Strategy

The Bank operates in accordance with a three-year strategic plan (2013-2015) approved in late 2012 and updated at the end of 2013. In the process of constructing the strategic plan, changes in the global economy, changes in the business environment in Israel, regulatory measures, and changes in the competitive environment for all of the Bank's areas of activity were taken into consideration. The three-year strategic plan formulated and approved is a continuation of the previous strategic plan launched in early 2010, which guided the Bank's formulation of its strategic map and work plans for 2010-2012.

The Bank's multi-year strategic plan takes the caution necessitated by the risks still present 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.

In addition, the Bank is preparing to implement the directives of the Bank of Israel, issued at the end of the first quarter of 2012, regarding higher total capital targets; these directives were taken into consideration in the formulation of the strategic plan for 2013-2015.

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 multi-year strategic plan is focused 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 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 the Retail Banking Area, the Bank will continue its focused, resolute efforts to solidify and strengthen its leadership. The Bank will focus on improving the value offered to its customers and on providing a comprehensive solution tailored to customers' requirements and needs. Planned actions include optimization of the distribution of the branch network and prudent development of the branch network, using formats adapted to the environments of the future. The Bank will continue to develop the multi-channel experience for customers, through constant improvement and addition of advanced technological transactions and services via a range of channels: mobile devices, Internet, self-service stations, and more. The Bank will continue to focus and develop its activity in the area of small businesses and high-potential sectors, through value offers uniquely suited to their needs. The Bank accords high importance to customer service and continually strives to significantly improve service while making use of technological means and adapting service to customers' needs.

In the Corporate Banking Area, the Bank will continue to work to preserve its leading position with customers in the corporate segment – the largest companies and businesses in the Israeli economy. The Bank aims and is working to extend and develop its activity with these clients, with an emphasis on the expansion of the service and product offering and the creation of a comprehensive package of specially tailored services providing the optimal solution to the needs of clients in this sector. The Bank also expects this activity to enable it to increase its non-credit revenues in this sector. Concurrently, the Bank will work to achieve a 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 Area will expand its activity in the area of syndication and debt sales. Its leadership will be solidified and strengthened with conscientious management of capital resources and risk-adjusted assets, while maintaining its strong capabilities in the area of risk management.

The activity of the Bank in the capital markets and in the area of treasury management is centralized under the Financial Markets Area, formed as a result of the consolidation of brokerage activities, securities clearing and operation, and operational services for financial asset managers from the Client Asset Management Area with the activity of the Global Treasury Area in a single unit. The emphasis in these activities will be placed on adapting the Bank's alignment to the needs of its customers, in Israel and overseas, and to the changes in the capital and currency markets. 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, while strengthening its cooperation with institutional entities and developing new products, trading channels, and market-making arenas.

In overseas operations, led by the International Banking Area, the Bank will work to continue the development of Global Private Banking, while tightening the global cooperation among its international units. In this area of activity, the Bank aims to continue to improve the value offer and expand the service package offered to its customers, in order to strengthen the platform for the organic growth of its asset portfolio, with a focus on high-net-worth clients. The Bank will continue to develop its activity in the commercial segment in the United States, strengthening its value offer and solidifying its brand in the local market.

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 expansion and development of the Central Back Office, where additional activities not involving direct contact with customers will be channeled, thereby improving service to customers while strengthening operational excellence.

Another key theme of the Bank's strategy is business and technological leadership. The Bank will invest in the development of its technological capabilities and platform, with the goal of ensuring its technological and business leadership. The Bank will carry out this goal based on a broad view of its customers' future needs, an understanding of the competitive environment for its operations, and the identification of new consumer and technological trends in the financial world. The Bank will continue to develop and launch advanced financial services that respond to its customers' changing needs in an age of advanced technology.

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, and to 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.
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."

Risk Management

General

The Bank's activity is accompanied by 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 deriving from exposure to changes in rates in the financial markets, such as exchange rates, interest rates, and inflation; 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 supply its liquidity needs. These risks are managed by designated members of the Board of Management and under their responsibility. The member of the Board of Management responsible for managing credit risks is Mr. J. Orbach. The member of the Board of Management responsible for managing market and liquidity risks is Mr. D. Koller. A regulatory requirement of capital adequacy applies to credit risk and market risks. Other non-financial risks are mainly legal risk and operational risks. Legal risk is managed by the Chief Legal Advisor, Attorney I. Mazur. Operational risk, excluding legal risk, is managed by each member of the Board of Management in the area of activity for which he or she is responsible. Operational risk is defined as the risk of losses that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. A regulatory requirement of capital adequacy also applies to operational risk.
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, economic risk, and political/security-related risk.
The Chief Risk Officer and the member of the Board of Management responsible for the Risk Management Area is Mr. T. Cohen.
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 assessment and measurement of risks, and the creation of means for supervision and control, including the existence of an independent risk-control function. The Bank operates in accordance with the guidelines of the Supervisor of Banks concerning the chief risk officer and the risk-management function. In addition, the Bank has established methodologies and working procedures for the implementation of the directives of the Supervisor of Banks concerning exposure to environmental risks and large borrowers.

In December 2012-January 2013, the Bank of Israel issued several substantial updates of the Proper Conduct of Banking Business Directives, including Directive 310, "Risk Management," Directive 311, "Credit Risk Management," Directive 301, "The Board of Directors," Directive 342, "Liquidity Risk Management," and Directive 333, "Interest Rate Risk Management."

Among other matters, Directive 310 addresses the governance of risk management, risk appetite and the framework for risk management, and risk monitoring and reporting, and clarifies the roles of the board of directors, the risk-management committee, management, and the risk-management function. Directive 311 establishes principles for credit-risk management, including principles for the structure of credit risk management required of banking corporations, and the division of authority with regard to credit risk management among the various entities within banking corporations. According to the guidelines, a high degree of involvement of an independent party who is not part of the business units is necessary in order to support appropriate decision-making regarding credit and challenge the judgment exercised by the business function. In particular, such involvement is necessary in the formulation of credit policy, the review of credit ratings, the classification of debts, and the establishment of allowances for credit losses. It was further established that decisions regarding the approval of material credit exposures, as defined in the directive, should be made while taking the independent written opinion of the risk-management function under advisement. These directives took effect on January 1, 2014.

The Bank is implementing the requirements in the directive in accordance with its preparation plan, which entails reinforcement of its risk-management system as well as changes and adjustments of relevant work processes, including the following:

1. A specialized department for credit analysis has been established (hereinafter: the Credit Analysis Department), responsible for examining credit transactions that create material credit exposure, in accordance with the requirements of the directive. The work process has been adapted such that an independent opinion of the Credit Analysis Department in the Risk Management Area is attached to material credit applications and submitted to the authorized party, as part of the credit approval process.
2. A credit policy committee within the Risk Management Area is formulating a credit policy document for the Bank and for the business units, to be submitted to the Board of Management and Board of Directors for approval, in cooperation with the relevant business functions at the Bank.
3. Classifications and allowances are under the responsibility of the Risk Management Area. A function in the Credit Risk Management Unit is responsible for managing the process of classifying problematic debts and establishing the allowance for credit losses (see further details in the section "Identification and Treatment of Borrowers in Distress").
4. Credit granting is separated from credit operations in the Corporate Banking Area, in accordance with the requirement in the directive for operational employees to report to managers who are not involved in business activity or credit approvals.
5. Approval of material ratings (as defined in Directive 311) is under the responsibility of the Risk Management Area. Within this process, the Credit Analysis Department examines the credit rating when examining significant credit exposures, and in cases in which the business function seeks to change or reapprove the credit rating.

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.

Structure and Organization of the Risk Management System

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 Board of Management's Committee on Risk Management Headed by the CEO – The Board of Management's Committee on Risk Management, headed by the CEO of the Bank, is 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 Board of Management's Committee on Compliance Headed by the CEO – The objectives of the Board of Management's Committee on Compliance, headed by the CEO, include strengthening and solidifying compliance at the Bank and addressing matters requiring special attention.

The Risk Management Area – The Area's primary objective 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 directives of the Supervisor of Banks. The Risk Management Area ensures the existence and quality of the key risk-management processes of the Group: identification, assessment, establishment of risk tolerance limits, establishment of control mechanisms, monitoring of positions, and reporting. The Area leads and coordinates the ICAAP and is an active participant in capital management.

The Risk Management Area comprises four units: (1) the Credit Risk Management Unit, which consists of three departments: the Credit Portfolio Risk Management Department, the Credit Control Department, and the Credit Analysis Department; (2) the Operational and Market Risk Management Unit, which consists of two departments: the Operational Risk Management Department and the Market and Liquidity Risk Management Department; (3) the Chief Compliance Officer Unit, which consists of three main units: the Compliance Department, the Anti-Money Laundering and Prevention of Terrorism Financing Department, and the International Compliance and Anti-Money Laundering Unit; and (4) the Risk Integration Unit.

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 the limits stipulated in the various regulations, through three spheres of control: the first sphere 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 second sphere of control consists of the control units at the Risk Management Area, which is considered entirely independent of the business Areas. This sphere is also responsible for presenting an overview of risks. The second sphere of control contains additional independent control functions, such as accountancy, legal counsel, and human resources. The third sphere of control consists of the Internal Audit system.

Financial Risks

Credit Risks

General

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. In order to manage credit risks, a credit-risk management policy, credit policy, and exposure limits for borrowers and/or sectors and/or products in the various segments of activity have been defined for the Group. The Bank examines developments in the global and Israeli economy, taking note of the various sectors of activity, and updates its credit policy if necessary.

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 policy on the management of credit risks 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 estimate 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 on a daily basis. Credit control systems identify, monitor, and report to the responsible function and managers on negative signs related to borrowers.

As part of its credit risk management policy, the Bank applies 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.

4. Credit policies and procedures

The Bank's credit policies and procedures are binding for everyone involved in the area of credit at the Bank. The policies and procedures specify all of the principles and considerations related to credit granting, the authority to grant credit, and the prohibitions and limits applied to credit granting. The procedures are a key means of managing credit risks, as they define the Bank's practices and principles in the areas of credit and collateral, including references to customer types, economic sectors, types of credit, etc.

5. 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.

Credit risk management policy at the Bank's subsidiaries, offices, and branches abroad is based on similar principles to those of credit risk management policy in Israel, adapted to regulatory requirements in each country. The Credit Risk Management Unit at the Bank functions as the authoritative unit of the Group in the area of credit risks, with the aim of allowing uniform, centralized risk management, reporting, and control at the level of the Group. Credit risk policy at the Bank's subsidiaries and overseas offices is approved by the local board of directors following consultation with credit risk management officials at the Bank, and presented to the Board of Directors of the Bank.

Identification and Control of Credit Risks

The process of controlling and identifying credit risks is conducted by the three spheres of control. Risk at the level of the overall portfolio of the Group is monitored by the Credit Risk Management Unit (as part of the second sphere of control). This unit reports to the Board of Management and the Board of Directors of the Bank on trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, an 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 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.

Risk Quantification and Measurement

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, borrower sectors, 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.

In the area of financing of Bank customers' transactions involving derivative financial instruments, the Bank has developed computerized models for measuring and controlling the level of 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 loss in the event of default by the counterparty. Rules and working procedures have been defined to determine the level of collateral required for these transactions. Rules have also been defined for the closing of exposures with respect to transactions and to customers. Limits on exposure to counterparties are set by the appropriate credit authorities at the Bank.

Risk Alignment

The mix and risk profile of the credit portfolio are managed through several mechanisms:

1. The credit policies defined for the various areas of activity and economic sectors.
2. A system of limits, including exposure limits for various parameters such as economic sectors, borrowers, borrower groups, and products.
3. Price policies which take risk into account, with a comprehensive view of the customer.
4. Active management of the risk profile of the portfolio.

The Board of Directors of the Bank establishes credit policies, which are routinely examined and updated according to the changes in the financial markets and in the economy. These policies include various restrictions of the credit portfolio, which include exposure limits by economic sector, country, and financial institution, as a function of the risk level estimated by the Bank. Limits are also imposed on the maximum exposure to a single borrower, based on the credit rating assigned to the customer, which reflects the customer's risk level; and on maximum exposure to a group of borrowers. Procedures are in place for the monitoring and control of compliance with such limits. The Board of Directors receives quarterly reports on limit control.

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 its value. A computerized collateral-management system is operational with respect to most types of collateral. 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.

Leveraged Financing

The Bank provides leveraged financing to its customers from time to time. 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 substandard (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 applies to 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 draft directive of the Bank of Israel concerning the management of leveraged loans has recently been received; accordingly, the definition of leveraged transactions may change in the future.

The following table details the Bank's exposures to leveraged financing as at December 31, 2014, by economic sector of the borrower:

	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	**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**
Public services	**1**	**13**	**-**	**13**
Total	**61**	**8,250**	**2,147**	**10,397**

* Net of an individual allowance for credit losses in the amount of approximately NIS 300 million.

The following table details the Bank's exposures to leveraged financing as at December 31, 2013, by economic sector of the borrower:

	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	11	299	252	551
Construction and real estate - real-estate activities	11	1278	1531	2,809
Financial services	44	5698	323	6,021
Other business services	5	118	1	119
Commerce	8	1603	21	1,624
Industry	5	1223	153	1,376
Communications and computer services	4	1301	-	1,301
Hotels, hospitality, and food services	2	93	4	97
Transportation and storage	1	-	3	3
Public services	1	20	-	20
Total	92	11,633	22,88	13,921

* Net of an individual allowance for credit losses in the amount of approximately NIS 475 million.

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 performed 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 further details, see the section "Economic and Financial Review," above.

The following table details the Bank Group's exposure to foreign financial institutions as at December 31, 2014[(1)]:

	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 155 million, of which a total of approximately NIS 44 million rated BBB+, a total of NIS 107 million rated BBB, and the remaining total of NIS 4 million rated BB- (total exposure at the end of 2013 was approximately NIS 136 million, of which approximately NIS 53 million rated BBB, a total of NIS 81 million rated BBB-, and the remaining NIS 2 million rated BB).
Ireland – Total exposure of approximately NIS 23 million, of which a total of approximately NIS 4 million rated AA-, and the remaining NIS 19 million unrated (total exposure at the end of 2013 was approximately NIS 27 million, of which a total of approximately NIS 3 million rated AA- and the remaining NIS 24 million unrated).
Italy – Total exposure of approximately NIS 96 million, of which approximately NIS 95 million rated BBB-, and the remaining approximately NIS 1 million rated BB+ (total exposure at the end of 2013 was approximately NIS 52 million, of which approximately NIS 41 million rated BBB, a total of NIS 10 million rated BBB- and the remaining approximately NIS 1 million rated B).
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 13% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2012: 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. Ratings are current as at Feb. 5, 2015 (Dec. 31, 2013: ratings current as at Feb. 5, 2014).

The following table details the Bank Group's exposure to foreign financial institutions as at December 31, 2013[1]:

	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-	3,757	1,712	5,469
A+ to A-	7,443	691	8,134
BBB+ to BBB-	3,096	86	3,182
BB+ to B-	21	13	34
Lower than B-	1	-	1
Unrated**	143	74	217
Total current credit exposures to foreign financial institutions*	14,461	2,576	17,037
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	14,461	2,576	17,037
Collective allowance for credit losses	9	2	11

* The balances include the exposure of the Bank Group to financial institutions in the following countries:
Spain – Total exposure of 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 total of NIS 4 million rated BB- (total exposure at the end of 2013 was approximately NIS 136 million, of which approximately NIS 53 million rated BBB, a total of NIS 81 million rated BBB-, and the remaining NIS 2 million rated BB).
Ireland – Total exposure of approximately NIS 23 million, of which a total of approximately NIS 4 million rated AA-, and the remaining NIS 19 million unrated (total exposure at the end of 2013 was approximately NIS 27 million, of which a total of approximately NIS 3 million rated AA- and the remaining NIS 24 million unrated).
Italy – Total exposure of approximately NIS 96 million, of which approximately NIS 95 million rated BBB-, and the remaining approximately NIS 1 million rated BB+ (total exposure at the end of 2013 was approximately NIS 52 million, of which approximately NIS 41 million rated BBB, a total of NIS 10 million rated BBB- and the remaining approximately NIS 1 million rated B).
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 13% of the balance. The remaining amount is distributed among a long list of banks and financial institutions (December 31, 2012: 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. Ratings are current as at Feb. 5, 2015 (Dec. 31, 2013: ratings current as at Feb. 5, 2014).

The exposure of the Bank Group to foreign financial institutions totaled approximately NIS 25.5 billion on December 31, 2014, an increase of approximately NIS 8.5 billion compared with approximately NIS 17.0 billion at the end of 2013. This increase resulted from an increase in balance sheet exposure, mainly due to the renewal of deposits, credit, and purchases of bonds of foreign banks rated A- or higher.

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: 90% in banks and banking holding companies, 9% in other financial institutions, and 1% in insurance companies. Most of the Bank Group's exposure is to foreign financial institutions operating in the United States (25%) and in Western European countries (60%).

The sector "banks overseas" in Appendix 5 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 Appendix 5 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.

Credit Exposure in Respect of Derivative Financial Instruments

The Bank executes transactions in derivative financial instruments as part of the management of market risks (linkage base, currency, and interest rate exposures; see the section "Management of Market and Liquidity Risks"), and as a service to its customers. The activity in derivative financial instruments involves a number of risks, as detailed below:

- Credit risk – The maximum amount of loss to the Bank in the event that the counterparty fails to comply with the terms of the contract.
- Market risk – Risk arising from fluctuations in the value of the derivative financial instrument as a result of changes in market prices, such as exchange rates, interest rates, inflation, etc.
- Illiquidity – Risk arising from an inability to close an exposure rapidly through settlement in cash or through the creation of an opposite exposure.
- Operational risk – Risk arising from errors in the operation of the transactions, from formation to the completion of account settlement, due to human errors or mechanical malfunctions or as a result of the realization of another operational risk.

This activity is routinely administered 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 measured using the Algorithmics system. For details regarding market risk measurement methodology, see the subsection "Risk Assessment and Control" below.

Credit risk arising from transactions in derivative financial instruments related to the counterparty to the transactions is measured by applying conservative coefficients to the nominal amounts 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, as detailed above. 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. Limits on exposure to counterparties are established by the appropriate credit authorities at the Bank. Operational aspects arising from this activity are examined and controlled routinely by a specialized unit.

The following table details credit exposures in respect of the positive fair value of derivative financial instruments, by counterparty to the contract, as at December 31, 2014 (in NIS millions):

	Credit rating			Total
	AAA to AA-	A+ to A-	BBB+	
Banks outside Israel:				
United States[1]	**5**	**1,156**	**-**	**1,161**
England	**530**	**891**	**39**	**1,460**
Germany	**-**	**1,157**	**124**	**1,281**
France	**-**	**1,101**	**-**	**1,101**
Switzerland	**2**	**408**	**-**	**410**
Other	**96**	**2**	**9**	**107**
Eurozone – other	**-**	**19**	**108**	**127**
Total banks outside Israel	**633**	**4,734**	**280**	**5,647**
Banks in Israel				**2,461**
Stock exchanges				**555**
Governments and central banks				**-**
Brokers/dealers[2]				**1,953**
Corporate clients by economic sector:				
Financial services				**2,654**
Transportation and storage				**443**
Electricity and water				**567**
Construction and real estate				**138**
Other				**1,837**
Total corporate clients by economic sector				**5,639**
Total				**16,255**

(1) Of which: JPMorgan Chase – balance in the amount of NIS 171 million.
(2) Of which: Goldman Sachs – balance in the amount of NIS 760 million.

Exposures of the Bank to Securitization

The volume of the exposure at the report date is approximately NIS 194 million, mainly arising from liquidity lines granted to securitization entities.

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. Appendix 6 to the Management Review details the total balance sheet exposure, by country risk and divided into sectors (governments, banks, and others). 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. For further details, see the section "Composition and Development of the Assets and Liabilities of the Bank Group," above.

The Bank routinely monitors and examines the macro-economic situation in countries in which it conducts credit activity, using analyses and reports by international rating agencies, among other means. For further details, see the section "Economic and Financial Review," above.

Balance sheet exposure to foreign countries as at December 31, 2014 totaled NIS 65.7 billion, compared with NIS 45.6 billion at the end of 2013.

Off-balance sheet exposure to foreign countries as at December 31, 2014 totaled NIS 17.0 billion, compared with NIS 18.5 billion at the end of 2013.

Total principal exposures to foreign countries as at December 31, 2014 (in NIS millions):

	Total balance sheet exposure(1)	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
Country				
United States*	**28,689**	**9,412**	**38,101**	**43.7%**
Switzerland	**5,772**	**281**	**6,053**	**8.8%**
England	**9,405**	**2,404**	**11,809**	**14.3%**
Germany	**2,220**	**58**	**2,278**	**3.4%**
France	**3,139**	**893**	**4,032**	**4.8%**
Ireland**	**199**	**239**	**438**	**0.3%**
Spain***	**161**	**24**	**185**	**0.2%**
Portugal	**1**	**2**	**3**	**0.0%**
Greece	**-**	**1**	**1**	**0.0%**
Italy	**50**	**95**	**145**	**0.1%**
Other developed countries(2)	**12,950**	**1,892**	**14,842**	**19.7%**
Turkey	**1,215**	**1,263**	**2,478**	**1.8%**
Other less developed countries (LDCs)(3)	**1,879**	**473**	**2,352**	**2.9%**
Total exposures to foreign countries	**65,680**	**17,037**	**82,717**	**100%**

Total principal exposures to foreign countries as at December 31, 2013 (in NIS millions):

	Total balance sheet exposure(1)	Total off-balance sheet exposure	Total exposure	Percentage of balance sheet exposure
Country				
United States	15,377	7,703	23,080	33.7%
Switzerland	6,368	299	6,667	14.0%
England	6,757	4,751	11,508	14.8%
Germany	1,601	142	1,743	3.5%
France	2,152	1,746	3,898	4.7%
Ireland	156	211	367	0.3%
Spain	142	63	205	0.3%
Portugal	2	5	7	0.0%
Greece	-	1	1	0.0%
Italy	70	37	107	0.2%
Other developed countries(2)	9,707	1,604	11,311	21.3%
Turkey	1,972	1,558	3,530	4.3%
Other less developed countries (LDCs)(3)	1,320	331	1,651	2.9%
Total exposures to foreign countries	45,624	18,451	64,075	100.0%

* The increase in the exposure to the United States in comparison to the end of 2013 mainly resulted from an increase in deposits with the Federal Reserve in the United States.

** The exposure in Ireland includes NIS 7 million to banks in Ireland and NIS 431 million to customers. Of the total exposure to customers, approximately NIS 194 million derives from a backup line granted by the Bank to an SPE incorporated in Ireland, which is engaged in securitization of debtors who are not residents of Ireland.

*** The exposure to Spain includes NIS 171 million to banks and NIS 14 million to customers. Of the total exposure to banks, approximately NIS 16 million constitutes off-balance sheet credit risk in respect of derivatives, as calculated for the purposes of borrower limits. Among other matters, the off-balance sheet indebtedness includes exposure in respect of the "added" coefficient reflecting the potential future exposure for the remaining lifetime of the derivative contract. Note that these derivatives were executed with parties with which CSA agreements have been signed in order to limit and minimize credit risks in derivatives activity.

(1) After deducting liabilities of the Bank's overseas offices to local residents.

(2) The main exposures arise from Canada, Luxembourg, and the Netherlands.

(3) Less developed countries (LDC) – according to definitions of the World Bank, based on national per-capita income. The main exposures arise from China, Kazakhstan and Brazil.

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. Among other matters, the Credit Analysis Department and the Credit Control Department in the Risk Management Area are required to state, 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 rules in 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.

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 collection and realization dates. Debts not expected to be collected within a reasonable period are charged off for accounting purposes, in accordance with the rules established in the Bank of Israel's directives. The collectible amount is determined with the inclusion of 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 collectible amount will not be lower than the established estimate, due to worsening of economic parameters or for any other reason.

The suitability of the classification of the debt and of the collectible amount is examined by the Credit Risk Management Unit and approved by the Chief Risk Officer. For this purpose, a process is in place in which a discussion regarding the fairness of the classification and of the collectible amount for each such customer is held each quarter. These processes comply with Directives 311 and 314.

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. In light of the most recent draft of the new guidelines of the Supervisor of Banks concerning the collective allowance, published in May 2014, the Bank plans to update its method for evaluation, control, and documentation of collective allowance rates and balances.

With regard to borrowers in the field of housing finance, an allowance is calculated according to the directives of the Supervisor of Banks, taking into account the extent of the arrears of the borrower, such that the deeper the arrears, the greater the rate of the allowance out of the total credit.

In an update of the instructions issued on March 21, 2013, the Bank of Israel directed banks to examine, and to update if necessary, the methods of calculating the collective allowance in respect of housing loans, and stated that in any case the collective allowance in respect of housing loans shall not fall below 0.35% of the balance of loans. The Bank set the allowance at the minimum required level in the first quarter of 2013. In accordance with the directives of the Bank of Israel, the Bank developed an internal method for establishing the rate of the collective allowance in respect of the portfolio of housing loans. This method is based on a statistical model for the assessment of the expected rates of loss in the portfolio over the coming year, with adjustments for the economic environment and forecasts regarding macro-economic parameters. The collective allowance for housing loans is determined using this method, taking into account the aforesaid minimum rate.

Rates of collective allowance in the economic sector of credit to private individuals are established at the Bank using a method similar to that applied to other sectors, in accordance with the approved methodology based on the guidelines of the Bank of Israel. The Bank of Israel published a circular on January 19, 2015, concerning the requirement to perform an additional collective allowance in respect of credit to private individuals, in the annual financial statements for 2014.

The Credit Risk Management Unit

The Credit Risk Management Unit serves as an independent administrative unit for the management and analysis of credit risks. The unit reports to the Chief Risk Officer and is independent of underwriting and credit approval processes. The role of the unit is to formulate credit risk management methodologies in line with the strategic objectives of the Bank Group; to instill an organizational culture of rational risk-taking within limits – in other words, the execution of transactions that do not exceed the limits, at a price congruent with the risk; and to apply controls to ensure the Bank's compliance with the established policy. The unit serves as the administrative unit responsible for the control of credit risk management processes and methodologies at the subsidiaries in the Bank Group. The unit received responsibility for overseeing classifications and allowances of the Bank, as part of the preparations for implementation of Directive 311; a function was defined to oversee individual allowances and collective allowances for credit losses.

Three departments operate within the Credit Risk Management Unit:

The Credit Portfolio Risk Management Department is responsible for the development of methodologies for the identification, control, and management of credit risks; the development of models for credit risk rating measurement and pricing, at the level of the individual borrower and at the portfolio level; the development of models for the allocation of economic capital in respect of credit risk to the various segments; the advancement of preparations for the measurement of credit risks in accordance with the internal models approach; the development of methodologies for the calculation of the collective allowance, for the implementation of the directive on impaired debts; monitoring credit exposures, the level of credit risk, and compliance with credit limits within the Group, and reporting the results to the Board of Management and Board of Directors; applying extreme scenarios at the level of the Bank and of the Group; and monitoring, measuring, and managing credit concentration risk. The department includes a team responsible for coordinating the process of writing and approving the credit policy of the Bank, following the implementation of Proper Conduct of Banking Business Directive 311.

The Credit Control Department performs independent assessments of the level of credit risk of all of the Bank's major corporate borrowers, in a three-year cycle, or at a higher frequency for borrowers identified as having risk potential. It also performs reliability tests on the credit ratings of the examined borrowers. The department is responsible for credit-control activities at the branches of the Bank and at the subsidiaries overseas, and monitors both control processes and the volume of control and execution of work plans. As part of the implementation of Directive 311, the department examines the suitability of classifications and of individual allowances at the Bank, and presents its recommendations for the establishment of classifications and individual debt allowances in accordance with the hierarchy of authorizations.

The Credit Analysis Department examines material credit transactions and material changes in the terms of credit, in accordance with the requirements of Directive 311, as well as applications for rating upgrades. The department provides the independent written opinion of the risk function, as part of the credit approval process.

Market and Liquidity Risks

General

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, detailed below.

- **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 or as a result of changes in the consumer price index.
- **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. The Group holds shares primarily for investment purposes (not for trading), and declines in the value of these shares may impair the capital of the Bank. The volume of holdings of the Group in shares available for sale as at the date of this report stands at approximately NIS 2,563 million, and approximately NIS 50 million in shares held for trading.
- **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, including credit spreads.

Liquidity risk – 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 Bank Hapoalim 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.

Management of Market and Liquidity Risks

Market and liquidity 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 banking subsidiaries. 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.

Global asset and liability management in the banking book (managed by the ALM Division) and trading portfolio management (mainly in the dealing rooms) are performed under the responsibility and direction of the Head of the Financial Markets Area. Routine management and supervision of asset and liability management and trading management 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 asset and liability management units and dealing rooms at the Bank's New York branch. The branch is professionally subordinate in these matters to the Head of the Financial Markets Area. Routine control and monitoring of activity abroad is executed by local units, in full coordination and with regular reports to the corresponding Head Office units, in accordance with the control approach (the spheres of control).

In addition to the assessment of risks, examination of outcomes, and routine control of compliance with limits, various units in the Financial Markets Area perform operational control activities. The goals of these controls are to check for correctness, completeness, and congruence among the different databases in the various reporting systems and to identify operational errors.

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 trading activities. 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. The Bank's risk appetite is established in terms of VaR and/or sensitivities and/or scenarios.

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 transaction authorizations for the various activities, according to the hierarchy of authorizations; overview of 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.

ALM and market and liquidity risk management policy 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, 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 the Financial Markets Area 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 and liquidity risks, subject to the directives issued by the Supervisor of Banks or by the local regulator, as relevant.

Market and liquidity risks are managed separately by each banking subsidiary in the Bank Group, according to policy established by each company's board of directors and in accordance with Group policy. Market and liquidity 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 banking subsidiary. Exposures to market and liquidity risks of all 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. Ahead of 2015, the Bank set risk limits for the Group that also apply to its offices in which the risk level has been defined as significant for the Group.

Market Risks

Market risk management at the Bank differentiates between exposures that arise in the course of routine management of the Bank's assets and liabilities in the banking book (non-trading exposures) and exposures in the trading portfolio.

A. Market Risks in the Banking Book

Market risks in the banking book and in the Bank in general mainly consist of interest rate risk, exposure to the consumer price index, and currency exposure (linkage-base exposure). These risks mainly arise in the course of routine operations and in the management of disposable capital, as well as due to gaps between assets and liabilities in the various currencies and linkage segments. Tools for the management of exposures in the banking book include pricing policy, Nostro portfolio management, issuance of debt instruments, hedging through 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 use of derivative instruments as part of the management of the Bank's assets and liabilities (not for trading purposes) is aimed at achieving objectives and taking or hedging positions, subject to compliance with limits as approved by the Board of Directors (linkage-base, currency, and interest rate exposures).

Linkage-base exposure – Defined as the exposure of active financial capital to three linkage segments: unlinked shekel; CPI-linked shekel; and foreign currency, including foreign currency-linked shekel. This refers to global balance sheet and off-balance sheet exposure arising from activity at all of the Bank's units, at its branches, and at its Head Office, in Israel and abroad. The "active financial capital" of the Bank is defined as equity attributed to shareholders of the Bank plus the collective allowance for credit losses and the individual allowance for credit losses, less investments in affiliates (with the exception of subsidiaries abroad under the full control of the Bank and subsidiaries whose financial management is handled by the Bank), and less fixed assets and other non-monetary assets, net. For the purposes of exposure management, the Bank treats active financial capital as an unlinked shekel resource.

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. the change in the present value of assets and liabilities, and/or on net interest income ("accounting income sensitivity"). Interest rate risk is inherent in banking activity. The risk emerges during the Bank's routine, proactive banking activity, as a result of the provision of routine 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.

Limits apply to the sensitivity of the economic value of the capital of the Bank (including financial subsidiaries under its management and subsidiaries with material risk to the Group) and the sensitivity of income to scenarios of change in the shekel, CPI-linked, and dollar interest rate curves. In order to calculate the exposure to changes in interest rates, the Bank treats part of the balances of current-account deposits of the public as a long-term liability. Assumptions regarding early repayment of mortgages are also used. 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. In addition, the sensitivity of annual income to changes in interest rate curves is measured. Sensitivity to interest rates is measured at least once each month.

In the management of its Nostro portfolio, in addition to market and liquidity risks, the Bank is also exposed to credit risks and credit spread risks. Diversification limits and other limits have been set for such exposures, as well as risk appetite and risk capacity limits in terms of extreme scenarios. This activity is managed by specialized units established for this purpose. The Board of Management Investments Committee, established for this purpose, is responsible for monitoring this activity.

B. Market Risks in the Trading Portfolio

Market risks in the trading portfolio arise from the Bank's activity as a market maker, trader, and manager of Nostro positions. This activity is based on dynamic management of positions, usually by means of tradable, liquid financial instruments. Changes in the volume of exposures may be rapid, as a function of changes in the markets and of customers' activity. The volume of exposures can usually be changed quickly and adjusted to the desired position. Trading exposures are carried out under the responsibility of the dealing rooms in Israel and abroad. This activity is routinely administered 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.

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. Routine liquidity management is under the responsibility of the ALM Division, and is performed through NIS and foreign currency liquidity units. A daily liquidity risk report is generated by a comprehensive computerized system for asset and liability management.

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. A liquidity ratio is calculated for each scenario, which is not to fall below a minimum level defined in the directive. The scenarios applied in the internal model refer to different market conditions: ordinary business conditions and extraordinary conditions for the banking system in general and specifically for the Bank. In each scenario, the liquidity gap is examined, for a period of up to one month, against liquid assets. The scenarios mainly differ in the assumptions with regard to the rollover of deposits. Periods exceeding one month are examined routinely against the activity of the Bank, and additional risk indices in NIS and in foreign currency are calculated.

The Bank has prepared a plan to address liquidity crises, on various levels. The plan includes a system for monitoring metrics that may indicate a crisis situation, and the steps necessary upon materialization of defined scenarios. These steps include committee meetings, a reporting system, and a series of actions to cope with a possible crisis. In addition, scenarios were set up to examine the effect of changes in the pace of execution of the business plan on liquidity needs in a one-year range.

Proper Conduct of Banking Business Directive 221, which serves as the implementation of the Basel 3 liquidity directives in Israel, was issued in September 2014, along with a Public Reporting Directive and a draft Supervision Reporting Directive on this matter. Pursuant to the directive, the Bank is required to calculate and report the liquidity coverage ratio (LCR) separately for NIS and other currencies. The LCR consists of liquid assets divided by the net outgoing cash flow in a stress scenario over a month. Liquid assets include deposits with central banks, high-rated bonds with certain haircut coefficients, etc. The net outgoing cash flow includes some withdrawals of retail deposits, according to the coefficients in the scenario; higher withdrawal of deposits for up to one month by business and financial organizations, according to the coefficients in the scenario; some utilization of credit lines granted by the Bank; and more, net of repayment during the month of credit granted by the Bank, at certain coefficients, etc. Classifications of bonds, types of deposits, types of credit lines, etc., and the corresponding coefficients are provided in the directive. The LCR ensures that liquid assets are retained, in order to allow the Bank to comply with liquidity requirements under the scenario described in the directive. This ratio shall stand at 60%, at least, beginning in April 2015, 80% beginning in 2016, and 100% beginning in 2017. The Bank is in the process of preparing to implement these directives, in terms of construction of the measurement and reporting system as well as in terms of its business preparations.

The monetary committee of the Bank of Israel canceled the liquidity requirement for future swap and conversion transactions with foreign residents, beginning October 30, 2014. The effect of the cancellation of this liquidity requirement is a reduction of approximately NIS 900 million in the Bank's liquidity requirement, as at the date of cancellation of the directive.

Risk Assessment and Control

Identification and assessment of risks, control of limits on the volume of risks, and reporting of findings are carried out or controlled by the Risk Management Area, independently of the routine analyses and reports performed as part of the operation of the Financial Markets Area.

The Market and Liquidity Risk Management Department in the Risk Management Area is responsible for the formulation of the market and liquidity risk assessment methodology of the Bank Group, and for independent control over market and liquidity risks in the Group.

The Bank's risk level is measured and controlled according to procedures that include, among other things, limits on the sensitivity of the Bank's 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 "Procedures for Exposure to Market and Liquidity Risks," below. Risk assessments as well as limit control of trading positions are performed at least once daily.

Market Risk Assessment Methodology

The methodology used by the Bank to assess market risks was 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. An assessment of the risk level of activity in the banking book is executed once a month, using the historical method, with a one-month horizon. 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. Since the beginning of 2014, one deviation has been observed and reported, in the amount of approximately NIS 9.3 million. According to the results of the test, the model meets the acceptance criteria established by the Basel Committee.

Limitations of the Methodology for Assessing Risk in the Banking Book

1. In general, the credit risk inherent in assets does not constitute a parameter in the calculations made, as their purpose is to focus on quantifying the market risks alone.
2. The information used for the risk estimates is assembled from various automated systems.
3. A small part of the options embedded in various deposits and saving plans offered to the public were only partially taken into account, on a "delta" basis. Under this method, there may be a deviation from the sensitivity estimates noted above, especially in sharp movements in risk factors. Nevertheless, virtually all options are fully revalued under various scenarios on the market risk management system.
4. The use of behavioral models to reflect the optionality of various products.

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 in the case of collapse of the behavioral assumptions.

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.

Methodology for Application of Stress Tests

The market risk assessment methodology of the Bank includes the application of stress tests to trading portfolio and to the banking book, in addition to VaR calculations. The Market Risk Management Department applies several types of scenarios, in accordance with common practice worldwide:

A. Sensitivity analysis – The sensitivity of the portfolio to the various risk factors is tested by running scenarios involving 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.
B. 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 portfolio and one month for the banking book and for the Bank in general.
C. Macro-economic scenarios – Subjective scenarios developed in collaboration with the Economics Department of the Bank.
D. Fixed interest rate scenarios – A set of scenarios in which the principal interest rates to which the Bank is exposed are run through parallel and non-parallel changes.
E. 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.

Overall Exposures of the Bank

Set out below are data regarding the sensitivity of the capital of the Bank to changes in the CPI (the theoretical change in economic value as a result of each scenario), as at December 31, 2014:

	As at Dec. 31, 2014	Maximum in 2014	Minimum in 2014
	NIS millions		
Scenario			
1% decrease in CPI	**(55)**	**(126)**	**(53)**

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 most of the world's tradable currencies, in developed markets as well as developing markets. Due to the limits imposed on currency exposure, key points of which are noted in the summary of limits below, net currency exposure is relatively low.

Set out below are data regarding the sensitivity of the capital of the Bank to changes in the major currency exchange rates (theoretical change in economic value as a result of each scenario, where an appreciation scenario indicates strengthening of the currency in question against all of the other currencies), as at December 31, 2014:

	10% appreciation	5% appreciation	5% depreciation	10% depreciation
	NIS millions			
Currency				
USD	**75**	**20**	**(18)**	**(74)**
EUR	**6**	**8**	**-**	**14**
JPY	**2**	**1**	**7**	**18**
CAD	**3**	**2**	**(2)**	**(4)**
GBP	**9**	**4**	**4**	**11**
CHF	**5**	**3**	**(2)**	**(5)**
TRY	**(1)**	**(1)**	**1**	**1**
AUD	**2**	**1**	**-**	**(1)**

Limits are imposed on the sensitivity of the capital of the Bank (including financial subsidiaries managed by the Bank) to a scenario of change in the NIS, CPI-linked, and US dollar interest rate curves.

Set out below are 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) as at December 31, 2014:

	Dec. 31, 2014			**Maximum in 2014**		**Minimum in 2014**	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
	NIS millions						
Scenario							
Change in CPI-linked interest rate:							
Bank	**(162)**	**184**	**(17)**	**(164)**	**184**	**(25)**	**31**
Of which: Banking book	**(161)**	**183**	**(17)**	**(166)**	**184**	**(24)**	**31**
Trading book	**(1)**	**1**	**-**	**2**	**(3)**	**-**	**-**
Change in unlinked interest rate:							
Bank	**(52)**	**81**	**(7)**	**(166)**	**200**	**(22)**	**22**
Of which: Banking book	**(57)**	**87**	**(7)**	**(177)**	**204**	**(177)**	**35**
Trading book	**5**	**(6)**	**-**	**(20)**	**22**	**17**	**(13)**
Change in foreign currency interest rates:							
Bank	**242**	**(251)**	**25**	**326**	**(339)**	**8**	**(7)**
Of which: Banking book	**252**	**(241)**	**26**	**338**	**(326)**	**6**	**(3)**
Trading book	**(10)**	**(10)**	**(1)**	**(19)**	**(19)**	**2**	**-**

Set out below are 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) as at December 31, 2013:

	Dec. 31, 2013			Maximum in 2013		Minimum in 2013	
	1% increase	1% decrease	0.1% increase	1% increase	1% decrease	1% increase	1% decrease
	NIS millions						
Scenario							
Change in CPI-linked interest rate:							
Bank	(189)	213	(20)	(189)	213	(39)	51
Of which: Banking book	(190)	214	(20)	(190)	214	(38)	50
Trading book	1	(1)	-	(4)	4	-	-
Change in unlinked interest rate:							
Bank	61	(59)	6	246	(242)	(6)	32
Of which: Banking book	50	(48)	5	245	(246)	(22)	(255)
Trading book	11	(11)	1	(26)	44	17	(11)
Change in foreign currency interest rates:							
Bank	(10)	12	1	30	(29)	(4)	4
Of which: Banking book	2	24	-	38	(36)	2	(2)
Trading book	(12)	(12)	1	(12)	(12)	(1)	-

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 capitalization of expected cash flows in the interest rate curve without taking into account the credit risk spread of the counterparty. This differs from a fair-value calculation, which is based on factors including the capitalization of expected cash flows at interest rates reflecting the risk levels.

