

OFFERING CIRCULAR



Hapoalim International N.V.

(incorporated with limited liability in Curaçao)

Guaranteed by

Bank Hapoalim B.M.

(incorporated with limited liability in Israel)

U.S. \$2,500,000,000

Global Medium Term Note Programme

This offering circular, which includes Annex A, (this “**Offering Circular**”) has been approved by the United Kingdom Financial Conduct Authority (the “**FCA**”), which is the United Kingdom competent authority for the purposes of Part 6 of the Financial Services and Markets Act 2000 (the “**FSMA**”) as listing particulars issued in compliance with the FSMA and the Listing Rules of the FCA for the purpose of giving information with regard to the issue of notes (the “**Notes**”) issued under the Global Medium Term Note Programme (the “**Programme**”) described in this Offering Circular during the period of twelve months after the date hereof. Applications have been made for such Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of the FCA and to trading on the professional securities market of the London Stock Exchange plc (the “**London Stock Exchange**”) which is not a regulated market for the purpose of the Markets in Financial Instruments Directive (Directive 2004/39/EC).

The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system *or* to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

As more fully described herein, Notes may be issued (i) on an unsubordinated basis (“**Unsubordinated Notes**”), (ii) on a subordinated basis with a fixed maturity (“**Dated Subordinated Notes**”) or (iii) on a subordinated basis with no fixed maturity (“**Undated Subordinated Notes**”) having in each case the benefit of the Unsubordinated Guarantee, Senior Subordinated Guarantee or Junior Subordinated Guarantee, as the case may be (all as defined in “Terms and Conditions of the Notes” herein).

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations under the Notes are discussed under “Risk Factors” below.

This Offering Circular constitutes listing particulars of the Issuer for the purposes of the FCA’s Listing Rules (as defined below).

Arranger and Dealer

Bank Hapoalim (Switzerland) Ltd.

18 July 2014

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IMPORTANT NOTICES

This Offering Circular comprises listing particulars given in compliance with the listing rules as published by the FCA in respect of the Notes to be listed on the professional securities market of the London Stock Exchange (the “**Listing Rules**”) made pursuant to the FSMA by the FCA for the purposes of giving information with regard to the Issuer, the Guarantor, the subsidiaries and affiliates of the Guarantor taken as a whole (defined below as the Bank Hapoalim Group) and the Notes.

Each of Hapoalim International N.V. (the “**Issuer**”) and Bank Hapoalim B.M. (the “**Guarantor**”) accepts responsibility for the information contained in this Offering Circular, which includes Annex A, and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of its knowledge and belief, in accordance with the facts and contains no omission likely to affect its import.

Each Tranche or Series (each as defined herein) of Notes will be issued on the terms set out herein under “Terms and Conditions of the Notes” (the “**Conditions**”) as amended and/or supplemented by a document specific to such Tranche or Series called the pricing supplement (the “**Pricing Supplement**”). This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche or Series of Notes, must be read and construed together with the relevant Pricing Supplement.

The Issuer and the Guarantor have confirmed to the Arranger named under “Subscription and Sale” below that this Offering Circular contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes and the guarantee of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes and the guarantee of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not consistent with this Offering Circular or any other document entered into in relation to the Programme or any information supplied by the Issuer or the Guarantor or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor or the Arranger.

Neither the Arranger nor any of its affiliates (other than for the Issuer and the Guarantor) have authorised the whole or any part of this Offering Circular and neither the Arranger nor any of its affiliates (other than the Issuer and the Guarantor) makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or

the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the Guarantor since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular or any Pricing Supplement comes are required by the Issuer, the Guarantor and the Arranger to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Offering Circular or any Pricing Supplement and other offering material relating to the Notes, see "Subscription and Sale". In particular, Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) (the "**Securities Act**") and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Guarantor, the Dealers or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Guarantor.

The maximum aggregate principal amount of Notes outstanding and guaranteed at any one time under the Programme will not exceed U.S.\$2,500,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding and guaranteed at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "Subscription and Sale".

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 in accordance with the CRA Regulation. Each of Standard & Poor's Credit Market Services Europe Limited (trading as Standard & Poor's Ratings Services), a division of The McGraw-Hill Companies Inc. ("**Standard & Poor's**") and Moody's Investors Service Limited ("**Moody's**", together with Standard & Poor's, the "**Rating Agencies**") is a credit rating agency established and operating in the European Community in accordance with the CRA Regulation.