The examination of extreme scenarios includes a test of the sensitivity of the Bank's economic value to the worst historical scenario of the last five years, including changes in the various risk factors in a one-month range. Note that since the beginning of 2014, this sensitivity has not exceeded NIS 511 million.

Set out below are details of the fair value of the Bank and its consolidated companies as at December 31, 2014, by linkage segment:

	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*	**210,399**	**45,592**	**79,920**	**14,733**	**7,176**	**357,820**
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	**20,454**	**4,099**	**(2,406)**	**535**	**1,734**	**24,416**

Set out below are details of the fair value of the Bank and its consolidated companies as at December 31, 2013, by linkage segment:

	Israeli currency		Foreign currency**			Total
	Unlinked	CPI-linked	USD	EUR	Other	
	NIS millions					
Financial assets*	228,044	60,404	52,525	9,633	11,576	362,182
Amounts receivable in respect of derivative and off-balance sheet financial instruments***	277,386	14,376	170,777	24,307	23,581	510,427
Financial liabilities*	199,943	48,729	67,975	14,457	7,317	338,421
Amounts payable in respect of derivative and off-balance sheet financial instruments***	289,738	19,107	158,390	19,163	25,506	511,904
Net fair value of financial instruments	15,749	6,944	(3,063)	320	2,334	22,284

* Includes hybrid financial instruments. Does not include balance sheet balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

** Includes foreign currency-linked Israeli 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 presented in Note 21 to the Financial Statements.

Set out below are data regarding the 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, as at 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	Total
	Unlinked	CPI-linked	USD	EUR	Other			
	NIS millions							
Change in interest rates								
Immediate parallel increase of 1%	**20,433**	**4,112**	**(2,379)**	**566**	**1,655**	**24,387**	**(29)**	**(0.1%)**
Immediate parallel increase of 0.1%	**20,438**	**4,117**	**(2,426)**	**541**	**1,732**	**24,402**	**(14)**	**(0.1%)**
Immediate parallel decrease of 1%	**20,474**	**4,119**	**(2,492)**	**506**	**1,825**	**24,432**	**16**	**0.1%**

Set out below are data regarding the 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, as at December 31, 2013:

	Net fair value of financial instruments, after the effect of changes in interest rates**						Change in fair value	
	Israeli currency		Foreign currency*			Total	Total	Total
	Unlinked	CPI-linked	USD	EUR	Other			
	NIS millions							
Change in interest rates								
Immediate parallel increase of 1%	15,801	6,805	(3,093)	279	2,232	22,024	(260)	(1.2%)
Immediate parallel increase of 0.1%	15,753	6,924	(3,066)	316	2,318	22,245	(39)	(0.2%)
Immediate parallel decrease of 1%	15,686	7,089	(2,946)	376	2,423	22,628	344	1.5%

* Includes foreign currency-linked Israeli 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 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 occurred in all interest rates in all linkage segments.

Exposures in Trading Activity

Trade exposures result from the Bank's activity as a market maker and from dynamic management of a portfolio of liquid financial assets. The goal of this activity is to maximize expected profits, while maintaining a controlled, approved level of risk. The authorizations for activities and the risk of the activities are measured, as relevant, in terms of the value at risk (VaR); theoretical loss under various scenarios, including extreme scenarios; sensitivity to risk factors; and volume of activity. Risk assessments as well as limit control of trading activity are carried out at least once daily. In addition to the specific authorizations for each activity separately, an overall authorization in terms of VaR has been established for trading activity in the Bank's dealing rooms.

- **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 total limit on the exposure of the Bank's financial capital to foreign currency.

- **Interest rate Exposures – Market Making and Trading**

The Tel Aviv dealing room is also active in the area of interest rate trading exposures. The dealing room manages a trading desk in NIS interest rate instruments, including market making in interest rate options, and a government bond trading desk. The activity of the desks is conducted subject to limits on risk estimates and other limits approved by the Board of Management and the Board of Directors.

Set out below are risk estimates of trading activity (VaR) as at December 31, 2014:

	As at Decembe 31, 2014	Average in 2014	Maximum in 2014	Minimum in 2014
	NIS millions			
Total trading in dealing rooms	**15**	**20**	**36**	**10**

Procedures for Exposure to Market and Liquidity Risks

A document on exposures to market and liquidity risks is presented to the Board of Directors for approval each year, for the coming year of activity. Limits approved as part of this document include a general limit on the overall risk estimate of the Bank, limits on the overall sensitivity of the Bank to risk factors, limits for Nostro investment activity, and risk limits in the various areas of trading activity. The exposures document for 2014 reflects the work plan of the Financial Markets Area, including the expansion of activity in the investment portfolio and diversification of tools used in the various activities.

Set out below are the principal limits on exposures to market risks, in the overall activity of the Bank and separately for trading activity, as at December 31, 2014:

	Limit	NIS millions	% of active financial capital
Overall Bank Activity	Overall risk estimate (VaR)	**950**	
	Sensitivity of economic value to parallel changes of 1% in interest rate curves:		
	CPI-linked NIS	**500**	
	Unlinked NIS	**620**	
	Foreign currency	**370**	
	Sensitivity of the derivatives in the banking book to a 1% parallel change in interest rate curves:		
	CPI-linked NIS	**150**	
	Unlinked NIS	**150**	
	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**	
	Volume of total Nostro investment**	****16,500**	
	Of which: Volume of investment in shares	*****3,000**	
	Risk capacity – theoretical loss in an extreme scenario in the investment portfolio***	***3,250**	
	Risk Appetite***	**1,200**	
Of which: Trading Book	Overall risk estimate (VaR)	**200**	
	Sensitivity of economic value to parallel changes of 1% in interest rate curves:		
	Interest sensitivity - unlinked shekel****	**120**	
	Interest sensitivity - foreign currency****	**70**	
	CPI exposure – net position limit	**4,000**	
	NIS/foreign currency exposure		**+/-10**
	Sensitivity to 10% change in NIS/USD exchange rate	**200**	
	Foreign currency/foreign currency exposure in trading and currencies	**800**	

* Excluding an investment in Israeli government bonds, and limited amounts of the following bonds: US government bonds held at the New York branch, Swiss government bonds (or bonds backed by the Swiss government) held in Switzerland, and Turkish government bonds held in Turkey.

** Excluding investment in Israeli government bonds and in short-term US bonds.

*** Excluding investments in Poalim Capital Markets.

**** In addition to these limits, a limit applies to loss in a scenario of parallel and non-parallel change in the NIS-USD basis spread curve at the interest rate trading desk (NIS 180 million).

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 rate of capital adequacy is calculated for interest rate and share risks in the areas of trading alone, as defined above, and for currency risks at the Bank Group.

Market and Liquidity Risk Management Department

In accordance with Proper Conduct of Banking Business Directive 310, "Risk Management," and Directive 339, "Market Risk Management," the Bank has a unit engaged in operational and market risk management. This unit reports to the Chief Risk Officer. Market and liquidity risk assessment and control 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.

Operational and Legal Risks

A. Operational Risks

General

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 Compliance Officer Unit and the Anti-Money Laundering and Terrorism Financing Prevention Unit, as well as procedures and systems in the area of human resources, information security, security, process control, emergency operation, business continuity plans, and more.

Management of Operational Risks

Operational risk management policy 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.

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 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 the Risk Management Area.

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 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:

- Quarterly reports 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, and findings of surveys.
- 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.
- Routine procedures 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 add controls if necessary, while applying cost/benefit considerations.
- A system known as the Operational Risk Management Automation Project (Basel 2 – PAMELA) has been implemented at the Bank's units. 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.
- A methodology infrastructure has been defined for the management of operational risks in material IT processes.

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.

In September 2014, the Supervisor of Banks issued a draft directive concerning cybernetic defense management. Pursuant to the draft, banking corporations should place special emphasis on this issue and take the necessary measures for effective management of cybernetic defense.

Cloud computing risks – In September 2014, the Supervisor of Banks issued a draft letter concerning risk management in a cloud computing environment. The draft sets forth rules aimed at reducing the risks inherent in the use of cloud technology.
The Bank is examining the potential advantages of cloud computing and the appropriate way of coping with the concomitant operational risks, based on best practices in this field, such as STAR by CSA and others, and in accordance with work processes and procedures at the Bank.

Emergency preparedness – The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCP – business continuity 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, 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 (a Member of the Board of Management).
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 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 business preparedness, the Bank is prepared for a set of emergency scenarios that may cause it to incur significant damage. Red-alert systems are monitored and business continuity contingency plans are in place with respect to these scenarios. The extreme scenarios are reviewed and discussed periodically by the Board of Management 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. The business continuity policy has also been adopted by the subsidiaries in Israel and elsewhere, and by the Bank's overseas branches, with adjustments, based on the prevalent methodology in Israel.

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.

B. The Chief Compliance Officer and Securities Enforcement Unit

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 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 Consumer Protection Directives Compliance Unit, the Anti-Money Laundering Unit, the Securities Enforcement Unit, the International Compliance Unit (which deals with compliance at units of the Bank outside Israel), the FATCA Unit, 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 internalization 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 through three channels:

- 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 heads of the Areas. The reports include updates on the main exposures and risk areas in the Group; progress on work plans; and activities performed, including controls, mapping of knowledge gaps, organizational learning, technological and other projects in this field, reports submitted to the Israel Money Laundering Prohibition Authority, violations, and reports of exceptional events.

Compliance policy sets forth rules regarding all of the component areas of the prohibition of money laundering and compliance with consumer-protection directives. The policy emphasizes corporate control and the interaction with subsidiaries and branches outside Israel. The policy is based on Proper Conduct of Banking Business Directive 308, the Money Laundering Prohibition Law, the Terrorism Financing Prohibition Law, and Proper Conduct of Banking Business Directive 411. This policy took effect at the end of December 2010, and has since been updated several times. In late 2012, the Board of Directors approved an internal enforcement policy for securities, and extensive processes were initiated in order to instill this policy at the Bank. The Board of Directors approved the FATCA chapter of the Group-level compliance policy in March 2014 (see the FATCA section under "Other Risks"). The Bank has also established a comprehensive policy of declared funds with regard to all foreign resident customers, designed to ensure that only declared funds are present in the accounts of foreign residents throughout the Bank Group.

In order to comply with legislative directives and with the Group compliance policy, several activities are conducted at the Bank, as detailed below:

- Identifying the main exposures and risk areas in the Group, and monitoring work plans to eliminate them.
- Applying process-based, qualitative, and quantitative controls to ensure adherence to the directives that regulate relationships between the Bank and its customers, the prohibition of money laundering and terrorism financing, and securities law; analyzing such controls; and creating work plans to minimize any gaps discovered.
- Developing a training system in the area of compliance, the prohibition of money laundering and terrorism financing, and securities law, including focused presentations to refresh knowledge, practical guides for bankers, workshops, instructional pamphlets, instructional news flashes, knowledge management on the organizational portal, etc.
- Collecting information on the progress of learning within the organization in the area of compliance with directives that regulate relationships between the Bank and its customers and the prohibition of money laundering and terrorism financing.
- Conducting continual processes aimed at identifying, mapping, and assessing compliance risks and gaps in the Bank's procedures and systems through an infrastructure survey.
- Conducting a diagnostic process at the Bank's professional units, focused on compliance, the prohibition of money laundering and terrorism financing, and securities law, and building control processes and training methods adapted to the nature of the units' activity, with the aim of minimizing exposures to these risks.
- Formulating job descriptions for compliance officers and securities enforcement trustees in corporate banking.
- Analyzing data in order to assess risks at the Bank, and as infrastructure for the construction of new controls and new learning systems, as necessary.
- Analyzing new products and services and new business activities from the perspective of compliance, the prohibition of money laundering, and securities law.
- Developing improvements to technological systems and building new infrastructures in the area of compliance, the prohibition of money laundering, and securities law, including systems for reporting to the Israel Money Laundering Prohibition Authority, and control and monitoring systems within the Bank.
- Developing risk metrics and performance metrics in the area of compliance, the prohibition of money laundering, and securities law, and including the metrics in the strategic maps of the Areas of the Bank and in executives' KPIs.
- Integrating compliance metrics into the remuneration model of the Retail Banking Area and into achievement metrics in the areas of customer relationship management and credit management in the Corporate Banking Area.
- Visiting the corporate units of the Bank, in order to provide localized responses to issues creating exposure for the Bank in the area of compliance, the prohibition of money laundering, and securities law, clarify work processes, and locate risk areas at these units.

- Convening forums of compliance officers of the Group, for updates on legislation; instillation of new work processes, new systems and applications, and changes in procedures; training and knowledge refreshment presentations for instruction of other compliance officers within the system; etc.
- Managing compliance units at the overseas branches, providing routine support to overseas units, and monitoring compliance processes there.
- Creating mechanisms for examining failures, correcting violations, drawing conclusions and preventing the recurrence of problems, and enforcement against deviations from the directives of the Israel Securities Authority.
- Supporting the business units of the Bank in serving American clients.
- Dealing with events that require in-depth investigation and drawing of conclusions.

C. 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 is aided by 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 work 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 to legal risks, encompassing risks arising from primary and secondary legislative directives; regulatory directives; rulings of courts, tribunals, and other entities with quasi-judicial authority; risks arising from activity not backed by legal counsel or from flawed legal counsel; and risks arising from legal proceedings.

Legal risks are naturally intertwined 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, with the appointment of an officer responsible for implementing the directives.
- Preparing suitable agreements, guidelines, and procedures in order to ensure that risk-prevention measures are implemented.
- Examining the implications of legislative directives (including court rulings) and directives of government agencies, and their consequences for the Bank's work.
- Drawing conclusions from legislative changes (including court rulings) and applying those conclusions in the legal documents customarily used at the Bank; delivering opinions on such matters to the relevant Bank units.

With regard to subsidiaries in Israel and abroad, the plan delineates a general risk-management policy that each subsidiary must adapt to its circumstances and operations; mechanisms for reporting to the Head of Legal Risk are also required of these subsidiaries.

Other Risks

Reputation Risk

Reputation 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, counterparties to transactions, shareholders, investors, or regulatory agencies. The reputation 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.

Competitive Risk

Competitive risks arise from the banking system in Israel as well as from various financial institutions such as insurance companies, investment-portfolio managers, foreign banks, etc., that may cause customers to transfer to these entities by transferring all of their activities or by selectively acquiring services from different suppliers; there is also a risk of erosion of profitability arising from competitive pressure to reduce fees and interest spreads. As a result, damage may be caused to the Group's market share and profitability. The strategic plan of the Bank, as well as its annual work plans, establish methods of coping with competition.

Regulatory and Legislative Risk

Risk to the Group's income and capital arising from legislation and/or 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.

Changes in legislation as well as various regulatory developments, which result, among other things, in the imposition of limits on holdings of shares of the Bank and on holdings by the Bank in shares of entities related to the Bank, influence the Bank's operations and may influence its business results.

As a "bank" and as a "banking corporation," the Bank's activities are guided and bound by a system of laws, orders, and regulations, including, among others, the Banking Ordinance, 1941; the Bank of Israel Law, 1954; the Banking Law; and the Banking (Service to Customers) Law, 1981, as well as other laws with implications for its activity, such as the Securities Law, 1968; the Supervision of Financial Services (Profession of Pension Advising) Law, 2005; the Regulation of Investment Advice, Investment Marketing, and Investment Portfolio Management Law, 1995; and regulations and rules including the rules of the Governor of the Bank of Israel, and the directives, guidelines, and position statements of the Supervisor of Banks.

Banking laws include directives that apply to numerous areas of the Bank's activity, to the point that there is virtually no area of its activity that is not influenced by them to some degree. Banking laws also influence the Bank's subsidiaries, including those not considered "banking corporations," and to a lesser extent, companies related to the Bank.

Under the banking laws, the Bank is subject to supervision by the Bank of Israel, and in particular, supervision by the Governor of the Bank of Israel and by the Supervisor of Banks. In addition, the Bank is subject to supervision by agencies within government ministries, particularly the Ministry of Finance.

Banking laws refer to the Bank's capital and to the manner of its management, including the imposition of external and internal auditing and internal controls; they also determine the areas of activity in which the Bank is permitted to engage, and the other legal entities that the Bank is permitted to control, or in which it is permitted to hold means of control at specified rates; and they restrict the extent of the Bank's influence over controlled, related, and other companies in which it holds means of control. These laws restrict the Bank's freedom of investment, particularly in "non-financial corporations," as defined in the Banking Law. The banking laws impose certain usages of assets on the Bank, and they impose restrictions and conditions for other usages of its assets.

The Bank monitors proposed legislation, regulations, and directives of the regulatory agencies to whose supervision it is subject and/or that may affect the activity of the Bank Group and/or its business results.

Foreign Account Tax Compliance Act (FATCA)

The Foreign Account Tax Compliance Act, known as the FATCA legislation, was passed by the US Congress in March 2010. The law requires non-American financial institutions, among other matters, to report to US tax authorities on the accounts of American customers and of certain American-owned foreign legal entities. Subsequent to the legislation, bilateral agreements for the exchange of information on tax matters were signed between the United States and many other countries, including countries in which the Bank Group has a presence, establishing a different reporting regime than the regime set forth in the FATCA regulations. Israel signed an agreement with the United States on June 30, 2014. The guidelines in this agreement will take effect when local legislation is formulated, or when the state announces that the agreement is in effect.

The FATCA regime has been in effect since July 2014. The Bank Group is prepared to comply with the disclosure requirements with respect to individuals and corporations, and is continuing to prepare to meet all of the requirements derived from this legislation and from local regulation already in place or currently in progress, in operational and procedural terms. 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. The Bank has formulated and approved a Group compliance policy, adjusted work processes and operational systems, and provided training to managers and employees at all levels in units that manage customers' funds. The Bank is prepared to perform the required new disclosure processes with regard to corporations.

Economic Risk – Condition of the Israeli Economy

Risk to the Group's income and capital arising from a slowdown in economic activity, 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 2.6% in 2014, from 3.2% in the preceding year. The deceleration was mainly accounted for by Operation Protective Edge, during the third quarter, which brought growth to a standstill during that quarter. Growth was primarily based on expansion of private consumption, while exports remained almost unchanged and investments decreased. It should be noted that despite the slowdown in growth, the unemployment rate remained very low, at about 6% on average. Due the decision to dissolve the government and the elections planned for March 2015, the state budget for 2015 has not been approved, and the government is operating based on last year's budget. Inflation over the last year was near zero, as a result of factors including the government's policy of lowering the cost of living. This policy has been especially notable in the area of telecommunications, but has also had an impact in other areas, such as food, finances, and energy.

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.

Trends in the global economy were uneven over the last year. Rapid growth resumed in the United States, with a continual decrease in unemployment, whereas growth in the Eurozone was low, with high unemployment rates. Risk premiums of most European countries with high levels of debt decreased significantly, and currently reflect a high degree of confidence in the continued service of the debt. The situation in Greece is different; risk premiums are rising again, due to political instability. Conditions in the emerging markets are uneven as well: a decrease of about 50% in oil prices hurt oil exporters, particularly Russia, whose budget is built around oil revenues. Asian countries, primarily China and India, are benefiting from the low oil prices, and showed high growth over the last year. Accordingly, and in view of conditions in the Israeli economy, the Bank is continuing to monitor the risks and sectors that may be affected by these changes, and adapting its policies and control activities as necessary.

Political/Security Risk

Risk to the Group's income and capital arising from a lack of security/political stability. Deterioration in the security situation may cause a slowdown throughout the Israeli economy, and an adverse effect on particular industries such as tourism and hotels, aviation, commerce, construction, and foreign trade. In addition, there is a risk of damage to commercial relations between Israel and other countries. Such situations may cause an adverse effect on the ability to raise resources in foreign currency, on various investors, and on the condition of some of the Group's borrowers and the probability of collecting credit from these borrowers.

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.

On June 11, 2009, the Supervisor of Banks issued a letter to banking corporations concerning the exposure to and management of environmental risks. The letter refers to aspects of the Bank's exposure to environmental risks. Environmental risks may be included in other risks, such as operational risks, market risks, credit risks, and more. The letter emphasizes that the identification and assessment of environmental risks are an inseparable part of a proper process of risk assessment at the Bank; the Bank is therefore required to work to implement environmental risk management as part of its overall risk management, including through the implementation of procedures for the identification of material environmental risk when granting credit, and through the integration of environmental risk assessment in the evaluation of the quality of credit extended to customers by the Bank.

Accordingly, the Board of Management of the Bank has approved policies and methodologies for the identification, specification, and management of environmental risks, to address the effect of environmental risk on the credit risk of major borrowers. In the course of formulating the policies and working procedures, prevalent methodologies used at international banks were examined and advisors specializing in this field were consulted.

Risk Factor Table

Pursuant to the directive of the Bank of Israel, the principal risk factors to which the Group is exposed in respect of its banking activity have been mapped. The risk factors and the Board of Management's estimates regarding the risk level of each factor are listed in the following table. The severity of the risk factors is determined with reference to the risk appetite defined by the Bank, and is rated on a scale of low, medium, and high.

In order to quantify the various risk factors that may affect the Bank, different possible risk scenarios were examined for most of the risk factors and the extent of the potential effect of each scenario on the Bank's stability and profitability was estimated.

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 several risk factors in the table, scenarios were tested to estimate the effect 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.

Number	Risk factor	Risk effect		
		Low	Medium	High
Financial risks				
1.	Credit risk		×	
1.1.	Risk in respect of the quality of borrowers and/or collateral		×	
1.2.	Risk in respect of sectoral concentration		×	
1.3.	Risk in respect of concentration of borrowers/borrower groups		×	
2.	Market risk	×		
2.1.	Interest rate risk	×		
2.2.	Inflation risk/exchange rate risk	×		
2.3.	Share price risk	×		
3.	Liquidity risk	×		
Operational and legal risks				
4.	Operational risk	×		
5.	Legal risk	×		
Other risks				
6.	Reputation risk	×		
7.	Competition risk	×		
8.	Regulation and legislation risk	×		
9.	Economic risk – condition of the Israeli economy		×	
10.	Economic risk – condition of the global economy		×	
11.	Political/security risk		×	
12.	General risk – dissolution of the Eurozone		×	

Capital Adequacy

As of January 1, 2014, the Bank has applied the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211. The Bank applied the Basel 2 directives until December 31, 2013.

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.

Adoption of Basel 3 Directives

The Basel 3 directives establish significant changes in the calculation of the supervisory capital requirements, including in the following areas:

- Components of supervisory capital;
- Deductions from capital and supervisory adjustments;
- Accounting for exposures to financial corporations;
- Accounting for exposures to credit risk in respect of impaired debts;
- Capital allocation in respect of CVA risk in derivative financial instruments activity.

The amendments to the aforesaid 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 will 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.

In addition, a circular of the Supervisor of Banks, entitled "Basel Disclosure Requirements Concerning the Composition of Capital," was published on August 29, 2013. The circular established updated disclosure requirements which banks are required to include as part of the adoption of the Basel 3 directives. Accordingly, the note on capital adequacy in the financial statements for 2014 includes disclosure of comparative figures for the preceding year prepared according to the Basel 2 directives, as adopted by the Supervisor of Banks, as well as disclosure of comparative figures as at January 1, 2014, prepared according to the Basel 3 directives.

Implementation and Effect of New Regulatory Directives Regarding Capital Measurement and Adequacy

1. Disclosure requirements concerning compensation

On November 26, 2013, the Supervisor of Banks issued a circular entitled, "Temporary Order – Implementation of Disclosure Requirements Pursuant to Basel Pillar 3 – Disclosure Requirements in Respect of Compensation." The circular specifies the main disclosures to be included with regard to compensation: qualitative disclosures regarding the entities that supervise compensation; information referring to the planning and structure of compensation processes; a description of the ways in which present and future risks are taken into consideration in the compensation process; and a description of the ways in which the Bank links performance with the level of compensation. In addition, quantitative disclosure is required regarding the overall value of fixed and variable compensation granted to senior officers and other key employees. These disclosure requirements will apply to annual reports only, beginning with reports for 2014.

2. Liquidity risk

In January 2013, the Supervisor of Banks issued a circular amending Proper Conduct of Banking Business Directive 342, "Liquidity Risk Management." The amendment of the directive is aimed at strengthening and improving liquidity risk management at banking corporations, and constitutes an interim stage in advance of the adoption in Israel of the Basel 3 recommendations concerning liquidity. In February 2014, the Bank of Israel published a draft of the Basel 3 liquidity directive to the banks, and asked the banks to perform a survey to examine the quantitative effect of the directive. The Bank submitted the data, as required. Proper Conduct of Banking Business Directive 221, which serves as the implementation of the Basel 3 liquidity directives in Israel, was issued in September 2014, as well as an update of Proper Conduct of Banking Business Directive 342 and a Public Reporting Directive. Supervision Reporting Directive 827 was issued in November 2014. The Bank is preparing to implement these directives. For further information regarding liquidity risk management at the Bank, see the section "Risk Management" in this report.

3. Housing loans

In July 2014, the Supervisor of Banks issued a circular concerning Proper Conduct of Banking Business Directive 329, "Limits on Housing Loans" (hereinafter: the "Directive"). 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." 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 falls below 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. The amendments are implemented as of October 1, 2014. The effect of the implementation is immaterial.

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 effect of the additional directives on the capital ratios of the Bank as at January 1, 2017, is estimated at approximately 0.2%, according to the balance of housing loans at the reporting date.

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.

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 decrease in risk-adjusted assets in the amount of approximately NIS 625 million, an increase in the common equity Tier 1 capital ratio of approximately 0.02%, and an increase in the total capital ratio of approximately 0.03%.

4. Exposure to central counterparties

On September 18, 2014, the Supervisor of Banks issued a letter entitled, "Preparation for implementation of Basel 3 – Capital Requirement for a Banking Corporation exposed to Central Counterparties – Quantitative Effect Survey" (hereinafter: the "Letter"). Pursuant to the Letter, banking corporations are required to carry out a survey to estimate the quantitative effect of compliance with the new capital requirements for banking corporations exposed to central counterparties. This survey is to be submitted to the Supervisor of Banks no later than December 31, 2014. The Bank submitted the data, as required.

5. Leverage ratio

On October 20, 2014, the Supervisor of Banks issued a draft entitled, "Preparation for Implementation of Basel 3 – Quantitative Effect Survey – Leverage Ratio Requirement" (hereinafter: the "Draft"). Pursuant to the Draft, banking corporations were asked to carry out a quantitative effect survey to estimate the leverage ratio of the banking corporation. This survey was to be submitted to the Supervisor of Banks by December 30, 2014. After receiving the survey results, the Supervisor of Banks will determine the minimum leverage ratio with which banking corporations will be required to comply and the inception date. The Bank submitted the data, as required.

Pillar 3 Disclosure

The objective of Pillar 3 is to encourage market discipline by allowing market participants to publish key information concerning the capital adequacy of banks, through a mechanism of disclosure requirements.

The following table summarizes the disclosure requirements according to Pillar 3:

	Qualitative disclosure	Quantitative disclosure
	Page number	
Subject		
Implementation of Pillar 1	208	-
Implementation of Pillar 2 and the Bank's approach to assessing its capital adequacy	208	-
Applicability of implementation	212	-
Structure of supervisory capital and composition of capital	213	214
Structure of supervisory capital	-	Additional disclosure on website
Structure of supervisory balance sheet	-	Additional disclosure on website
Capital adequacy	214	
Credit risk	170 and additional disclosure on website, 25	Additional disclosure on website, 25
Problematic loans and allowances for credit losses by economic sector	-	Appendix 5
Credit risk mitigation	Additional disclosure on website, 29	Additional disclosure on website, 30
Credit risk in respect of derivative financial instruments	177 and additional disclosure on website, 33	Additional disclosure on website, 33
Securitization exposures	179 and additional disclosure on website, 35	Additional disclosure on website, 35
Market risk	185	Additional disclosure on website, 36
Operational risk	195	-
Positions in shares in the banking book	324	Additional disclosure on website, 36
Interest risk in the banking book	185	190
Main characteristics of supervisory capital instruments	Website	Website
Disclosure concerning remuneration	Website	Website

Implementation of Basel 3

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 regulatory capital for these risks.

The following table lists the methods used by the Bank to calculate supervisory capital for each of the major risk categories.

Category	Method used by the Bank
Credit risk	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 and in its 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 2013 to the Bank of Israel at the end of April 2014. In this document, the Bank defined its risk appetite, evaluated risks and the potential effect of its asset mix on its risk profile, and set capital objectives based on these evaluations. In accordance with the instructions of the Bank of Israel, the ICAAP document for 2014 will be prepared in a limited internal format, and approved by the Board of Management and Board of Directors of the Bank at the end of February 2015. The Bank of Israel also established that the ICAAP document for 2015 should be submitted by December 31, 2015.

The Bank routinely examines its ability to meet the capital targets that have been set while 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, and a plan for the issuance of various capital instruments) 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 several economic 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.

Risk Appetite

The Board of Directors of the Bank defines risk appetite as well as risk capacity, in line with the strategy and future business plans of the Bank. Risk appetite reflects and defines the risk level to which the Bank is willing to be exposed, or which it is willing to undertake or sustain, during the ordinary course of business. Risk appetite serves as the basis for the allocation of resources and capital.

Risk capacity reflects the risk level which the Bank will not exceed even in the event of the materialization of extreme scenarios. In light of the above, the maximum risk level undertaken by the Bank during the ordinary course of business (its risk appetite) is lower than its risk capacity.

The Board of Management of the Bank is responsible for everyday actions, and ensures through the definition and enforcement of appropriate risk limits that the Bank operates within its declaration regarding risk appetite and risk capacity, as defined, through the use of risk limits, among other means.

Capital Management

The objective of capital management is to optimize return on equity while complying with the detailed risk-appetite definitions established by the Board of Directors of the Bank, subject to regulatory directives. Accordingly, effective capital management ensures:

- 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.

Guiding Principles in Capital Management

Capital management is an annual process with a rolling planning horizon of three years. Capital management is considered an integral part of the Bank's strategic and financial plan. Capital management is based on the growth plans of the various business units, with the aim of assessing capital requirements during the period of the plan, and is used in the strategic planning process, in connection with feasibility and capital allocation to units.

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:

1) 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 make decisions regarding the quantity of capital, structure of capital, and manner of capital allocation and usage.
- Strive to 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.

2) 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 create a thorough and effective capital-management process at the Bank, a specialized department was established to manage 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.

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, 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 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 effect of the additional directives on the capital ratios of the Bank as at January 1, 2017, is estimated at approximately 0.2%, in accordance with the balance of housing loans at the reporting date.

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. The Board of Directors of the Bank has approved the minimum target capital ratios, as detailed above.

The calculation of the capital ratio is set out below:

	Dec. 31, 2014	Jan. 1, 2014	Dec. 31, 2013
	Basel 3[(1)]		Basel 2[(2)]
	NIS millions		
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital / core capital	**31,482**	*28,966	(4)*28,195
Tier 1 capital	**33,436**	*30,920	(4)*30,664
Tier 2 capital	**16,041**	15,697	16,341
Total overall capital	**49,477**	*46,617	(4)*47,005
2. Weighted balances of risk-adjusted assets			
Credit risk	**311,329**	*292,522	*276,537
Market risks	**5,269**	4,748	4,748
Operational risk	**22,275**	21,769	21,769
Total weighted balances of risk-adjusted assets	**338,873**	*319,039	*303,054
	%		
3. Ratio of capital to risk-adjusted assets			
Ratio of common equity Tier 1 capital to risk-adjusted assets/ratio of core capital to risk-adjusted assets	**9.29%**	*9.08%	*9.30%
Ratio of Tier 1 capital to risk-adjusted assets	**9.87%**	*9.69%	*10.12%
Ratio of total capital to risk-adjusted assets	**14.60%**	*14.61%	*15.51%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(3)9.00%**	(3)9.00%	
Minimum total capital ratio required by the Supervisor of Banks	**(3)12.50%**	(3)12.50%	9.00%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013. The effect of the transition to the Basel 3 directives on January 1, 2014, is a decrease of 0.22% in the common equity Tier 1 capital ratio and a decrease of 0.9% in the total capital ratio.

(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.

(3) The minimum capital ratio required according to the directives of the Supervisor of Banks from January 1, 2015 to December 31, 2016. As of January 1, 2017 the minimum required common equity Tier 1 capital ratio is 10%, and the minimum required total capital ratio is 13.5%. Beginning January 1, 2015, a capital requirement will be added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement will be implemented gradually, 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 4.A.2 to the Financial Statements.

(4) Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

The calculation of the capital ratio is set out below (continued):

	Dec. 31, 2014	Jan. 1, 2014	Dec. 31, 2013
	Basel 3[(1)]		Basel 2[(2)]
		%	
4. Significant subsidiaries			
Isracard			
Ratio of common equity Tier 1 capital to risk-adjusted assets	**19.04%**	17.40%	
Ratio of Tier 1 capital to risk-adjusted assets	**19.04%**	17.40%	17.60%
Ratio of total capital to risk-adjusted assets	**19.98%**	18.20%	17.70%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(3) 9.00%**	(3) 9.00%	
Minimum total capital ratio required by the Supervisor of Banks	**(3) 12.50%**	(3) 12.50%	9.00%
Bank Hapoalim Switzerland[(4)]			
Ratio of common equity Tier 1 capital to risk-adjusted assets	**21.09%**	26.56%	
Ratio of Tier 1 capital to risk-adjusted assets	**21.09%**	26.56%	26.56%
Ratio of total capital to risk-adjusted assets	**21.17%**	27.13%	27.13%
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%	11.20%

		Basel 2[(5)]	
Bank Pozitif			
Ratio of Tier 1 capital to risk-adjusted assets	**17.51%**		15.56%
Ratio of total capital to risk-adjusted assets	**18.15%**		16.51%
Minimum total capital ratio required by local regulation	**12.00%**		12.00%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013. The effect of the transition to the Basel 3 directives on January 1, 2014, is a decrease of 0.22% in the common equity Tier 1 capital ratio and a decrease of 0.9% in the total capital ratio.
(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(3) Minimum capital ratio required according to the directives of the Supervisor of Banks as of January 1, 2015.
(4) Bank Hapoalim Switzerland has implemented the Basel 3 directives as of the first quarter of 2013.
(5) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Applicability of Implementation

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, 2014, 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 funds or 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 13 to the Financial Statements.

For further details regarding the principal subsidiary and affiliated companies of the Bank, see Note 6C to the Financial Statements.

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 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.

Limits on the Structure of Capital

Proper Conduct of Banking Business Directive 202 sets limits on the structure of capital:

- Tier 2 capital shall not exceed 100% of Tier 1 capital, after the required deductions from this capital.
- 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 11 to the Financial Statements.

Set out below is the composition of capital for the purpose of calculating the capital ratio:

	Dec. 31,2014	Jan. 1,2014	Dec. 31, 2013
	Basel 3		Basel 2
	NIS millions		
Tier 1 capital			
Paid-up common share capital and premium	**8,004**	7,984	7,984
Retained earnings	**22,243**	*19,951	**,*19,845
Non-controlling interests in equity of consolidated subsidiaries	**224**	227	250
Unrealized profits from adjustments of securities available for sale to fair value	**961**	701	-
Other capital instruments	**153**	198	207
Amounts deducted from Tier 1 capital	**(103)**	*(95)	(91)
Total common equity Tier 1 capital	**31,482**	*28,966	**,*28,195
Innovative hybrid instruments	**1,954**	1,954	2,469
Total Tier 1 capital	**33,436**	*30,920	**,*30,664
Tier 2 capital			
Hybrid capital instruments and subordinated notes	**1,331**	1,386	-
Collective allowances for credit losses before the effect of related tax	**3,837**	3,441	-
Minority interests in subsidiaries	**10,873**	10,870	-
Upper Tier 2 capital	**-**	-	3,872
Lower Tier 2 capital	**-**	-	12,532
Amounts deducted from Tier 2 capital	**-**	-	(63)
Total Tier 2 capital	**16,041**	15,697	16,341
Total eligible capital	**49,477**	*46,617	**,*47,005

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

For further details, see Note 13 to the Financial Statements.

Capital Adequacy

Measurement of Risk Exposures and Capital Requirements

The measurement of exposures to the various risks may change 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.

Implementation of External Credit Ratings

According to the external rating based standardized 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 weight of the following counterparties:

- Sovereigns;
- The public sector;
- Corporations;
- Banking corporations;
- Securitizations.

For this purpose, the Bank uses data from two rating agencies: Moody's Investor Service and Standard & Poor's Rating Group. The following table maps the 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.

Set out below are data regarding risk-adjusted assets and capital requirements in respect of credit risk, market risk, and operational risk:

	Dec. 31, 2014		Dec. 31, 2013	
	Basel 3		Basel 2	
	Risk-adjusted assets	Capital requirements(1)	Risk-adjusted assets	Capital requirements(2)
	NIS millions			
Credit risk				
Sovereign debt	**2,593**	**324**	2,426	218
Debts of public-sector entities	**3,105**	**388**	4,175	376
Debts of banking corporations	**7,341**	**918**	6,268	564
Debts of corporations	**137,059**	**17,132**	124,625	11,216
Debts secured by commercial real estate	**56,300**	**7,038**	54,028	4,863
Retail exposures to individuals	**40,665**	**5,083**	37,235	3,351
Loans to small businesses	**6,387**	**798**	5,499	495
Housing loans	**33,092**	**4,137**	29,940	2,695
Securitization	**97**	**12**	87	8
Other assets	**19,715**	**2,464**	*12,254	*1,103
CVA risk	**4,975**	**622**	-	-
Total in respect of credit risk	**311,329**	**38,916**	*276,537	*24,889
Market risks	**5,269**	**659**	4,748	427
Operational risk	**22,275**	**2,784**	21,769	1,959
Total risk-adjusted assets in respect of the various risks	**338,873**	**42,359**	*303,054	*27,275
Common equity Tier 1 capital	**31,482**			
Tier 1 capital	**33,436**			
Total capital	**49,477**		(3)*47,005	

	%	
Ratio of common equity Tier 1 capital/core capital to risk-adjusted assets	**9.29%**	*9.30%
Ratio of Tier 1 capital to risk-adjusted assets	**9.87%**	*10.12%
Ratio of total capital to risk-adjusted assets	**14.60%**	*15.51%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(4)9.00%**	
Minimum total capital ratio required by the Supervisor of Banks	**(4)12.50%**	9.00%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

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

(2) The capital requirements were calculated in accordance with the minimum total capital ratio of 9% required by the Supervisor of Banks.

(3) Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

(4) The minimum capital ratios required by the Supervisor of Banks from January 1, 2015 to December 31, 2016. As of January 1, 2017, the minimum required common equity Tier 1 capital ratio is 10%, and the minimum required total capital ratio is 13.5%. Beginning January 1, 2015, a capital requirement will be added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement will be implemented gradually, during 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 4.A.2 to the Financial Statements.

Disclosure Regarding the Internal Auditor

Information regarding the Internal Auditor – On July 6, 2014, Mr. Jacob Orbach completed his term as Chief Internal Auditor of the Bank, upon his appointment to the position of Member of the Board of Management and Head of Corporate Banking. On July 14, 2014, the Board of Directors approved the appointment of Mr. Zeev Hayo, CPA, to the position of Chief Internal Auditor of the Bank. 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 2014 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 performed 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 130 employee positions and 3 outsourced positions in 2014, as detailed below:

	Average number of employee positions in 2014		
	Bank	Subsidiaries	Total
Activity in Israel	**98**	**6**	**104**
Activity abroad	**10**	**16**	**26**
Total	**108**	**22**	**130**

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," which took effect on July 1, 2012, and replaced the Banking Rules implemented until its inception; 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. Most of the reports are also distributed to members of the Audit Committee. Substantial audit reports are discussed by the Audit Committee each month.

In 2014, 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 2013 was submitted on February 20, 2014, and discussed by the Audit Committee on February 27, 2014. A summary of audit activities in the first half of 2014 was submitted on September 10, 2014, and discussed by the Audit Committee on September 22, 2014. A summary of audit activities in 2014 was submitted to the Audit Committee on February 12, 2015 and discussed by the Committee on February 18, 2015.

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 4,522 thousand. For full details, see the section "Salaries and Benefits of Office-Holders," 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.

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 2014, 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 2014 was expressed in a financial expenditure of approximately NIS 47 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." Donations are given to organizations that fulfill the criteria defined under the Foundation's donation policy. In 2014, 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. The Foundation helps to run workshops in Jewish and Arab schools throughout Israel in order to promote understanding and coexistence among the peoples and encourage tolerance and democracy.

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 2005-2014. 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 – Poalim for the Community is involved in various community activities 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 2014, the Bank donated approximately 648 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 2014.

Support for culture and 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.

"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

Bank Hapoalim has adopted the principles of sustainability and CSR as essential foundations for its activity, based on a strong 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 "mature" 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 mature age group, performed via the groundbreaking new system developed by the Bank, Poalim Advisor. This system offers unique advisory processes to mature 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 age 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.

The Board of Directors and the Discharge of its Functions

During 2014, 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 2014, the Board of Directors held 42 meetings in plenary session and 205 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 control 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 38 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 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 38 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 performed 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 performed 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 performed 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 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 28 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, 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 2013. 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 18 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 8 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 8 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 8 meetings in the course of the year.

Members of the Committee are: Y. Seroussi – Chairperson, A. Dick, Y. Tauman, I. Tov, and I. Stern.

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 4 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 6 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 29 meetings during the course of the year.

Members of the committee are: I. Tov – Chairperson, D. Schwartz, and N. Ronen. The expanded format of the Remuneration Committee also includes: Y. Seroussi, A. Dick, E. Peled, and M. Koren.

The IDB Derivative Claims Committee

On March 19, 2014, the Board of Directors resolved to establish an ad hoc board committee 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 8 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 2014.

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."

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;
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.

The Board of Directors of the Bank has determined that the minimum adequate number of directors having "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 630 (hereinafter: "Directive 630") 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 630 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 fourteen 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 one 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. Six directors with "accounting and financial expertise" and "professional qualification" are members of the Board of Directors' Audit Committee.

Members of the Board of Directors who have "accounting and financial expertise" and/or "professional qualification" based on their education, skills, and experience, in accordance with the requirements of the Companies Regulations, as at the date of publication of the Financial Statements for 2014, 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; 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 – 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 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 – B.A. in Economics and Developing Nations, Tel Aviv University; M.B.A. (Specialized in Finance), Hebrew University of Jerusalem.

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 – B.A. in Economics, Tel Aviv University; M.B.A., 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 communications 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., Nicevend Ltd., and Habima National Theater Ltd. (Public Benefit Company).
In the past, served as CEO of the Bezeq Group, Chairman and CEO of Elite International and in other senior management positions. Served as a director at MIRS Communications Ltd. and at East West Innovations; 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.

5. Meir Wietchner – B.A. in Political Science and Computer Science, Bar Ilan University, Ramat Gan; M.B.A., Northwestern University, Chicago.
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 Australia Holdings PTY Ltd., Miya Voda D.O.O., Miya Water (Proprietary) SA, 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., and WRP Consulting Engineers (Proprietary) Ltd.; 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 – B.A. in Business Administration (Specialized in Accounting and Finance), Management College, Rishon Lezion; M.B.A. (Specialized in Finance), Ben Gurion University; 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 Academic College, and the Lander Institute, for eighteen 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: S.R.I. Global Finance Group, S.R.I. 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. Yair Tauman – B.Sc. in Mathematics and Statistics, Hebrew University of Jerusalem; M.Sc. in Mathematics, Hebrew University of Jerusalem; Ph.D. in Mathematics, Hebrew University of Jerusalem.

Serves as an external director of the Bank under Proper Conduct of Banking Business Directive 301 of the Bank of Israel as of December 1, 2011. Member of the following Board Committees: the Investment Approval Committee and the IDB Derivative Claims Committee.

Professor at the Interdisciplinary Center Herzliya and at the State University of New York at Stony Brook. Academic Director of the Zell entrepreneurship program at the Interdisciplinary Center Herzliya. Dean of the Edelson School for Entrepreneurship at the Interdisciplinary Center Herzliya. Director of the Center for Game Theory in the Department of Economics, State University of New York at Stony Brook.

Member of the Board of Directors at the following companies: Radware, Bidorbuy (chairman), Expobee, Digiblock, Bizzabo Ltd., A.T. Kerem in Har Hanegev Ltd., and Lemon Grass Global Ltd.; director at Acting Studio – Theater Arts Promotion Foundation (non-profit).

From 1984 to 2008 served as a Professor at the Faculty of Management, Tel Aviv University. From 2010 to 2011 served as Dean of the Arison School of Business at the Interdisciplinary Center Herzliya. Served as a director at ADVFN (London); 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.

8. Imri Tov – B.A. in Economics and Political Science, Hebrew University of Jerusalem; M.A. in Economics and Business Administration, 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.

9. Yosef Yarom – M.A. in 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 Board of Directors of the ORT Hermelin Netanya Academic College of Engineering and Technology Ltd. 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.

10. Yacov Peer – B.A. in Economics, Ben-Gurion University; M.B.A., Industrial Engineering and Management, 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 – B.A. in Economics and Accounting, Tel Aviv University; M.B.A., EMBA Kellogg Recanati International Program, 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 and the Investment Committee 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.

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. Nehama Ronen – B.A. in Education and History, Tel Aviv University and Beit Berl; M.A. in Public Administration, Haifa University.

Member of the Board of Directors of the Bank as of February 3, 2010. Member of the following Board Committees: the Corporate Governance Committee, the Remuneration Committee, and the Remuneration Committee in expanded format.

Chairperson of the Board of Directors of the following companies: Maman Cargo Terminals Ltd., and Recycling Corporation Ltd. (ELA). Member of the Board of Directors of Shachal Telemedicine Ltd. (external director). Member of the Board of Trustees of the Academic College of Tel Aviv.

Served as a director at the following companies: Israel Salt Industries Ltd., Kaman Holdings Ltd., Kamur Ltd., and Oil Refineries Ltd. (member of the board of directors and chairperson of the environment committee of the board of directors); however, she no longer serves at these companies. Also served as Director-General of the Ministry of Environmental Protection in 1996-1999, and as a Member of Knesset in 2001-2003. Served as a member of the Board of Trustees of Ruppin College; 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.

14. Dafna Schwartz – 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; Professor at Ben Gurion 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 a staff member, head of the High-Tech Entrepreneurship and Management course of study in the Department of Business Administration (MBA program), chairperson and director of the Bengis Center for Entrepreneurship and High-Tech Management at the Faculty of 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: 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), Leumi Securities and Investments (Psagot Ofek Investment House Ltd.), and Teva Pharmaceutical Industries (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 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.

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.
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.
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.
Nehama Ronen	Chairperson of the Board of Directors of Maman Cargo Terminals Ltd. and of Recycling Corporation (ELA). Serves as a director of the Bank as of February 3, 2010.
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 September 24, 2012.
Yair Tauman	Professor at the Interdisciplinary Center Herzliya and at the State University of New York at Stony Brook. Serves as an external director of the Bank (as defined in the Bank of Israel's Proper Conduct of Banking Business Directive 301) as of December 1, 2011.
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.

Additional information regarding the members of the Board of Directors of the Bank is presented in the Periodic Report of the Bank for 2014 and on the Magna website of the Israel Securities Authority: http://www.magna.isa.gov.il.

Board of Management of the Bank

Zion Kenan	President and Chief Executive Officer
Yadin Antebi	Chief Financial Officer (CFO)
Amir Aviv	Head of International Banking
Tsahi Cohen	Chief Risk Officer
Avraham Kochva(2)	Head of Information Technology
Dan Koller	Head of Financial Markets
Ofer Levy	Chief Accountant
Ilan Mazur	Chief Legal Advisor
Jacob Orbach(1)	Head of Corporate Banking
Ari Pinto	Head of Retail Banking
Ron Weksler	Head of Corporate Strategy
Efrat Yavetz	Head of Human Capital, Advising, and Resources
Chief Internal Auditor(3)	Zeev Hayo – Head of Internal Audit in Israel and Abroad
Shimon Gal(4)	Head of Corporate Banking
Zvi Naggan(5)	Head of Information Technology
Corporate Secretary	Yoram Weissbrem
Bank Spokesperson	Ofra Preuss
External Auditors	Ziv Haft, Certified Public Accountants (Isr.)
	Somekh Chaikin, Certified Public Accountants (Isr.)

(1) As of July 6, 2014. Chief Internal Auditor until July 6, 2014.
(2) As of August 1, 2014.
(3) As of July 14, 2014.
(4) Ceased to serve as a Member of the Board of Management on July 6, 2014.
(5) Ceased to serve as a Member of the Board of Management on August 1, 2014.

Additional details regarding the Members of the Board of Management of the Bank are presented in the Periodic Report of the Bank for 2014, and on the Magna website of the Israel Securities Authority at http://www.magna.isa.gov.il.

Other Matters

A special general meeting of shareholders of the Bank convened on February 11, 2014. The shareholders approved the remuneration policy for the officers of the Bank, applicable as of January 1, 2013.

A special general meeting of shareholders of the Bank convened on March 12, 2014. The shareholders approved the extension of the term of service of Mr. Yosef Yarom as a director of the Bank for an additional period of three years, beginning March 21, 2014; Mr. Yarom is considered an external director pursuant to Directive 301.

The annual general meeting of shareholders of the Bank convened on November 30, 2014. The shareholders discussed the financial statements and board of directors' report of the Bank for 2013; approved the appointment of the Bank's external auditors; approved the extension of the service of Mr. Yair Tauman as a director of the Bank, considered an "external director," as defined in Proper Conduct of Banking Business Directive 301 of the Supervisor of Banks ("External Director Under Directive 301"), for an additional period of three years, beginning December 1, 2014; and approved the extension of the service of Mr. Imri Tov as an "external director," as defined in Section 1 of the Companies Law, for an additional period of three years, beginning February 5, 2015,

On February 19, 2015, the Board of Directors granted approval to convene a special general meeting of shareholders of the Bank on March 31, 2015. On the meeting's agenda is 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.

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, immediately and 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 main points of the transaction or contractual engagement, the details of the organ that approved the transaction, and a summary of its reasons for such approval. 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").

Because the Financial Statements Regulations do not apply to banks, the Association of Banks approached the Israel Securities Authority in order to establish the reporting format applicable to banks in this regard. Following the request by the Association of Banks and the subsequent discussions, principles were established with regard to the manner of reporting of transactions of banks with their controlling party, or transactions with another person in which the controlling party has a personal interest. In accordance with these principles, the Bank is required to establish criteria for the classification of exceptional banking transactions in connection with controlling parties.

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, 2013. Similar criteria were also established by other banks.

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:

A. 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 the indebtedness of which the controlling party has a personal interest, exceeds 2% of the supervisory capital at the date of execution of the transaction. In this subsection (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.

B. 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.

C. 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.

D. 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.

E. 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 transactions, 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.

"Negiligible" Transactions

It was further established by the Bank that the following transactions shall be considered negligible transactions:

(1) A transaction for the acquisition of 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.

(2) Transactions for the rental of land from 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) 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, 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.

Set out below are 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, as at December 31, 2014 (in NIS thousands):

	Balance as at Dec. 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**	**-**
The Ruach Tova Foundation[2]:		
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) Mrs. 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 No. 313. The balance as at December 31, 2014 includes an off-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 performed the aforesaid donation as its participation in financing the activities of Good Deeds Day. Mr. Jason Arison, son of Ms. Shari Arison, serves as a volunteer on the executive board of the non-profit organization "Ruach Tova".

(4) The Bank, through the Poalim for the Community Foundation, which serves as the Bank's channel for donations to public institutions, jointly with the Isracard Group, performed the aforesaid donation within its participation in financing the project "A Password for Every Student." Mr. Jason Arison, son of Ms. Shari Arison, serves as a volunteer on the executive board of the non-profit organization "Matan – Investing in the Community."

Set out below are 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, as at December 31, 2013 (in NIS thousands):

	Balance as at Dec. 31, 2013	Highest balance in 2013
Shikun & Binui Ltd. Group[1]:		
Balance sheet credit	507,903	628,472
Commitments to grant credit	664,750	844,000
Sale guarantees, guarantees to secure credit, and others	296,810	344,055
Balance sheet and off-balance sheet credit in respect of transactions in derivatives[2]	8,302	8,302
Guarantees to third parties	41,378	41,378
Deposits from the public (balance sheet)	164,229	258,362
Expenses in respect of non-banking activity	719	-
Derech Eretz Highways Ltd. Group[3]:		
Balance sheet credit	-	786,936
Commitments to grant credit	-	18,665
Sale guarantees, guarantees to secure credit, and others	-	163,426
Deductions		
Deposits from the public (balance sheet)	-	730,074
Miya Holdings[4]:		
Balance sheet credit	-	50,163
Commitments to grant credit	-	10
Sale guarantees, guarantees to secure credit, and others	-	3,486
Balance sheet and off-balance sheet credit in respect of transactions in derivatives	-	-
Guarantees to third parties	-	-
Deposits from the public (balance sheet)	6	1,698
Ruach Tova Foundation[5]:		
Donations	950	-
Shari Arison:		
Commitments to grant credit	35	77
Sale guarantees, guarantees to secure credit, and others	180	180
Deposits from the public (balance sheet)	18,091	19,425
Arison Holdings Ltd.:		
Balance sheet credit	-	19
Deposits from the public	14	20,471

(1) Mrs. 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 the limits on borrower indebtedness, pursuant to Proper Conduct of Banking Business Directive No. 313. The balance as at December 31, 2013 includes an off-balance sheet balance in the amount of approximately NIS 8,302 thousand.

(3) This company was an affiliate (50%) of Shikun & Binui, and consequently was considered to be a company in whose business Mrs. Shari Arison has a personal interest. This company was sold during 2013. Due to the relatively large volume of this company's business with the Bank, its business relationships with the Bank are presented separately from the aggregate business of the Shikun & Binui Group.

(4) The loan was settled during 2013.

(5) The Bank, through the Poalim for the Community Foundation, which serves as the Bank's channel for donations to public institutions, performed the aforesaid donation within its participation in financing the activities of Good Deeds Day.

NIS thousands

Set out below are the salaries, compensation, value of benefits, and employer payments and provisions for the senior office-holders of the Bank Group

		2014												
Name	Title	Rate of holdings in the capital of the Bank	Salary(1)	Bonuses	Benefits 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 Isracard	**-**	**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 on January 31, 2015

Remuneration for Interested Parties and Senior Officers (continued) NIS thousands

Name	Title	2013										
		Rate of holdings in the capital of the Bank	Salary	Bonuses	Benefits for share-based payments(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	1,906	2,820	3,443	471	860	9,500	-	-	-	41
Zion Kenan	President and CEO of the Bank	0.02	2,091	2,825	3,316	584	1,034	9,850	-	-	-	134
Orit Lerer	Transferred to the position of General Manager of Bank Hapoalim (Switzerland)	-	2,390	398	2,418	973	814	6,993	-	-	-	171
Ari Pinto	Head of Retail Banking	0.01	1,577	522	1,374	78	1,647	5,198	-	-	-	44
Dov Kotler	CEO of Isracard	0.01	1,295	1,610	944	133	456	4,438	-	-	-	20
Efrat Yavetz	Head of Human Capital, Advising and Resources	0.01	1,400	463	1,374	255	920	4,412	90	2	7	318
Jacob Orbach	Chief Internal Auditor	0.01	1,425	446	1,926	218	397	4,412	24	2	1	65
Irit Izakson*	Chairman of the Board of the Isracard Group and a director of the Bank	0.01	1,239	1,361	86	170	628	3,484	-	-	-	54

* Ms. Irit Izakson is an interested party of the Bank who received compensation in connection with her services as a director of the Bank and as active chairperson of the companies in the Isracard Group. On December 31, 2013, Ms. Izakson resigned from her position as active Chairman of the Isracard Group.

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 15 and 16 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. 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 Section F(A)1.4 and F(C)1.4 of Note 15 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 currently 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 3 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 2014, for the purpose of determining bonuses within the Remuneration Plan (2014), is approximately 1.30%.

Pursuant to the Banking Corporation Remuneration Policy Directive, the duty to adopt a remuneration policy, by September 30, 2014, also applies to some of the subsidiaries of the Bank in Israel. These subsidiaries have reported to the Bank that they completed the procedure of adopting a remuneration policy by the aforesaid date established by law. The Bank is in the process of applying the principles of its Remuneration Policy to its subsidiaries overseas and branches overseas as well, with certain adjustments.

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 2014 (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 Section F(A)1.4 and F(C)1.4 of Note 15 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 2014, for the purpose of determining bonuses pursuant to the Remuneration Plan (2010), is approximately 1.19%, and approximately 0.69% 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 Section F(A)1.4 and Section F(C)1.4 of Note 15 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 restricted stock units, and contingent restricted stock units, under the Remuneration Plan (2010), is measured at the date of the grant. As a rule, the remuneration in respect of the restricted stock units 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 (subject to adjustments for employment agreements for periods exceeding three years). 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 packets method, under which the full expense for the first packet, half of the expense for the second packet, and one-third of the expense for the third packet are charged in the first year, such that the total expense in the first year amounts to approximately 60% of the overall expense for the plan, the expense in the second year amounts to approximately 30% of the overall expense, and the expense in the third year amounts to approximately 10% of the overall expense. An expense was recorded in 2014 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.

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(C)1 of Note 15 to the Financial Statements.
(2) A grant for the purchase of shares – See Section F(C)2 of Note 15 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(C)3 of Note 15 to the Financial Statements.
With regard to the effect of the end of service on compensation, see Section F(C)1.6, Section F(C)1.3, and Section F(A)2.5 of the aforesaid Note 15.
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(C)1 of Note 15 to the Financial Statements.
(2) A grant for the purchase of shares – See Section F(C)2 of Note 15 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(C)3 of Note 15 to the Financial Statements.
With regard to the effect of the end of service on compensation, see Section F(C)1.6, Section F(C)3.1, and Section F(A)2.5 of the aforesaid Note 15.
For further details regarding share-based payment and bonuses for Mr. Kenan, see the Kenan Remuneration Report.

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 share-based payment at an annual value of approximately CHF 180 thousand.

Mr. Dov Kotler

Mr. Kotler served as Chief Executive Officer of Isracard Ltd. (and of the companies in the Isracard Group: Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.) ("Isracard") from February 1, 2009 to January 31, 2015, the day of the end of the agreement with him. The companies in the Isracard Group bear the full cost of the wages of Mr. Kotler.

At the end of Mr. Kotler's employment at Isracard, he shall be obligated to maintain a cooling period of twelve months; if he complies with the cooling-off period, he will be entitled to a bonus in the amount of six monthly salaries, in accordance with the terms of his employment. In accordance with the employment agreement, and in accordance with the notification of the end of his service, Mr. Kotler is entitled to six months' notice. Mr. Kotler is entitled to a supplement of compensation, to 100% of his last salary.

A bonus plan was established within the aforesaid employment agreement, pursuant to which a positive or negative personal budget was established for Mr. Kotler each year, based on the difference between the aggregate net accounting profit/loss of all of the companies in Isracard Group in a given year and the threshold profit for remuneration (as these terms are defined in the Remuneration Plan).

Pursuant to the employment agreement, Mr. Kotler was granted 189,695 ordinary RSU exercisable into shares of the Bank, under terms identical to those established for the senior executives of the Bank in the Remuneration Plan (2010). In addition to the RSU, Mr. Kotler was granted 60,000 contingent RSU, in accordance with the terms of the Remuneration Plan (2010).

On December 16, 2014, the Board of Directors of Isracard, following approval by its remuneration committee, affirmed that from January 2015 to the end of Mr. Kotler's advance notice period (July 31, 2015), the outgoing CEO of Isracard shall be subject to the Isracard remuneration plan, which Isracard has adopted in accordance with its remuneration policy and with Proper Conduct of Banking Business Directive 301A of the Supervisor of Banks concerning remuneration policy at banking corporations.

Mr. Dan Koller

Mr. Koller serves as Head of Financial Markets. The employment agreement of Mr. Koller covers a period of three years, from May 1, 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. Koller'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. Koller, see Sections C, D, and E(4) of Note 15 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F(A)1 of Note 15 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(A)2 of Note 15 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Koller, also see the Remuneration Plan Report (2010).

Mr. Moshe Allouche

Mr. Allouche serves as Deputy General Manager at Bank Hapoalim (Switzerland) and as Manager of Private Banking. All of the costs of employment of Mr. Allouche are paid by Bank Hapoalim Switzerland, in Swiss francs, adjusted for the cost of living in Switzerland. The current employment agreement of Mr. Allouche covers a period of five years until September 30, 2015. Mr. Allouche is entitled to a monthly salary in a total amount of CHF 42,307. In addition, Mr. Allouche is entitled to a multi-year retention bonus in the amount of CHF 400,000 per annum, to be repaid in full if his employment at Bank Hapoalim Switzerland is terminated at his initiative prior to the end of his contract. The retention bonus was established, among other matters, based on expenses for housing and children's education arising from Mr. Allouche and his family's relocation to Switzerland in order for him to perform his duties. Mr. Allouche is entitled to a bonus based on Bank Hapoalim (Switzerland)'s achievements.

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 15 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F(A)1 of Note 15 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(A)2 of Note 15 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Hayo, also see the Remuneration Plan Report (2014).

Ms. Efrat Yavetz

Ms. Yavetz serves as Head of Human Capital, Advising, and Resources. The employment agreement of Ms. Yavetz covers a period of three years, from September 8, 2012 to September 30, 2015. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Ms. Yavetz'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 Ms. Yavetz, see Sections C, D, and E(4) of Note 15 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F(A)1 of Note 15 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(A)2 of Note 15 to the Financial Statements.

For further details regarding share-based payment and bonuses for Ms. Yavetz, also see the Remuneration Plan Report (2010).

Mr. Jacob Orbach

Mr. Orbach serves as Head of Corporate Banking. Until July 6, 2014, he served as Chief Internal Auditor in Israel and overseas. The current employment agreement of Mr. Orbach covers a period of three years, from January 1, 2013 to December 31, 2015. Notwithstanding the aforesaid, the contractual engagement may be terminated earlier by either of the parties, with 90 days' advance notice. Mr. Orbach'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. Orbach, see Sections C, D, and E(4) of Note 15 to the Financial Statements of the Bank.

For details of the bonuses noted in the bonuses column of the table above, see Section F(A)1 of Note 15 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(A)2 of Note 15 to the Financial Statements.

For further details regarding share-based payment and bonuses for Mr. Orbach, also see the Remuneration Plan Report (2010).

The connection between the remuneration granted in 2014 to the senior officers listed in the above table for 2014 and the contribution of the recipients to the corporation:

As part of the approval process of the Annual Financial Statements of the Bank for 2014, on February 24 and 26, 2015, 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 their terms of service and employment.

Bonuses in respect of 2014, 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 2014 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 24 and 26, 2015 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 2014 (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 2014, 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 plan of the Bank that was in effect in 2014, 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 "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 2014 does not exceed the cumulative ceilings in the Remuneration Policy, in accordance with the remuneration plan of the Bank that was in effect in 2014, 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 15 and 16 to the Financial Statements.

Board of Directors' Report to the Annual General Meeting on the Remuneration of the Auditors[(1)(2)(3)]

	Consolidated		Bank	
	2014	2013	**2014**	2013
	NIS thousands			
For auditing activity[(4)]:				
Joint auditors	**22,393**	21,439	**12,686**	11,695
Other auditors	**1,123**	1,872	**490**	1,180
Total	**23,516**	23,311	**13,176**	12,875
For audit-related services[(5)]:				
Joint auditors	**6,937**	10,976	**6,354**	10,647
Other auditors	**188**	155	**-**	-
For tax services[(6)]:				
Joint auditors	**1,543**	1,645	**1,112**	1,071
Other auditors	**767**	484	**424**	258
For other services[(7)]:				
Joint auditors	**4,034**	2,665	**1,392**	1,092
Other auditors	**74**	87	**-**	-
Total	**13,543**	16,012	**9,282**	13,068
Total remuneration of auditors	**37,059**	39,323	**22,458**	25,943

(1) Report of the Board of Directors to the annual general meeting on the remuneration of the external auditors for audit activity and for services in addition to the audit, under Paragraphs 165 and 167 of the Companies Law, 1999.
(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 audit activities related to compliance with money laundering prohibition directives.
(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.

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:

- 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.
- The directive in Section 404 regarding the responsibility for the Bank's internal control of 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 (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In addition, in accordance with the requirements, the Bank carried out a test of the effectiveness of the procedures for internal control of financial reporting, through an examination of the effectiveness of the main controls in practice.

In 2014, the Bank updated the documentation of the material control processes, with the assistance of a consulting firm, according to the prevalent methodologies. The Bank also performed a current examination of the effectiveness of the procedures for the internal control of financial reporting, through a renewed examination of the main controls for 2014, with adjustment of test samples to the outputs of the annually updated risk map.

Evaluations 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, 2014. 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, 2014, there was no change in the Bank's internal control of financial reporting that had a material impact, or could reasonably be expected to have a material impact, on the Bank's internal control of financial reporting.

Yair Seroussi
Chairman of the Board of Directors

Zion Kenan
President & Chief Executive Officer

Tel-Aviv, March 9, 2015

2014

Bank Hapoalim

Management's Review 2014

Consolidated Balance Sheet for the years 2010-2014
Multi-Period Data

NIS millions

Appendix 1

	December 31				
	2014	2013	2012	2011	2010
Assets					
Cash on hand and deposits with banks	**54,974**	45,709	55,301	55,790	50,331
Securities	**58,778**	60,912	52,070	34,411	31,604
Securities borrowed or purchased under agreements to resell	**476**	65	47	-	16
Credit to the public	**268,160**	255,543	253,268	250,592	236,671
Allowance for credit losses	**(4,180)**	(3,943)	(4,086)	(4,097)	(11,383)
Net credit to the public	**263,980**	251,600	249,182	246,495	225,288
Credit to governments	**1,861**	1,169	798	616	339
Investments in equity-basis investees	**135**	137	127	125	132
Buildings and equipment	**3,475**	*3,432	*3,426	*3,481	*3,609
Intangible assets and goodwill	**7**	19	33	44	65
Assets in respect of derivative instruments	**16,244**	10,672	9,624	10,799	6,472
Other assets	**7,864**	*6,305	*5,586	*4,744	*3,078
Total assets	**407,794**	*380,020	*376,194	*356,505	*320,934
Liabilities and Capital					
Deposits from the public	**297,230**	276,525	271,411	256,417	233,965
Deposits from banks	**4,322**	5,303	6,015	7,001	4,834
Deposits from the government	**455**	613	629	1,085	1,335
Securities lent or sold under agreements to repurchase	**42**	242	1,116	1,305	386
Bonds and subordinated notes	**33,671**	33,980	35,677	32,933	27,608
Liabilities in respect of derivative instruments	**16,777**	12,129	12,718	13,421	10,249
Other liabilities	**23,686**	22,144	21,765	20,399	19,814
Total liabilities	**376,183**	350,936	349,331	332,561	298,191
Shareholders' equity	**31,361**	*28,834	*26,561	*23,662	*22,406
Non-controlling interests	**250**	250	302	282	337
Total capital	**31,611**	*29,084	*26,863	*23,944	*22,743
Total liabilities and capital	**407,794**	*380,020	*376,194	*356,505	*320,934

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

Consolidated Statement of Profit and Loss for the years 2010-2014 Multi-Period Data

Appendix 2

NIS millions

	For the year ended December 31				
	2014	2013	2012	2011	2010
Interest income	**10,673**	12,961	14,346	14,793	12,806
Interest expenses	**(2,905)**	(5,018)	(6,186)	(6,696)	(4,853)
Net interest income	**7,768**	7,943	8,160	8,097	7,953
Provision for credit losses	**425**	874	987	1,202	1,030
Net interest income after provision for credit losses	**7,343**	7,069	7,173	6,895	6,923
Non-interest income					
Non-interest financing income (expenses)	**916**	480	255	(213)	(457)
Fees	**5,207**	5,115	5,105	5,098	5,167
Other income	**131**	126	117	106	180
Total non-interest income	**6,254**	5,721	5,477	4,991	4,890
Operating and other expenses					
Salaries and related expenses	**5,300**	*5,434	*5,130	*4,847	*4,709
Maintenance and depreciation of buildings and equipment	**1,539**	*1,544	*1,616	*1,492	*1,482
Depreciation and impairment of intangible assets and goodwill	**12**	12	11	21	141
Other expenses	**2,289**	2,034	2,129	2,050	2,001
Total operating and other expenses	**9,140**	*9,024	*8,886	*8,410	*8,333
Profit before taxes	**4,457**	*3,766	*3,764	*3,476	*3,480
Provision for taxes on profit	**1,729**	*1,271	*1,230	*792	*1,328
Profit after taxes	**2,728**	*2,495	*2,534	*2,684	*2,152
The Bank's share in profits (losses) of equity-basis investees, after taxes	**9**	9	6	(5)	3
Net profit:					
Before attribution to non-controlling interests	**2,737**	*2,504	*2,540	*2,679	*2,155
Loss (profit) attributed to non-controlling interests	**3**	44	(34)	39	18
Attributed to shareholders of the Bank	**2,740**	*2,548	*2,506	*2,718	*2,173
Earnings per ordinary share in NIS:					
Basic earnings					
Net profit attributed to shareholders of the Bank	**2.07**	*1.93	*1.90	*2.05	*1.64
Diluted earnings					
Net profit attributed to shareholders of the Bank	**2.06**	*1.91	*1.88	*2.04	*1.63

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses(1)

Appendix 3

A. Average balances and interest rates

	For the year ended December 31								
	2014			2013			2012		
	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	**224,530**	**8,929**	**3.98%**	219,512	10,674	4.86%	216,945	11,588	5.34%
Outside Israel	**18,423**	**690**	**3.75%**	18,975	716	3.77%	20,253	787	3.89%
Total	**242,953**	**(4)9,619**	**3.96%**	238,487	(4)11,390	4.78%	237,198	(4)12,375	5.22%
Credit to governments:									
In Israel	**1,470**	**32**	**2.18%**	927	21	2.27%	794	18	2.27%
Deposits with banks:									
In Israel	**3,709**	**66**	**1.78%**	2,634	42	1.59%	3,019	60	1.99%
Outside Israel	**2,765**	**10**	**0.36%**	2,373	19	0.80%	2,312	24	1.04%
Total	**6,474**	**76**	**1.17%**	5,007	61	1.22%	5,331	84	1.58%
Deposits with central banks:									
In Israel	**12,367**	**71**	**0.57%**	14,095	192	1.36%	24,476	565	2.31%
Outside Israel	**12,816**	**32**	**0.25%**	18,393	44	0.24%	14,303	34	0.24%
Total	**25,183**	**103**	**0.41%**	32,488	236	0.73%	38,779	599	1.54%
Securities borrowed or purchased under agreements to resell:									
In Israel	**187**	**-**	**-**	73	1	1.37%	19	-	-
Outside Israel	**10**	**-**	**-**	6	-	-	-	-	-
Total	**197**	**-**	**-**	79	1	1.27%	19	-	-

(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 692 million were included in interest income in the year ended December 31, 2014 (December 31, 2013: NIS 382 million; December 31, 2012: NIS 372 million).

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses(1)

Appendix 3 (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2014			2013			2012		
	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	**47,849**	**685**	**1.43%**	47,532	1,054	2.22%	31,421	1,020	3.25%
Outside Israel	**6,838**	**122**	**1.78%**	6,008	123	2.05%	6,124	154	2.51%
Total	**54,687**	**807**	**1.48%**	53,540	1,177	2.20%	37,545	1,174	3.13%
Bonds held for trading(3):									
In Israel	**1,740**	**22**	**1.26%**	3,044	55	1.81%	2,506	78	3.11%
Outside Israel	**793**	**5**	**0.63%**	1,198	4	0.33%	821	5	0.61%
Total	**2,533**	**27**	**1.07%**	4,242	59	1.39%	3,327	83	2.49%
Other assets:									
In Israel	**655**	**9**	**1.37%**	603	6	1.00%	327	11	3.36%
Outside Israel	**-**	**-**	**-**	110	10	9.09%	118	2	1.69%
Total	**655**	**9**	**1.37%**	713	16	2.24%	445	13	2.92%
Total interest-bearing assets	**334,152**	**10,673**	**3.19%**	335,483	12,961	3.86%	323,438	14,346	4.44%
Non-interest-bearing debtors in respect of credit cards	**13,658**	**-**	**-**	13,765	-	-	13,314	-	-
Other non-interest-bearing assets(4)	**33,079**	**-**	**-**	*25,207	-	-	*22,808	-	-
Total assets	**380,889**	**-**	**-**	*374,455	-	-	*359,560	-	-
Total interest-bearing assets attributed to activities outside Israel	**41,645**	**859**	**2.06%**	47,063	916	1.95%	43,931	1,006	2.29%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

(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 906 million for the year ended December 31, 2014 (December 31, 2013: NIS 493 million; December 31, 2012: NIS 286 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.

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1]

Appendix 3 (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2014			2013			2012		
	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	**197,881**	**1,355**	**0.68%**	*204,336	2,710	*1.33%	*198,788	3,843	*1.93%
On demand	**45,448**	**194**	**0.43%**	*49,629	388	*0.78%	*40,225	572	*1.42%
Fixed term	**152,433**	**1,161**	**0.76%**	*154,707	2,322	*1.50%	*158,563	3,271	*2.06%
Outside Israel	**16,173**	**73**	**0.45%**	*16,475	82	*0.50%	17,941	122	0.68%
On demand	**7,722**	**23**	**0.30%**	*6,284	22	*0.35%	6,526	31	0.48%
Fixed term	**8,451**	**50**	**0.59%**	10,191	60	0.59%	11,415	91	0.80%
Total	**214,054**	**1,428**	**0.67%**	*220,811	2,792	*1.26%	*216,729	3,965	*1.83%
Deposits from the government:									
In Israel	**446**	**12**	**2.69%**	596	23	3.86%	852	38	4.46%
Outside Israel	**7**	**-**	**-**	-	-	-	-	-	-
Total	**453**	**12**	**2.65%**	596	23	3.86%	852	38	4.46%
Deposits from central banks:									
In Israel	**-**	**-**	**-**	5	-	-	-	-	-
Outside Israel	**28**	**-**	**-**	-	-	-	-	-	-
Total	**28**	**-**	**-**	5	-	-	-	-	-
Deposits from banks:									
In Israel	**3,469**	**9**	**0.26%**	3,608	36	1.00%	3,855	64	1.66%
Outside Israel	**1,547**	**54**	**3.49%**	1,668	80	4.80%	2,610	155	5.94%
Total	**5,016**	**63**	**1.26%**	5,276	116	2.20%	6,465	219	3.39%
Securities lent or sold under agreements to repurchase:									
In Israel	**-**	**-**	**-**	367	4	1.09%	863	13	1.51%
Outside Israel	**126**	**10**	**7.94%**	297	11	3.70%	352	21	5.97%
Total	**126**	**10**	**7.94%**	664	15	2.26%	1,215	34	2.80%

* 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).

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[(1)]

Appendix 3 (continued)

A. Average balances and interest rates (continued)

	For the year ended December 31								
	2014			2013			2012		
	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	**30,571**	**1,256**	**4.11%**	32,889	1,948	5.92%	32,988	1,836	5.57%
Outside Israel	**2,151**	**105**	**4.88%**	2,454	117	4.77%	1,895	89	4.70%
Total	**32,722**	**1,361**	**4.16%**	35,343	2,065	5.84%	34,883	1,925	5.52%
Other liabilities:									
In Israel	**150**	**29**	**19.33%**	73	3	4.11%	41	4	9.76%
Outside Israel	**498**	**2**	**0.40%**	**552	4	**0.72%	**720	1	**0.14%
Total	**648**	**31**	**4.78%**	**625	7	**1.12%	**761	5	**0.66%
Total interest-bearing liabilities	**253,047**	**2,905**	**1.15%**	**263,320	5,018	**1.91%	**260,905	6,186	**2.37%
Non-interest-bearing deposits from the public	**61,557**	**-**	**-**	**50,240	-	-	**41,694	-	-
Non-interest-bearing creditors in respect of credit cards	**13,848**	**-**	**-**	14,032	-	-	13,906	-	-
Other non-interest-bearing liabilities[(3)]	**22,809**	**-**	**-**	**19,498	-	-	**18,037	-	-
Total liabilities	**351,261**	**-**	**-**	347,090	-	-	334,542	-	-
Total capital means	**29,628**	**-**	**-**	*27,365	-	-	*25,018	-	-
Total liabilities and capital means	**380,889**	**-**	**-**	*374,455	-	-	*359,560	-	-
Interest spread			**2.04%**			**1.95%			**2.07%
Net return on interest-bearing assets[(4)]									
In Israel	**292,507**	**7,153**	**2.45%**	288,420	7,321	2.54%	279,507	7,542	2.70%
Outside Israel	**41,645**	**615**	**1.48%**	47,063	622	1.32%	43,931	618	1.41%
Total	**334,152**	**7,768**	**2.32%**	335,483	7,943	2.37%	323,438	8,160	2.52%

Total interest-bearing liabilities attributed to activities outside Israel	**20,530**	**244**	**1.19%**	**21,446	294	**1.37%	**23,518	388	**1.65%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

** 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) Includes derivative instruments.

(4) Net return – net interest income divided by total interest-bearing assets.

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1]

Appendix 3 (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								
	2014			2013			2012		
	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		%
Unlinked Israeli currency									
Total interest-bearing assets	**203,843**	**7,306**	**3.58%**	199,815	8,040	4.02%	186,948	9,180	4.91%
Total interest-bearing liabilities	**149,001**	**(1,067)**	**(0.72%)**	*150,140	(1,967)	(1.31%)	145,358	(2,964)	(2.04%)
Interest spread			**2.86%**			2.71%			2.87%
CPI-linked Israeli currency									
Total interest-bearing assets	**56,984**	**1,756**	**3.08%**	59,354	3,180	5.36%	60,163	3,177	5.28%
Total interest-bearing liabilities	**42,217**	**(1,438)**	**(3.41%)**	46,907	(2,566)	(5.47%)	48,242	(2,488)	(5.16%)
Interest spread			**(0.33%)**			(0.11%)			0.12%
Foreign currency (includes foreign currency-linked Israeli currency)									
Total interest-bearing assets	**31,680**	**752**	**2.37%**	29,251	825	2.82%	32,396	983	3.03%
Total interest-bearing liabilities	**41,299**	**(156)**	**(0.38%)**	*44,827	(191)	*(0.43%)	*43,787	(346)	*(0.79%)
Interest spread			**1.99%**			*2.39%			*2.24%
Total activity in Israel									
Total interest-bearing assets	**292,507**	**9,814**	**3.36%**	288,420	12,045	4.18%	279,507	13,340	4.77%
Total interest-bearing liabilities	**232,517**	**(2,661)**	**(1.14%)**	*241,874	(4,724)	*(1.95%)	*237,387	(5,798)	*(2.44%)
Interest spread			**2.22%**			*2.23%			*2.33%

* 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).

Rates of Interest Income and Expenses of the Bank and its Consolidated Companies, and Analysis of Changes in Interest Income and Expenses[1]

Appendix 3 (continued)

C. Analysis of changes in interest income and expenses

	Year ended December 31, 2014, versus year ended December 31, 2013			Year ended December 31, 2013, versus year ended December 31, 2012*		
	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	**200**	**(1,945)**	**(1,745)**	125	(1,039)	(914)
Outside Israel	**(21)**	**(5)**	**(26)**	(48)	(23)	(71)
Total	**179**	**(1,950)**	**(1,771)**	77	(1,062)	(985)
Other interest-bearing assets:						
In Israel	**(12)**	**(474)**	**(486)**	126	(507)	(381)
Outside Israel	**(35)**	**4**	**(31)**	31	(50)	(19)
Total	**(47)**	**(470)**	**(517)**	157	(557)	(400)
Total interest income	**132**	**(2,420)**	**(2,288)**	234	(1,619)	(1,385)
Interest-bearing liabilities						
Deposits from the public:						
In Israel	**(44)**	**(1,311)**	**(1,355)**	74	(1,207)	(1,133)
Outside Israel	**(1)**	**(8)**	**(9)**	(7)	(33)	(40)
Total	**(45)**	**(1,319)**	**(1,364)**	67	(1,240)	(1,173)
Other interest-bearing liabilities:						
In Israel	**(109)**	**(599)**	**(708)**	(57)	116	59
Outside Israel	**(24)**	**(17)**	**(41)**	(26)	(28)	(54)
Total	**(133)**	**(616)**	**(749)**	(83)	88	5
Total interest expenses	**(178)**	**(1,935)**	**(2,113)**	(16)	(1,152)	(1,168)
Total interest income less interest expenses	**310**	**(485)**	**(175)**	250	(467)	(217)

* Reclassified.

(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.