The Notes to be issued under this Programme may or may not be issued with a rating. Where a credit rating applies in relation to any notes, such credit rating will be treated on the basis that it has been issued by a credit rating agency established in the European Union and registered under the CRA Regulation.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or all of the Rating Agencies. A suspension, reduction or withdrawal of the rating assigned to any of the Notes may adversely affect the market price of such Notes.

In this Offering Circular, unless otherwise specified, references to a “**Member State**” are references to a Member State of the European Economic Area, references to “**U.S.\$**”, “**U.S. dollars**” or “**dollars**” are to United States dollars, references to “**EUR**” or “**euro**” are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended and references to “**Japanese yen**” and “**Yen**” are to the currency of Japan, references to “**Sterling**” and “**£**” are to the currency of the United Kingdom, references to “**ILS**”, “**NIS**” and “**shekels**” are to the currency of Israel. References in this Offering Circular to “**billions**” are to thousands of millions and to “**Israel**” are to the State of Israel.

In connection with the issue of any Tranche or Series of Notes, the Arranger or other dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Pricing Supplement may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the pricing supplement of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

No Claim Against any Index(ices), Share(s) or Cash/Money Market Instrument(s)

Prospective investors intending to purchase Index Linked Notes (as defined below) or Equity Linked Notes (as defined below) should be aware that owning Index Linked Notes or Equity Linked Notes, as applicable, with payments determined by reference to an Index(ices) (as defined below) or Share(s) (as defined below) and (in the case of HALVA Notes) cash/money market instrument(s) is not the same as owning the Index(ices), Share(s) or the cash/money market instrument(s) themselves. An Index Linked Note or an Equity Linked Notes, as applicable, will not represent a claim against any Index(ices), Shares(s) or in respect of the cash/money market instrument(s) and, in the event that the amount paid on redemption of the Index Linked Notes or the Equity Linked Notes, as applicable, is less than the purchase price of the Index Linked Notes or the Equity Linked Notes, as applicable, a Noteholder will not have recourse under an Index Linked Note to any Index(ices), under an Equity Linked Note to any

Share(s) and/or (in the case of the HALVA Notes) in respect of any cash/money market instrument(s). Accordingly, the market value of such Index Linked Notes or such Equity Linked Notes, as applicable, may not have a direct relationship with the market price of the Index(ices), Share(s) and/or cash/money market instrument(s) and changes in the market price of the Index(ices), Share(s) and/or cash/money market instrument(s) may not result in a comparable change in the market value of the Index Linked Notes or the Equity Linked Notes, as applicable. For example, the market value of Index Linked Notes or Equity Linked Notes, as applicable, may not increase even if the price(s) of the Index(ices), Share(s) and/or cash/money market instrument(s) has increased. It is also possible for the price(s) of the Index(ices), Share(s) and/or cash/money market instrument(s) to increase and for the market value of Index Linked Notes or Equity Linked Notes, as applicable, to decline.

Certain Considerations Regarding Hedging in Respect of Index Linked Notes and Equity Linked Notes

Potential investors intending to purchase Index Linked Notes or Equity Linked Notes to hedge against the market risk associated with investing in a security (or basket of securities), index (or basket of indices), share (or basket of shares), cash/money market instrument(s) or other asset or basis of reference which may be specified in the applicable Pricing Supplement should recognise the complexities of utilising Index Linked Notes or Equity Linked Notes, as applicable, in this manner. For example, the market value of the Index Linked Notes or Equity Linked Notes, as applicable, may not exactly correlate with the value of the security (or basket of securities), index (or basket of indices), share (or basket of shares), cash/money market instrument(s) or other asset or basis which may be specified in the applicable Pricing Supplement. Due to fluctuating supply and demand for the Index Linked Notes or Equity Linked Notes, as applicable, there is no assurance that their market value will correlate with movements of the security (or basket of securities), index (or basket of indices), share (or basket of shares), cash/money market instrument(s) or other asset or basis which may be specified in the applicable Pricing Supplement.

Hedging and Other Potential Conflicts of Interest in Respect of Index Linked Notes or Equity Linked Notes

A Hedging Entity (as defined below) may hedge the obligations under Index Linked Notes or Equity Linked Notes, as applicable, by purchasing or selling the Index(ices), Share(s), and/or derivative instruments with returns linked to such Index(ies), Share(s), (in the case of HALVA Notes) cash/money market instrument(s) and may also adjust these hedges by, amongst other things, purchasing or selling the Index(ices), Share(s), cash/money market instrument(s) or other derivative instruments at any time and from time to time. Any of these hedging activities may affect the price(s) of the Index(ices), Share(s) and/or cash/money market instrument(s) and, therefore, the market value of the associated Index Linked Notes or Equity Linked Notes, as applicable. It is possible that a Hedging Entity could receive substantial returns from these hedging activities while the value of the Index(ices), Share(s) and/or cash/money market instrument(s) may have declined.

A Hedging Entity may also engage in trading in the Index(ices), Share(s) and/or cash/money market instrument(s) on a regular basis as part of general broker-dealer and other businesses of a Hedging Entity, for proprietary accounts, for other accounts under management or to facilitate

transactions for customers, including block transactions. Any of these activities could affect the price(s) of the Index(ices), Share(s) and/or cash/money market instrument(s) and, therefore, the market value of the associated Index Linked Notes or Equity Linked Notes, as applicable. A Hedging Entity may also issue or underwrite other Notes or financial or derivative instruments with returns linked or related to changes in the price(s) of the Index(ices), Share(s) and/or cash/money market instrument(s) and the availability of such competing products could adversely affect the market value of the Index Linked Notes or the Equity Linked Notes, as applicable.

The ILN Calculation Agent (as defined below) in respect of an issue of Index Linked Notes or Equity Linked Notes, as applicable, is the agent of the Issuer and not an agent for the Noteholders. Where the Guarantor or the Issuer acts as ILN Calculation Agent or the ILN Calculation Agent is an Affiliate (as defined in Condition 2 (*Interpretation*) of the “Terms and Conditions of the Notes”)) of the Issuer, potential conflicts of interest may exist between the ILN Calculation Agent and the Noteholders, including with respect to certain calculations, determinations and judgements that the ILN Calculation Agent may make (or may not make) pursuant to the “Terms and Conditions of the Notes” that may influence the amount receivable upon redemption of the Index Linked Notes or Equity Linked Notes, as applicable. The ILN Calculation Agent will make (or may not make) such calculations, determinations and judgements as it deems appropriate, in accordance with the “Terms and Conditions of the Notes”. In making (or not making) such calculations, determinations and judgements, the ILN Calculation Agent will be entitled to exercise substantial discretion and may be subject to conflicts of interest in exercising this discretion.

No Pledge or Holding of Index(ices)/Share(s)/Money Market Instrument(s) or other Derivative Instruments in Respect of Index Linked Notes or Equity Linked Notes

In respect of any Tranche or Series of Index Linked Notes or Equity Linked Notes, as applicable, neither the Issuer nor any of its Affiliates will pledge or otherwise hold the Index(ices), Share(s), cash/money market instrument(s) or other derivative instruments for the benefit of Noteholders in order to enable Noteholders to exchange Index Linked Notes and/or Equity Linked Notes for the associated Index(ices), Share(s) cash/money market instrument(s) or other derivative commitments, as applicable, under any circumstances. Consequently, in the event of a bankruptcy, insolvency or liquidation of the Issuer, any of the Index(ices), Share(s), cash/money market instrument(s) or other derivative commitments owned by the Issuer or its Affiliates will be subject to the claims of the Issuer’s creditors generally and will not be available specifically for the benefit of Noteholders.

KEY FEATURES

The following table represents the key features of the Programme.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Offering Circular have the same meanings in this table.

Issuer:	Hapoalim International N.V.
Guarantor:	Bank Hapoalim B.M.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Guarantor to fulfil their respective obligations under the Notes are discussed under “Risk Factors” below and include “Risks Relating to the Notes Generally”, “Risks Relating to the Issuer” and “Risks Relating to the Guarantor”.
Arranger and Dealer:	Bank Hapoalim (Switzerland) Ltd
Additional Dealers:	Bank Hapoalim B.M. and others to be specified in the relevant Pricing Supplement, if applicable.
Fiscal Agent:	Citibank, N.A., London branch.
Paying Agents:	Bank Hapoalim (Switzerland) Ltd and Bank Hapoalim (Luxembourg) Ltd.
ILN Calculation Agent:	Bank Hapoalim B.M. or any other entity specified in the applicable Pricing Supplement.
Listing and Trading:	Applications have been made for Notes to be admitted during the period of twelve months after the date hereof to listing on the Official List of the FCA and to trading on the professional securities market of the London Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Pricing Supplement.
Initial Programme Amount:	Up to U.S.\$2,500,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding and guaranteed at any one time.