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

As at December 31, 2014

Appendix 4

	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)	**172,850**	**20,803**	**8,755**	**16,544**	**4,540**	**5,845**
Derivative financial instruments (excluding options)	**73,830**	**123,982**	**121,828**	**58,235**	**31,419**	**23,768**
Options (in terms of underlying asset)	**964**	**2,087**	**4,041**	**196**	**1,012**	**1,257**
Total fair value	**247,644**	**146,872**	**134,624**	**74,975**	**36,971**	**30,870**
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)	**155,052**	**9,374**	**9,955**	**20,024**	**9,532**	**6,110**
Derivative financial instruments (excluding options)	**72,328**	**130,191**	**121,662**	**53,513**	**35,554**	**24,179**
Options (in terms of underlying asset)	**1,759**	**2,469**	**4,725**	**120**	**-**	**-**
Total fair value	**229,139**	**142,034**	**136,342**	**73,657**	**45,086**	**30,289**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**18,505**	**4,838**	**(1,718)**	**1,318**	**(8,115)**	**581**
Cumulative exposure in the segment	**18,505**	**23,343**	**21,625**	**22,943**	**14,828**	**15,409**

(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 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 21 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 21 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 21 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.

Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	December 31, 2013 Total fair value	Internal rate of return	Effective average duration
	NIS millions			%	Years	NIS millions	%	Years
2,189	**30**	**2,956**	**234,512**	**2.55**	**0.54**	228,027	3.04	0.47
594	**-**	**-**	**433,656**		**0.91**	271,154		1.08
-	**-**	**-**	**9,557**		**1.69**	6,249		1.21
2,783	**30**	**2,956**	**677,725**		**(2)0.80**	505,430		(2)0.81
317	**-**	**35**	**210,399**	**0.96**	**0.60**	199,943	2.08	0.53
372	**-**	**-**	**437,799**		**0.92**	284,512		1.06
-	**-**	**-**	**9,073**		**0.36**	5,226		0.75
689	**-**	**35**	**657,271**		**(2)0.81**	489,681		(2)0.84
2,094	**30**	**2,921**	**20,454**			15,749		
17,503	**17,533**	**20,454**						

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

As at December 31, 2014

Appendix 4 (continued)

	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)	**2,356**	**1,783**	**7,907**	**21,414**	**11,880**	**7,990**
Derivative financial instruments (excluding options)	**169**	**578**	**1,116**	**4,305**	**6,219**	**3,360**
Total fair value	**2,525**	**2,361**	**9,023**	**25,719**	**18,099**	**11,350**
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)	**4,220**	**940**	**5,654**	**9,437**	**10,979**	**12,862**
Derivative financial instruments (excluding options)	**206**	**1,448**	**4,974**	**4,884**	**7,346**	**2,999**
Total fair value	**4,426**	**2,388**	**10,628**	**14,321**	**18,325**	**15,861**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(1,901)**	**(27)**	**(1,605)**	**11,398**	**(226)**	**(4,511)**
Cumulative exposure in the segment	**(1,901)**	**(1,928)**	**(3,533)**	**7,865**	**7,639**	**3,128**

(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 a reduction of the fair value by NIS 13 million, and a reduction of the duration of the assets and of the difference in the 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 21 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 21 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 21 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.

	Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	December 31, 2013 Total fair value	Internal rate of return	Effective average duration
		NIS millions			%	Years	NIS millions	%	Years
	2,301	**128**	**213**	**55,972**	**2.56**	**3.24**	60,404	2.42	3.24
	155	**-**	**-**	**15,902**		**3.65**	14,376		4.10
	2,456	**128**	**213**	**71,874**		**(2)3.33**	74,780		(2)3.40
	1,451	**49**	**-**	**45,592**	**1.01**	**3.82**	48,729	1.45	3.70
	326	**-**	**-**	**22,183**		**2.99**	19,107		3.22
	1,777	**49**	**-**	**67,775**		**(2)3.55**	67,836		(2)3.57
	679	**79**	**213**	**4,099**			6,944		
	3,807	**3,886**	**4,099**						

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

As at December 31, 2014

Appendix 4 (continued)

	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]	**49,254**	**11,192**	**8,152**	**6,365**	**8,012**	**7,695**
Derivative financial instruments (excluding options)	**68,783**	**83,734**	**55,529**	**21,882**	**14,643**	**21,338**
Options (in terms of underlying asset)	**5,717**	**5,832**	**7,639**	**482**	**18**	**2**
Total fair value	**123,754**	**100,758**	**71,320**	**28,729**	**22,673**	**29,035**
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]	**50,931**	**15,203**	**16,723**	**13,002**	**3,413**	**2,257**
Derivative financial instruments (excluding options)	**73,837**	**71,517**	**49,390**	**18,221**	**16,093**	**26,887**
Options (in terms of underlying asset)	**4,830**	**5,394**	**6,808**	**557**	**1,047**	**1,313**
Total fair value	**129,598**	**92,114**	**72,921**	**31,780**	**20,553**	**30,457**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**(5,844)**	**8,644**	**(1,601)**	**(3,051)**	**2,120**	**(1,422)**
Cumulative exposure in the segment	**(5,844)**	**2,800**	**1,199**	**(1,852)**	**268**	**(1,154)**

(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 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 21 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 21 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 21 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.

Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	December 31, 2013 Total fair value	Internal rate of return	Effective average duration
	NIS millions			%	Years	NIS millions	%	Years
512	**212**	**864**	**92,258**	**2.84**	**1.27**	73,734	3.08	1.11
675	**-**	**-**	**266,584**		**1.15**	209,691		0.99
-	**-**	**-**	**19,690**		**0.30**	8,974		0.27
1,187	**212**	**864**	**378,532**		**(2)1.13**	292,399		(2)1.00
184	**57**	**18**	**101,788**	**1.63**	**0.64**	89,736	1.92	0.24
875	**112**	**-**	**256,932**		**1.30**	193,188		1.26
-	**-**	**-**	**19,949**		**1.02**	9,884		0.74
1,059	**169**	**18**	**378,669**		**(2)1.11**	292,808		(2)0.93
128	**43**	**846**	**(137)**			(409)		
(1,026)	**(983)**	**(137)**						

Exposure of the Bank and its Consolidated Companies to Changes in Interest Rates

As at December 31, 2014

Appendix 4 (continued)

	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)	**224,460**	**33,778**	**24,814**	**44,323**	**24,432**	**21,530**
Derivative financial instruments (excluding options)	**142,782**	**208,294**	**178,473**	**84,422**	**52,281**	**48,466**
Options (in terms of underlying asset)	**6,681**	**7,919**	**11,680**	**678**	**1,030**	**1,259**
Total fair value	**373,923**	**249,991**	**214,967**	**129,423**	**77,743**	**71,255**
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)	**210,203**	**25,517**	**32,332**	**42,463**	**23,924**	**21,229**
Derivative financial instruments (excluding options)	**146,371**	**203,156**	**176,026**	**76,618**	**58,993**	**54,065**
Options (in terms of underlying asset)	**6,589**	**7,863**	**11,533**	**677**	**1,047**	**1,313**
Total fair value	**363,163**	**236,536**	**219,891**	**119,758**	**83,964**	**76,607**
Financial instruments, net						
Exposure to changes in interest rates in the segment	**10,760**	**13,455**	**(4,924)**	**9,665**	**(6,221)**	**(5,352)**
Cumulative exposure in the segment	**10,760**	**24,215**	**19,291**	**28,956**	**22,735**	**17,383**

(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 foreign currency segments: the effect of these assumptions is negligible. In the CPI-linked segment: the effect of these assumptions on fair value is a reduction of the fair value by NIS 13 million, and a reduction of the duration of the assets and of the difference in the 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 21 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 21 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 21 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.

Over 10 years up to 20 years	Over 20 years	No maturity period	Total fair value	Internal rate of return	Effective average duration	December 31, 2013 Total fair value	Internal rate of return	Effective average duration
NIS millions				%	Years	NIS millions	%	Years
5,002	**370**	**6,646**	**385,355**	**2.77**	**1.11**	364,419	3.28	1.06
1,424	**-**	**-**	**716,142**		**1.06**	495,221		1.13
-	**-**	**-**	**29,247**		**0.75**	15,223		0.65
6,426	**370**	**6,646**	**1,130,744**		**(2) 1.07**	874,863		(2) 1.09
1,952	**106**	**53**	**357,779**	**1.15**	**1.02**	338,408	1.72	0.91
1,573	**112**	**-**	**716,914**		**1.12**	496,807		1.22
-	**-**	**-**	**29,022**		**0.81**	15,110		0.74
3,525	**218**	**53**	**1,103,715**		**(2) 1.08**	850,325		(2) 1.09
2,901	**152**	**6,593**	**27,029**			24,538		
20,284	**20,436**	**27,029**						

Credit Risk by Economic Sector

Appendix 5

1. In respect of borrower activity in Israel

Public - Commercial
Agriculture
Industry
Construction and real estate - construction[7]
Construction and real estate - real estate activities
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity in Israel
Banks in Israel[8]
Israeli government
Total activity in Israel

(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. The method of calculation of credit risk in respect of derivative instruments in the context of the limits on borrower indebtedness changed beginning January 1, 2014. The change was implemented prospectively; comparative figures were not restated.

(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) Excluding cash balances in the Bank's funds and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

NIS millions

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: Problematic[6] debts[2]		Impaired	Credit losses for the year ended December 31, 2014[4]		
							Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
2,764	2,521	43	2,748	2,084	43	28	(7)	(4)	17
46,833	42,061	4,389	44,453	21,188	4,190	1,419	45	147	537
52,498	49,768	1,536	51,989	19,632	1,501	734	(329)	(259)	599
23,244	21,802	1,255	22,862	19,033	1,255	723	152	78	540
10,659	10,643	-	9,200	4,278	-	-	(2)	-	51
32,959	29,698	2,288	32,407	22,383	2,288	878	331	62	801
10,496	9,371	395	10,383	8,762	395	364	(14)	3	76
8,398	7,835	85	8,089	6,231	85	46	(30)	15	39
7,669	6,734	913	7,166	4,861	911	611	3	(25)	114
31,471	29,688	880	25,425	12,769	875	588	(46)	2	316
15,925	14,623	393	15,754	11,297	393	315	28	(18)	119
8,763	8,310	200	8,735	6,461	200	128	(89)	(92)	69
251,679	233,054	12,377	239,211	138,979	12,136	5,834	42	(91)	3,278
58,431	57,103	718	58,431	55,971	718	1	(34)	(2)	385
85,120	81,922	917	85,079	48,196	917	644	309	109	884
395,230	372,079	14,012	382,721	243,146	13,771	6,479	317	16	4,547
5,960	5,960	-	1,753	404	-	-	-	-	-
41,796	41,796	-	1,521	560	-	-	-	-	-
[1]442,986	419,835	14,012	385,995	244,110	13,771	6,479	317	16	4,547

Credit Risk by Economic Sector

Appendix 5 (continued)

2. In respect of borrower activity overseas

Public - Commercial
Agriculture
Industry
Construction and real estate
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity overseas
Banks overseas[7]
Governments overseas
Total activity overseas
Total

(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. The method of calculation of credit risk in respect of derivative instruments in the context of the limits on borrower indebtedness changed beginning January 1, 2014. The change was implemented prospectively; comparative figures were not restated.
(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) Excluding cash balances in the Bank's funds, and before deducting the allowance for credit losses.

NIS millions

December 31, 2014									
Total credit risk[1]			Debts[2] and off-balance sheet credit risk (excluding derivatives)[3]						
							Credit losses for the year ended December 31, 2014[4]		
Total	Credit execution rating[5]	Problematic[6]	Total*	* Of which: debts[2]	Problematic[6]	Impaired	Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
66	29	27	66	45	27	27	13	-	17
7,193	5,914	24	5,509	3,006	24	10	(5)	9	18
8,627	7,036	210	8,180	5,466	210	210	15	8	75
1,755	1,755	-	1,406	337	-	-	-	-	5
2,767	2,194	86	2,655	1,613	86	37	39	45	41
3,078	2,901	66	3,039	2,211	66	50	(5)	-	9
526	374	16	388	296	16	16	1	-	4
1,018	982	168	461	279	168	-	(1)	-	16
17,479	17,339	49	12,973	7,511	49	49	(17)	21	38
1,087	1,039	2	938	635	2	-	28	40	6
1,323	1,100	25	1,147	787	25	25	28	6	23
44,919	40,663	673	36,762	22,186	673	424	96	129	252
560	539	7	560	544	7	-	(3)	-	2
3,483	3,389	70	3,391	2,284	70	52	17	11	51
48,962	44,591	750	40,713	25,014	750	476	110	140	305
46,499	46,499	-	32,981	31,781	-	-	(2)	-	4
5,878	5,878	-	2,337	1,301	-	-	-	-	-
[1]101,339	96,968	750	76,031	58,096	750	476	108	140	309
544,325	516,803	14,762	462,026	302,206	14,521	6,955	425	156	4,856

Credit Risk by Economic Sector

Appendix 5 (continued)

1. In respect of borrower activity in Israel

Public - Commercial
Agriculture
Industry
Construction and real estate - construction(6)
Construction and real estate - real estate activities
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity in Israel
Banks in Israel(7)
Israeli government
Total activity in Israel

(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 232,982, 50,810, 36, 5,413, and 142,089 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 10,011 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) 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.

(6) Including balance sheet credit risk in the amount of approximately NIS 882 million and off-balance sheet credit risk in the amount of approximately NIS 1,764 million extended to certain purchasing groups, which are currently in the process of construction.

(7) Excluding cash balances in the Bank's funds and deposits with the Bank of Israel, and before deducting the allowance for credit losses.

NIS millions

	December 31, 2013								
	Total credit risk[(1)]		Debts[(2)] and off-balance sheet credit risk (excluding derivatives)[(3)]						
	Total	Problematic[(5)]	Total*	* Of which: debts[(2)]	Problematic[(5)]	Impaired	Credit losses for the year ended December 31, 2013[(4)]		
							Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
	2,780	66	2,767	2,127	66	40	(15)	(8)	16
	42,291	4,912	40,335	21,250	4,580	1,624	190	118	675
	49,576	2,221	49,277	18,283	2,178	1,352	42	(111)	660
	23,168	1,636	22,963	18,886	1,636	929	93	21	482
	10,923	77	7,951	5,309	77	77	(1)	3	8
	31,660	1,916	31,078	20,707	1,915	1,137	146	153	513
	8,055	577	8,012	7,067	577	555	3	23	98
	8,613	844	8,366	6,405	748	45	(11)	25	81
	8,161	1,081	7,649	5,385	1,014	226	136	95	134
	30,204	1,660	23,906	13,064	1,283	874	4	(33)	431
	14,717	431	14,595	10,557	429	340	51	252	99
	8,157	143	8,143	6,545	143	54	(19)	1	50
	238,305	15,564	225,042	135,585	14,646	7,253	619	539	3,247
	55,278	1,042	55,278	53,309	1,042	-	109	44	417
	80,643	917	80,612	43,659	917	710	125	367	685
	374,226	17,523	360,932	232,553	16,605	7,963	853	950	4,349
	6,712	-	1,481	115	-	-	-	-	-
	50,392	-	1,464	314	-	-	-	-	-
	[(1)]431,330	17,523	363,877	232,982	16,605	7,963	853	950	4,349

Credit Risk by Economic Sector
Appendix 5 (continued)

2. In respect of borrower activity overseas

Public - Commercial
Agriculture
Industry
Construction and real estate
Electricity and water
Commerce
Hotels, hospitality, and food services
Transportation and storage
Communications and computer services
Financial services
Other business services
Public and community services
Total commercial
Private individuals - housing loans
Private individuals - others
Total public - activity overseas
Banks overseas[6]
Governments overseas
Total activity overseas
Total

(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 44,564, 7,848, 29, 5,245, and 23,381 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) 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.
(6) Excluding cash balances in the Bank's funds, and before deducting the allowance for credit losses.

NIS millions

December 31, 2013								
Total credit risk(1)		Debts(2) and off-balance sheet credit risk (excluding derivatives)(3)						
Total	Problematic(5)	Total*	* Of which: debts(2)	Problematic(5)	Impaired	Credit losses for the year ended December 31, 2013(4)		
						Provision (income) for credit losses	Net charge-offs	Allowance for credit losses
147	-	147	120	-	-	1	-	1
5,585	99	4,706	2,952	99	50	8	14	21
8,698	340	8,088	6,148	340	340	(8)	(6)	57
1,692	-	1,482	373	-	-	1	-	6
2,101	35	2,055	1,242	35	35	5	11	18
1,902	152	1,867	1,648	152	1	(2)	-	9
263	27	187	162	27	27	(2)	9	1
785	183	515	205	183	-	15	-	18
15,266	56	11,297	6,083	56	56	(14)	(42)	41
791	8	657	507	8	4	(3)	36	4
1,103	11	972	790	11	4	15	-	7
38,333	911	31,973	20,230	911	517	16	22	183
620	7	620	590	7	-	(1)	-	5
3,409	65	3,328	2,170	65	46	5	2	44
42,362	983	35,921	22,990	983	563	20	24	232
33,620	-	21,450	20,719	-	-	1	-	6
5,085	-	2,240	855	-	-	-	-	-
(1)81,067	983	59,611	44,564	983	563	21	24	238
512,397	18,506	423,488	277,546	17,588	8,526	874	974	4,587

Exposure to Foreign Countries (On a Consolidated Basis)[1]

Appendix 6

Part A – Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total consolidated balance sheet assets or greater than 20% of capital, whichever is lower:

	December 31, 2014		
	Balance sheet exposure[4]		
	Cross-border balance sheet exposure		
	To governments[3]	To banks	To others
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.

NIS millions

	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
	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**

Exposure to Foreign Countries (On a Consolidated Basis)[1]

Appendix 6 (continued)

Part A – Information regarding total exposures to foreign countries and exposures to countries where total exposure to each country is greater than 1% of total consolidated balance sheet assets or greater than 20% of capital, whichever is lower (continued):

	December 31, 2013		
	Balance sheet exposure[4]		
	Cross-borde balance sheet exposure		
	To governments[3]	To banks	To others
Country			
A. United States	882	1,422	2,581
B. Switzerland	-	130	38
C. England	-	3,393	2,678
D. Turkey	-	13	6
E. Germany	245	774	582
F. France	-	1,639	513
G. Ireland	-	4	152
H. Spain	-	134	8
I. Portugal	-	-	2
J. Greece	-	-	-
K. Italy	2	18	50
L. Others	287	3,958	6,432
Total exposures to foreign countries	1,416	11,485	13,042
Of which: total exposure to LDCs	39	219	750

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.

NIS millions

December 31, 2013									
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
18,782	8,290	10,492	15,377	121	99	7,703	-	2,353	2,532
6,200	-	6,200	6,368	-	-	299	-	119	49
762	76	686	6,757	1	-	4,751	-	2,162	3,909
2,989	1,036	1,953	1,972	59	59	1,558	-	9	10
-	-	-	1,601	1	1	142	-	933	668
-	-	-	2,152	44	38	1,746	-	757	1,395
-	-	-	156	-	-	211	-	155	1
-	-	-	142	-	-	63	-	17	125
-	-	-	2	-	-	5	-	-	2
-	-	-	-	-	-	1	-	-	-
-	-	-	70	1	-	37	-	23	47
350	-	350	11,027	161	61	1,935	-	5,826	4,851
29,083	9,402	19,681	45,624	388	258	18,451	-	12,354	13,589
3,320	1,036	2,284	3,292	63	61	1,889	-	337	671

NIS millions

Exposure to Foreign Countries (On a Consolidated Basis)[1]

Appendix 6 (continued)

Part B – Information regarding balance sheet exposure to foreign countries with liquidity problems.

Change in amount of balance sheet exposure to foreign countries with liquidity problems detailed in Section A above:

	2014					
	Greece	Ireland	Portugal	Italy	Spain	Total
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**

	2013					
	Greece	Ireland	Portugal	Italy	Spain	Total
Total exposure at the beginning of the period	-	67	2	54	133	256
Net changes in amount of short-term exposure	-	90	(1)	18	(12)	95
Changes in other exposures:						
Added exposures	-	-	1	7	75	83
Accrued interest income	-	1	-	2	5	8
Amounts collected	-	(2)	-	(11)	(59)	(72)
Total exposure at the end of the period	-	156	2	70	142	370

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

Quarterly consolidated Balance Sheet
for the years 2013-2014 - Multi-Quarterly Data
Appendix 7

NIS millions

	2014			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Assets				
Cash on hand 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	**7,864**	***6,284**	***6,437**	***6,087**
Total assets	**407,794**	***393,989**	***370,156**	***376,635**
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**
Deposits from the government	**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	**23,686**	**23,773**	**22,616**	**22,273**
Total liabilities	**376,183**	**362,642**	**339,599**	**346,765**
Shareholders' equity	**31,361**	***31,100**	***30,308**	***29,623**
Non-controlling interests	**250**	**247**	**249**	**247**
Total capital	**31,611**	***31,347**	***30,557**	***29,870**
Total liabilities and capital	**407,794**	***393,989**	***370,156**	***376,635**

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

Quarterly consolidated Balance Sheet
for the years 2013-2014 - Multi-Quarterly Data

Appendix 7 (continued)

NIS millions

	2013			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Assets				
Cash on hand and deposits with banks	45,709	43,361	48,818	43,272
Securities	60,912	60,998	61,137	59,461
Securities borrowed or purchased under agreements to resell	65	169	47	31
Credit to the public	255,543	253,518	251,105	251,599
Allowance for credit losses	(3,943)	(4,177)	(3,985)	(3,817)
Net credit to the public	251,600	249,341	247,120	247,782
Credit to governments	1,169	1,069	979	767
Investments in equity-basis investees	137	133	134	134
Buildings and equipment	*3,432	*3,305	*3,346	*3,363
Intangible assets and goodwill	19	22	25	28
Assets in respect of derivative instruments	10,672	9,588	10,175	9,515
Other assets	*6,305	*6,022	*6,501	*5,768
Total assets	*380,020	*374,008	*378,282	*370,121
Liabilities and Capital				
Deposits from the public	276,525	269,632	274,601	265,297
Deposits from banks	5,303	6,783	4,174	4,893
Deposits from the government	613	569	602	678
Securities lent or sold under agreements to repurchase	242	331	810	639
Bonds and subordinated notes	33,980	34,819	35,874	36,222
Liabilities in respect of derivative instruments	12,129	11,823	12,355	12,454
Other liabilities	22,144	21,604	21,981	22,556
Total liabilities	350,936	345,561	350,397	342,739
Shareholders' equity	*28,834	*28,183	*27,607	*27,083
Non-controlling interests	250	264	278	299
Total capital	*29,084	*28,447	*27,885	*27,382
Total liabilities and capital	*380,020	*374,008	*378,282	*370,121

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

Quarterly Consolidated Statement of Profit and Loss for the years 2013-2014 – Multi-Quarterly Data

NIS millions

Appendix 8

	2014				2013			
	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1
Interest income	**2,396**	**2,855**	**2,983**	**2,439**	2,755	3,694	3,423	3,089
Interest expenses	**(507)**	**(882)**	**(926)**	**(590)**	(815)	(1,613)	(1,415)	(1,175)
Net interest income	**1,889**	**1,973**	**2,057**	**1,849**	1,940	2,081	2,008	1,914
Provision (income) for credit losses	**363**	**80**	**(3)**	**(15)**	(59)	375	301	257
Net interest income after provision for credit losses	**1,526**	**1,893**	**2,060**	**1,864**	1,999	1,706	1,707	1,657
Non-interest income								
Non-interest financing income	**257**	**187**	**265**	**207**	133	36	168	143
Fees	**1,377**	**1,283**	**1,277**	**1,270**	1,357	1,254	1,254	1,250
Other income	**61**	**21**	**20**	**29**	37	24	28	37
Total non-interest income	**1,695**	**1,491**	**1,562**	**1,506**	1,527	1,314	1,450	1,430
Operating and other expenses								
Salaries and related expenses	**1,489**	***1,244**	***1,290**	***1,277**	*1,667	*1,244	*1,254	*1,269
Maintenance and depreciation of buildings and equipment	**397**	***393**	***382**	***367**	*382	*410	*379	*373
Depreciation and impairment of intangible assets and goodwill	**3**	**3**	**3**	**3**	3	3	3	3
Other expenses	**612**	**579**	**580**	**518**	539	488	507	500
Total operating and other expenses	**2,501**	***2,219**	***2,255**	***2,165**	*2,591	*2,145	*2,143	*2,145
Profit before taxes	**720**	***1,165**	***1,367**	***1,205**	*935	*875	*1,014	*942
Provision for taxes on profit	**234**	***434**	***585**	***476**	*322	*243	*377	*329
Profit after taxes	**486**	***731**	***782**	***729**	*613	*632	*637	*613
The Bank's share in profits (losses) of equity-basis investees, after taxes	**(4)**	**1**	**(1)**	**13**	5	(1)	1	4
Net profit:								
Before attribution to non-controlling interests	**482**	***732**	***781**	***742**	*618	*631	*638	*617
Loss (profit) attributed to non-controlling interests	**(4)**	**2**	**-**	**5**	15	15	12	2
Attributed to shareholders of the Bank	**478**	***734**	***781**	***747**	*633	*646	*650	*619
Earnings per ordinary share in NIS:								
Basic earnings								
Net profit attributed to shareholders of the Bank	**0.36**	***0.55**	**0.59**	**0.57**	*0.48	*0.49	*0.49	0.47
Diluted earnings								
Net profit attributed to shareholders of the Bank	**0.36**	***0.55**	**0.59**	**0.56**	*0.48	*0.48	*0.48	0.47

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2) to the Financial Statements.

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 2014 (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, March 9, 2015

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 2014 (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, March 9, 2015

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 2014 (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, March 9, 2015

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 confidence 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, 2014, based on the criteria established in the internal control model (1992) of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the Board of Management believes that as at December 31, 2014, 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, 2014 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 298. 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, 2014.

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, March 9, 2015

2014

Bank Hapoalim

Financial Statements 2014

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, 2014, 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 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 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, 2014, 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 balance sheets of the Bank as at December 31, 2014 and 2013 and the 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, 2014, and our report dated March 9, 2015, expressed an unqualified opinion on the said financial statements as well as drawing attention to Note 19D(b) 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	**Ziv Haft**
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)

Tel Aviv, March 9, 2015

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, 2014 and 2013 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, 2014. 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, 2014 and 2013 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, 2014, 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 19D(b) regarding exposure to class actions that were filed against the Bank Group and to Note 19E 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, 2014, 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 March 9, 2015 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, March 9, 2015

Consolidated Balance Sheet
as at December 31, 2014

NIS millions

	Note	December 31 2014	2013
Assets			
Cash on hand and deposits with banks	2	**54,974**	45,709
Securities[(1)(2)]	3, 14	**58,778**	60,912
Securities borrowed or bought under agreements to resell		**476**	65
Credit to the public		**268,160**	255,543
Allowance for credit losses		**(4,180)**	(3,943)
Net credit to the public	4	**263,980**	251,600
Credit to governments	5	**1,861**	1,169
Investments in equity-basis investees	6	**135**	137
Buildings and equipment	7	**3,475**	*3,432
Intangible assets and goodwill	7A	**7**	19
Assets in respect of derivative instruments	20	**16,244**	10,672
Other assets[(1)]	8	**7,864**	*6,305
Total assets		**407,794**	*380,020
Liabilities and Capital			
Deposits from the public	9	**297,230**	276,525
Deposits from banks	10	**4,322**	5,303
Deposits from the government		**455**	613
Securities lent or sold under agreements to repurchase		**42**	242
Bonds and subordinated notes	11	**33,671**	33,980
Liabilities in respect of derivative instruments	20	**16,777**	12,129
Other liabilities (of which: 672, 638 respectively, allowance for credit losses in respect of off-balance sheet credit instruments)[(1)]	12	**23,686**	22,144
Total liabilities		**376,183**	350,936
Shareholders' equity	13	**31,361**	*28,834
Non-controlling interests		**250**	250
Total capital		**31,611**	*29,084
Total liabilities and capital		**407,794**	*380,020

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).
(1) With regard to amounts measured at fair value, see Note 21B.
(2) For details regarding securities pledged to lenders, see Note 14.

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 & Chief Executive Officer	Senior Deputy Managing Director, Chief Financial Officer	Senior Deputy Managing Director, Chief Accountant

Tel Aviv, March 9, 2015

Consolidated Statement of Profit and Loss

For the year ended December 31, 2014

NIS millions

	Note	**2014**	2013	2012
Interest income	23	**10,673**	12,961	14,346
Interest expenses	23	**(2,905)**	(5,018)	(6,186)
Net interest income		**7,768**	7,943	8,160
Provision for credit losses	4(A)(1)	**425**	874	987
Net interest income after provision for credit losses		**7,343**	7,069	7,173
Non-interest income				
Non-interest financing income	24	**916**	480	255
Fees	25	**5,207**	5,115	5,105
Other income	26	**131**	126	117
Total non-interest income		**6,254**	5,721	5,477
Operating and other expenses				
Salaries and related expenses	27	**5,300**	*5,434	*5,130
Maintenance and depreciation of buildings and equipment		**1,539**	*1,544	*1,616
Amortization and impairment of intangible assets and goodwill		**12**	12	11
Other expenses	28	**2,289**	2,034	2,129
Total operating and other expenses		**9,140**	*9,024	*8,886
Profit before taxes		**4,457**	*3,766	*3,764
Provision for taxes on profit	29	**1,729**	*1,271	*1,230
Profit after taxes		**2,728**	*2,495	*2,534
The Bank's share in profits of equity-basis investees, after taxes	6B	**9**	9	6
Net profit:				
Before attribution to non-controlling interests		**2,737**	*2,504	*2,540
Loss (profit) attributed to non-controlling interests		**3**	44	(34)
Attributed to shareholders of the Bank		**2,740**	*2,548	*2,506
Earnings per ordinary share in NIS:	1(E)(23), 30			
Basic earnings				
Net profit attributed to shareholders of the Bank		**2.07**	*1.93	*1.90
Diluted earnings				
Net profit attributed to shareholders of the Bank		**2.06**	*1.91	*1.88

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

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

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2014

NIS millions

	2014	2013	2012
Net profit before attribution to non-controlling interests	**2,737**	*2,504	*2,540
Net loss (profit) attributed to non-controlling interests	**3**	44	(34)
Net profit attributed to shareholders of the Bank	**2,740**	*2,548	*2,506
Other comprehensive income (loss) before taxes:			
Net adjustments for presentation of securities available for sale at fair value	**383**	81	550
Net adjustments from translation of financial statements**, after hedge effects***	**2**	(1)	12
Net gains in respect of cash-flow hedges	**5**	10	7
Other comprehensive income before taxes	**390**	90	569
Effect of related tax	**(119)**	(53)	(150)
Other comprehensive income before attribution to non-controlling interests, after taxes	**271**	37	419
Net of other comprehensive loss (income) attributed to non-controlling interests	**(1)**	2	(3)
Other comprehensive income attributed to shareholders of the Bank, after taxes	**270**	39	416
Comprehensive income before attribution to non-controlling interests	**3,008**	*2,541	*2,959
Comprehensive loss (income) attributed to non-controlling interests	**2**	46	(37)
Comprehensive income attributed to shareholders of the Bank	**3,010**	*2,587	*2,922

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** 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.

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

Statement of Changes in Equity

For the year ended December 31, 2014

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, 2012	8,066	209	8,275	220	*15,167	*23,662	282	*23,944
Net profit for the year	-	-	-	-	*2,506	*2,506	34	*2,540
Buyback of shares	(113)	-	(113)	-	-	(113)	-	(113)
Adjustments and changes arising from:								
Benefit due to share-based payment transactions	-	82	82	-	6	88	(14)	74
Realization of options into shares	57	(55)	2	-	-	2	-	2
Net other comprehensive income after tax effect	-	-	-	416	-	416	3	419
Dividend for non-controlling interests in a consolidated company	-	-	-	-	-	-	(3)	(3)
Balance as at January 1, 2013	8,010	236	8,246	636	*17,679	*26,561	302	*26,863
Net profit (loss) for the year	-	-	-	-	*2,548	*2,548	(44)	*2,504
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	-	-	-	39	-	39	(2)	37
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	675	*19,951	*28,834	250	*29,084

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** Excluding a balance of 14,168,419 treasury shares (December 31, 2013: Excluding a balance of 16,801,221 treasury shares, December 31, 2012: Excluding a balance of 13,453,853 treasury shares).

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

Statement of Changes in Equity

For the year ended December 31, 2014 (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, 2014	**7,984**	**224**	**8,208**	**675**	***19,951**	***28,834**	**250**	***29,084**
Net profit (loss) for the year	**-**	**-**	**-**	**-**	**2,740**	**2,740**	**(3)**	**2,737**
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	**-**	**-**	**-**	**270**	**-**	**270**	**1**	**271**
Increase in non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**2**	**2**
Balance as at December 31, 2014	**8,004**	**169**	**8,173**	**945**	*****22,243**	**31,361**	**250**	**31,611**

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** Excluding a balance of 14,168,419 treasury shares (December 31, 2013: Excluding a balance of 16,801,221 treasury shares, December 31, 2012: Excluding a balance of 13,453,853 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 Statements of Cash Flows

NIS millions

For the year ended December 31, 2014

	2014	2013	2012
Cash flows from (for) operating activity			
Net profit for the year	**2,737**	*2,504	*2,540
Adjustments necessary to present cash flows from operating activity:			
The bank's share in profits of equity-basis investees	**(9)**	(9)	(6)
Depreciation of buildings and equipment	**638**	*674	*712
Amortizations	**29**	31	30
Provision for credit losses	**425**	874	987
Gain from realization of securities available for sale and held to maturity	**(379)**	(541)	(333)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(61)**	(30)	(48)
Loss from realization, impairment, and change in holding rates of affiliates	**(3)**	-	-
Gain from realization of buildings and equipment	**(5)**	(11)	(7)
Change in benefit due to share-based payment transactions	**115**	100	42
Net change in liabilities in respect of employee benefits	**209**	345	130
Deferred taxes, net	**(438)**	**,*(539)	**,*(256)
Gain from sale of credit portfolios	**-**	(2)	(19)
Adjustments in respect of exchange rate differences	**(1,338)**	2,115	404
Accumulation differentials included in investing and financing activities	**(1,708)**	(737)	(723)
Net change in current assets:			
Deposits with banks	**(1,363)**	(457)	453
Credit to the public	**(12,741)**	(3,631)	(4,036)
Credit to governments	**(692)**	(371)	(182)
Securities borrowed or bought under agreements to resell	**(411)**	(18)	(47)
Assets in respect of derivative instruments	**(5,564)**	(1,043)	1,175
Securities held for trading	**(1,321)**	1,900	(364)
Other assets	**(1,245)**	**(235)	**(747)
Net change in current liabilities:			
Deposits from banks	**(983)**	(694)	(993)
Deposits from the public	**20,588**	5,591	14,942
Deposits from the government	**(158)**	(16)	(456)
Securities lent or sold under agreements to repurchase	**(199)**	(865)	(186)
Liabilities in respect of derivative instruments	**4,640**	(511)	(689)
Other liabilities	**1,223**	(58)	1,224
Net cash from operating activity	**1,986**	*4,366	*13,547

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** Reclassified.

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

Consolidated Statements of Cash Flows

For the year ended December 31, 2014 (continued)

NIS millions

	2014	2013	2012
Cash flows from (for) investing activity			
Acquisition of bonds held to maturity	**(50)**	(39)	-
Proceeds from redemption of bonds held to maturity	**10**	237	109
Acquisition of securities available for sale	**(32,771)**	(64,848)	(44,758)
Proceeds from sale of securities available for sale	**16,504**	28,342	19,410
Proceeds from redemption of securities available for sale	**22,264**	26,877	10,001
Acquisition of credit portfolios	**-**	(49)	-
Proceeds from sale of credit portfolios	**2**	203	459
Dividends received from equity-basis investees	**19**	5	-
Investment in equity-basis investees	**(11)**	(6)	(4)
Proceeds from realization of investment and repayment of loans in equity-basis investees	**5**	-	8
Acquisition of buildings and equipment	**(702)**	*(700)	*(664)
Proceeds from realization of buildings and equipment	**26**	30	14
Net cash from (for) investing activity	**5,296**	*(9,948)	*(15,425)
Cash flows from (for) financing activity			
Issuance of bonds and subordinated notes	**3,758**	1,834	4,079
Redemption of bonds and subordinated notes	**(4,009)**	(3,561)	(1,724)
Issuance of shares and options	**5**	4	4
Additional acquisition of shares in consolidated companies	**-**	-	(8)
Dividend paid to shareholders of the Bank	**(448)**	(276)	-
Buyback of shares	**(85)**	(127)	(113)
Dividend paid to minority interests of consolidated companies	**-**	(8)	(3)
Net cash from (for) financing activity	**(779)**	(2,134)	2,235
Increase (decrease) in cash	**6,503**	(7,716)	357
Balance of cash at beginning of year	**43,933**	53,937	53,975
Effect of changes in exchange rates on cash balances	**1,387**	(2,288)	(395)
Balance of cash at end of year	**51,823**	43,933	53,937
Interest and taxes paid and/or received:			
Interest received	**13,502**	13,861	15,990
Interest paid	**(5,237)**	(5,679)	(6,865)
Dividends received	**51**	43	56
Income tax paid	**(2,693)**	(1,697)	(1,442)
Income tax received	**491**	46	212

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

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 financial statements of the Bank were prepared in accordance with the directives and guidelines of the Supervisor of Banks with regard to the preparation of annual financial statements of banking corporations and in accordance with generally accepted accounting principles in Israel (Israeli GAAP).

The Bank has received approval from the Supervisor of Banks to publish the annual financial statements on a consolidated basis only. Note 33 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 March 9, 2015.

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 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.

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 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 standards of the Institute of Certified Public Accountants in Israel.

Reported amount – Amount adjusted as at December 31, 2003 (the "transition date"), as defined in Accounting Standard 12 (as amended) of the Israel Accounting Standards Board, Cessation of Adjustment of Financial Statements, plus amounts in nominal values added after the transition date, less amounts subtracted after the transition date.

Related parties – As defined in IAS 24, Related Party Disclosures, excluding interested parties.

Interested parties – As defined in the Securities Law, 1968 and as defined in Section 80B 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.

Note 1 Significant Accounting Policies (continued)

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.

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.

(2) Functional Currency and Presentation Currency

The New Israeli Shekel (NIS) is the currency representing the primary economic environment in which the Bank operates. 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.

Note 1 Significant Accounting Policies (continued)

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.

D. First-Time Implementation of Accounting Standards, Updates of Accounting Standards, and Directives of the Supervisor of Banks

(1) Directive Concerning the Format of the Statement of Profit and Loss of a Banking Corporation and the Adoption of GAAP for US Banks on Interest Income Measurement

As of January 1, 2014, the Bank has applied the instructions set forth in the circular of the Supervisor of Banks concerning the adoption of GAAP for US banks on interest income measurement (ASC 310-20), which, among other matters, establishes rules for the treatment of credit origination fees, commitments to grant credit, changes in the terms of a debt, and early repayment fees.

The amendments concerning interest income measurement had an effect on the accounting policies of the Bank. These effects have been integrated into the accounting policy in Note E(3), Basis for Recognition of Income and Expenses.

Effect of Initial Implementation

As noted, the Bank has implemented these directives as of January 1, 2014, in accordance with the transitional directives and instructions of the Supervisor of Banks. The directives were implemented prospectively. Following the implementation of the directive, certain fees were classified as interest income, and certain income items previously classified as interest income are now stated within the fees item.

As a result of the implementation of this standard, fees in the amount of approximately NIS 259 million, previously recognized immediately as income from fees in the statement of profit and loss, were deferred. Part of this amount will be recognized as interest income over the life of the loan, while part will be recognized in the fees item in subsequent periods.

Note 1 Significant Accounting Policies (continued)

Concurrently, interest income increased by approximately NIS 246 million. Most of the increase, approximately NIS 182 million, derived from fees collected for early repayments executed after January 1, 2014, which were recognized immediately within interest income (rather than spread over three years or the remaining period of the loan, whichever is shorter, as was required in the past). Total net profit decreased by approximately NIS 8 million as a result of the implementation of the standard.

(2) Retrospective Implementation of the Guidelines of the Supervisor of Banks on the Capitalization of Software Costs

The Bank applies International Accounting Standard 38, Intangible Assets (IAS 38), and the guidelines set forth in SOP 98-1, Accounting for the Cost of Computer Software Developed or Obtained for Internal Use. In view of the complexity of the process of accounting for the capitalization of software costs, and in light of the materiality of the amounts of software costs capitalized, the Supervisor of Banks has established guidelines for the Bank concerning the capitalization of software costs, pursuant to which a materiality threshold shall be set for capitalization, at no less than NIS 1 million. Any software development project with total costs lower than the materiality threshold is to be allocated as an expense in the statement of profit and loss.

It has further been established that, in respect of deliverables for which the total capitalizable costs are not lower than the materiality threshold, a capitalization coefficient shall be established for work hours, lower than 1, in order to take into consideration the potential for inefficiency and for common deviations in software development projects. The rank of employees whose costs are capitalized to assets shall be limited to software project managers. Capitalizable costs of all development workers in respect of software development shall be recorded based on individual hour reports, rather than by a proportional allocation of costs.

The Bank implemented the guidelines concerning the capitalization of software costs retrospectively. Comparative figures were restated.

NIS millions

Note 1 Significant Accounting Policies (continued)

Effect of the retrospective implementation on each of the reported periods for which data is included in the reports: An effect of NIS 157 million (net of tax) in respect of the buildings and equipment item, allocated as an adjustment to the opening balance of retained earnings as at January 1, 2012 (the earliest period presented in these financial statements). Comparative figures for previous reporting periods were adjusted, as follows:

Effect of retrospective implementation on balance sheet items

	December 31, 2013		
	As reported in the past	Effect of retrospective implementation	As reported in these financial statements
Buildings and equipment	3,791	(359)	3,432
Other assets	6,172	133	6,305
Shareholders' equity	29,060	(226)	28,834
Ratio of total capital to risk-adjusted assets	15.6%	(0.1%)	15.5%
Ratio of core capital to risk-adjusted assets	9.4%	(0.1%)	9.3%

Effect of retrospective implementation on the statement of profit and loss

	For the year ended					
	2013			2012		
	As reported in the past	Effect of retrospective implementation	As reported in these financial statements	As reported in the past	Effect of retrospective implementation	As reported in these financial statements
Salaries and related expenses	5,310	124	5,434	5,012	118	5,130
Maintenance and depreciation of buildings and equipment	1,609	(65)	1,544	1,673	(57)	1,616
Profit before taxes	3,825	(59)	3,766	3,825	(61)	3,764
Provision for taxes on profit	1,298	(27)	1,271	1,254	(24)	1,230
Profit after taxes	2,527	(32)	2,495	2,571	(37)	2,534
Net profit attributed to shareholders of the Bank	2,580	(32)	2,548	2,543	(37)	2,506
Basic profit per share	1.96	(0.03)	1.93	1.92	(0.02)	1.90
Diluted profit per share	1.94	(0.03)	1.91	1.91	(0.03)	1.88

NIS millions

Note 1 Significant Accounting Policies (continued)

Effect of retrospective implementation on comprehensive income

	For the year ended					
	2013			2012		
	As reported in the past	Effect of retrospective implementation	As reported in these financial statements	As reported in the past	Effect of retrospective implementation	As reported in these financial statements
Net profit before attribution to non-controlling interests	2,536	(32)	2,504	2,577	(37)	2,540
Net profit attributed to shareholders of the Bank	2,580	(32)	2,548	2,543	(37)	2,506
Comprehensive income before attribution to non-controlling interests	2,573	(32)	2,541	2,996	(37)	2,959
Comprehensive income attributed to shareholders of the Bank	2,619	(32)	2,587	2,959	(37)	2,922

Effect of retrospective implementation on the statement of cash flows

	For the year ended					
	2013			2012		
	As reported in the past	Effect of retrospective implementation	As reported in these financial statements	As reported in the past	Effect of retrospective implementation	As reported in these financial statements
Net cash from operating activity	4,490	(124)	4,366	13,665	(118)	13,547
Net cash for investing activity	(10,072)	124	(9,948)	(15,543)	118	(15,425)

Note 1 Significant Accounting Policies (continued)

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 determining the functional currency of overseas banking offices, the Bank is required to examine the compliance/non-compliance of 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;
- 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 of 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 Bank Hapoalim Switzerland as a foreign operation with a functional currency other than the NIS.

Foreign Operations

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 of financial statements."

Note 1 Significant Accounting Policies (continued)

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 of financial statements." 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.

CPI and Exchange Rates

Set out below are details regarding the CPI and representative exchange rates of the major currencies, and their rates of change:

	December 31			Change for the year in %	
	2014	2013	2012	**2014**	2013
November CPI (in points)	**102.1**	102.2	100.3	**(0.1)**	1.9
	In NIS				
USD exchange rate (in NIS per USD 1)	**3.889**	3.471	3.733	**12.0**	(7.0)
GBP exchange rate (in NIS per GBP 1)	**6.064**	5.742	6.037	**5.6**	(4.9)
EUR exchange rate (in NIS per EUR 1)	**4.725**	4.782	4.921	**(1.2)**	(2.8)
CHF exchange rate (in NIS per CHF 1)	**3.929**	3.897	4.077	**0.8**	(4.4)
TRY exchange rate	**1.666**	1.606	2.088	**3.7**	(23.1)

(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.

Note 1 Significant Accounting Policies (continued)

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 non-controlling interests is negative.

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

An entity is a VIE if it complies with the tests detailed in FIN46(R) as amended by FAS 167, Consolidation of Variable Interest Entities (ASC 810-10): (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 the equity at risk, as a group, do not have the power to direct activities with a highly significant effect on the economic performance of the entity, or do not absorb their proportional share of the expected losses, or of the expected residual profits of the entity.

A 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 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 variable interests in other 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
- The provision of support to the entity leading to a significant variable interest.

For further details regarding variable interest entities, see Note 19E.

Note 1 Significant Accounting Policies (continued)

(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 no longer exists. 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.

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.

Note 1 Significant Accounting Policies (continued)

(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 a cumulative 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.

(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.

Note 1 Significant Accounting Policies (continued)

(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.

(I) Other income and expenses – recognized on an accrual basis.

(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, 2012, 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.

Note 1 Significant Accounting Policies (continued)

Application of the Directive

The directive applies 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. With regard to other debt balances, for which specific rules exist with regard to the measurement and recognition of allowance for impairment (such as bonds and derivatives), the Bank continues to implement these measurement rules.

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 credit as impaired, substandard, or under special supervision.

Credit risk is classified as impaired when, based on current information and events, the Bank expects to be unable to collect the full amount owed to it according to the original contractual terms agreed upon 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. 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. 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.

Note 1 Significant Accounting Policies (continued)

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 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.

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 provide 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 for credit losses – 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). In addition, the Bank identifies certain debts with other problematic characteristics for individual examination, as well as debts of customers undergoing troubled debt restructuring, the allowance for impairment in respect of which is not included in the allowance for credit losses assessed on a collective basis. Individual allowances for credit losses are considered for all debts classified as impaired.

Note 1 Significant Accounting Policies (continued)

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.
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 the various sectors of the economy, with a division between problematic and non-problematic credit, in the five-year period ended at the reporting date. Rates of past losses reflect net charge-offs actually recorded in those years, or rates of allowances relative to the average balance of debts. The Bank uses the rate of losses constituting an average of rates of past losses in the range of years noted above. Rates of losses used to calculate the allowance are established taking additional data into consideration, 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, all taking into consideration uncertainties arising from flaws in credit underwriting processes and in the processes of executing allowances for credit losses and establishing charge-offs.
With regard to this matter, a circular of the Supervisor of Banks was issued on January 19, 2015, updating the Public Reporting Directives concerning "Collective allowance in respect of credit to private individuals." Pursuant to the circular, when establishing the allowance for credit losses, banking corporations and credit-card companies should, among other matters, take into consideration both past losses, which are to be calculated according to average past losses in the last five years, and adjustments in respect of the qualitative factors established by the Supervisor of Banks, at a 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 accordance with the circular, the Bank is preparing to develop and implement a methodology for calculation of the collective allowance, taking into consideration a qualitative adjustment coefficient, as required in the directives. In addition, the Bank has implemented the guidelines established in the directives of the Supervisor concerning the rate of the qualitative adjustment, at 0.75% above the average past losses in the five-year period ended at the reporting date. As a result of this implementation, the allowance for credit losses increased by a total of approximately NIS 179 million, before tax. The increase in the balance of the allowance was allocated to the statement of profit and loss.
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.

Note 1 Significant Accounting Policies (continued)

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.

In addition, the Bank has implemented the directives in the letter of the Supervisor of Banks concerning the update of guidelines for residential real estate. The Bank has formulated a policy designed to ensure that it complies with the aforesaid requirements, and that beginning March 31, 2013, 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. The Bank implemented the guidelines set forth in the letter of the Supervisor of Banks in the financial statements prospectively.

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.

On June 18, 2013, a draft circular updating the Public Reporting Directives concerning the collective allowance for credit losses was submitted for discussion by the advisory committee. For further details, see Section F(5) below.

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, as of January 1, 2012). 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, when a debt has undergone formal troubled debt restructuring, and following the restructuring there is a reasonable degree of confidence that the debt will be repaid in accordance with its new terms, the debt is treated as an impaired debt accruing interest income. 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.

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 lifetime 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 arrangements into consideration in order to determine whether the postponement of payments is immaterial.

Note 1 Significant Accounting Policies (continued)

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 parameters. 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.

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.

(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.

Note 1 Significant Accounting Policies (continued)

- 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.

(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, and executes activity in 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.

(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.

(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 will be reclassified to the statement of profit and loss in the period in which the cash flows affect the statement of profit and loss, and will be presented within the same section of the statement of profit and loss as the hedged item.

Note 1 Significant Accounting Policies (continued)

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 presented 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 presented at fair value, with reference to the hedged risks, and the changes in fair value are allocated to the statement of profit and loss.

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.

Hedging of the net investment in a foreign operation – see Section E(1) above.

(F) Derivatives not used for hedging

Changes in the fair value of derivatives not used for hedging are allocated immediately to profit and loss.

(G) Embedded derivatives

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.

Note 1 Significant Accounting Policies (continued)

(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. FAS 157 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, 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.

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 beneficial 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.).

Note 1 Significant Accounting Policies (continued)

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 beneficial 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.
- 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 21 below concerning balances and fair-value estimates of financial instruments.

(8) Impairment of Financial Assets

Each reporting period, 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 of an other-than-temporary nature. This examination includes several stages and principles, according to the policy established by the Bank.

The Bank recognizes other-than-temporary impairment for the reporting period at least in respect of the impairment of any securities meeting one or more of the following conditions:

- Securities that have been sold by the date of publication of the report to the public for the period;
- Securities which, near the date of publication of the report to the public for the period, the Bank intends to sell within a short time;
- Bonds that have undergone a significant downgrade in rating. The Bank defines a reduction of three notches or more, accompanied by a rating falling below Investment Grade, as a significant downgrade;

Note 1 Significant Accounting Policies (continued)

- Bonds classified as problematic by the Bank after acquisition;
- Bonds where a default has occurred after acquisition, until such time as the proper payments are received;
- Securities that have sustained a decline in value of more than 20% relative to their cost, when the decline has persisted for over six months;
- Securities whose fair value at the end of the reporting period and near the date of publication of the financial statements is significantly lower (by 40% or more) than their cost (with regard to bonds – depreciated cost), unless the Bank has solid objective evidence and a cautious analysis of all relevant factors proving at a high degree of confidence that the impairment is of a temporary nature.

In addition, the examination of the presence of other-than-temporary impairment is based on the following considerations:

- The rate of loss relative to the cost of the security (for bonds – the depreciated cost);
- The amount of time for which the fair value of the security is lower than its cost;
- A change for the worse in the condition of the issuer or in the general condition of the market;
- The Bank's intention and ability to hold the security for a sufficient period to allow the fair value of the security to rise, or to maturity;
- In the case of bonds – the rate of yield to maturity;
- In the case of shares – reduction or cancellation of dividend distribution.

When other-than-temporary impairment has occurred, the cost of the security is written down to its fair value and used as the new cost base. The cumulative loss referring to a security classified as available for sale, previously allocated to a separate item in capital within other comprehensive income, is transferred to profit and loss when other-than-temporary impairment has occurred. Appreciation in value during subsequent reporting 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 netting 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 net 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 against the credit granted from such deposits, when the Bank has no risk of loss from the credit.

Note 1 Significant Accounting Policies (continued)

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 (FAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, as amended by ASC 860-10 (FAS 166), Accounting for Transfers of Financial Assets, with regard to the accounting treatment of transfers of financial assets and extinguishment of liabilities.
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 term 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 more than trivial; (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.

Note 1 Significant Accounting Policies (continued)

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.

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.

(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.

Note 1 Significant Accounting Policies (continued)

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." With regard to the accounting treatment of software costs, see Section E(13) below.
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.

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.
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.

Depreciation

Depreciation 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. For details regarding the retrospective implementation of the guidelines of the Supervisor of Banks concerning the capitalization of software costs, see Note 1D(2).

Note 1 Significant Accounting Policies (continued)

(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 rewards 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. 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. Leasing incentives received are recognized as an inseparable part of the total leasing expenses, 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.

Depreciation

Depreciation 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 indeterminate lifetime are not depreciated 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:

1. Use in manufacturing or delivery of goods or services for administrative purposes; or
2. 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

The book value of the non-financial assets of the Bank, excluding deferred tax assets and including investments accounted for using the equity method, is examined at each reporting date in order to determine whether indications of impairment exist. If such indications exist, an estimate of the recoverable amount of the asset is calculated. In periods subsequent to the initial recognition date, an estimate of the recoverable amount of goodwill and intangible assets with an indeterminate lifetime or unavailable for use is performed once annually, on a fixed date for each cash-generating unit, 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 inclusion 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:

1. The software is not expected to provide significant potential services;
2. The manner or volume of use or expected use of the software has changed substantially;
3. The software has been or will be substantially changed;
4. Costs of the development or conversion of the software designated for internal use significantly exceed the expected amounts;
5. 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

The Bank's obligations in respect of post-employment benefits or other long-term benefits, according to law, agreement, custom, and management expectations, are calculated on an actuarial basis, taking into consideration probabilities based on past experience. The capitalization rate taken into account is 4%, in accordance with directives of the Supervisor of Banks. 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.

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.

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. Following implementation of the Supervisor's instructions, the liability in respect of severance pay for the group of employees is presented in the financial statements according to the amount calculated on an actuarial basis, taking into account the additional cost expected to be incurred by the Bank in respect of the aforesaid benefits.

On April 9, 2014, the Supervisor of Banks issued a circular concerning the adoption of US GAAP on employee benefits. For further details, see Section F(1) below.

(18) Share-Based Payment

The fair value at the date of grant of share-based payments to employees is allocated as a wage expense, in parallel to the increase in equity, over the period in which the unconditional eligibility for the grant is attained. The amount allocated as an expense in respect of share-based payment grants contingent upon vesting conditions, which are service conditions or execution conditions that are not market conditions, is adjusted to reflect the number of grants expected to vest. For share-based payment grants contingent upon conditions that are not vesting conditions or on vesting conditions that are execution conditions constituting market conditions, the Bank takes such conditions into consideration when estimating the fair value of the equity instruments granted. The Bank therefore recognizes the expense in respect of such grants regardless of whether the conditions are fulfilled.

The fair value of the amount owed to employees in respect of rights to the increase in value of shares settled in cash is allocated as an expense, against a corresponding increase in liabilities, over the period in which the employees' unconditional eligibility for the payment is attained. The liability is remeasured at every reporting date, until the date of settlement. Any change in the fair value of the liabilities is allocated as an expense under "salaries and related expenses" in profit and loss.

On April 9, 2014, the Supervisor of Banks issued a circular concerning the adoption of US GAAP on employee benefits and on accounting for share-based payment. For further details, see Section F(1) below.

Note 1 Significant Accounting Policies (continued)

(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.

(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:

1. 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.
2. 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.
3. 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.

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 where the Bank has not yet published four financial statements since the first inclusion of the claim, no provision is made.

Note 19(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.

Note 1 Significant Accounting Policies (continued)

(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.

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

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."

(25) Related Party Disclosures

IAS 24, Related Party Disclosures, establishes the disclosure required of entities with regard to their relationships with related parties and with regard to unsettled transactions and balances with related parties. In addition, disclosure of remuneration of key executives is required. Key executives are defined as persons with the authority and responsibility to plan the activity of the entity, or to directly or indirectly guide and control the entity, including any director (active or inactive) of the entity.

Note 1 Significant Accounting Policies (continued)

(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) Employee Benefits and Share-Based Payment

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 will apply beginning January 1, 2015. At the initial implementation, the Bank will amend comparative figures for periods from January 1, 2013 forward, retrospectively, in order to comply with the requirements of the aforesaid rules.

In addition, on January 11, 2015, a circular was issued 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 cumulative 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 cumulative 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 employees benefit, 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 updates the disclosure requirements concerning employee benefits and share-based payment, in accordance with GAAP for US banks.

In addition, a collection 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.

Main points of the new directives on employee benefits:

Post-retirement benefits – pensions, compensation, 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, long-term forecasts of the rate of return on plan assets, increases in wages, and departure rates.
- 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.
- 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.

Note 1 Significant Accounting Policies (continued)

Other long-term benefits for active employees – 25-year service grants

- The liability is accrued over the period granting the 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 – bonus for unused 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 cumulative other comprehensive income and discounted to profit and loss in subsequent periods.

Share-based payment transactions

- In general, 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 remeasured until the date of settlement.

Main changes relative to the accounting policies currently implemented in the financial statements

- The discount rate of provisions is 4%, in accordance with the directives of the Supervisor of Banks.
- Actuarial profits and losses are allocated immediately to the statement of profit and loss.
- For further information regarding the accounting policies currently applied by the Bank with regard to employee benefits, see Note 1E(17).

According to the Bank's estimate, the expected effect of the implementation of US GAAP for employee benefits as at January 1, 2015, is an increase in liabilities in the amount of approximately NIS 590 million, and a decrease in shareholders' equity in the amount of approximately NIS 368 million after tax. Despite the material negative effect on the shareholders' equity of the Bank, for the purpose of calculation of capital requirements according to the Basel 3 directives, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, cumulative profit or loss balances from remeasurement of net liabilities or net assets in respect of a defined employee benefit shall not be taken into account immediately, but shall be subject to transitional directives, such that its effect is distributed into equal installments, of 20% as of January 1, 2014, and 40% as of January 1, 2015, until full implementation as of January 1, 2018. For a disclosure of the estimated effect on the common equity Tier 1 capital ratio as at December 31, 2014, see Note 13.

Note 1 Significant Accounting Policies (continued)

(2) Reporting According to US GAAP on Distinguishing Liabilities from Equity

On October 6, 2014, the Supervisor of Banks issued a directive concerning reporting according to generally accepted accounting principles in the United States on the differentiation of liabilities and equity, further to the policy of the Supervisor of Banks to adopt the financial reporting system applicable to banks in the US on material matters. The directive requires implementation of US GAAP on the classification of financial instruments, including hybrid instruments, as equity or as liabilities. For that purpose, requirements include, among other matters, implementation of 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.

In addition, in implementing the distinction between liabilities and equity, the directive requires reference to the Public Reporting Directives concerning embedded derivatives. A file of questions and answers on this subject was published concurrently with the circular, in which it is clarified that existing debt instruments with components of contingent conversion to shares (which are included in common equity Tier 1 capital pursuant to the Basel 2 directives, and comply with the definition of a hybrid capital instrument according to the transitional directives, or are included as a supervisory capital component pursuant to the Basel 3 directives) should be classified as a liability, to be measured at depreciated cost, without separating embedded derivatives.

The Bank has implemented these rules beginning January 1, 2015. On initial implementation, the requirement was to comply with the transitional directives established in the codification topics listed above, including amendment of comparative figures, as relevant. According to estimates of the Bank, the implementation of this directive will not have a material effect.

(3) Circular Concerning Reporting on Activity Segments

A circular concerning reporting on activity segments was issued on November 3, 2014, updating the Public Reporting Directives with regard to the requirement to report on supervisory activity segments. Among other matters, the circular includes changes in certain definitions and guidelines, according to which banks will be required to classify customers into supervisory segments and update their reports.

The amendments to the directives are aimed at requiring reporting on activity segments according to a uniform, comparable format established by the Supervisor of Banks. In addition, the circular states that the disclosure of "activity segments according to management's approach" shall be provided in accordance with GAAP for US banks on activity segments (included in ASC 280), inasmuch as a material difference exists between management's approach and the reporting segments according to the supervisory guidelines.

The new rules will apply from the annual financial statements for 2015 forward, as detailed below:

Note 1 Significant Accounting Policies (continued)

- A disclosure requirement shall apply in the annual financial statements for 2015 concerning balance sheet data on supervisory activity segments, as defined in the new directives. Pursuant to the new directives, it is possible not to provide disclosure of comparative figures for balance sheet data on supervisory activity segments; instead, comparative figures can be included according to the Public Reporting Directives in effect prior to the inception of the circular. Furthermore, disclosure of the financial management segment is not required.
- Beginning with the financial statements for the first quarter of 2016, full disclosure according to the new rules is required, with the exception of the disclosure regarding the financial management segment. Comparative figures shall be adjusted retrospectively. In the financial statements in 2016, comparative figures can be presented for only one year, with respect to the note on supervisory activity segments. For the purposes of the presentation of comparative figures, it will be possible to rely on the classification of customers into supervisory activity segments as at January 1, 2016.
- Beginning with the financial statements for the first quarter of 2017, the guidelines in the circular must be implemented in full.

The implementation of the new directives is not expected to cause a material effect, other than on the manner of presentation and disclosure.

(4) 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 has been 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. However, note that a draft on this matter has not yet been submitted for discussion to the advisory committee on banking matters.

(5) Collective Allowance for Credit Losses

On July 18, 2013, a draft circular updating the Public Reporting Directives, entitled the "Collective Allowance for Credit Losses," was submitted for discussion by the advisory committee. The draft extends the duration of the temporary order concerning the calculation of the collective allowance for credit losses, based on segmentation by economic sector; establishes clarifications and guidelines for the calculation of rates of past losses; and establishes comprehensive requirements regarding inclusion of adjustments for environmental factors in the allowance coefficient. In addition, the draft significantly expands the requirements for documentation supporting the collective allowance coefficient and the overall fairness of the allowance, and significant expansion of the requirements regarding reports to management and to the board of directors

as at December 31, 2014 NIS millions

Note 1 Significant Accounting Policies (continued)

The expected effect of the implementation of the guidelines concerning the calculation of rates of past losses shall be accounted for as a change in estimate, allocated to profit and loss. The initial implementation date has not yet been set. At this stage, the Bank cannot estimate the effect of the adoption of this directive, when implemented.

(6) Recognition of Income from Contracts with Customers
A circular concerning the adoption of an update of the accounting rules regarding income 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 income recognition in US GAAP. The standard states that income 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, in accordance with the circular, beginning January 1, 2017. Pursuant to the transitional directives in the circular, on 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 Section 310 of the Codification.
The Bank has not yet begun to examine the effect of this standard on its financial statements, and has not yet chosen an option for implementation of the transitional directives.

Note 2 Cash on Hand and Deposits with Banks

Composition:

	December 31	
	2014	2013
Cash on hand and deposits with central banks	**46,397**	40,222
Deposits with commercial banks	**8,577**	5,487
Total*,**	**54,974**	45,709
* Of which: cash, deposits with banks and central banks for an original period of up to three months	**51,823**	43,933
** Excluding collective allowance for credit losses in the amount of	**4**	6

Note:
With regard to liens, see Note 14.

NIS millions

Note 3 Securities

	December 31, 2014				
	Balance sheet value	Depreciated cost (in shares-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(3)	
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 is usually based on stock exchange prices, which do not necessarily reflect the price which will 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, amounting to NIS 612 million.
(2) Included in the item "Net adjustments for presentation of securities available for sale at fair value" within other comprehensive income.
(3) See additional details in Section 5 below.

Notes:
a. For details of the results of activity in investments in bonds and in shares - see Notes 23 and 24.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 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**
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 is usually based on stock exchange prices, which do not necessarily reflect the price which will 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, amounting to NIS 612 million.
(2) Attributed 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 14.

Notes:
a. For details of the results of activity in investments in bonds and in shares - see Notes 23 and 24.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 Securities (continued)

	December 31, 2013				
	Balance sheet value	Depreciated cost (in shares-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	471	471	45	-	516

	Balance sheet value	Depreciated cost (in shares-cost)	Cumulative other comprehensive income		Fair value*
			Gains	Losses(3)	
2) Securities available for sale					
Bonds and debentures:					
Israeli government	46,984	46,636	357	(9)	46,984
Foreign governments	2,812	2,780	42	(10)	2,812
Financial institutions in Israel	404	386	18	-	404
Foreign financial institutions	2,362	2,352	14	(4)	2,362
Others in Israel	1,559	1,459	100	-	1,559
Foreign others	1,966	1,959	13	(6)	1,966
Total bonds and debentures available for sale	56,087	55,572	544	(29)	56,087
Shares:					
Others	2,221	1,748	473	-	(1)2,221
Total securities available for sale	58,308	57,320	(2)1,017	(2)(29)	(1)58,308

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will 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, amounting to NIS 562 million.
(2) Included in the item "Net adjustments for presentation of securities available for sale at fair value" within other comprehensive income.
(3) See additional details in Section 5 below.

Notes:
a. For details of the results of activity in investments in bonds and in shares - see Notes 23 and 24 below.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 Securities (continued)

	December 31, 2013				
	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	1,502	1,499	3	-	1,502
Foreign governments	33	29	4	-	33
Foreign financial institutions	315	320	5	(10)	315
Others in Israel	11	11	-	-	11
Foreign others	239	232	8	(1)	239
Total bonds and debentures held for trading	2,100	2,091	20	(11)	2,100
Shares:					
Others	33	40	-	(7)	33
Total securities held for trading	2,133	2,131	(2)20	(2)(18)	2,133
Total securities(3)	60,912	59,922	1,082	(47)	(1)60,957

4) Information regarding impaired bonds	
Recorded debt balance of:	
Impaired bonds accruing interest income	43

* Fair value data is usually based on stock exchange prices, which do not necessarily reflect the price which will 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, amounting to NIS 562 million.
(2) Attributed to the Statement of Profit and Loss.
(3) Of which: Securities in the amount of approximately NIS 8.0 billion were pledged to lenders - see Note 14.

Notes:
a. For details of the results of activity in investments in bonds and in shares - see Notes 23 and 24 below.
b. Israeli bonds and foreign bonds are differentiated according to the country of residence of the Issuer entity.

NIS millions

Note 3 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)**

	December 31, 2013							
	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%	
Bonds and debentures:								
Israeli government	821	(5)	-	(5)	236	(4)	-	(4)
Foreign governments	702	(7)	-	(7)	38	(3)	-	(3)
Foreign financial institutions	760	(4)	-	(4)	36	-	-	-
Others in Israel	20	-	-	-	-	-	-	-
Foreign others	871	(6)	-	(6)	-	-	-	-
Total securities available for sale	3,174	(22)	-	(22)	310	(7)	-	(7)

NIS millions

Note 4 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

	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**

	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").

NIS millions

Note 4 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)

	2012					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Allowance for credit losses at beginning of year	3,359	351	946	4,656	4	4,660
Provision for credit losses(1)	673	29	284	986	1	987
Charge-offs	(986)	(22)	(443)	(1,451)	-	(1,451)
Recoveries of debts charged off in previous years	310	-	182	492	-	492
Net charge-offs	(676)	(22)	(261)	(959)	-	(959)
Allowance for credit losses at end of year(2)(3)	3,356	358	969	4,683	5	4,688
(1) Of which: In respect of off-balance sheet credit instruments	54	-	(16)	38	-	38
(2) Of which: In respect of off-balance sheet credit instruments	502	-	93	595	-	595
(3) Of which: In respect of other debt instruments	-	-	2	2	-	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").

NIS millions

Note 4 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 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***	**38**	**192**	**-**	**230**	**-**	**230**

* 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").

** 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 215 million (December 31, 2013: NIS 201 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 24 million (December 31, 2013: NIS 18 million).

NIS millions

Note 4 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* (continued)

	December 31, 2013					
	Credit to the public				Banks and governments	Total
	Commercial	Housing	Other private	Total		
Recorded debt balance of debts*:						
Examined on an individual basis	134,706	-	3,481	138,187	22,003	160,190
Examined on a collective basis(1)	21,109	53,899	42,348	117,356	-	117,356
Total debts*	155,815	53,899	45,829	255,543	22,003	277,546
(1) Of which: allowance for which was calculated according to the extent of arrears	4,433	53,549	-	57,982	-	57,982
Allowance for credit losses in respect of debts*:						
Examined on an individual basis	2,665	-	180	2,845	6	2,851
Examined on a collective basis**(2)	202	422	474	1,098	-	1,098
Total allowance for credit losses	2,867	422	654	3,943	6	3,949
(2) Of which: allowance for which was calculated according to the extent of arrears***	39	236	-	275	-	275

* 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").

** 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 215 million (December 31, 2013: NIS 201 million).

*** Includes the allowance beyond the amount required according to the method of the extent of arrears, in the amount of approximately NIS 24 million (December 31, 2013: NIS 18 million).

NIS millions

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts*

1. Credit quality and arrears

	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**	**830**	**431**
Private individuals - others	**47,292**	**266**	**638**	**48,196**	**75**	**188**
Total public – activity in Israel	**231,900**	**5,441**	**5,805**	**243,146**	**1,048**	**1,036**
Banks in Israel	**404**	**-**	**-**	**404**	**-**	**-**
Israeli government	**560**	**-**	**-**	**560**	**-**	**-**
Total activity in Israel	**232,864**	**5,441**	**5,805**	**244,110**	**1,048**	**1,036**

* 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 4(B)(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 156 million (December 31, 2013: NIS 269 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 97 million (December 31, 2013: NIS 100 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 4 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**	**12**	**35**
Total public – activity overseas	**24,287**	**251**	**476**	**25,014**	**21**	**51**
Banks overseas	**31,781**	**-**	**-**	**31,781**	**-**	**-**
Governments overseas	**1,301**	**-**	**-**	**1,301**	**-**	**-**
Total activity overseas	**57,369**	**251**	**476**	**58,096**	**21**	**51**
Total public	**256,187**	**5,692**	**6,281**	**268,160**	**1,069**	**1,087**
Total banks	**32,185**	**-**	**-**	**32,185**	**-**	**-**
Total governments	**1,861**	**-**	**-**	**1,861**	**-**	**-**
Total	**290,233**	**5,692**	**6,281**	**302,206**	**1,069**	**1,087**

* 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 4(B)(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 156 million (December 31, 2013: NIS 269 million) were classified as unimpaired problematic debts.

NIS millions

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2013					
	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	16,708	445	1,130	18,283	45	48
Construction and real estate - real estate activities	17,395	678	813	18,886	6	17
Financial services	11,803	388	873	13,064	-	23
Commercial - other	77,128	4,514	3,710	85,352	64	149
Total commercial	123,034	6,025	6,526	135,585	115	237
Private individuals - housing loans(5)	52,267	1,042	-	53,309	1,042	844
Private individuals - others	42,756	199	704	43,659	82	197
Total public – activity in Israel	218,057	7,266	7,230	232,553	1,239	1,278
Banks in Israel	115	-	-	115	-	-
Israeli government	314	-	-	314	-	-
Total activity in Israel	218,486	7,266	7,230	232,982	1,239	1,278

* 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 4(B)(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 156 million (December 31, 2013: NIS 269 million) were classified as unimpaired problematic debts.

(5) Includes a balance of housing loans, in the amount of approximately NIS 97 million (December 31, 2013: NIS 100 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 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts* (continued)

1. Credit quality and arrears (continued)

	December 31, 2013					
	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	5,808	-	340	6,148	-	-
Commercial - other	13,529	376	177	14,082	5	123
Total commercial	19,337	376	517	20,230	5	123
Private individuals	2,688	26	46	2,760	7	25
Total public – activity overseas	22,025	402	563	22,990	12	148
Banks overseas	20,719	-	-	20,719	-	-
Governments overseas	855	-	-	855	-	-
Total activity overseas	43,599	402	563	44,564	12	148
Total public	240,082	7,668	7,793	255,543	1,251	1,426
Total banks	20,834	-	-	20,834	-	-
Total governments	1,169	-	-	1,169	-	-
Total	262,085	7,668	7,793	277,546	1,251	1,426

* 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 4(B)(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 156 million (December 31, 2013: NIS 269 million) were classified as unimpaired problematic debts.

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) and after 150 days in arrears, the Bank usually performs a charge-off of the debt. 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.

NIS millions

Note 4 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, 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 - others	**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**	**1,820**	**4,062**	**-**
Debts in troubled debt restructuring	**1,157**	**208**	**1,458**	**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) Recorded debt balance.

(2) Individual allowance for credit losses.

NIS millions

Note 4 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, 2013				
	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	335	117	795	1,130	4,414
Construction and real estate - real estate activities	289	8	524	813	1,743
Financial services	837	268	36	873	1,721
Commercial - other	2,673	422	1,037	3,710	7,734
Total commercial	4,134	815	2,392	6,526	15,612
Private individuals - others	428	127	276	704	1,147
Total public – activity in Israel	4,562	942	2,668	7,230	16,759
Borrower activity overseas					
Public - commercial					
Construction and real estate	164	9	176	340	561
Commercial - other	142	52	35	177	283
Total commercial	306	61	211	517	844
Private individuals	45	35	1	46	49
Total public – activity overseas	351	96	212	563	893
Total public*	4,913	1,038	2,880	7,793	17,652
* Of which:					
Measured at the present value of cash flows	3,111	802	**1,511	**4,622	-
Debts in troubled debt restructuring	1,170	215	2,114	3,284	-

** Reclassified.

*** 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 4 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

	2014		
	Average balance of impaired debts	Interest income recorded**	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 - others	**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").

** Had the impaired debts accrued interest according to the original terms, interest income would be recorded in the amount of NIS 466 million for the year ended December 31, 2014 (2013: NIS 684 million).

NIS millions

Note 4 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***	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 - others	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

	2012
Average recorded debt balance of impaired credit to the public in the reported period	8,487
Total interest income recorded in the reported period in respect of this credit, during the period of time in which it was classified as impaired*	182
Total interest income that would have been recorded in the reported period, if this credit had accrued interest according to its original terms	692
* Of which: Interest income recorded according to the cash base accounting method	118

** 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").

*** Had the impaired debts accrued interest according to the original terms, interest income would be recorded in the amount of NIS 466 million for the year ended December 31, 2014 (2013: NIS 684 million).

NIS millions

Note 4 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, 2014		
	Recorded debt balance		
	Not accruing interest income	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 - others	**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.
Commitments to grant additional credit to debtors who have undergone troubled debt restructuring with changes to the terms of the credit totaled approximately NIS 106 million as at December 31, 2014 (December 31, 2013: NIS 132 million).

NIS millions

Note 4 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, 2013		
	Recorded debt balance		
	Not accruing interest income	Accruing[1] not in arrears	Total[2]
Borrower activity in Israel			
Public - commercial			
Construction and real estate - construction	450	148	598
Construction and real estate - real estate activities	238	53	291
Financial services	141	7	148
Commercial - other	1,302	92	1,394
Total commercial	2,131	300	2,431
Private individuals - others	370	252	622
Total public – activity in Israel	2,501	552	3,053
Borrower activity overseas			
Public - commercial			
Construction and real estate	223	-	223
Commercial - other	1	-	1
Total commercial	224	-	224
Private individuals	6	1	7
Total public – activity overseas	230	1	231
Total public	2,731	553	3,284

* 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 4 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 - others	**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 4 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 - others	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 4 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 - others	**3,160**	**87**
Total public – activity in Israel	**3,495**	**155**
Borrower activity overseas		
Public - commercial		
Private individuals	**8**	**-**
Total public	**3,503**	**155**

* Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** 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 4 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 - others	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

* Debts that became debts in arrears of 30 days or more during the reporting period, and which underwent troubled debt restructuring during the 12 months preceding the date on which they became debts in arrears.

** 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 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

B. Debts** (continued)

3. Additional information regarding housing loans

Year-end balances by financing ratio (LTV)*, repayment type, and interest type

		December 31, 2014			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
First lien: financing rate	Up to 60%	**34,863**	**208**	**23,942**	**701**
	Over 60%	**26,443**	**111**	**20,021**	**420**
Secondary lien or no lien		**808**	**-**	**522**	**1,501**
Total		**62,114**	**319**	**44,485**	**2,622**

		December 31, 2013			
		Balance of housing loans			Off-balance sheet credit risk
		Total	Of which: bullet and balloon	Of which: floating interest rate	
First lien: financing rate	Up to 60%	31,421	222	22,390	854
	Over 60%	26,058	128	20,231	542
Secondary lien or no lien		853	-	457	1,106
Total		58,332	350	43,078	2,502

* 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 provided. 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 4.B.3 presents balances of debt in respect of housing loans, with segmentation by ranges of LTV ratios and levels of liens.

Note 4 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)] according to the size of credit per borrower

	December 31, 2014		
	Number of borrowers[(3)]	Credit*[(1)]	Off-Balance sheet credit risk[(1)(2)]
		NIS millions	
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 corporate bonds, other assets in respect of derivative instruments against the public, 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 purposes of the indebtedness of a borrower and borrowers group.

(2) Credit risk in respect of off-balance sheet financial instruments as calculated for purposes of borrower debt limitations (Excluding unutilized credit-card credit 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:

The figures of credit and off-balance sheet credit risk (hereinafter - "the credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calcualted by aggregating the data in each credit bracket of each subsidiary (consolidation on the basis of layers), whereas the data on the credit over NIS 8,000 thousand, including the number of borrowers, was calculated by aggregating the credit of each borrower throughout the Bank Group and classified in the respective credit bracket (specific consolidation).

Note 4 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) according to the size of credit per borrower (continued)

	December 31, 2013		
	Number of borrowers(3)	Credit**(1)	Off-Balance sheet credit risk(1)(2)
		NIS millions	
Credit per borrower (in thousands of NIS)			
Up to 10	*1,657,388	2,690	2,404
From 10 to 20	*481,388	3,168	3,905
From 20 to 40	*466,648	5,722	7,747
From 40 to 80	*288,689	9,144	7,189
From 80 to 150	*165,344	11,421	6,505
From 150 to 300	*102,054	14,681	6,846
From 300 to 600	*63,342	22,178	4,978
From 600 to 1,200	*42,309	30,374	4,551
From 1,200 to 2,000	*10,715	13,685	2,410
From 2,000 to 4,000	4,903	10,655	2,502
From 4,000 to 8,000	2,053	8,543	2,750
From 8,000 to 20,000	1,465	12,749	5,452
From 20,000 to 40,000	736	13,176	6,990
From 40,000 to 200,000	861	42,497	30,082
From 200,000 to 400,000	143	21,359	17,798
From 400,000 to 800,000	63	17,703	17,679
From 800,000 to 1,200,000	16	11,825	4,328
From 1,200,000 to 1,600,000	4	3,567	1,948
From 1,600,000 to 2,000,000	5	899	8,183
From 2,000,000 to 3,200,000	3	5,158	1,445
Over 3,200,000	2	3,596	6,106
Total	*3,288,131	264,790	151,798

* Restated.
** Credit to the public, investments in corporate bonds, other assets in respect of derivative instruments against the public, at a total of NIS 255,543, 4,684, and 4,563 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 purposes of the indebtedness of a borrower and borrowers group.
(2) Credit risk in respect of off-balance sheet financial instruments as calculated for purposes of borrower debt limitations (Excluding unutilized credit-card credit facilities under the responsibility of other banks in the amount of approximately NIS 10,011 million).
(3) The number of borrowers is calculated according to total credit and off-balance sheet credit risk.

Note:
The figures of credit and off-balance sheet credit risk (hereinafter - "the credit") in the credit brackets up to NIS 8,000 thousand, including the number of borrowers, were calcualted by aggregating the data in each credit bracket of each subsidiary (consolidation on the basis of layers), whereas the data on the credit over NIS 8,000 thousand, including the number of borrowers, was calculated by aggregating the credit of each borrower throughout the Bank Group and classified in the respective credit bracket (specific consolidation).

NIS millions

Note 4 Credit Risk, Credit to the Public and Allowance for Credit Losses (continued)

D. Information regarding sales of debt

The following table details the proceeds paid or received for purchases or sales of loans*:

	December 31, 2014			
	Commercial	Housing	Other	Total
Loans sold	**-**	**-**	**2**	**2**

	December 31, 2013			
	Commercial	Housing	Other	Total
Loans purchased	49	-	-	49
Loans sold	201	-	2	203

* For further information regarding loan sale transactions, see Note 19(C)(4) below.

Note 5 Credit to Governments

Composition:

	December 31	
	2014	2013
Credit to the Government of Israel	**560**	314
Credit to foreign governments	**1,301**	855
Total credit to governments	**1,861**	1,169

NIS millions

Note 6 Investments in Equity-Basis Investees

A. Composition:

	December 31	
	2014	2013
	Equity-Basis Investees	
Investment in shares stated on the equity-basis	**96**	111
Other investments		
Shareholders' loans	**39**	26
Total investments	**135**	137
Of which:		
Accrued post-acquisition profits, net	**83**	74
Details of the book value and market value of marketable investments:		
Book value	**21**	22
Market value	**40**	36

B. Share in the profits of equity-basis investees, net

	2014	2013	2012
The Bank's share in net operating profits of equity-basis investees, after tax	**9**	9	6

Note 6 Investments in Equity-Basis Investees (continued)

C. Details of principal subsidiary and affiliated companies

	December 31					
	2014	2013	**2014**	2013	**2014**	2013
	Share in capital granting the right to receive profits		Share in voting rights		Investment in shares on equity-basis[(1)]	
					NIS millions	
Consolidated companies:						
Bank Hapoalim (Switzerland) Ltd., Commercial bank in Switzerland	**100%**	100%	**100%**	100%	**1,645**	1,537
Bank Pozitif Kredi ve Kalkinma Bankasi Anonim Sirketi, Commercial bank in Turkey	**69.8%**	69.8%	**69.8%**	69.8%	**495**	513
Isracard Ltd., Credit card services	**98.2%**	98.2%	**98.2%**	98.2%	**2,172**	*1,898
Poalim Capital Markets Investment Bank Ltd.	**100%**	100%	**100%**	100%	**863**	818
Diur B.P. Ltd. - Asset management	**100%**	100%	**100%**	100%	**585**	607
Tarshish Holdings and Investments Poalim Ltd., Financial company	**100%**	100%	**100%**	100%	**4,601**	4,470
Opaz Ltd., Investments and holdings	**100%**	100%	**100%**	100%	**406**	370
Continental Poalim Ltd. Financial company	**100%**	100%	**100%**	100%	**530**	592
Pkaot Poalim Ltd. Financial company	**100%**	100%	**100%**	100%	**295**	295
Hapoalim Nechasim (Menayot) Ltd. Holding company	**100%**	100%	**100%**	100%	**1,197**	1,224
Poalim Sahar Ltd. - Operation and trading of securities	**100%**	100%	**100%**	100%	**539**	541
Zohar Hashemesh Investments Ltd.	**100%**	100%	**100%**	100%	**1,637**	1,589

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).
(1) Including the balance of distinguished surplus costs, goodwill, 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.