- Issuance in Series:** Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
- Forms of Notes:** Notes may only be issued in bearer form. Each Tranche of Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. Each Global Note will be deposited on or around the relevant issue date with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.
- Currencies:** Notes may be denominated in Australian dollars, Canadian dollars, Czech koruna, Danish Krone, euro, Hong Kong dollars, Israeli shekels, Japanese yen, New Zealand dollars, Norwegian krone, Renminbi, Sterling, Swedish krona, Swiss francs and United States dollars or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
- Distribution:** Notes may be distributed by way of private placement or public offer and in each case on a syndicated or non-syndicated basis.
- Status of the Notes:** Notes may be issued on an unsubordinated basis or on a subordinated basis, as specified in the applicable Pricing Supplement. Unsubordinated Notes will rank *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, other than those preferred by law. Dated Subordinated Notes will rank as described in Condition 4B (*Status - Dated Subordinated Notes*). Undated Subordinated Notes will rank as described in Condition 4C (*Status — Undated Subordinated Notes*).

**Status of the
Guarantee:**

The Notes will be guaranteed by the Guarantor on an unsubordinated basis or on a subordinated basis, as specified in the applicable Pricing Supplement. The obligations of the Guarantor under the Unsubordinated Guarantee (subject to Condition 6 (*Negative Pledge*)) will rank equally with all its other unsecured and unsubordinated obligations. The obligations of the Guarantor under the Senior Subordinated Guarantee will be as described in Condition 5B (*Status — Senior Subordinated Guarantee*). The obligations of the Guarantor under the Junior Subordinated Guarantee will be as described in Condition 5C (*Status — Junior Subordinated Guarantee*).

**Scope of the
Guarantee:**

The Guarantor, under the Deed of Guarantee (as referred to on page 79) has unconditionally and irrevocably guaranteed each Noteholder the due and punctual payment of all sums from time to time payable by the Issuer in respect of the relevant Note as and when the same become due and payable and accordingly undertakes to pay to such Noteholder, in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of such Note, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Note and which the Issuer has failed to pay.

The Deed of Guarantee includes an indemnity whereby the Guarantor irrevocably and unconditionally agrees as a primary obligation to indemnify each Beneficiary (as defined under the Deed of Guarantee) from time to time from and against any loss, liability or cost incurred by such Beneficiary as a result of any of the obligations of the Issuer under or pursuant to any Note, the Deed of Covenant or any provision thereof being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to such Beneficiary or any other person, the amount of such loss being the amount which such Beneficiary would otherwise have been entitled to recover from the Issuer. Any amount payable pursuant to this indemnity shall be payable in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Notes. This indemnity constitutes a separate and independent obligation from the other obligations under this Deed of Guarantee and shall give rise to a separate and independent cause of action.

The Guarantee does not include any power of veto for the benefit of the Guarantor in relation to changes to the security holder's rights.

**Settlement
conditional of
Guarantee:**

Any settlement or discharge between the Guarantor and the Beneficiaries or any of them shall be conditional upon no payment to the Beneficiaries or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any laws relating to bankruptcy, insolvency, liquidation or similar laws of general application for the time being in force and, in the event of any such payment being so avoided or reduced, the Beneficiaries shall be

entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

Issue Price: Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Pricing Supplement. The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Guarantor and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Redenomination : The applicable Pricing Supplement may provide that certain Notes may be redenominated in euro. If so, the wording of the redenomination clause will be set out in full in the applicable Pricing Supplement.

Maturities: Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Undated Subordinated Notes will have no fixed maturity.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the FSMA by the Issuer.

Redemption: (i) Any Note other than an Index Linked Note or an Equity Linked Note will be redeemed for the Final Redemption Amount, being its principal amount (to the extent it has been paid up, if the Note is a Partly Paid Note).

(ii) Any Index Linked Note will be redeemed for the Final Redemption Amount, being either: (A) the Index Linked Redemption Amount (being either the Reverse Convertible Index Linked Redemption Amount, the Total Return Index Linked Redemption Amount or the HALVA Index Linked Redemption Amount) or (B) its principal amount (to the extent it has been paid up, if the Note is a Partly Paid Note).