December 31									
2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Goodwill balance and other intangible assets		Contribution to net profit attributed to shareholders of the Bank		Dividend recorded		Other items accumulated in equity[2]		Guarantees for the company in favor of bodies outside the Group	
NIS millions									
7	19	**85**	57	**-**	-	**23**	(84)	**-**	-
-	-	**(20)**	(110)	**-**	(20)	**2**	(5)	**-**	-
-	-	**282**	296	**-**	-	**(8)**	(31)	**-**	-
-	-	**43**	5	**-**	-	**2**	(1)	**-**	-
-	-	**(24)**	-	**-**	-	**2**	(1)	**-**	-
-	-	**68**	201	**-**	-	**63**	63	**-**	-
-	-	**2**	11	**-**	-	**34**	1	**-**	-
-	-	**2**	5	**(65)**	-	**1**	(1)	**-**	-
-	-	**-**	3	**-**	-	**-**	-	**-**	-
-	-	**17**	25	**-**	-	**(44)**	54	**-**	-
-	-	**13**	14	**(15)**	-	**-**	-	**-**	-
-	-	**18**	31	**-**	-	**30**	3	**-**	-

NIS millions

Note 7 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, 2012	3,752	1,897	*3,281	*8,930
Additions	206	128	*366	*700
Subtractions	(67)	(12)	(2)	(81)
Translation financial statements adjustments	-	(4)	(2)	(6)
Balance as at December 31, 2013	3,891	2,009	*3,643	*9,543
Additions	227	161	314	702
Subtractions	(29)	(21)	(36)	(86)
Translation financial statements adjustments	-	-	1	1
Balance as at December 31, 2014**	**4,089**	**2,149**	**3,922**	**10,160**
Depreciation and losses from impairment:				
Balance as at December 31, 2012	1,851	1,348	*2,305	*5,504
Annual depreciation	158	165	*351	*674
Subtractions	(49)	(11)	(2)	(62)
Translation financial statements adjustments	-	(3)	(2)	(5)
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)
Translation financial statements adjustments	-	-	1	1
Balance as at December 31, 2014	**2,094**	**1,627**	**2,964**	**6,685**
Book value				
Balance as at December 31, 2012	1,901	549	*976	*3,426
Balance as at December 31, 2013	1,931	510	*991	*3,432
Balance as at December 31, 2014	**1,995**	**522**	**958**	**3,475**
Weighted average depreciation rate, in %, as at December 31, 2013	4.4	16.1	20.0	
Weighted average depreciation rate, in %, as at December 31, 2014	**5.1**	**14.4**	**20.0**	

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** Balance of fully depreciated assets included in balance of cost of assets:
Buildings and land, including installations and improvements to rented properties: NIS 1,086 million.
Equipment, including computers, furniture, and vehicles: NIS 1,131 million; costs of software: NIS 2,225 million.

(1) Of which: Capitalized costs of software developed in house with a net balance sheet balance in the amount of NIS 810 million (December 31, 2013: NIS 897 million; December 31, 2012: NIS 804 million).

Note 7 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 lease in buildings and equipment, for a period not exceeding 49 years from the balance sheet date, in the amount of NIS 176 million (December 31, 2013: NIS 181 million).

D. The balance sheet balance of buildings available for sale, in the amount of NIS 12 million (December 31, 2013: NIS 16 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 74 million (December 31, 2013: NIS 98 million) have not yet been recorded at the Israel Land Registry Bureau, mainly due to delay 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 5 million (December 31, 2013: NIS 6 million), representing investment property rented to others, in both periods.

G. The balance sheet balance of buildings and equipment under construction totaled NIS 142 million (December 31, 2013: NIS 61 million). Costs recorded in the books as additions to the cost of a building totaled NIS 81 million.

NIS millions

Note 7A Intangible Assets and Goodwill

	Goodwill	Customer relationships	Total
Cost			
Balance for 2012-2014	**237**	**134**	**371**
Depreciation and losses from impairment			
Balance as at December 31, 2012	237	101	338
Annual depreciation	-	12	12
Translation financial statements adjustments	-	2	2
Balance as at December 31, 2013	237	115	352
Annual depreciation	-	12	12
Balance as at December 31, 2014	**237**	**127**	**364**
Book value			
Balance as at December 31, 2012	-	33	33
Balance as at December 31, 2013	-	19	19
Balance as at December 31, 2014	**-**	**7**	**7**

Note 8 Other Assets

Composition:

	December 31	
	2014	2013
Deferred tax assets, net**	**3,599**	*3,163
Current taxes - excess of advances paid over current liability for income tax	**52**	46
Assets received in respect of credit that was settled	**72**	63
Expenses of issue of debentures and subordinated notes	**81**	82
Accrued income	**280**	239
Prepaid expenses***	**273**	225
Assets in respect of activity in the Maof market(1)	**2,183**	1,550
Other receivables	**1,324**	937
Total other assets	**7,864**	*6,305

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).
** See also Note 29D.
*** Includes prepaid expenses in the amount of NIS 18 million in respect of operating leases in which the Bank Group is the lessee (2013: NIS 18 million).
(1) Stated at fair value.

NIS millions

Note 9 Deposits from the Public

A. Types of deposits, by location of deposit taking and by type of depositor

	December 31	
	2014	2013
In Israel		
On demand		
Non-interest bearing	**67,330**	**49,101
Interest bearing	**53,760**	**44,655
Total on demand	**121,090**	93,756
Fixed term	**148,349**	159,440
Total deposits from the public in Israel*	**269,439**	253,196
Outside Israel		
On demand		
Non-interest bearing	**9,029**	7,999
Interest bearing	**10,172**	6,920
Total on demand	**19,201**	14,919
Fixed term	**8,590**	8,410
Total deposits from the public outside Israel	**27,791**	23,329
Total deposits from the public	**297,230**	276,525
* Of which:		
Deposits of private individuals	**138,568**	135,139
Deposits of institutional entities	**19,376**	21,880
Deposits of corporations and others	**111,495**	96,177

B. Deposits from the public by size

	December 31	
	2014	2013
Deposit ceiling		
Up to 1	**100,968**	98,342
Over 1 up to 10	**73,445**	70,755
Over 10 up to 100	**48,097**	42,254
Over 100 up to 500	**30,682**	27,344
Over 500	**44,038**	37,830
Total	**297,230**	276,525

** Reclassified.

NIS millions

Note 10 Deposits from Banks

Composition:

	December 31	
	2014	2013
In Israel		
Commercial banks:		
On demand deposits	**2,105**	2,334
Fixed term deposits	**673**	624
Acceptances	**371**	894
Outside Israel		
Commercial banks:		
On demand deposits	**171**	68
Fixed term deposits	**665**	1,383
Acceptances	**1**	-
Central banks:		
On demand deposits	**336**	-
Total deposits from banks	**4,322**	5,303

Note 11 Bonds and Subordinated Notes

A. Composition:

	December 31			
	2014			2013
	Average duration[1]	Internal rate of return[2]	NIS millions	
In Israeli currency[3]				
Unlinked	**2.3**	**3.2%**	**6,103**	6,119
Linked to the CPI	**4.8**	**3.1%**	**25,136**	25,776
In foreign currency[4]	**2.3**	**5.2%**	**2,432**	2,085
Total bonds and subordinated notes*	**4.1**	**3.2%**	**33,671**	33,980
Of which: subordinated notes				
Included in Tier 1 capital	**-**	**-**	**1,954**	2,469
Included in Tier 2 capital	**-**	**-**	**12,204**	-
Included in Upper Tier 2 capital	**-**	**-**	**-**	2,753
Included in Lower Tier 2 capital	**-**	**-**	**-**	12,532
Others not included in capital	**-**	**-**	**7,719**	5,581
Total subordinated notes	**4.3**	**4.3%**	**21,877**	23,335

* 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 14 below.

(1) The average duration is the weighted average of maturity periods in the cash flows discounted at the internal rate of return.

(2) The internal rate of return represents the interest rate that equates the amount presented in the balance sheet with the present value of the future cash flows.

(3) Of which: listed on the Tel-Aviv Stock Exchange in the amount of NIS 27,142 million (December 31, 2013: NIS 27,172 million), and the remaining amount not listed.

(4) Listed on stock exchanges abroad.

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) that were issued in 2001 for a period of 99 years, and that can be redeemed early with effect from the fifteenth year from their issue. Subordinated capital notes Series 1 that were issued in June 2009 for a period of 50 years, and that can be redeemed early with effect from 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" that are included in the Bank's upper tier 2 capital. The aforementioned capital notes are listed for trading on the Tel Aviv Stock Exchange.

Note 12 Other Liabilitites

Composition:

	December 31	
	2014	2013
	NIS millions	
Deferred tax liability, net*	**129**	131
Current taxes - excess of current liability for income tax over advances paid	**89**	59
Deferred income	**406**	493
Employees, in respect of salaries	**1,035**	946
Severance pay, retirement compensation, and pensions reserve**	**3,266**	3,057
Accrued expenses	**620**	444
Creditors in respect of activities in credit cards	**13,897**	13,691
Allowance for credit losses with respect to off-balance sheet credit risk	**672**	638
Liabilities in respect of activity in the Maof market(1)	**2,183**	1,550
Other creditors and credit balances	**1,389**	1,135
Total other liabilities	**23,686**	22,144

* See also Note 29D.
** See also Note 15.
(1) Stated at fair value.

Note 13 Capital and Capital Adequacy

A. Share Capital

	December 31			
	2014	2013	**2014**	2013
	Registered		Issued and paid-up*	
	Amount in NIS			
Ordinary shares of NIS 1 par value	**4,000,000,000**	4,000,000,000	**1,323,208,692**	1,320,575,890

* Issued capital after the deduction of 14,168,419 ordinary shares (December 31, 2013: 16,801,221 ordinary shares) purchased by the Bank, as detailed below.
The shares are registered for trading on the Tel Aviv Stock Exchange.

Note 13 Capital and Capital Adequacy (continued)

B. Transactions in the Capital of the Corporation

The Supervisor of Banks granted the Bank approval for a buyback of 39,250,000 ordinary shares of the Bank ("treasury shares"), for remuneration of employees and senior executives of the Bank, within the Bank's remuneration plan. The shares serve as a pool for the conversion of options and RSU. As at December 31, 2014, the balance of acquired shares amounted to 25,153,853 shares, at a cost of approximately NIS 408 million. For details regarding share-based payment transactions for employees, see Note 16 below.

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 15% of net profits, the Board of Directors of the Bank resolved on March 9, 2015, to distribute a dividend in respect of the profits of the fourth quarter of 2014, in the amount of approximately NIS 70 million, or NIS 0.05262 per share of par value NIS 1.
The Board of Directors set the record date for payment of the dividend at March 18, 2015 and the date of payment at March 31, 2015.

Details of dividends paid:

Date of declaration	Date of payment	Dividend per share	Dividend paid in cash
		in agorot	in NIS millions
November 23, 2014	**December 15, 2014**	**8.83**	**117**
August 13, 2014	September 3, 2014	9.00	119
May 21, 2014	June 12, 2014	8.00	106
March 19, 2014	April 10, 2014	8.00	106
November 26, 2013	December 18, 2013	7.00	92
August 28, 2013	September 30, 2013	7.00	92
July 10, 2013	August 5, 2013	7.00	92

Note 13 Capital and Capital Adequacy (continued)

D. Adoption of Basel 3 Directives

As of January 1, 2014, the Bank has applied the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211.

The Basel 3 directives establish significant changes in the calculation of the supervisory capital requirements, including in the following areas:

- Components of supervisory capital;
- Deductions from capital and supervisory adjustments;
- Accounting for exposures to financial corporations;
- Accounting for exposures to credit risk in respect of impaired debts;
- Capital allocation in respect of CVA risk in derivative financial instruments activity.

The amendments to the aforesaid 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.

In addition, a circular of the Supervisor of Banks, entitled "Basel Disclosure Requirements Concerning the Composition of Capital," was published on August 29, 2013. The circular established updated disclosure requirements which banks are required to include as part of the adoption of the Basel 3 directives. Accordingly, the note on capital adequacy in the annual financial statements for 2014 includes disclosure of comparative figures for the preceding year prepared according to the Basel 2 directives, as adopted by the Supervisor of Banks, as well as disclosure of comparative figures as at January 1, 2014, prepared according to the Basel 3 directives.

Note 13 Capital and Capital Adequacy (continued)

E. Capital adequacy in consolidated data

	December 31, 2014	January 1, 2014	December 31, 2013
	Basel 3[(1)]		Basel 2[(2)]
	NIS millions		
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions			
Common equity Tier 1 capital/core capital	**31,482**	*28,966	[(4)]*28,195
Tier 1 capital	**33,436**	*30,920	[(4)]*30,664
Tier 2 capital	**16,041**	15,697	16,341
Total overall capital	**49,477**	*46,617	[(4)]*47,005
2. Weighted balances of risk-adjusted assets			
Credit risk	**311,329**	*292,522	*276,537
Market risks	**5,269**	4,748	4,748
Operational risk	**22,275**	21,769	21,769
Total weighted balances of risk-adjusted assets	**338,873**	*319,039	*303,054
	%		
3. Ratio of capital to risk-adjusted assets			
Ratio of common equity Tier 1 capital to risk-adjusted assets/ratio of core capital to risk-adjusted assets	**9.29%**	*9.08%	*9.30%
Ratio of Tier 1 capital to risk-adjusted assets	**9.87%**	*9.69%	*10.12%
Ratio of total capital to risk-adjusted assets	**14.60%**	*14.61%	*15.51%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**[(3)]9.00%**	[(3)]9.00%	
Minimum total capital ratio required by the Supervisor of Banks	**[(3)]12.50%**	[(3)]12.50%	9.00%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013. The effect of the transition to the Basel 3 directives on January 1, 2014, is a decrease of 0.22% in the common equity Tier 1 capital ratio and a decrease of 0.9% in the total capital ratio.

(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.

(3) The minimum capital ratios required by the Supervisor of Banks from January 1, 2015 to December 31, 2016. As of January 1, 2017, the minimum required common equity Tier 1 capital ratio is 10%, and the minimum required total capital ratio is 13.5%. Beginning January 1, 2015, a capital requirement will be added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement will be implemented gradually, during 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 4A(2).

(4) Net of a dividend declared after the balance sheet date in the amount of NIS 106 million, in accordance with the Basel 2 directives.

Note 13 Capital and Capital Adequacy (continued)

E. Capital adequacy in consolidated data (continued)

	December 31, 2014	January 1, 2014	December 31, 2013
	Basel 3(1)		Basel 2(2)
	%		
4. Significant subsidiaries			
Isracard			
Ratio of common equity Tier 1 capital to risk-adjusted assets	**19.04%**	17.40%	
Ratio of Tier 1 capital to risk-adjusted assets	**19.04%**	17.40%	17.60%
Ratio of total capital to risk-adjusted assets	**19.98%**	18.20%	17.70%
Minimum common equity Tier 1 capital ratio required by the Supervisor of Banks	**(3)9.00%**	(3)9.00%	
Minimum total capital ratio required by the Supervisor of Banks	**(3)12.50%**	(3)12.50%	9.00%
Bank Hapoalim Switzerland(4)			
Ratio of common equity Tier 1 capital to risk-adjusted assets	**21.09%**	26.56%	
Ratio of Tier 1 capital to risk-adjusted assets	**21.09%**	26.56%	26.56%
Ratio of total capital to risk-adjusted assets	**21.17%**	27.13%	27.13%
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%	11.20%
	Basel 2(5)		
Bank Pozitif			
Ratio of Tier 1 capital to risk-adjusted assets	**17.51%**		15.56%
Ratio of total capital to risk-adjusted assets	**18.15%**		16.51%
Minimum total capital ratio required by local regulation	**12.00%**		12.00%

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013. The effect of the transition to the Basel 3 directives on January 1, 2014, is a decrease of 0.22% in the common equity Tier 1 capital ratio and a decrease of 0.9% in the total capital ratio.
(2) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.
(3) Minimum capital ratio required according to the directives of the Supervisor of Banks from January 1, 2015.
(4) Bank Hapoalim Switzerland has implemented the Basel 3 directives as of the first quarter of 2013.
(5) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Note 13 Capital and Capital Adequacy (continued)

F. Components of capital for the purpose of calculating the capital ratio

	December 31, 2014	January 1, 2014
	Basel 3[(1)]	
	NIS millions	
Common equity Tier I capital		
Total capital	**31,611**	*29,084
Differences between total capital and common equity Tier I capital	**(26)**	(23)
Total common equity Tier I capital before supervisory adjustments and deductions	**31,585**	*29,061
Supervisory adjustments and deductions:		
Goodwill and intangible assets	**7**	19
Deferred taxes receivable	**88**	*51
Investments in capital of financial corporations not consolidated in the reports to the public	**-**	-
Other supervisory adjustments and deductions – common equity Tier I capital	**8**	25
Total supervisory adjustments and deductions – common equity Tier I capital	**103**	*95
Total common equity Tier I capital after supervisory adjustments and deductions	**31,482**	*28,966
Additional Tier I capital		
Additional Tier I capital – instruments, before deductions	**1,954**	1,954
Additional Tier I capital – total deductions	**-**	-
Total additional Tier I capital, after deductions	**1,954**	1,954
Total Tier I capital after supervisory adjustments and deductions	**33,436**	*30,920
Tier 2 capital		
Tier 2 capital – instruments, before deductions	**12,204**	12,256
Tier 2 capital – provisions, before deductions	**3,837**	3,441
Total Tier 2 capital, before deductions	**16,041**	15,697
Deductions:		
Total deductions – Tier 2 capital	**-**	-
Total Tier 2 capital	**16,041**	15,697
Total overall capital	**49,477**	*46,617

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.

Note 13 Capital and Capital Adequacy (continued)

F. Components of capital for the purpose of calculating the capital ratio (continued)

	December 31, 2013
	Basel 2[1]
	NIS millions
Tier 1 capital	
Capital	[2]*28,978
Hybrid capital instruments	2,469
Less: intangible assets and goodwill	(19)
Less: net gains in respect of adjustments to fair value of securities available for sale	(701)
Less: investments in financial companies in which the Bank has material influence	(63)
Total Tier 1 capital	[2]*30,664
Tier 2 capital	
1. Upper Tier 2 capital	
45% of total net gains before the effect of related taxes in respect of adjustments to fair value of securities available for sale	445
General provision for doubtful debts	674
Hybrid capital instruments	2,753
2. Lower Tier 2 capital	
Subordinated notes	12,532
3. Tier 2 capital deductions	
Investments in financial companies in which the Bank has material influence	(63)
Total Tier 2 capital	16,341
Total overall capital	[2]*47,005

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, "Capital Measurement and Adequacy," which applied until December 31, 2013.

(2) Excluding dividends declared after the balance sheet date, in the amount of NIS 106 million, in accordance with the Basel 2 directives.

Note 13 Capital and Capital Adequacy (continued)

G. Effect of the transitional directives on the common equity Tier 1 capital ratio

	December 31, 2014	January 1, 2014
	Basel 3(1)	
	%	
Ratio of capital to risk-adjusted assets		
Ratio of common equity Tier 1 capital to risk-adjusted assets before implementation of the transitional directives in Directive 299	(2)**8.97%**	*8.95%
Effect of transitional directives and inclusion of employee benefits	(2)**0.32%**	*0.13%
Ratio of common equity Tier 1 capital to risk-adjusted assets after implementation of the transitional directives in Directive 299	**9.29%**	*9.08%

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).
(1) Calculated in accordance with Proper Conduct of Banking Business Directives No. 201-211, 299, "Capital Measurement and Adequacy," applicable beginning January 1, 2014. Data as at January 1, 2014 are based on balances as at December 31, 2013.
(2) Including the expected effect of the initial adoption of US GAAP concerning employee benefits, based on expected data as at January 1, 2015. For further details, see note 1F(1).

H. Housing Loans

In July 2014, the Supervisor of Banks issued a circular concerning Proper Conduct of Banking Business Directive 329, "Limits on Housing Loans" (hereinafter: the "Directive"). 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." 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 falls below 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. These amendments have been implemented as of October 1, 2014. The effect of the implementation is immaterial.

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 by a total of approximately NIS 625 million, an increase of approximately 0.02% in the common equity Tier 1 capital ratio, and an increase of approximately 0.03% in the total capital ratio.

Note 13 Capital and Capital Adequacy (continued)

I. Capital Adequacy Target

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations concerning minimum capital ratios, within 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.

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 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 effect of the additional directives on the capital ratios of the Bank as at January 17, 2017, is estimated at approximately 0.2%, according to the balance of housing loans at the reporting date.

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. The Board of Directors of the Bank has approved the minimum target capital ratios, as detailed above.

J. Report on Liquidity Coverage Ratio

The Supervisor of Banks issued a circular on September 28, 2014, adding Proper Conduct of Banking Business Directive 221, "Liquidity Coverage Ratio," which adopts the Basel Committee recommendations regarding the liquidity coverage ratio in the banking system in Israel. The liquidity coverage ratio refers to a 30-day horizon in an extreme scenario, and is aimed at ensuring that the banking corporation has an adequate stock of high-quality liquid assets to meet its liquidity needs in that timeframe. The directive establishes the manner of calculation of the liquidity coverage ratio, including a definition of characteristics and operational requirements for the "stock of high-quality liquid assets" (the numerator) and the corresponding safety coefficients, and the net expected outgoing cash flow in the extreme scenario defined in the directive for 30 calendar days (the denominator).

The extreme scenario established in the directive includes a shock combining a specific shock to the corporation with a systemic shock; within the scenario, standard withdrawal rates for outgoing cash flows and receipt rates for incoming cash flows were established, according to the categories of the various balances. The liquid coverage ratio will be applied beginning April 1, 2015.

Note 13 Capital and Capital Adequacy (continued)

In accordance with the transitional directives, the minimum requirement will be set at 60% as of April 1, 2015, and will be increased to 80% on January 1, 2016 and 100% from January 1, 2017 forward. However, during periods of financial stress, banking corporations may fall below these minimum requirements.

In addition, on September 28, 2014, the Supervisor of Banks issued a circular entitled, "Temporary Order – Implementation of Disclosure Requirements Pursuant to Basel Pillar 3 – Disclosure of the Liquidity Coverage Ratio." The circular amends the Public Reporting Directives in order to add disclosures that the banks will be required to include as part of the adoption of the liquidity coverage ratio. Accordingly, among other matters, it has been determined that disclosure requirements regarding the liquidity coverage ratio will be added beginning April 1, 2015, as part of the note on "capital and capital adequacy," the title of which will be changed to "capital, capital adequacy, and liquidity."

Note 14 Liens

A. Bonds and subordinated notes issued by consolidated companies, totaling NIS 2.3 billion as at December 31, 2014 (December 31, 2013: NIS 4.9 billion), are secured mainly by current liens on the companies' assets.

B. Deposits and securities in foreign currency held by the Bank Group abroad, with a balance in the amount of NIS 3.0 billion as at December 31, 2014 (December 31, 2013: NIS 2.7 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 security activities 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 233 million) as at December 31, 2014 (December 31, 2013: approximately USD 60 million (NIS 208 million)).

D. Bonds with a balance in the amount of NIS 42 million as at December 31, 2014 (December 31, 2013: NIS 242 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, 2014 totaled NIS 5.6 billion (maximum balance NIS 5.6 billion).
The balance of bonds pledged as at December 31, 2013 totaled NIS 4.4 billion (maximum balance NIS 4.4 billion).
In addition to the collateral detailed above, the Bank deposited collateral in cash in the amount of NIS 23 million (December 31, 2013: NIS 19 million) in favor of the risk fund of the TASE Clearing House, and in the amount of NIS 255 million (December 31, 2013: NIS 156 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.

NIS millions

Note 14 Liens (continued)

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, 2014, the Bank Group provided deposits to banks at a value of USD 912 million (December 31, 2013: USD 599 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.

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, 2014 which the Bank is permitted to sell or pledge, at fair value, before the effect of offsets:

	December 31, 2014	December 31, 2013
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	**476**	65
Applications of securities received as collateral and securities of the Bank, at fair value, before the effect of offsets:		
Securities sold under repurchase agreements	**42**	242
Details of securities pledged to lenders:		
Securities available for sale	**714**	921

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, 2014	December 31, 2013
Available for sale portfolio	**8,672**	7,098

Note 15 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 employees' 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, in accordance with the aforesaid Remuneration Policy and remuneration plan, and as detailed in Section F below.
Pursuant to the Banking Corporation Remuneration Policy Directive, the duty to adopt a remuneration policy, by September 30, 2014, also applies to some of the subsidiaries of the Bank in Israel. These subsidiaries have reported to the Bank that they completed the procedure of adopting a remuneration policy by the aforesaid date established by law. The Bank is in the process of applying the principles of its Remuneration Policy to its subsidiaries overseas and branches overseas as well, with certain adjustments.

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 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 15 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. The Board of Directors of the Bank approved the aforesaid wage agreement on March 6, 2013. For further details regarding the terms of the phantom shares, see Note 16 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%.

Note 15 Employee Benefits (continued)

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 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 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. 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 and to share-based compensation, as detailed 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 79 million (December 31, 2013: NIS 90 million).

2. 25 year service grant

Employees are entitled to a grant at the end of 25 years of employment at the Bank. These obligations are calculated based on actuarial calculations, taking into account real salary gains at a rate of 0.5% to 7.5% per year for active employees, depending on the employee's age, capitalized at an annual discount rate of 4%.

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, convalescence pay, and participation in well-being costs. As noted, under the New Wage Agreement, along with the adjustment of various related terms, it was agreed that the Bank would not pay convalescence pay or partial funding of children's summer camps to employees who retire from the Bank after June 2014.

These obligations are calculated based on actuarial calculations that take into account, as relevant, among other things, a real salary increment, capitalized at an annual discount rate of 4%.

Note 15 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. In addition, the Bank deposits additional amounts in provident funds to cover severance pay for entitled employees. 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 or until legal retirement age, whichever is earlier. The provision is based on an actuarial calculation, which includes a real salary increment at a rate of 0% per annum, and is capitalized at an annual real discount rate of 4%.

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 provision for early retirement is calculated according to the higher of an actuarial calculation taking into account the additional cost expected to be incurred by the Bank due to the aforesaid benefits, and the amount of the liability calculated as required by Opinion Statement 20 of the Institute of Certified Public Accountants in Israel.

The liability was calculated based on an actuarial calculation taking the following into consideration, among other factors:

(1) A real wage increment of 0.5%-7.5% per year 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 of 4%, 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.

Note 15 Employee Benefits (continued)

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%.

(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 2014. 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 square footage 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 new business initiatives include expansion of the Bank's activity in certain sectors, in which the Bank has identified growth potential and expansion opportunities. The Bank included a provision in the amount of NIS 390 million for the efficiency plan in the Annual Financial Statements for 2014, compared with NIS 440 million in 2013.

The efficiency plan supporting the multi-year strategy of the Bank will continue in 2015.

Note 15 Employee Benefits (continued)

Set out below are details of net long-term and post-employment liabilities in respect of employee benefits*:

	As at December 31	
	2014	2013*
	NIS millions	
Severance pay and early retirement for active employees	**1,272**	1,240
Pensions for employees who take early retirement**	**1,214**	1,067
25-year service grant	**32**	28
Provision for grant in respect of unutilized sick days, net of the reserve for sick days	**328**	312
Other post-employment benefits	**452**	438
Total	**3,298**	3,085

* Includes wage tax.
** Includes a provision for efficiency plans.

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.

Note 15 Employee Benefits (continued)

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 8.745% for 2013, 7.89% for 2014, and 6.395% for 2015). 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.

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%. The aforesaid notwithstanding, in a year in which the actual ROE Difference is in the range of 0% to 0.5%, the Board of Directors may, at its sole discretion, according to the recommendation of the Bank's CEO, approve an annual bonus in a positive amount for a member of management, equal to up to two (2) monthly salaries of the member of management.

Negative bonus budget – With the exception of the first year of a member of management who joins the Bank after the adoption of the plan, 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.

Note 15 Employee Benefits (continued)

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%. Notwithstanding the aforesaid, in a year in which the actual ROE Difference is negative, the Board of Directors may, at its sole discretion, according to the recommendation of the Bank's CEO, approve an annual bonus equal to up to two (2) monthly salaries of the member of management.

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).

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 50% for 2014), 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.

Note 15 Employee Benefits (continued)

(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.

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:

(4) 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.

(5) 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.

Note 15 Employee Benefits (continued)

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.

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 previous 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 previous 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 a 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.

Note 15 Employee Benefits (continued)

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).

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: reimbursement 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 return the difference in the amount of the bonus to the Bank, 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.

Note 15 Employee Benefits (continued)

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 other than 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.

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 June 30, 2014, or by the date of the executive's transition to the 2014 Plan, as relevant, expired.

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 that currently exists at the Bank, other than 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 (with the exception of 2013, when the range of the actual ROE Difference over the cost of capital was set at 0.75% to 2%, with half of the contingent RSU to vest at an actual ROE Difference of 0.75%). In 2013, the actual ROE Difference did not surpass the minimum threshold; the contingent RSU for that year therefore expired. If, in the Bank's annual financial statements for a given year, the Bank has a net operating loss 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 June 30, 2014, or by the date of the executive's transition to the 2014 Plan, as relevant, expired.

Note 15 Employee Benefits (continued)

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 18 months from the acquisition date, subject to the directives of the taxation decision received by the Bank from the Israel Tax Authority 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 18 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 18-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 12 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.

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 30 trading days preceding the date of publication of the Bank's financial statements for the grant year.

Note 15 Employee Benefits (continued)

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%, a proportional share shall be exercised into shares, 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 18 months from the acquisition date, subject to the directives of the taxation decision received by the Bank from the Israel Tax Authority 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 18 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 18-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.

Note 15 Employee Benefits (continued)

(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 2014, only the 2010 Remuneration Plan applies to the Chairman of the Board of the Bank and to the CEO of the Bank.

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 deducted 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.

Note 15 Employee Benefits (continued)

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.

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 2014: 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 two years have elapsed from that date (in this section, the "Restriction Period"). This period was extended when the employment agreements were signed, as detailed in Sections F(C)4 and F(C)5 below, and currently stands at four years. 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 compensation 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 vest (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.

Note 15 Employee Benefits (continued)

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 2014, the actual ROE Difference did not surpass the minimum threshold; the Contingent RSU for these years therefore were not granted.

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. The employment agreement with the CEO took effect on January 1, 2013, replacing the previous employment agreement, which was executed for a period of three years, ended December 31, 2012. No material changes were made to the terms of remuneration for the CEO in the employment agreement, relative to the employment agreement that was in effect until the end of 2012, with the exception of the addition of a ceiling on the total remuneration for each year of the new 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. In addition, the restriction period of the shares to be purchased using the bonus for share purchases has been extended from two years to 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 with the Chairman of the Board took effect on January 1, 2013, replacing the previous employment agreement, which was executed for a period of three years, ended December 31, 2012. No material changes were made to the terms of remuneration for the Chairman of the Board in the employment agreement, relative to the employment agreement that was in effect until the end of 2012, with the exception of the addition of a ceiling on the total remuneration for each year of the new 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. In addition, the restriction period of the shares to be purchased using the bonus for share purchases has been extended from two years to 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 new 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.

Note 16 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, 2014.

(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, 2014 amounted to 8,354,409 option notes.

(B) 2013-2017 Plan for Employees of the Bank

Further to the wage agreement described in Note 15, 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, 2014, amounted to 8,578,823 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 15F(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 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 remuneration plan.

Note 16 Share Based Payment Transactions (continued)

(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 under the RSU Plan to the Chairman of the Board and the CEO of the Bank, separately for each executive. 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 16A2 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 15F(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.

Set out below are the 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 16 Share Based Payment Transactions (continued)

(2) Share-Based Payment Transactions Settled in Capital Instruments Granted to Senior Executives as at December 31, 2014

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					
	2014		2013		2012	
	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)	Number of options	Weighted average exercise price (in NIS)
Outstanding at start of year	**12,401,308**	**1**	16,705,915	1	20,853,232	1
Granted during the year(1)	**-**	**1**	-	1	-	1
Forfeited during the year	**(44,347)**	**1**	(74,994)	1	(72,405)	1
Exercised during the year(2)	**(4,002,552)**	**1**	(4,229,613)	1	(4,074,912)	1
Outstanding at year end(3)	**8,354,409**	**1**	12,401,308	1	16,705,915	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 19.43 (2013: NIS 17.90, 2012: NIS 13.73).
(3) Options for shares in circulation at year end are divided into sections by exercise price*:

	December 31		
	2014	2013	2012
Exercise price range in NIS	**1**	1	1
Number of options	**8,354,409**	12,401,308	16,705,915
Weighted average exercise price (NIS)	**1**	1	1
Weighted average balance of contractual lifetime (years)	**1.5**	2.0	2.5
Of which exercisable:			
Number of options	**-**	-	-
Weighted average exercise price (NIS)	**1**	1	1

* The exercise price of all options issued within the plans is NIS 1.

Note 16 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 year end(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 in circulation at year end:								
Exercise price range (NIS)	-	-	-	-	-	-	-	-
Number of shares	**1,649,276**	**352,602**	**518,021**	**106,411**	**533,333**	-	**266,666**	-
Weighted average exercise price (NIS)	-	-	-	-	-	-	-	-
Weighted average balance of contractual lifetime (years)	**0.84**	**1.21**	**0.73**	**1.09**	**1.50**	-	**0.50**	-
Of which exercisable:								
Number of shares	-	-	-	-	-	-	-	-
Weighted average exercise price (NIS)	-	-	-	-	-	-	-	-

Note 16 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, 2013:

	Number of units							
	Senior executives		Members of management		CEO		Chairman	
	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent	Restricted	Contingent
Outstanding at start of year	3,590,624	1,055,710	2,440,544	597,213	799,999	-	533,332	-
Granted during the year(1)	2,453,529	736,257	1,135,007	319,865	-	-	-	-
Forfeited during the year	(113,516)	(650,084)	-	(280,315)	-	-	-	-
Exercised during the year(2)	(2,374,435)	(318,659)	(1,497,352)	(126,011)	(133,332)	-	(133,332)	-
Expired during the year	-	-	-	-	-	-	-	-
Outstanding at year end(3)	3,556,202	823,224	2,078,199	510,752	666,667	-	400,000	-
(1) Average weighted fair value of shares granted during the year at the date of measurement, in NIS	16.73		16.53		-		-	
(2) Average weighted share price at the exercise date of the units exercised during the year, in NIS	16.05		14.74		15.57		16.35	
(3) Shares in circulation at year end:								
Exercise price range (NIS)	-	-	-	-	-	-	-	-
Number of shares	3,521,780	590,738	1,715,854	424,291	533,335	-	266,668	-
Weighted average exercise price (NIS)	-	-	-	-	-	-	-	-
Weighted average balance of contractual lifetime (years)	2.19	5.58	2.23	5.43	3.00	-	2.00	-
Of which exercisable:	-	-	-	-	-	-	-	-
Number of shares								
Weighted average exercise price (NIS)	-	-	-	-	-	-	-	-

Note 16 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, 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**

Further details regarding phantom shares granted to employees as at December 31, 2013, are set out below:

Exercise price range in NIS	-
Number of phantom units granted but not yet exercised	22,312,278
Of which: exercisable	-
Average years to expiration	5

2. 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**

Further details regarding restricted phantom shares and contingent restricted phantom shares for senior executives settled in cash as at December 31, 2013, are set out below:

	Restricted	Contingent	Total
Exercise price range in NIS	-	-	-
Number of phantom units granted but not yet exercised	149,729	26,209	175,938
Of which: exercisable	-	-	-
Average years to expiration	1.70	5.41	2.25

3. Additional details 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	
	2014	2013
	NIS millions	
Total liabilities arising from share-based payment transactions	**137**	71
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

NIS millions

Note 17 Assets and Liabilities by Linkage Base

	December 31, 2014						
	Israeli currency		Foreign currency[1]			Non-monetary items*	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash on hand 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 bought 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	**6,292**	**3**	**362**	**420**	**122**	**665**	**7,864**
Total assets	**245,679**	**55,301**	**79,641**	**9,435**	**10,494**	**7,244**	**407,794**
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	**21,405**	**207**	**1,045**	**439**	**160**	**430**	**23,686**
Total liabilities	**222,142**	**43,111**	**87,516**	**15,048**	**7,560**	**806**	**376,183**
Surplus assets (liabilities)	**23,537**	**12,190**	**(7,875)**	**(5,613)**	**2,934**	**6,438**	**31,611**
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	**20,050**	**6,265**	**(1,386)**	**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)**		

* 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 as of January 1, 2011. Balances of assets and liabilities presented in this note are net amounts, after the 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.

NIS millions

Note 17 Assets and Liabilities by Linkage Base (continued)

	December 31, 2013						
	Israeli currency		Foreign currency[1]			Non-monetary items***	Total
	Unlinked	CPI-linked	USD	EUR	Other		
Assets							
Cash on hand and deposits with banks	24,363	-	17,789	455	3,102	-	45,709
Securities	44,100	2,570	8,840	922	2,226	2,254	60,912
Securities borrowed or bought under agreements to resell	36	-	-	-	29	-	65
Net credit to the public[2]	157,885	55,560	24,681	7,125	6,159	190	251,600
Credit to governments	10	-	599	560	-	-	1,169
Investments in equity-basis investees	**26	-	-	-	-	**111	137
Buildings and equipment	-	-	-	-	-	*3,432	*3,432
Intangible assets and goodwill	-	-	-	-	-	19	19
Assets in respect of derivative instruments[3]	5,823	1,437	2,532	390	470	20	10,672
Other assets	4,609	131	397	462	74	*632	*6,305
Total assets	236,852	59,698	54,838	9,914	12,060	*6,658	*380,020
Liabilities							
Deposits from the public	175,886	18,368	62,805	13,061	6,215	190	276,525
Deposits from banks	1,646	204	2,327	859	267	-	5,303
Deposits from the government	457	39	117	-	-	-	613
Securities lent or sold under agreements to repurchase	-	-	-	-	242	-	242
Bonds and subordinated notes	6,120	25,775	1,564	30	491	-	33,980
Liabilities in respect of derivative instruments[3]	6,447	2,104	2,587	489	502	-	12,129
Other liabilities	19,715	247	1,037	490	128	527	22,144
Total liabilities	210,271	46,737	70,437	14,929	7,845	717	350,936
Surplus assets (liabilities)	26,581	12,961	(15,599)	(5,015)	4,215	*5,941	*29,084
Effect of hedging derivatives:							
Derivative instruments (excluding options)	1,498	-	-	-	(1,498)		
Effect of non-hedging derivatives:							
Derivative instruments (excluding options)	(14,148)	(4,064)	16,440	4,645	(2,873)		
Options in the money, net (in terms of underlying asset)	589	-	(1,015)	64	362		
Options out of the money, net (in terms of underlying asset)	318	-	(567)	207	42		
Total	14,838	8,897	(741)	(99)	248	*5,941	
Options in the money, net (nominal present value)	533	-	(1,065)	89	443		
Options out of the money, net (nominal present value)	659	-	(621)	(124)	86		

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** Reclassified.

*** 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 as of January 1, 2011. Balances of assets and liabilities presented in this note are net amounts, after the attribution of the effects of the implementation of the standard, in the amount of NIS (128) million. These effects were presented in the unlinked segment.

Note 18 Assets and Liabilities by Currency and by Term to Maturity

	December 31, 2014		
	Future expected contractual cash flows*		
	Demand to 1 month	From 1 to 3 months	From 3 months to 1 year
Israeli currency (including foreign currency linked):			
Assets	**64,801**	**24,389**	**49,122**
Liabilities	**176,019**	**11,595**	**24,966**
Difference	**(111,218)**	**12,794**	**24,156**
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	**(109,496)**	**9,960**	**20,578**
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***	**105,996**	**31,528**	**59,810**
Liabilities****	**243,562**	**24,423**	**45,144**
Difference	**(137,566)**	**7,105**	**14,666**
*** 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 future expected contractual cash flows in respect of assets and liabilities by currency, according to the outstanding expected maturity periods of each cash flow. The data is presented less the affect of charge-offs and of allowance for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets without a repayment period, including assets in the sum of NIS 3,829 million, which are past due.

(2) As included in Note 17 "Assets and Liabilities according to Linkage Basis", including off-balance sheet amount in respect of derivatives.

(3) The contractual return rate is the interest rate deducting the expected future contractual 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.

NIS millions

December 31, 2014										
Future expected contractual cash flows*								Balance-sheet balance[2]		Contractual
From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	From 5 to 10 years	From10 to 20 years	Over 20 years	Total Cash flows	With no fixed repayment period[1]	Total	return rate[3] In %
44,494	30,994	18,836	13,668	44,050	26,204	5,492	322,050	7,053	302,712	2.4%
12,463	9,400	8,481	8,419	17,538	2,865	978	272,724	117	265,997	2.7%
32,031	21,594	10,355	5,249	26,512	23,339	4,514	49,326	6,936	36,715	-
(1,025)	1,268	528	2,746	(723)	324	-	(289)	-	(1,414)	-
72	-	571	440	1,394	-	-	1,194	-	907	-
31,078	22,862	11,454	8,435	27,183	23,663	4,514	50,231	6,936	36,208	-
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)	19,283	-
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	7,847	[4]400,550	2.3%
15,495	10,922	9,520	10,197	19,594	3,584	1,141	383,582	135	375,377	2.3%
37,953	26,864	15,545	10,181	36,683	24,497	4,734	40,662	7,712	25,173	-
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 18 Assets and Liabilities by Currency and by Term to Maturity (continued)

	December 31, 2013		
	Future expected contractual cash flows*		
	Demand to 1 month	From 1 to 3 months	From 3 months to 1 year
Israeli currency (including foreign currency linked):			
Assets	65,618	18,022	64,298
Liabilities	162,316	16,391	24,264
Difference	(96,698)	1,631	40,034
Derivative instruments (excluding options)	(4,075)	(7,373)	(2,018)
Options (in terms of underlying asset)	(261)	(36)	917
Difference after effect of derivative instruments	(101,034)	(5,778)	38,933
Foreign currency:**			
Assets	28,904	8,399	9,091
Liabilities	56,825	11,613	16,127
Difference	(27,921)	(3,214)	(7,036)
Of which: difference in USD	(18,230)	(3,818)	(7,667)
Of which: difference in respect of foreign operations	3,422	910	(80)
Derivative instruments (excluding options)	4,075	7,455	1,936
Options (in terms of underlying asset)	261	36	(917)
Difference after effect of derivative instruments	(23,585)	4,277	(6,017)
Total as at December 31, 2013			
Assets***	94,522	26,421	73,389
Liabilities****	219,141	28,004	40,391
Difference	(124,619)	(1,583)	32,998
*** Of which: credit to the public	40,282	21,851	48,981
**** Of which: deposits from the public	201,346	20,600	31,584
Derivative instruments (excluding options)	-	82	(82)
Options (in terms of underlying asset)	-	-	-

* This note presents future expected contractual cash flows in respect of assets and liabilities by currency, according to the outstanding expected maturity periods of each cash flow. The data is presented less the affect of charge-offs and of allowance for credit losses.

** Excluding Israeli currency linked to foreign currency.

(1) Assets without a repayment period, including assets in the sum of NIS 3,838 million, which are past due.

(2) As included in Note 17 "Assets and Liabilities according to Linkage Basis", including off-balance sheet amount in respect of derivatives.

(3) The contractual return rate is the interest rate deducting the expected future contractual 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 15,875 million, of which amounts in excess of revolving credit facilities in the amount of NIS 2,601 million.

NIS millions

December 31, 2013										
Future expected contractual cash flows*								Balance-sheet balance[2]		Contractual
From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	From 5 to 10 years	From10 to 20 years	Over 20 years	Total Cash flows	With no fixed repayment period[1]	Total	return rate[3] In %
37,475	31,611	21,751	12,487	39,234	24,219	5,713	320,428	6,010	297,888	2.8%
14,713	8,950	7,438	6,848	21,155	2,891	969	265,935	433	257,659	3.2%
22,762	22,661	14,313	5,639	18,079	21,328	4,744	54,493	5,577	40,229	-
(230)	(583)	1,032	471	2,330	(13)	-	(10,459)	-	(12,070)	-
5	-	-	534	398	-	-	1,557	-	1,437	-
22,537	22,078	15,345	6,644	20,807	21,315	4,744	45,591	5,577	29,596	-
6,540	6,297	3,861	4,584	9,631	1,118	300	78,725	795	75,474	2.1%
3,289	1,286	554	1,116	1,737	589	104	93,240	24	92,560	1.4%
3,251	5,011	3,307	3,468	7,894	529	196	(14,515)	771	(17,086)	-
1,948	3,347	2,263	2,639	6,334	57	196	(12,931)	475	(16,096)	-
1,962	3,427	1,430	1,363	4,060	203	196	16,893	-	15,808	-
143	542	(1,124)	(490)	(2,088)	10	-	10,459	-	12,070	-
(5)	-	-	(534)	(398)	-	-	(1,557)	-	(1,437)	-
3,389	5,553	2,183	2,444	5,408	539	196	(5,613)	771	(6,453)	-
44,015	37,908	25,612	17,071	48,865	25,337	6,013	399,153	6,805	[4]373,362	2.7%
18,002	10,236	7,992	7,964	22,892	3,480	1,073	359,175	457	350,219	2.7%
26,013	27,672	17,620	9,107	25,973	21,857	4,940	39,978	6,348	23,143	-
40,346	27,870	19,746	14,066	34,141	23,541	5,226	276,050	3,818	251,410	3.4%
9,721	4,258	2,334	2,942	4,723	1,889	184	279,581		276,335	2.7%
(87)	(41)	(92)	(19)	242	(3)	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-

NIS millions

Note 19 Contingent Liabilities and Special Commitments

A. Off-balance sheet financial instruments:

	December 31			
	2014	2013	**2014**	2013
	Contract balances*		Allowance for credit losses	
Contract balances or nominal amounts for year-end - Transactions the balance of which represents a credit risk:				
(1) Documentary credit	**1,586**	1,270	**11**	11
(2) Credit guarantees	**6,391**	6,748	**19**	22
(3) Guarantees to purchasers of homes	**16,769**	16,330	**76**	76
(4) Other guarantees and liabilities	**23,557**	19,515	**189**	199
(5) Unutilized credit facilities for credit cards under the responsibility of the Bank	**31,070**	31,066	**54**	55
(6) Unutilized credit facilities for credit cards under the responsibility of other banks	**10,753**	10,011	**-**	-
(7) Unutilized revolving overdraft and other on-demand credit facilities	**40,445**	37,214	**131**	101
(8) Irrevocable commitments to grant credit which has been approved but not yet drawn**	**35,513**	29,417	**98**	78
(9) Commitments to issue guarantees	**21,756**	21,462	**94**	96

* Contract balances or the nominal amounts for year-end, before the effect of the allowance for credit losses.

** Includes commitments to grant credit given to customers in "approved in principle with a hold on the interest rate," under Proper Conduct of Banking Business Directive 451, Procedures for Granting Housing Loans.

B. Off-balance sheet commitment regarding activity per the extent of collection(1) for year-end

	December 31	
	2014	2013
Credit balance from deposits as per extent of collection(2)		
Israeli currency - unlinked	**37**	38
Israeli currency - linked to the CPI	**3,009**	3,682
Foreign currency	**213**	69
Total	**3,259**	3,789

(1) Credit and deposits from deposits which their repayment to the depositor is dependant on the collection of the credit (or deposits) with margin or collection fee (instead of margin).

(2) Standing loans and deposits from the Government which were granted on their behalf, in the amount of NIS 184 million (2013: NIS 255 million) were not included in this table.

NIS millions

Note 19 Contingent Liabilities and Special Commitments (continued)

B. Off-balance sheet commitment regarding activity per the extent of collection[1] for year-end (continued):

Future flows of collection fees and interest margin as per extent of collection activity[1]

	December 31, 2014							December 31, 2013
	Up to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	From 10 to 20 years	Over 20 years	Total	Total
Linked to the CPI[2]								
Future contractual flows	**22**	**42**	**40**	**46**	**13**	**1**	**164**	208
Expected future flows after management's estimate of early repayments	**22**	**38**	**31**	**30**	**6**	**-**	**127**	158
Capitalized future flows after management's estimate of early repayments[3]	**22**	**38**	**30**	**28**	**6**	**-**	**124**	152

Information on loans granted during the year in mortgage banks:

	December 31	
	2014	2013
Loans from deposits as per extent of collection	**18**	32
Standing loans	**10**	24

(1) Credit and deposits from deposits which their repayment to the depositor is dependant on the collection of the credit (or deposits) with margin or collection fee (instead of margin).
(2) Including foreign currency segment.
(3) The future flows were capitalized at a rate of 0.49% (2013: 0.86%).

NIS millions

Note 19 Contingent Liabilities and Special Commitments (continued)

C. Other contingent liabilities and special commitments:

	December 31	
	2014	2013
(1) Commitment to purchase securities	**240**	185
(2) Construction and acquisition of buildings and equipment	**45**	126
(3) Long-term rent contracts - Rent for buildings and equipment in agreements to be paid in future years:		
First year	**165**	174
Second year	**157**	168
Third year	**144**	155
Fourth year	**139**	143
Fifth year	**131**	136
Over five years	**578**	712
Total rent on buildings and equipment	**1,314**	1,488

(4) Credit selling activity

The following table summarizes the credit selling activity of the Bank:

	For the year ended December 31		
	2014	2013	2012
Book value of credit sold	**2**	201	440
Consideration received in cash	**2**	203	459
Total consideration	**2**	203	459
Total net profit from sale of credit	**-**	2	19

Note 19 Contingent Liabilities and Special Commitments (continued)

C. 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 3,653 million, and the balance of members' accounts amounted at the balance sheet date to NIS 13,625 million. It is emphasized that the "fair value" of the Bank's liabilities in respect of the aforesaid guarantees as at December 31, 2014, 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 March 20, 2015. 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 has not yet been replaced by another guarantee.

Note 19 Contingent Liabilities and Special Commitments (continued)

C. Other contingent liabilities and special commitments (continued)**:**

(6) The Bank has undertaken to indemnify officers who are directors of the Bank and who are regarded or are likely to be regarded as controlling parties of the Bank, as defined in Paragraph 268 of the Companies Law, 1999.

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. In addition, the Bank has undertaken a commitment to indemnify subsidiaries, in order to comply with Proper Conduct of Banking Business limits (the ratio of capital to risk-adjusted assets, and the limits on the indebtedness of a single borrower and of related parties), and in order to receive an exemption from the implementation of Proper Conduct of Banking Business Directives 201-211, "Capital Measurement and Adequacy." The indemnity expires automatically without the need for any action by any of the parties on the date on which the Bank ceases to hold any means of control in the company, either 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. 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.

Note 19 Contingent Liabilities and Special Commitments (continued)

C. Other contingent liabilities and special commitments (continued)**:**

(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 19 Contingent Liabilities and Special Commitments (continued)

C. 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.

(E) On September 13, 2012, the Antitrust Commissioner granted an exemption for a restrictive arrangement pursuant to which Leumi Card and CAL were permitted to clear Isracard brand cards, with the payment of an issuer fee, a one-time licensing fee, and an additional amount, the content and extent of which were deemed confidential by the Antitrust Tribunal. In a verdict on March 6, 2014, the tribunal approved this decision by the Commissioner, in contravention of the position of Isracard.

D. 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 on various matters that have a "reasonably possible" probability of materialization amounts to approximately NIS 91 million as at December 31, 2014.

(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 all of the claims:

1. 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, were filed with the District Court of Tel-Aviv-Jaffa on July 7, 2014. The amount of the class-action suit against all of the defendants has been set at a total of NIS 200 million.

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.

On August 11, 2014, a petition was filed to consolidate this claim with the claims described in Sections (A)5 and (B)3 below. On January 20, 2015, the court ruled to transfer the hearing of this petition to the judge hearing the petition described in Section (A)5 below, in accordance with the directives of Section 7(A)(1) of the Class Actions Law.

Note 19 Contingent Liabilities and Special Commitments (continued)

D. Legal Claims (continued)**:**

2. 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.

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 claimants, 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 claimants, the Bank is acting in a conflict of interests 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 against five banks, including the Bank, were filed with the District Court of Jerusalem on October 30, 2013. The total amount of the claim against all of the respondents has been set at NIS 2 billion. The claimants allege that the respondent banks charge customers who wish to renew credit granted to them in the past a credit and collateral processing fee, which according to the claimants is unlawful. The claimants allege that the conduct of the respondent banks violates the directives of the Civil Wrongs Ordinance; the Contracts Law (General Section), 1973; the Unjust Enrichment Law; and the duty of fidelity of the respondents to their customers.

5. A claim and a petition to certify and administer the claim as a class action against five banks, including the Bank, and also 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 respondents was set at approximately NIS 11 billion.

The claimants allege that the respondent 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. The claimants further allege that in performing this activity, the respondent banks maintain a mutual restrictive arrangement.

Note 19 Contingent Liabilities and Special Commitments (continued)

D. Legal Claims (continued)**:**

The claim was amended to add the allegation that foreign currency conversion transactions according to an "order rate" are "future transactions," and that the Bank allegedly did not disclose all of the information concerning these transactions to its customers, as required by law.

The claim has been unified with a claim and petition to certify a class action filed against five other banks, concerning similar matters and arguments to those referenced in this claim. Three additional petitions to certify class actions were also filed on various matters related to foreign currency conversions and fees, against various defendants. The Bank is one of the defendants in one such claim, noted in Section (B)3 below; and one of the claims was filed against several credit-card companies, including two subsidiaries of the Bank, and is noted in Section (A)1 above. Petitions have been filed to unify all of the claims. On January 20, 2015, the court ruled to transfer the hearing of the petition referenced in the claim described in Section (A)1 above to the judge hearing this petition, in accordance with the directives of Section 7(A)(1) of the Class Actions Law. A ruling has not yet been given on the petition for unification with the claim described in Section (B)3 below.

6. A claim statement and a petition to certify and administer the claim as a class action were filed with the Central District Court against the Bank and against two additional banks (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.

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.

7. 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 feeder 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 that the Fund filed 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.

Note 19 Contingent Liabilities and Special Commitments (continued)

D. Legal Claims (continued)**:**

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 duplicate payment in respect of the corresponding amounts.

8. On April 27, 2009, 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 five banks, including the Bank (hereinafter: the "Respondent Banks"), in the amount of NIS 1 billion, against all of the Respondent Banks. According to the claimants, the amount of the claim was established based on an estimated calculation only, for the purpose of setting it within the material jurisdiction of the district court.

The claimants, who claim to be customers of the Respondent Banks, are attempting to attribute a restrictive arrangement concerning fee rates to the respondents. According to the claimants, due to the coordinated policies of the Respondent Banks, which they allege were characterized by prohibited cooperation and by the intentional, systematic exchange of information, competition in the market was allegedly impaired, and the Respondent Banks were able to maintain a uniform (and high) level of fees, such that the claimants and the members of the group which they seek to represent paid excessive prices for the services they received.

The claim is based on 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"). The hearing of this claim has been consolidated with the hearing of the claim described in Section 9 below.

Following an appeal of the Declaration filed by the banks, a consensual order was given, 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, a petition was filed with the court to approve a settlement agreement in this claim and in the claim consolidated with it, as noted above.

Note 19 Contingent Liabilities and Special Commitments (continued)

D. Legal Claims (continued)**:**

9. On June 30, 2008, 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 three banks, including the Bank (hereinafter: the "Respondent Banks"), in the amount of NIS 3 billion, against all of the Respondent Banks.

The cause of the claim, according to the claimants, is restrictive arrangements allegedly made by the Respondent Banks over a consecutive period of approximately ten years, or more, allegedly based on coordination of prices of various operational fees collected by the Respondent Banks from their private customers during the period relevant to the claim. The claim statement alleges that the Respondent Banks coordinated the timing of increases and/or reductions of fee prices as well as the rates of the fees, and that as a result, the claimants and the members of the group which they seek to represent paid an unfair, unreasonable, uneconomic price that was substantially higher than the price which they would have paid under conditions of free competition. The claimants allege that the Respondent Banks thereby obtained unjust enrichment at the expense of their customers.

The hearing of this claim has been unified with the hearing of the claim described in Section 8 above.

Following an appeal of the Declaration filed by the banks, a consensual order was given, 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, a petition was filed with the court to approve a settlement agreement in this claim and in the claim consolidated with it, as noted above.

10. 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.

11. 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.

Note 19 Contingent Liabilities and Special Commitments (continued)

D. Legal Claims (continued)**:**

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 12 below. In December 2014, the parties to the claim described in Section 12 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, as part of the execution of the consensual order in the Declaration, as detailed in Section 8 above. A ruling on this petition has not yet been given.

12. 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 January 21, 2008, the court approved the administration of the claim as a class action. The Bank filed for permission to appeal this ruling. According to a directive of the Supreme Court, the Attorney General has been asked to present a response to the arguments in this petition. In early June 2010, the Supreme Court received the opinion of the Attorney General, according to which the District Court's decision to approve the hearing of the claim as a class action was erroneous. On November 21, 2011, the Attorney General submitted an additional notification to the Supreme Court, stating that he had reversed his position and believes that the petition should be heard as a class-action suit, given the existence of the Declaration mentioned in Section 7 above, which according to the Attorney General's later notification he considers judicially relevant to this claim.

On July 28, 2013, a ruling was given in which the Supreme Court accepted the Bank's appeal, dismissed the District Court's ruling to certify the claim as a class action, and ordered the return of the petition for certification for a renewed hearing before the District Court.

Note 19 Contingent Liabilities and Special Commitments (continued)

D. Legal Claims (continued)**:**

On May 5, 2014, the court unified the hearing of this case with the hearing of the claim described in Section 11 above. In December 2014, the parties filed a consensual petition to approve a settlement agreement in the claim, as part of the execution of the consensual order in the Declaration, as detailed in Section 8 above. A ruling on this petition has not yet been given.

(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 were filed against the Bank with the District Court of Tel-Aviv-Jaffa on December 10, 2014. The amount of the claim noted in the claim statement is approximately NIS 255 million. The claimants allege that the Bank misleads its customers and causes them damages, in two different ways. According to one argument, when the Bank credits a customer's account for an error made by the Bank, the account is not credited according to the value date of the error, and as a result, the claimants allege that the customers are charged interest on negative balances that would not have been charged if the account had been credited at the proper time. According to the second argument, customers who deposit checks in their accounts that include amounts in fractions of NIS (agorot) are sometimes credited at the amount of the check without the agorot, i.e. at an amount lower than the amount specified on the check.

2. A claim and a petition to certify and administer the claim as a class action against three banks, including the Bank, were filed with the District Court of Tel-Aviv-Jaffa on September 29, 2014. The total amount of the claim against all of the respondents has been set at approximately NIS 197 million. The claimants allege that the defendant banks do not inform the public of the fees that they collect and do not provide complete information regarding such fees, in contravention of the requirements of the law. In addition, according to the claimants' allegations, the defendant banks conceal information from their customers regarding benefits owed to certain customers, which they are obligated to publish and communicate, thereby causing their customers financial damage.

3. A claim and a petition to certify and administer the claim as a class action against seven banks, including the Bank, were filed with the District Court of Tel-Aviv-Jaffa on August 5, 2014. The total amount of the claim against all of the respondents has been set at no less than NIS 1.5 billion. The claimant alleges that the respondents unlawfully charge fees for transferring and processing foreign currency, among other matters by setting minimum fees for incoming and outgoing transfers, in increments, in violation of the Banking Law (Service to Customers), 1981; the Banking Rules (Service to Customers) (Due Disclosure and Document Delivery), 1992; the Restrictive Trade Practices Law, 1988; and the Consumer Protection Law, 1981.

In addition to the amount claimed, the claimant seeks an order for the respondents to limit outgoing and incoming transfer fees to USD 30 and USD 10, respectively.

On August 10, 2014, a petition was filed to unify this claim with the claims described in Sections (A)1 and (A)5 above. The court has not yet ruled on this petition.

Note 19 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 is cooperating with the Swiss authorities and 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 an investigation and can join the arrangement. The US Department of Justice announced that the Swiss Arrangement would not apply to 14 Swiss banks, the activity of which is subject to investigation. 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 an investigation. The aforementioned letter did not specify any claims or requests whatsoever.

From 2011 until the beginning of 2015, 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 US counsel in connection with the investigation against Hapoalim Switzerland and/or the banking activities of other entities in the Bank Group with American clients.

During the months of January and February 2015, the Bank's representatives conducted initial meetings with representatives of the New York Department of Financial Services (the "NYDFS") and representatives of the United States Department of Justice in Washington (the "DOJ") and, pursuant to the authorities' requests at this point, the Bank's representatives orally conveyed to them a general overview of the banking activities of the Bank Group with American clients and the differences between the Bank and other banks.

In the context of the aforementioned (separate) meetings, the representatives of the DOJ and the NYDFS stated that they intended to submit a request for information regarding the banking activities of the Bank Group in relation to its American clients (not only regarding the activities of Hapoalim Switzerland). It was also agreed that additional meetings would be conducted regarding this matter. And indeed, on March 5, 2015, the NYDFS issued a document disclosure order referring to its investigation of the Bank Group's activity with American clients.

Note 19 Contingent Liabilities and Special Commitments (continued)

In light of the preliminary stage of the US authorities' treatment of this matter, and in light of everything stated above and the resultant uncertainty, the Bank does not have sufficient information with regard to the investigation, or with regard to the manner in which the aforementioned US authorities (or any of them) seek to inspect the matters of the Bank and the other entities in the Bank Group.

Since 2011, the Bank Group has been assisted by outside counsel from the United States, Switzerland, and Israel and certain internal reviews have been conducted regarding banking activities with American clients. However, at this preliminary stage, taking into account the fact that, as of the date of this report, the US authorities have not directed any claims against the Bank, it is not known what claims the US authorities have 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 events and results of another Israeli bank in this context, which differ from those of the Bank, and in light of legal opinions and the uncertainty described above, the Bank cannot assess the scope of exposure of Hapoalim Switzerland and the Bank in this matter. The Bank and Hapoalim Switzerland have activities with American clients, within which the scope of activities in Israel is significantly greater than the activities of Hapoalim Switzerland. The Bank does not know the degree to which such facts will impact the possible exposure of the Bank.

These matters, along with the main points of the internal review conducted, were presented to the Bank's Board of Directors and to the board of directors of Hapoalim Switzerland. At this early stage, in light of the aforementioned uncertainty and the absence of a clear and known formula used to calculate the sums which were paid to the various US authorities in the context of the arrangements made by other banks with those authorities, including the Bank Leumi arrangement which was announced in December 2014, the Bank is unable to assess the scope of the aforementioned exposure.

Notwithstanding the above, the Supervisor of Banks, after inspecting the circumstances and for conservative accounting reasons, ordered the Bank to execute a provision with respect to the aforementioned, and later ordered the disclosure of this provision in the Annual Report. Pursuant to the directive of the Supervisor, the Bank included in its financial statements as at December 31, 2014, a provision in the aggregate sum of NIS 196 million against the cumulative exposure of the Bank Group in connection with this matter. The aforesaid provision was accrued over the last three quarters of the year. At the request of the Israel Securities Authority it is noted that the aggregate provision mentioned above was set aside such that a sum of NIS 52 million was included in the financial statements as at June 30, 2014, a sum of NIS 55 million was included in the financial statements as at September 30, 2014, and the remaining balance was included in the financial statements for the fourth quarter of 2014. In accordance with the directive of the Supervisor, the amount of the 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 defined as a Category 2 bank under the Swiss Arrangement, despite the fact that the aforementioned provision relates to the Bank Group as a whole.

Note 19 Contingent Liabilities and Special Commitments (continued)

In light of all the above, the matters stated above can be summarized as follows:

(a) As of the date of this report and on the basis of its consultation with its outside legal counsels, the Bank does not know how to assess the amounts or the scope of its exposure, due, among other factors, to the preliminary stage of the treatment of this issue.

(b) For more than three years, there was no material contact or correspondence between the US authorities and the Bank or its representatives, and the Bank Group was not presented with claims that may shed light on the scope of the exposure resulting from the investigation of the Bank Group's banking activities with American clients.

(c) The Bank, with the assistance of its outside counsels in the US, Switzerland, and Israel, is conducting certain internal reviews in connection with the Bank Group's banking activities with American clients, the main aspects of which were presented to the Bank's Board of Directors and to the board of directors of Hapoalim Switzerland.

(d) The Bank does not know if or when it will be able to assess the exposure in connection with the aforesaid. The matter is dependent, among other things, upon the development of the process with the US authorities, the conduct of the US authorities, and the information that will be conveyed to the Bank and to its representatives in this context, and information that the Bank will be asked to submit to the US authorities.

(e) The language of this note was coordinated with the Supervisor of the Banks, and details included herein were included at the request of the Israel Securities Authority.

F. On March 9, 2010, a petition to certify a derivative claim against the Bank was filed with the District Court of Tel-Aviv-Jaffa, in which the court was asked to grant the petitioner permission 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 in 2005, against Tarshish Holdings and Investments Hapoalim Ltd. (hereinafter: "Tarshish"), which is a subsidiary of the Bank, and against RP Explorer Master Fund (hereinafter: "RP") (hereinafter, jointly: the "Defendants").

The cause in respect of which the certification of a derivative claim has been requested concerns an agreement entered into by Tarshish in 2005 for the acquisition of the shares of the Turkish bank currently known as Bank Pozitif Kredi Ve Kalkinma Bankasi A. S. (hereinafter: "Bank Pozitif") by Tarshish (hereinafter: the "Acquisition Agreement"), as well as the compensation in the amount of NIS 88 million (according to the petition) paid to RP in 2008 in connection with the same agreement (hereinafter: the "Compensation").

According to the petitioner, the Defendants, jointly and severally, caused damage to the Bank in the amount of NIS 88 million, and they should compensate the Bank in that amount. Against Mr. Dan Dankner, the claimant alleges that the amount of the acquisition 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.

Note 19 Contingent Liabilities and Special Commitments (continued)

On July 11, 2010, an additional petition was filed with the District Court of the Central District to certify a claim as a derivative claim against Mr. Dan Dankner, members of the Board of Directors of the Bank who served as directors in February 2008, Tarshish, and RP (hereinafter, jointly, the "Defendants"), and against the Bank as a formal defendant, in which the claimant petitions the court for permission to file a derivative claim on behalf of the Bank against the Defendants, and to obligate them, jointly and severally, to pay the Bank the sum of approximately NIS 72 million. This claim concerns the aforesaid Acquisition Agreement and the Compensation, which, according to the petitioner, was higher by USD 20 million than the compensation agreed upon in the Acquisition Agreement. The claimant alleges that the payment to RP was performed by the Bank in violation of the duty of loyalty of some of the Defendants, and in violation of the duty of care of the other Defendants.

On October 19, 2010, the President of the Supreme Court ruled to unify the proceedings in the two petitions. On February 10, 2011, the District Court ordered an amended claim to be filed, unifying the two claims (hereinafter, jointly: the "Unified Claim").

In October 2012, the State's Attorney indicted Mr. Dan Dankner, who served as Chairman of the Board of Directors of the Bank until August 1, 2009, for actions carried out during his term of service on the Board of Directors, including matters and facts which are of the essence to the Unified Claim. Following the indictment, the petitioners filed a consensual petition to postpone the hearing of the amended petition until a ruling was handed down in the criminal case against Mr. Dan Dankner. After a ruling was given 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, for the purposes of the settlement only, and for reasons of cost savings, to pay compensation to the Bank and litigation fees and special compensation 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 beyond its legal obligation and does not constitute agreement or admission of any type or kind on the part of the insurer or on the part of the directors or of any of the other parties to the case, or of any of the officers of the Bank, present or past, with respect to any of the allegations in the claim and in the petitions to certify the claim as derivative. The Bank and the directors firmly 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 that was available to it, and that it acted solely in the best interests of the Bank.

As ordered by the court, a notice was published in the newspapers on January 25, 2015, concerning the outline of the settlement agreement, providing the option to object to the agreement within 21 days of the date of publication. No objections have been submitted, to the Bank's knowledge. In addition, as ordered by the court, on January 18, 2015, the settlement agreement was submitted for perusal by the Supervisor of Banks, who is entitled to express his opinion within 30 days. On February 17, 2015, the State's Attorney requested an extension of 30 additional days for submission of the position of the Supervisor of Banks with regard to the proposed settlement arrangement, and noted that the Supervisor of Banks had also transferred the proposed settlement for perusal by the Ministry of Justice and the Israel Securities Authority.

Note 19 Contingent Liabilities and Special Commitments (continued)

G. A petition to certify a derivative claim was filed with the District Court of Tel Aviv Jaffa on March 1, 2015, in which the court was asked to grant the petitioner permission to file a claim on behalf of the Bank 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").

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 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 aforesaid payment.

H. 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, 2014, amounted to NIS 194 million (USD 50 million), compared with NIS 174 million (USD 50 million) at the end of 2013. No withdrawals were performed on any of these lines up to December 31, 2014. 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.

NIS millions

Note 20 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates

A. Nominal amount of derivative instruments

	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
3. Other derivatives*						
Option contracts traded on the stock exchange:						
Options written	-	-	2,723	18,228	-	20,951
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.
** Derivatives constituting part of the asset and liability management system of the Bank, which are not designated for hedging.

NIS millions

Note 20 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

A. Nominal amount of derivative instruments (continued)

	December 31, 2013					
	Interest contracts		Foreign currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Forward contracts	-	-	3,054	-	-	3,054
Swaps	-	7,988	-	-	-	7,988
Total hedging derivatives	-	7,988	3,054	-	-	11,042
Of which: interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	-	3,991	-	-	-	3,991
2. ALM derivatives*,**						
Future contracts	-	12,968	-	-	-	12,968
Forward contracts	10,578	18,506	125,419	-	686	155,189
Other option contracts:						
Options written	-	19,272	20,984	3,419	364	44,039
Options bought	-	20,974	20,642	802	363	42,781
Swaps	3,725	282,593	35,050	619	-	321,987
Total ALM derivatives	14,303	354,313	202,095	4,840	1,413	576,964
Of which: interest rate swap contracts in which the banking corporation has agreed to pay a fixed interest rate	2,611	131,018	-	-	-	133,629
3. Other derivatives*						
Future contracts	-	30	-	-	59	89
Option contracts traded on the stock exchange:						
Options written	-	-	4,589	13,858	-	18,447
Options bought	-	-	4,589	13,860	-	18,449
Other option contracts:						
Options bought	-	-	-	57	-	57
Total other derivatives	-	30	9,178	27,775	59	37,042
4. Credit derivatives and foreign currency spot swap contracts						
Credit derivatives for which the banking corporation is a guarantor	-	-	-	-	451	451
Foreign currency spot swap contracts	-	-	11,495	-	-	11,495
Total nominal amount	14,303	362,331	225,822	32,615	1,923	636,994

* 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 20 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

B. Gross fair value of derivative instruments

	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 20 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

B. Gross fair value of derivative instruments (continued)

	December 31, 2013					
	Interest contracts		Foreign currency contracts	Share-related contracts	Commodity and other contracts	Total
	NIS-CPI	Other				
1. Hedging derivatives*						
Positive gross fair value	-	88	59	-	-	147
Negative gross fair value	-	201	30	-	-	231
2. ALM derivatives*,**						
Positive gross fair value	170	5,891	3,749	43	40	9,893
Negative gross fair value	511	6,188	4,504	33	40	11,276
3. Other derivatives*						
Positive gross fair value	-	-	89	556	-	645
Negative gross fair value	-	-	89	546	-	635
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)	170	5,979	3,897	599	44	10,689
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets in respect of derivative instruments(1)	170	5,979	3,897	599	44	10,689
(1) Of which: balance sheet balance of assets in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	51	174	2,344	599	21	3,189
Total negative gross fair value(4)	511	6,389	4,623	579	40	12,142
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities in respect of derivative instruments(2)	511	6,389	4,623	579	40	12,142
(2) Of which: balance sheet balance of liabilities in respect of derivative instruments not subject to a netting arrangement or similar arrangements***	2	292	2,964	579	14	3,851

* 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 17 million.
(4) Of which, negative gross fair value of embedded derivative instruments in the amount of NIS 13 million.

NIS millions

Note 20 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

C. Credit risk in respect of derivative instruments, by contract counterparty

	December 30, 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**

	December 31, 2013					
	Stock exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
Positive gross fair value of derivative instruments(1)	604	6,030	972	65	3,018	10,689
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	-	(4,900)	(943)	-	(494)	(6,337)
Net total assets in respect of derivative instruments	604	1,130	29	65	2,524	4,352
Off-balance sheet credit risk in respect of derivative instruments(2)	2	8,699	1,587	341	8,899	19,528
Total credit risk in respect of derivative instruments	606	14,729	2,559	406	11,917	30,217
Balance sheet balance of liabilities in respect of derivative instruments(3)	603	5,851	1,541	7	4,140	12,142
Gross amounts not offset in the balance sheet:						
Financial instruments	-	(4,900)	(943)	-	(494)	(6,337)
Net total liabilities in respect of derivative instruments	603	951	598	7	3,646	5,805

(1) Of which positive gross fair value of embedded derivative instruments in the amount of NIS 11 million (December 31, 2013: NIS 17 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 liability of a borrower. The method of calculation of credit risk in respect of derivative instruments in the context of the limits on borrower indebtedness changed beginning January 1, 2014. The change was implemented prospectively; comparative figures were not restated.
(3) Of which negative gross fair value of embedded derivative instruments in the amount of NIS 41 million (December 31, 2013: NIS 13 million).

NIS millions

Note 20 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

D. Details of maturity dates (nominal value amounts)

	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
Interest contracts:					
NIS-CPI	**1,937**	**4,802**	**9,656**	**2,675**	**19,070**
Other	**169,449**	**113,452**	**184,814**	**97,432**	**565,147**
Foreign currency contracts	**167,477**	**85,968**	**26,644**	**17,777**	**297,866**
Share-related contracts	**36,973**	**7,741**	**3,989**	**481**	**49,184**
Commodity and other contracts (including credit derivatives)	**626**	**260**	**226**	**-**	**1,112**
Total	**376,462**	**212,223**	**225,329**	**118,365**	**932,379**

	December 31, 2013				
	Up to 3 months	Over 3 months up to 1 year	Over 1 year up to 5 years	Over 5 years	Total
Total	230,529	146,265	161,715	98,485	636,994

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.

- 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.

Note 20 Activity in Derivative Instruments - Volume, Credit Risks and Maturity Dates (continued)

(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 21 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, nontradable 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 19 million.

Note 21 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 amounts to a reduction of the fair value by NIS 13 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

A. Balances and fair value estimates of financial instruments

	December 31, 2014				
	Balance sheet balance	Fair Value(1)			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash on hand 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 bought 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**	**-**	**294,393**	**297,951**
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**	**321,221**	**374,973**

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 612 million.
** 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

A. Balances and fair value estimates of financial instruments (continued)

	December 31, 2013				
	Balance sheet balance	Fair Value[(1)]			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash on hand and deposits with banks	45,709	2,435	-	43,259	45,694
Securities*	60,912	51,462	8,417	1,078	60,957
Securities borrowed or bought under agreements to resell	65	-	-	65	65
Net credit to the public***	251,600	1,796	-	252,344	254,140
Credit to governments	1,169	-	-	1,175	1,175
Assets in respect of derivative instruments	10,672	635	7,443	2,594	10,672
Other financial assets	2,596	1,550	-	1,046	2,596
Total financial assets	**372,723	57,878	15,860	301,561	375,299
Financial liabilities					
Deposits from the public***	276,525	1,796	-	276,232	278,028
Deposits from banks	5,303	-	-	5,378	5,378
Deposits from the government	613	-	-	663	663
Securities lent or sold under agreements to repurchase	242	-	-	242	242
Bonds and subordinated notes	33,980	30,022	2,134	4,780	36,936
Liabilities in respect of derivative instruments	12,129	635	11,071	423	12,129
Other financial liabilities	17,418	1,729	267	15,368	17,364
Total financial liabilities	**346,210	34,182	13,472	303,086	350,740

* Includes shares and options for which no fair value is available, which are stated at cost, in the amount of NIS 562 million.
** Of which: assets and liabilities in the amount of NIS 77,395 million and in the amount of NIS 17,665 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 17 million and NIS 13 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis

	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 21 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 21 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2013			
	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	42,917	4,067	-	46,984
Government bonds - foreign governments	1,672	1,140	-	2,812
Bonds of financial institutions in Israel	306	98	-	404
Bonds of foreign financial institutions	560	1,802	-	2,362
Bonds of others in Israel	1,131	428	-	1,559
Bonds of foreign others	1,084	882	-	1,966
Tradable shares	1,659	-	-	1,659
Securities held for trading:				
Government bonds - Israeli government	1,502	-	-	1,502
Government bonds - foreign governments	33	-	-	33
Bonds of foreign financial institutions	315	-	-	315
Bonds of others in Israel	11	-	-	11
Bonds of foreign others	239	-	-	239
Tradable shares	33	-	-	33
Total securities measured at fair value	51,462	8,417	-	59,879
Assets in respect of derivative instruments:				
NIS-CPI contracts	-	118	52	170
Other interest contracts	-	5,443	536	5,979
Foreign currency contracts	89	1,868	1,923	3,880
Share contracts	546	-	53	599
Commodity and other contracts	-	14	30	44
Assets in respect of embedded derivatives	-	-	17	17
Credit in respect of inter-customer lending	1,796	-	-	1,796
Assets in respect of activity in the Maof market	1,550	-	-	1,550
Total assets	55,443	15,860	2,611	73,914

NIS millions

Note 21 Balances and Fair Value Estimates of Financial Instruments (continued)

B. Items measured at fair value on a recurring basis (continued)

	December 31, 2013			
	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	-	511	-	511
Other interest contracts	-	6,102	299	6,401
Foreign currency contracts	89	4,431	104	4,624
Share contracts	546	-	7	553
Commodity and other contracts	-	27	13	40
Liabilities in respect of embedded derivatives	-	(1)	14	13
Deposits in respect of inter-customer lending	1,796	-	-	1,796
Liabilities in respect of activity in the Maof market	1,550	-	-	1,550
Liabilities in respect of securities lending	179	267	-	446
Total liabilities	4,160	11,337	437	15,934

NIS millions

Note 21 Balances and Fair Value Estimates of Financial Instruments (continued)

C. Items measured at fair value on a nonrecurring basis

	December 31, 2014				
	Fair value measurements using –			Total fair value	Total profit (loss) in respect of changes in value in the period ended Dec. 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	**-**	**-**	**2,219**	**2,219**	**(1) 81**
Investments in shares	**-**	**-**	**35**	**35**	**(2)(8)**
Total	**-**	**-**	**2,254**	**2,254**	**73**

	December 31, 2013				
	Fair value measurements using –			Total fair value	Total profit (loss) in respect of changes in value in the period ended Dec. 31, 2013
	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*	-	-	3,171	3,171	(1)(24)
Investments in shares	-	-	114	114	(2)(31)
Total	-	-	3,285	3,285	(55)

* 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 21 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, 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										
Securities held for trading:										
Bonds of others in Israel	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**[(2)(1)] -**
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."

NIS millions

Note 21 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, 2012	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, 2013	Unrealized gains (losses) in respect of instruments held as at Dec. 31, 2013
Assets										
Securities available for sale:										
Bonds of foreign financial institutions	43	-	-	-	-	(43)	-	-	-	(2)(1)-
Net balances in respect of derivative instruments:										
NIS-CPI contracts	80	4	-	-	-	(32)	1	(1)	52	(3)7
Other interest contracts	454	(76)	-	52	(2)	(203)	-	12	237	(3)(1)(63)
Foreign currency contracts	801	1,266	-	119	-	(625)	61	197	1,819	(3)1,298
Share contracts	131	30	-	18	-	(133)	-	-	46	(3)(5)
Commodity and other contracts	36	6	-	13	-	(36)	-	(2)	17	(3)4
Embedded derivatives	(39)	24	-	-	(16)	34	-	-	3	(3)14
Total	1,506	1,254	-	202	(18)	(1,038)	62	206	2,174	1,255

(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, the Bank transferred net liabilities in respect of foreign currency derivatives in the amount of NIS 4 million, which were measured using unobservable inputs prior to the transfer, from Level 3 measurement to Level 2 measurement.