(iii) Any Equity Linked Note will be redeemed for the Final Redemption Amount, being either (A) the Equity Linked Redemption Amount (being the Range Accrual Redemption Amount) or (B) its principal amount (to the extent it has been paid up, if the Note is a

Partly Paid Note).

**Fixed Rate
Notes:**

Fixed Rate Notes (as defined in “Terms and Conditions of the Notes”) will bear a fixed rate of interest in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, and will be payable on the relevant Interest Payment Dates and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement.

**Floating Rate
Notes:**

Floating Rate Notes (as defined in “Terms and Conditions of the Notes”) will bear a floating rate of interest in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, and will be payable on the relevant Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer and indicated in the applicable Pricing Supplement.

Floating Rate Notes will bear interest at a rate determined:

- (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (iii) on such other basis as may be agreed between the Issuer and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes and indicated in the applicable Pricing Supplement.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

The Pricing Supplement for certain Floating Rate Notes may specify an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR (“**Inverse Floating Rate Notes**”). The market values of such Floating Rate Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of such Floating Rate Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of such Floating Rate

Notes.

Zero Coupon Notes: Zero Coupon Notes (as defined in “Terms and Conditions of the Notes”) may be issued at their nominal amount or at a discount to it and will not bear interest.

Instalment Notes: Instalment Notes (as defined in “Terms and Conditions of the Notes”) are Notes that are repayable in instalments. They will be redeemed in the Instalment Amounts and on the relevant Instalment Dates, in accordance with the provisions of the “Terms and Conditions of the Notes” and the applicable Pricing Supplement.

Partly Paid Notes: Partly Paid Notes (as defined in “Terms and Conditions of the Notes”) are Notes whose full nominal value has not been paid by their holders. If the Notes are Partly Paid Notes, they will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of the “Terms and Conditions of the Notes” and the applicable Pricing Supplement.

Index Linked Notes: Amounts payable in respect of any Series of Index Linked Notes (as defined in “Terms and Conditions of the Notes”) will be calculated by reference to an Index, a Basket of Indices and/or (in the case of any Series of Index Linked Notes that are HALVA Notes) the HALVA Strategy.

Therefore, the return on the Index Linked Notes (whether of principal and/or of interest, as specified in the applicable Pricing Supplement) is linked to the performance of a particular Index, a Basket of Indices and/or (in the case of any Series of Index Linked Notes that are HALVA Notes) the HALVA Strategy.

An Index itself may reference or comprise reference equities or any other assets or bases of reference. Detailed descriptions of each of the Indices are specified below.

Example calculations of the returns (being principal and interest) on any Series of Index Linked Notes are presented in “Example Index Linked Note Calculations” below.

Additional details in respect of the HALVA Notes are specified below.

Final Redemption

Depending on the Index or Indices they reference and the elections made in the relevant Pricing Supplement, any Series of Index Linked Notes will be redeemed on the Maturity Date for the Final Redemption Amount, which may be:

- (i) their principal amount (to the extent it has been paid up, if the Index Linked Notes are Partly Paid Notes);

- (ii) the Index Linked Redemption Amount, which may be either:
 - (A) the Reverse Convertible Index Linked Redemption Amount (as defined in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”);
 - (B) the Total Return Index Linked Redemption Amount (as defined in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”); or
 - (C) the HALVA Index Linked Redemption Amount (as defined in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”).

Early Redemption or Cancellation

Index Linked Notes may be subject to early redemption or cancellation, in which case the Redemption Amount will, depending on the elections having been made in the relevant Pricing Supplement, take into account the fair market value of the Index Linked Notes immediately prior to their redemption and any ILN Cost of Unwinding, each as determined by the ILN Calculation Agent in its sole and absolute discretion.

The early redemption and cancellation provisions for the Index Linked Notes are specified in greater detail in Condition 13 (*Index Linked Note Provisions*) of the “Terms and Conditions of the Notes”. In particular, prospective investors should review the definitions of “Early Redemption Amount (Tax)”, “Optional Redemption Amount (Call)”, “Optional Redemption Amount (Put)”, “Early Termination Amount” and “ILN Cost of Unwinding”.