Note 21 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, 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	**2,219**	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%)
Commodity and other contracts	**19**	Currency derivatives pricing model	Transaction counterparty risk	0.52%-4.38% (3.03%)
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%)
Embedded derivatives(2)	**11**	Option pricing model	Unlinked NIS interest rate	0.85%-6.94% (2.79%)

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 21 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, 2013			
	Fair value	Assessment technique	Unobservable inputs	Range (weighted average)
	NIS millions			
Assets				
Investment in non-tradable shares	98	Our share of the balance sheet value		
Investment in non-tradable shares	16	Valuation		
Impaired credit the collection of which is contingent on collateral*	3,171	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	52	Currency and interest rate derivatives pricing model	Transaction counterparty risk	1.59%-5.15% (3.35%)
Other interest contracts	269	Interest rate derivatives pricing model	Transaction counterparty risk	0.68%-4.31% (3.18%)
Foreign currency contracts	1,819	Option pricing model	Transaction counterparty risk	0.58%-5.53% (2.45%)
Commodity and other contracts	17	Currency derivatives pricing model	Transaction counterparty risk	0.68%-4.31% (3.58%)
Share contracts(1)	17	Option pricing model	Standard deviation	26.50%-68.50% (30.32%)
			Dividend yield	2.00%-10.56% (4.05%)
			Unlinked NIS interest rate	2.87%-3.20% (3.08%)
Embedded derivatives(2)	17	Option pricing model	Unlinked NIS interest rate	0.77%-8.10% (2.67%)

* 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 22 Interested and Related Parties

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, 2014					
	Interested parties(3)					
	Controlling shareholders		Key management personnel*		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

* Including their immediate family members, as defined in IAS 24.
** 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) Excludes balances of the Phoenix Group, which holds more than 5% through provident funds and mutual funds.

NIS millions

Note 22 Interested and Related Parties (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**	**-**	**-**

* 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 6.

NIS millions

Note 22 Interested and Related Parties (continued)

A. Balance sheet balances (continued)

	December 31, 2013					
	Interested parties[3]					
	Controlling shareholders		Key management personnel*		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	-	-	11	12	[1]1,357	[1]1,621
Allowance for credit losses	-	-	-	-	(13)	(19)
Net credit to the public	-	-	11	12	1,344	1,602
Other assets	-	-	-	-	1	1
Liabilities						
Deposits from the public	18	40	57	57	166	989
Other liabilities	-	-	42	56	5	31
Shares (included in equity)	6,216	6,586	31	31	-	-
Credit risk in off-balance sheet financial instruments* **	-	-	17	[2]23	[1]1,154	[1]1,589

* Including their immediate family members, as defined in IAS 24.
** Based on the balance at the end of each month.
*** As calculated for the purpose of borrower debt limits.
(1) Including NIS 850 million in credit to the public and NIS 187 million in credit risk in respect of off-balance sheet financial instruments (highest balance during 2013: NIS 948 million and NIS 207 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 2013: NIS 1 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) Excludes balances of the Phoenix Group, which holds more than 5% through provident funds and mutual funds.

NIS millions

Note 22 Interested and Related Parties (continued)

A. Balance sheet balances (continued)

	December 31, 2013					
	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	176	198	-	-
Allowance for credit losses	-	-	(8)	(9)	-	-
Net credit to the public	2	2	168	189	-	-
Investments in equity-basis investees(1)	2	4	135	135	-	-
Other assets	-	-	1	1	-	-
Liabilities						
Deposits from the public	4	4	144	146	6	6
Other liabilities	-	-	-	-	1	1
Credit risk in off-balance sheet financial instruments**	-	-	196	199	-	-

* 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 6.

NIS millions

Note 22 Interested and Related Parties (continued)

B. Income and expenses in the statement of profit and loss

	For the year ended December 31, 2014						
	Interested parties			Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Key management personnel**	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)**

* Details in section C below.
** Including their immediate family members, as defined in IAS 24, and including those who retired during the year.
*** Parties meeting the definition of a related party pursuant to IAS 24, 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 22 Interested and Related Parties (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	Key management personnel**	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)

* Details in section C below.
** Including their immediate family members, as defined in IAS 24, and including those who retired during the year.
*** Parties meeting the definition of a related party pursuant to IAS 24, 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.
**** Includes NIS 0 million in respect of a share-based payment to the Chairman of the Board of Directors of Isracard, who is a director of the Bank.
(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 22 Interested and Related Parties (continued)

B. Income and expenses in the statement of profit and loss (continued)

	For the year ended December 31, 2012						
	Interested Parties			Related parties held by the Bank and its consolidated companies			Total
	Controlling shareholders	Key management personnel**	Others	Unconsolidated subsidiaries	Equity-basis investees	Others***	
Net interest income*	-	-	82	-	7	-	89
Non-interest income	4	-	11	-	3	-	18
Of which: Management and services fees	-	-	2	-	-	-	2
Operating and other expenses****	-	(1)(91)	(3)	-	(8)	-	(102)
Of which: Interested party employed by or on behalf of the corporation: 18	-	(80)	-	-	-	-	(80)
Benefits to directors not employed by the Bank or on its behalf - number of beneficiaries:14	-	(11)	-	-	-	-	(11)
Total	4	(91)	90	-	2	-	5

* Details in section C below.
** Including their immediate family members, as defined in IAS 24, and including those who retired during the year.
*** Parties meeting the definition of a related party pursuant to IAS 24, 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.
**** Includes NIS 1 million in respect of a share-based payment to the Chairman of the Board of Directors of Isracard, who is a director of the Bank.
(1) Short-term employee benefits – NIS 51 million; post-employment benefits – NIS 0 million; severance benefits – NIS 0 million; other long-term benefits – NIS 11 million; share-based payment – NIS 18 million.

NIS millions

Note 22 Interested and Related Parties (continued)

C. Net interest income in transactions with interested and related parties

	Consolidated			Of which: equity-basis investees		
	2014	2013	2012	**2014**	2013	2012
Income (expenses)						
In respect of assets:						
From credit to the public	**31**	67	110	**11**	8	10
From other assets	**3**	-	-	**-**	-	-
In respect of liabilities:						
On deposits from the public	**(3)**	(9)	(21)	**(1)**	(1)	(3)
Total	**31**	58	89	**10**	7	7

D. Information regarding terms of transactions and balances with related and interested parties

(1) 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.

NIS millions

Note 23 Interest Income and Expenses

	2014	2013	2012
A. Interest income*			
From credit to the public	**9,619**	11,390	12,375
From credit to the government	**32**	21	18
From deposits with banks	**108**	105	118
From deposits with the Bank of Israel and from cash	**71**	192	565
From securities borrowed or bought under agreements to resell	**-**	1	-
From bonds	**834**	1,236	1,257
From other assets	**9**	16	13
Total interest income	**10,673**	12,961	14,346
B. Interest expenses*			
On deposits from the public	**(1,428)**	(2,792)	(3,965)
On deposits from the government	**(12)**	(23)	(38)
On deposits from banks	**(63)**	(116)	(219)
On securities lent or sold under agreements to repurchase	**(10)**	(15)	(34)
On bonds and subordinated notes	**(1,361)**	(2,065)	(1,925)
On other liabilities	**(31)**	(7)	(5)
Total interest expenses	**(2,905)**	(5,018)	(6,186)
Total net interest income	**7,768**	7,943	8,160
C. Details of net effect of hedging derivative instruments on interest income and expenses**			
Interest income	**(221)**	(154)	(136)
Interest expenses	**10**	13	(17)
D. Details of interest income from bonds on a cumulative basis			
Held to maturity	**27**	46	58
Available for sale	**780**	1,131	1,116
Held for trading	**27**	59	83
Total included in interest income	**834**	1,236	1,257

* Including the effective component in hedges.
** Details of the effect of hedging derivative instruments on subsections A and B.

NIS millions

Note 24 Non-Interest Financing Income

A. Non-interest financing income (expenses) in respect of non-trading activities

	2014	2013	2012
1. From activity in derivative instruments			
Non-effective part of hedges (see C below)[1]	**(5)**	23	31
Net income (expenses) in respect of ALM derivative instruments[2]	**1,918**	(993)	(380)
Total from activity in derivative instruments	**1,913**	(970)	(349)
2. From investment in bonds			
Gains from sale of bonds available for sale[3]	**284**	449	319
Losses from sale of bonds available for sale[3][4]	**-**	(4)	(18)
Total from investment in bonds	**284**	445	301
3. Net exchange rate differences	**(1,496)**	818	114
4. Gains (losses) from investment in shares			
Gains from sale of shares available for sale[3]	**164**	172	92
Losses from sale of shares available for sale[3][5]	**(69)**	(76)	(60)
Dividend from shares available for sale	**36**	38	56
Gain from sale of shares of equity-basis investees	**3**	-	-
Total from investment in shares	**134**	134	88
5. Net gains (losses) in respect of securitization transactions	**-**	-	-
6. Net gains in respect of loans sold	**-**	2	19
Total non-interest financing income in respect of non-trading activities	**835**	429	173

(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 a provision for impairment in the amount of approximately NIS 0 million for the year ended December 31, 2014 (2013: NIS 0 million; 2012: NIS 8 million).
(5) Including a provision for impairment in the amount of approximately NIS 69 million for the year ended December 31, 2014 (2013: NIS 75 million; 2012: NIS 60 million).

NIS millions

Note 24 Non-Interest Financing Income (continued)

B. Non-interest financing income in respect of trading activities**

	2014	2013	2012
Net income in respect of other derivative instruments	**20**	*21	*34
Net realized and unrealized gains from adjustments to fair value of bonds held for trading(1)	**59**	24	46
Net realized and unrealized gains from adjustments to fair value of shares held for trading(2)	**2**	6	2
Total non-interest financing income from trading activities***	**81**	*51	*82
Total non-interest financing income	**916**	*480	*255
Details of non-interest financing income in respect of tradingactivities, by risk exposure:			
Interest rate exposure	**60**	24	46
Foreign currency exposure	**5**	*6	*5
Share exposure	**16**	21	31
Total	**81**	*51	*82

C. Non-effective part of hedges – further details****			
1. Fair value hedges			
Non-effectiveness of hedges	**(11)**	2	(3)
Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**-**	*-	*-
2. Cash flow hedges			
Gain component in respect of derivative instruments excluded for the evaluation of the effectiveness of the hedge	**6**	21	34
Total	**(5)**	*23	*31

* Reclassified.
** Includes exchange rate differences arising from trading activity.
*** With regard to interest income from investment in bonds held for trading, see Note 23.
**** For a disclosure of the net effect of hedging derivative instruments on interest income and expenses, see Note 23.
(1) Of which, the part of gains associated with bonds held for trading still held at the balance sheet date, in the amount of approximately NIS 12 million (2013: NIS 6 million; 2012: NIS 5 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(1) million (2013: NIS 0 million; 2012: NIS (1) million).

NIS millions

Note 25 Fees

Composition:

	2014	2013	2012
Account management	**980**	968	974
Credit cards	**1,674**	1,597	1,590
Securities activity	**1,047**	911	988
Financial products distribution fees(1)	**218**	188	174
Management, operation and trust to institutional entities(2)	**45**	50	55
Credit handling	**173**	342	337
Conversion differences	**277**	275	263
Foreign trade activity	**124**	116	126
Net income from credit portfolios services	**40**	33	37
Management fees and fees from life insurance and home insurance	**46**	49	48
Financing transaction fees	**545**	529	453
Other fees	**38**	57	60
Total fees	**5,207**	5,115	5,105

(1) Mainly mutual funds.
(2) Mainly management and operation fees given to provident funds.

The Competitiveness Committee and Regulatory Initiatives Based on the Committee's Recommendations

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.

Note 25 Fees (continued)

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.

- Changes in the Banking Rules (Service to Customers) (Fees), 2008, took effect in February 2015. The changes include: cancellation of the direct-channel fee in transactions executed using immediate debit cards; a determination that account ownership confirmation fees shall be charged only beginning with the second notice issued during the year; a determination that in transfers using the ZAHAV real-time transfer system, in amounts up to NIS 1 million, a fee shall be collected in the amount of the fee for a transaction by a bank teller (NIS 6.50); cancellation of management fees for housing loans and non-housing loans granted up to July 2008; and cancellation of the deferred payment fee in transactions executed using credit cards from February 2015 forward.
- As of February 2015, the definition of a "small business" was changed, such that for customers who have presented documents and have been categorized as small businesses, the categorization shall have no expiration date (prior to the change, the categorization was in effect for one year), unless the Bank addresses a demand to the customer, under circumstances in which the Bank has reasonable basis to assume that the business turnover of the corporation in the last year exceeds NIS 5 million.
- Changes in fees in respect of transactions in foreign currencies and withdrawals overseas using charge cards will take effect in April 2015.
- An amendment including the establishment of a uniform price list for small businesses receiving charge card transaction clearing services from credit-card companies will take effect in July 2015.

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 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.

The Bank is currently reviewing the overall implications of the foregoing for the Bank's revenues as well as additional long-term business and operational implications. Based on mapping and examination of the other recommendations of the report which have not yet been implemented, the Bank's estimates indicate that implementation of these recommendations is likely to have a negative impact on the results of its operations; however, these effects cannot be quantified at this stage, and depend on customers' behavior, additional regulatory changes, and the activity of competitors, among other factors.

NIS millions

Note 26 Other Income

Composition:

	2014	2013	2012
Income from computer services to company that was consolidated in the past	**60**	36	36
Capital gains from the sale of buildings and equipment	**5**	11	7
Others	**66**	79	74
Total other income	**131**	126	117

Note 27 Salaries and Related Expenses(1)

Composition:

	2014	2013	2012
Salaries	**3,118**	*3,277	*3,290
Expense incurred from share based payment transactions(2)	**115**	159	96
Severance payments, benefits, pension, study fund and vacation	**698**	**530	**619
National insurance and wage tax	**736**	780	703
Other related expenses	**243**	248	237
Efficiency plan provisions	**390**	**440	**185
Total salaries and related expenses	**5,300**	*5,434	*5,130
(1) Of which: salaries and related expenses abroad	**530**	461	568
(2) Of which: expenses arising from transactions treated as share based payment transactions settled in capital instruments	**50**	90	71

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** Reclassified.

NIS millions

Note 28 Other Expenses

Composition:

	2014	2013	2012
Marketing and advertising	**323**	308	363
Communication	**231**	226	224
Computers*	**370**	352	341
Office	**143**	138	164
Insurance	**21**	24	21
Professional services	**210**	216	218
Wages and reimbursement of expenses to members of the Board of Directors	**20**	15	17
Training and further education	**34**	39	42
Fees	**247**	228	237
Contribution to the community	**47**	46	48
Others	**643**	442	454
Total other expenses	**2,289**	2,034	2,129

* Excluding salaries, depreciation and deductions.

NIS millions

Note 29 Provision for Taxes (Tax Benefit) on Profit

A. Composition:

	2014	2013	2012
Current taxes:			
In respect of current year	**1,736**	1,773	1,390
In respect of previous years	**431**	37	96
Total current taxes	**2,167**	1,810	1,486
Deduct:			
Deferred taxes:			
In respect of current year	**(56)**	*(538)	*(205)
In respect of previous years	**(382)**	(1)	(51)
Total deferred taxes	**(438)**	*(539)	*(256)
Total provision for taxes(1)	**1,729**	*1,271	*1,230
(1) Of which: provision for taxes for tax authorities abroad	**21**	41	30

B. Change in deferred taxes:

	2014	2013	2012
Creation and reversal of temporary differences	**438**	*391	*207
Change in the tax rate	**-**	*148	*49
Total change in deferred taxes	**438**	*539	*256

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

NIS millions

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

C. 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:

	2014	2013	2012
Rate of tax applicable to the Bank in Israel (%)	**37.71**	36.22	35.53
Amount of tax based on statutory tax rate	**1,681**	*1,364	*1,337
Add (deduct) tax expenses (tax savings) in respect of:			
Different statutory tax rate	**(87)**	(113)	(101)
Non-deductible other expenses	**116**	41	22
Income of consolidated companies abroad	**30**	29	32
Translation differences in respect of consolidated companies abroad	**(39)**	88	2
Adjustment differences for depreciation and capital gain	**-**	(1)	2
Exempt income and income taxable at preferential rates	**(17)**	(24)	(36)
Timing differences for which deferred taxes were not recorded	**(7)**	-	7
Loss for tax in respect of which no deferred taxes were recorded	**3**	(1)	(31)
Taxes in respect of previous years	**49**	36	45
Change in the balance of deferred taxes due to the change in the tax rate	**-**	*(148)	*(49)
Provision for taxes on profit	**1,729**	*1,271	*1,230

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

D.1. Balances of deferred tax assets and deferred tax liability:

	December 31			
	2014	2013	**2014**	2013
	Balance (NIS millions)		Average tax rate %	
Deferred tax assets:				
From allowance for credit losses	**1,966**	1,595	**37.2**	36.9
Surplus funding for severance payments and retirement	**1,215**	1,144	**37.4**	37.4
From the provision for vacation and grants	**356**	326	**37.0**	36.3
From losses and deductions carried forward for tax purposes	**56**	50	**27.7**	27.8
From other monetary items	**67**	108	**33.7**	35.0
Total deferred tax assets	**3,660**	3,223	**37.0**	36.8
Deferred tax liability:				
From investments in affiliates	**33**	33	**11.4**	11.4
From other monetary items	**67**	69	**27.7**	27.8
From the adjustment of depreciable non-monetary assets	**90**	*89	**25.9**	*25.9
Total deferred tax liability	**190**	*191	**21.6**	*21.7

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

Utilization of the balance of deferred tax assets, net, is contingent upon the existence of taxable income in future years.
Deferred tax is computed on the basis of the expected future tax rate.

NIS millions

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

D.2. Change in deferred tax assets and liabilities:

	Allowance for credit losses and interest on credit	Interest and securities	Investments in affiliates	Adjustment of depreciable non-monetary assets	Employee benefits	Losses for tax and deductions carried forward	Total
Deferred tax as at December 31, 2012	1,380	(23)	(31)	*(132)	1,228	69	2,491
Change:							
Changes allocated to profit and loss	217	(17)	(2)	*43	169	(19)	391
Changes allocated to equity	(4)	(4)	-	-	10	-	2
Effect of change in tax rate	76	9	-	*-	63	-	148
Deferred tax as at December 31, 2013	1,669	(35)	(33)	*(89)	1,470	50	3,032
Change:							
Changes allocated to profit and loss	334	(7)	-	(1)	106	6	438
Changes allocated to equity	-	5	-	-	(5)	-	-
Deferred tax as at December 31, 2014	**2,003**	**(37)**	**(33)**	**(90)**	**1,571**	**56**	**3,470**
Deferred tax asset as at December 31, 2014	**2,003**	**30**	**-**	**-**	**1,571**	**56**	**3,660**
Deferred tax liability as at December 31, 2014	**-**	**(67)**	**(33)**	**(90)**	**-**	**-**	**(190)**

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

D.3. Taxes on income recognized directly in equity:

	2014			2013			2012		
	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	**(13)**	**(5)**	**(8)**	68	25	43	7	3	4
Cash flow hedges	**5**	**2**	**3**	10	3	7	7	10	(3)
Financial assets available for sale	**382**	**122**	**260**	83	25	58	547	137	410
Share-based payments	**14**	**5**	**9**	(26)	(11)	(15)	(64)	(22)	(42)
Total taxes recognized in equity	**388**	**124**	**264**	135	42	93	497	128	369

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

E. Tax Assessments:

The Bank has final tax assessments up to and including 2012. Its subsidiaries have final tax assessments for 2009-2012. In December 2013, the Tax Assessment Officer issued wage tax assessments for the Bank in respect of 2008-2009, 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 50 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.

F. 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 514 million (December 31, 2013: approximately NIS 502 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.

G. Legislative Amendments:

Income Tax

The rate of corporation tax was 25% in 2013, and 26.5% from 2014 forward. The effect of the change in the rate of corporation tax in 2013 was reflected in the financial statements as at December 31, 2013, in an increase in the balance of deferred taxes in the amount of approximately NIS 103 million, and a concurrent decrease of the provision for taxes in the same amount.

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 17.58% in 2013 and 18% in 2014. The rate of wage tax applicable to the Bank rose on June 2, 2013, from 17% to 18%, for wages paid from July 2013 forward.

As a result of the change in the rate of tax in 2013, the Bank included an increase in the balance of deferred taxes in the amount of approximately NIS 39 million, and an increase in the balance of liabilities in respect of employee benefits in the amount of approximately NIS 21 million, before related tax effects, in its financial statements for 2013.

Note 29 Provision for Taxes (Tax Benefit) on Profit (continued)

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
Tax year			
2012	16.33%	25.00%	35.53%
2013*	17.58%	25.00%	36.22%
2014 forward**	18.00%	26.50%	37.71%

* As a result of the increase in value-added tax to 18% beginning June 2, 2013.
** As a result of the increase in corporation tax beginning January 1, 2014.

H. 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 provisions 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 expenses recorded beginning January 1, 2011.

Note 30 Earnings per ordinary share

Composition:

	For the year ended December 31		
	2014	2013	2012
	NIS millions		
Basic earnings			
Net profit attributed to the ordinary shareholders of the bank	**2,740**	*2,548	*2,506
Weighted average of amount of ordinary shares			
In shares of par value NIS 1			
Balance as at January 1 of issued and paid-up share capital	**1,320,575,890**	1,319,693,645	1,323,805,735
Effect of options exercised into shares	**3,557,991**	1,850,709	1,966,108
Effect of shares purchased during the period	**(2,925,479)**	(2,324,263)	(4,250,254)
Weighted average of amount of ordinary shares used in the calculation of basic earnings per share as at December 31	**1,321,208,402**	1,319,220,091	1,321,521,589
Diluted earnings			
Net profit attributed to the ordinary shareholders of the bank in NIS millions	**2,740**	*2,548	*2,506
Weighted average of amount of ordinary shares (diluted)			
In shares of par value NIS 1			
Weighted average of amount of ordinary shares used in the calculation of basic earnings per share	**1,321,208,402**	1,319,220,091	1,321,521,589
Effect of share options	**10,824,108**	12,655,301	10,136,848
Weighted average of amount of ordinary shares used in the calculation of diluted earnings per share as at December 31	**1,332,032,510**	1,331,875,392	1,331,658,437
Earnings per ordinary share in NIS			
Basic earnings			
Net earnings per share	**2.07**	*1.93	*1.90
Diluted earnings			
Net earnings per share	**2.06**	*1.91	*1.88

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

Note 31 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 customers with 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 – This segment includes 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 and up to 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 and up to NIS 200 million to the Bank or total indebtedness (to the Bank or to other lenders) is over NIS 10 million and up to NIS 400 million.

Note 31 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. and of Banque Hapoalim (Luxembourg) S.A. – Private Banking Segment; customers of the US and UK branches – Private Banking, Commercial, and Corporate Segment; Bank Pozitif and its subsidiary JSC Bank Pozitiv – Households and Commercial Banking 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 31 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 31 Segments of Activity and Geographical Regions (continued)

Regulatory Changes:

As of January 1, 2014, the Bank has applied the instructions set forth in the circular of the Supervisor of Banks concerning the adoption of GAAP for US banks on interest income measurement (ASC 310-20), which among other matters establishes rules for the treatment of credit origination fees, commitments to grant credit, changes in the terms of a debt, and early repayment fees. The directive was implemented prospectively. Following the implementation of the directive, certain fees were classified as interest income in the various segments of activity, and certain income items previously classified as interest income are now stated within the fees item. For further details, see Note 1D(1) above.
As of January 1, 2014, the Bank has applied the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211. The Bank applied the Basel 2 directives until December 31, 2013. Data on risk-adjusted assets, capital allocation, and return on equity based on risk-adjusted assets were calculated in accordance with the implementation of the relevant directives, as noted. For further details, see Note 13(D) above.

Reclassification of Segment Data:

Comparative figures for 2013 and 2012 were reclassified as follows:

1. On January 1, 2014, pursuant to a resolution of the Board of Management of the Bank, responsibility for the Bank's business with management companies of provident funds (other than management companies of provident funds managed within insurance companies) and mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area. Following the implementation of this organizational change, amounts of balances and results of operations in this area were reclassified from the Corporate Segment to the Financial Management Segment.
2. Credit balances in respect of the Bank's activity with foreign financial institutions which were previously recorded in the Corporate Segment were classified, in line with the Bank's organizational structure, into the Financial Management Segment.

Note 31 Segments of Activity and Geographical Regions (continued)

A. Information on operating segments:

Net interest income:
from externals
inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) for credit losses
Operating and other expenses
from externals
inter-segmental
Profit (loss) before taxes
Provision for taxes on profit (loss)
Profit (loss) 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: Investment in equity-basis investees
Average balance of liabilities
Average balance of risk assets[1]
Average balance of provident fund and mutual fund assets[2]
Average balance of securities
Average balance of other assets under management
Average number of job positions
The component of net interest income:
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, which were attributed to it by Basel 3 directives.
(2) Provident funds receiving operational services, and mutual funds for which the Bank Group provides custody services.

NIS millions

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
(784)	648	(80)	(330)	(1,138)	1,684	-	-
2	35	-	9	78	792	-	916
2,103	902	1,180	896	1,854	1,749		8,684
1,163	1,626	602	329	586	376	656	5,338
3,266	2,528	1,782	1,225	2,440	2,125	656	14,022
241	76	190	91	(177)	4	-	425
2,842	2,332	1,052	602	660	1,029	623	9,140
(82)	225	97	9	71	(240)	(80)	-
265	(105)	443	523	1,886	1,332	113	4,457
83	31	164	202	739	477	33	1,729
182	(136)	279	321	1,147	855	80	2,728
-	-	-	-	-	9	-	9
182	(136)	279	321	1,147	864	80	2,737
3	(1)	-	4	-	(3)	-	3
185	(137)	279	325	1,147	861	80	2,740
3.5%	(4.1%)	11.6%	7.5%	9.3%	35.8%	-	9.0%
69,322	36,647	27,822	32,477	87,417	120,411	6,793	380,889
-	-	-	-	-	136	-	136
37,214	123,259	30,091	22,583	33,878	103,780	456	351,261
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)
33	23	7	11	62	(516)	-	(380)
2,101	867	1,180	887	1,776	957	-	7,768

Note 31 Segments of Activity and Geographical Regions (continued)

A. Information on operating segments (continued):

Net interest income:
from externals
inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) 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:
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: Investment in equity-basis investees
Average balance of liabilities
Average balance of risk assets (1)
Average balance of provident fund and mutual fund assets (2)
Average balance of securities
Average balance of other assets under management
Average number of job positions
The component of net interest income:
Margin from credit granting activity
Margin from deposit taking activity
Other
Total net interest income

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).
** Reclassified - For further details, see the section "General – The Segments and Customer Assignment Criteria".
(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 2 directives.
(2) Provident funds receiving operational services, and mutual funds for which the Bank Group provides custody services.

NIS millions

	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)	1,238	(144)	(397)	(1,893)	2,454	-	-
	2	31	-	6	74	367	-	480
	2,125	1,020	1,108	819	2,052	1,299	-	8,423
	1,194	1,478	648	333	598	358	632	5,241
	3,319	2,498	1,756	1,152	2,650	1,657	632	13,664
	229	53	143	14	446	(11)	-	874
	*2,933	*2,181	*1,093	*558	*613	*959	*687	*9,024
	(68)	216	86	7	65	(202)	(104)	-
	*225	*48	*434	*573	*1,526	*911	*49	*3,766
	*61	*8	*135	*184	*496	*373	*14	*1,271
	*164	*40	*299	*389	*1,030	*538	*35	*2,495
	-	-	-	-	-	9	-	9
	*164	*40	*299	*389	*1,030	*547	*35	*2,504
	2	(1)	-	(11)	-	54	-	44
	*166	*39	*299	*378	*1,030	*601	*35	*2,548
	*3.5%	*1.3%	*14.0%	*10.4%	*8.6%	*29.9%	-	*9.2%
	*65,830	*33,084	*24,939	*28,965	*92,279	*122,523	*6,835	*374,455
	-	-	-	-	-	132	-	132
	36,838	125,651	29,174	20,166	34,288	100,118	855	347,090
	*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	32	18	37	143	(817)	-	(537)
	2,123	989	1,108	813	1,978	932	-	7,943

Note 31 Segments of Activity and Geographical Regions (continued)

A. Information on operating segments (continued):

Net interest income:
from externals
inter-segmental
Non-interest financing income
Total net financing profit
Fees and other income
Total income
Provision (income) 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:
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: Investment in equity-basis investees
Average balance of liabilities
Average balance of risk assets(1)
Average balance of provident fund and mutual fund assets(2)
Average balance of securities
Average balance of other assets under management
Average number of job positions
The component of net interest income:
Margin from credit granting activity
Margin from deposit taking activity
Other
Total net interest income

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

** Reclassified - For further details, see the section "General – The Segments and Customer Assignment Criteria".

(1) Calculated based on the capital allocated to the segment, according to the risk assets, which were attributed to it by Basel 2 directives.

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

NIS millions

December 31, 2012**							
Households segment	Private banking segment	Small business segment	Commercial segment	Corporate segment	Financial Management segment	Others and adjustments	Total
3,267	(850)	1,196	1,218	4,264	(935)	-	8,160
(1,054)	2,066	(87)	(468)	(2,162)	1,705	-	-
2	37	-	6	94	116	-	255
2,215	1,253	1,109	756	2,196	886	-	8,415
1,252	1,491	628	284	534	396	637	5,222
3,467	2,744	1,737	1,040	2,730	1,282	637	13,637
257	38	133	90	481	(12)	-	987
*2,775	*2,148	*1,011	*527	*696	*1,026	*703	*8,886
(45)	214	51	23	68	(192)	(119)	-
*480	*344	*542	*400	*1,485	*460	*53	*3,764
*153	*112	*177	*137	*501	*135	*15	*1,230
*327	*232	*365	*263	*984	*325	*38	*2,534
-	-	-	-	-	6	-	6
*327	*232	*365	*263	*984	*331	*38	*2,540
1	(1)	-	(6)	-	(28)	-	(34)
*328	*231	*365	*257	*984	*303	*38	*2,506
*8.1%	*9.1%	*20.0%	*9.0%	*8.4%	*16.4%	-	10.0%
63,790	30,064	23,520	26,856	100,766	109,108	5,456	359,560
-	-	-	-	-	126	-	126
35,973	125,019	26,684	18,330	30,714	96,739	1,083	334,542
48,991	30,548	21,943	34,320	140,621	22,214	1,912	300,549
2,060	31,204	2,633	1,446	2,315	77,724	-	117,382
1,960	110,282	7,606	10,555	94,356	439,320	-	664,079
-	915	-	-	-	-	-	915
*5,455	*3,397	*1,726	*1,003	*816	*919	*598	*13,914
1,645	339	856	641	1,809	7,103	-	12,393
492	844	221	56	56	(5,891)	-	(4,222)
76	33	32	53	237	(442)	-	(11)
2,213	1,216	1,109	750	2,102	770	-	8,160

NIS millions

Note 31 Segments of Activity and Geographical Regions (continued)

B. Information on geographic areas[1]

	For the year ended December 31			For the year ended December 31			as at December 31	
	2014	2013	2012	**2014**	2013	2012	**2014**	2013
	Income[2]			Net Profit attributed to shareholders of the Bank			Total assets	
Israel	**12,721**	12,458	12,293	**2,632**	*2,380	*2,406	**343,018**	*326,239
North America	**604**	522	555	**62**	105	60	**40,262**	29,077
Europe	**693**	683	767	**45**	66	37	**24,366**	24,412
Other	**4**	1	22	**1**	(3)	3	**148**	292
Total outside Israel	**1,301**	1,206	1,344	**108**	168	100	**64,776**	53,781
Total consolidated	**14,022**	13,664	13,637	**2,740**	*2,548	*2,506	**407,794**	*380,020

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

(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 before provision for credit losses, and non-interest income.

Note 32 Legislative Initiatives

Several laws enacted recently, as well as government or private initiatives or bills currently in various stages of preparation which may also become legislation, may encumber the Bank and may expose it to nuisance claims, or restrict its activities, and thereby exert an adverse effect on its future profitability. The Bank cannot assess the future impact of the aforesaid on the Bank Group.

NIS millions

Note 33 Condensed Financial Statements - The Bank

A. Condensed Balance Sheet

	December 31	
	2014	2013
Assets		
Cash on hand and deposits with banks	**53,266**	41,982
Securities	**45,989**	48,351
Securities borrowed or bought under agreements to resell	**474**	36
Credit to the public	**241,591**	231,399
Allowance for credit losses	**(3,934)**	(3,745)
Net credit to the public	**237,657**	227,654
Credit to governments	**1,861**	1,169
Investments in subsidiary and affiliated companies	**16,361**	*15,936
Buildings and equipment	**2,933**	*2,988
Assets in respect of derivative instruments	**15,747**	10,404
Other assets	**6,819**	*5,340
Total assets	**381,107**	*353,860
Liabilities and Capital		
Deposits from the public	**298,427**	278,067
Deposits from banks	**4,489**	4,623
Deposits from the government	**455**	613
Subordinated notes	**21,566**	22,783
Liabilities in respect of derivative instruments	**16,329**	11,808
Other liabilities	**8,480**	7,132
Total liabilities	**349,746**	325,026
Capital	**31,361**	*28,834
Total liabilities and capital	**381,107**	*353,860

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

NIS millions

Note 33 Condensed Financial Statements - The Bank (continued)

B. Condensed Statement of profit and loss

	2014	2013	2012
Interest income	**10,038**	12,251	13,540
Interest expenses	**(2,775)**	(4,906)	(6,081)
Net interest income	**7,263**	7,345	7,459
Provision for credit losses	**346**	844	920
Net interest income after provision for credit losses	**6,917**	6,501	6,539
Non-interest income:			
Non-interest financing income	**635**	425	43
Fees	**3,281**	3,258	3,185
Other income	**91**	75	69
Total non-interest income	**4,007**	3,758	3,297
Operating and other expenses:			
Salaries and related expenses	**4,594**	*4,728	*4,382
Maintenance and depreciation of buildings and equipment	**1,323**	*1,339	*1,411
Other expenses	**1,416**	1,195	1,198
Total operating and other expenses	**7,333**	*7,262	*6,991
Profit before taxes	**3,591**	*2,997	*2,845
Provision for taxes on profit	**1,501**	*1,042	*1,068
Profit after taxes	**2,090**	*1,955	*1,777
The Bank's share in profits of subsidiary and affiliated companies, after taxes	**650**	593	729
Net profit:			
Attributed to shareholders of the Bank	**2,740**	*2,548	*2,506

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

NIS millions

Note 33 Condensed Financial Statements - The Bank (continued)

C. Condensed Statement of cash flows

	2014	2013	2012
Cash flows from (for) operating activity			
Net profit for the year	**2,740**	*2,548	*2,506
Adjustments necessary to present cash flows from operating activity:			
The bank's share in undistributed profits of subsidiary and affiliated companies	**(650)**	(593)	(729)
Depreciation of buildings and equipment	**507**	*555	*593
Amortizations	**17**	19	19
Provision for credit losses	**346**	844	920
Gain from realization of securities available for sale and held to maturity	**(297)**	(296)	(235)
Realized and unrealized gain from adjustments to fair value of securities held for trading	**(29)**	-	(26)
Gain from realization of buildings and equipment	**(5)**	(11)	(5)
Change in benefit due to share-based payment transactions	**112**	101	31
Net change in liabilities in respect of employee benefits	**211**	340	119
Deferred taxes, net	**(445)**	*(544)	*(215)
Gain from sale of credit portfolios	**-**	(1)	(19)
Adjustments in respect of exchange rate differences	**(1,305)**	1,372	402
Accumulation differentials included in investing and financing activities	**(1,791)**	(307)	(814)
Net change in current assets:			
Deposits with banks	**(2,637)**	(527)	1,036
Credit to the public	**(10,312)**	(2,728)	(4,207)
Credit to governments	**(692)**	(371)	(182)
Securities borrowed or bought under agreements to resell	**(438)**	11	(47)
Assets in respect of derivative instruments	**(5,343)**	(916)	967
Securities held for trading	**(1,320)**	1,420	(229)
Other assets	**(1,164)**	(225)	(717)
Net change in current liabilities:			
Deposits from banks	**(134)**	(1,270)	(126)
Deposits from the public	**20,360**	482	15,030
Deposits from the government	**(158)**	(16)	(456)
Securities lent or sold under agreements to repurchase	**-**	(561)	(587)
Liabilities in respect of derivative instruments	**4,513**	(647)	(447)
Other liabilities	**1,027**	135	789
Net cash from (for) operating activity	**3,113**	*(1,186)	*13,371

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

NIS millions

Note 33 Condensed Financial Statements - The Bank (continued)

C. Condensed Statement of cash flows (continued)

	2014	2013	2012
Cash flows from (for) investing activity			
Acquisition of bonds held to maturity	**(50)**	(39)	-
Proceeds from redemption of bonds held to maturity	**10**	237	102
Acquisition of securities available for sale	**(28,360)**	(55,603)	(39,572)
Proceeds from sale of securities available for sale	**14,069**	23,795	14,830
Proceeds from redemption of securities available for sale	**20,271**	25,198	9,313
Acquisition of credit portfolios	**-**	(49)	-
Proceeds from sale of credit portfolios	**-**	201	486
Dividends received from equity-basis investees	**294**	95	5
Investments in subsidiary and affiliated companies	**(105)**	(4)	(20)
Proceeds from realization of subsidiary and affiliated companies and maturity of capital notes	**107**	103	38
Acquisition of buildings and equipment	**(460)**	*(496)	*(536)
Proceeds from realization of buildings and equipment	**13**	30	13
Net cash from (for) investing activity	**5,789**	*(6,532)	*(15,341)
Cash flows from (for) financing activity			
Issuance of bonds and subordinated notes	**(16)**	-	2,831
Redemption of bonds and subordinated notes	**(1,018)**	(860)	(760)
Issue of shares and options	**5**	4	15
Dividend paid to shareholders of the Bank	**(448)**	(276)	-
Buyback of shares	**(85)**	(127)	(113)
Net cash from (for) financing activity	**(1,562)**	(1,259)	1,973
Increase (decrease) in cash	**7,340**	(8,977)	3
Balance of cash at beginning of year	**40,748**	51,097	51,496
Effect of changes in exchange rates on cash balances	**1,305**	(1,372)	(402)
Balance of cash at end of year	**49,393**	40,748	51,097
Interest and taxes paid and/or received:			
Interest received	**12,725**	13,217	15,115
Interest paid	**(3,970)**	(5,478)	(6,194)
Dividends received	**2**	1	1
Income tax paid	**(2,465)**	(1,502)	(1,215)
Income tax received	**485**	-	167

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).

NIS millions

Note 34 Cumulative Other Comprehensive Income (Loss)

A. Changes in cumulative 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	Total		
Balance as at January 1, 2012	233	-	(13)	220	-	220
Net change during the year	413	9	(3)	419	3	416
Balance as at January 1, 2013	646	9	(16)	639	3	636
Net change during the year	56	(26)	7	37	(2)	39
Balance as at January 1, 2014	**702**	**(17)**	**(9)**	**676**	**1**	**675**
Net change during the year	**261**	**7**	**3**	**271**	**1**	**270**
Balance as at December 31, 2014	**963**	**(10)**	**(6)**	**947**	**2**	**945**

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

** Net gains (losses) in respect of hedging of investments, net, in foreign currency.

NIS millions

Note 34 Cumulative Other Comprehensive Income (Loss) (continued)

B. Changes in components of cumulative other comprehensive income (loss), before and after tax effect

	For the year ended								
	December 31, 2014			December 31, 2013			December 31, 2012		
	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	**655**	**(183)**	**472**	372	(122)	250	644	(168)	476
(Gains) losses in respect of securities available for sale reclassified to the statement of profit and loss(1)	**(272)**	**61**	**(211)**	(291)	97	(194)	(94)	31	(63)
Net change during the year	**383**	**(122)**	**261**	81	(25)	56	550	(137)	413
Adjustments from translation*:									
Adjustments from translation of financial statements	**15**	**-**	**15**	(69)	-	(69)	5	-	5
Hedges**	**(13)**	**5**	**(8)**	68	(25)	43	7	(3)	4
Net change during the year	**2**	**5**	**7**	(1)	(25)	(26)	12	(3)	9
Cash-flow hedges:									
Net (gains) losses in respect of cash-flow hedges reclassified to the statement of profit and loss	**5**	**(2)**	**3**	10	(3)	7	7	(10)	(3)
Net change during the year	**5**	**(2)**	**3**	10	(3)	7	7	(10)	(3)
Total net change during the year	**390**	**(119)**	**271**	90	(53)	37	569	(150)	419
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:									
Total net change during the year	**1**	**-**	**1**	(2)	-	(2)	3	-	3
Changes in components of other comprehensive income (loss) attributed to shareholders of the Bank:									
Total net change during the year	**389**	**(119)**	**270**	92	(53)	39	566	(150)	416

* 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 hedging of investments, net, in foreign currency.

(1) The amount before tax is reported in the statement of profit and loss, under the item of non-interest financing income. For further details, see Note 24 – non-interest financing income.

NIS millions

Note 35 Information on the Basis of Nominal Historical Data for tax purposes - The Bank

	December 31	
	2014	2013
Total assets	**381,004**	*353,732
Total liabilities	**349,746**	325,026
Shareholders' equity	**31,258**	*28,706

	2014	2013	2012
Net profit	**2,765**	*2,593	*2,537

* Retrospective implementation - for details regarding the retrospective implementation of the Supervisor of Banks' guidelines concerning capitalization of software costs, see Note 1D(2).