Interest on Index Linked Notes

In the case of Index Linked Notes (other than Index Linked Notes that are Zero Coupon Notes), the applicable Pricing Supplement will specify whether interest with respect thereto will be determined in accordance with:

- (i) *Fixed Rate*. Condition 7 (*Fixed Rate Note Provisions*) of the “Terms and Conditions of the Notes”;
- (ii) *Floating Rate*. Condition 8 (*Floating Rate Note Provisions*) of the “Terms and Conditions of the Notes”;
- (iii) *Asian Call*. The definition of “Asian Call Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). Any Interest Amount in respect of an Interest

Period and an Interest Payment Date determined pursuant to this definition reflects the average performance (being the “Asian Index Performance”) of the underlying Index or Basket of Indices, as applicable, for the specified [Observation Dates][Averaging Dates] (being “n”) and by reference to the specified strike level (being the “Asian Call Strike”) of the Reference Level of the underlying Index or Basket of Indices, as applicable (being “Reference Level_{strike}”);

- (iv) *Asian Call Spread*. The definition of “Asian Call Spread Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). Any Interest Amount in respect of an Interest Period and an Interest Payment Date determined pursuant to this definition reflects the minimum of (A) a specified percentage (being “X%”) and (B) the average performance (being the “Asian Index Performance”) of the underlying Index or Basket of Indices, as applicable, for the specified [Observation Dates][Averaging Dates] (being “n”) and by reference to the specified strike level (being the “Asian Call Strike”) of the Reference Level of the underlying Index or Basket of Indices, as applicable (being “Reference Level_{strike}”);
- (v) *Autocall*. The definition of “Autocall Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). If on any specified date (being an “Autocall Observation Date_i”), the Reference Level of the underlying Index or Basket of Indices, as applicable (being the “Reference Level_i”), is greater than, or equal to, the specified Reference Level (being the “Reference Level₀”), then an Interest Amount (determined by reference to “X%” and the number of elapsed Autocall Observation Dates_i) shall be payable. Upon such occurrence, no further Interest Amounts shall be payable and, furthermore, the applicable Pricing Supplement may specify that the Maturity Date of such Index Linked Notes shall occur upon such occurrence;
- (vi) *Cliquet*. The definition of “Cliquet Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). Any Interest Amounts in respect of corresponding Interest Periods and Interest Payment Dates are similar to a series of forward starting options, the strike price of each (being the “Reference Level_i”) being the settlement price (being the “Reference Level₀”) of the previous. The applicable Pricing

Supplement may further specify minimum and maximum percentages in respect of the Interest Amounts (being “X%” and “Z%”);

- (vii) *Conditional*. The definition of “Conditional Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). An Interest Amount in respect of an Interest Period and an Interest Payment Date is determined by reference to a specified level or a specified set of levels (being the “Coupon Barrier Level”). If, on any specified Observation Date, the Reference Level of the underlying Index or Basket of Indices, as applicable, is above the relevant Coupon Barrier Level, then the corresponding Interest Amount shall be determined by reference to a specified percentage or a specified set of percentages (being “X%”) and will otherwise be zero;
- (viii) *Shark Fin*. The definition of “Shark Fin Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). The Interest Amount in respect of an Interest Period and an Interest Payment Date will reflect the maximum of zero and the “Shark Fin Index Performance”, being (i) if, on any specified Observation Date, the Reference Level of the underlying Index (“Reference Level_i”) is never equal to, or greater than, a specified level (being the “Coupon Barrier Level”), an amount equal to the performance of the underlying Index; otherwise (ii) a specified percentage (being “X%”). In respect of a Basket of Indices, the Interest Amount will be the maximum of zero and the “Shark Fin Basket Performance”, being the mean of the Shark Fin Index Performances of the individual Indices comprising the Basket of Indices;
- (ix) *Stability*. The definition of “Stability Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). If, during a specified Observation Period, the Reference Level of the underlying Index or Basket of Indices (being the “Reference Level_i”), as applicable, is always below a specified level (being the “Higher Coupon Barrier Level”) and is always above a specified level (being the “Coupon Barrier Level”), then the applicable Interest Amount shall be an amount determined by reference to the relevant Reference Level_i and the specified initial Reference Level (being the “Reference Level_o”) and, otherwise, shall be zero;

- (x) *Vanilla Call*. The definition of “Vanilla Call Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). Any Interest Amount in respect of an Interest Period and an Interest Payment Date determined pursuant to this definition reflects an amount equal to the greater of (i) zero and (ii) the performance (being the “Vanilla Index Performance”) of the underlying Index or Basket of Indices, as applicable, for the specified Observation Date or Valuation Date, as applicable; or
- (xi) *Vanilla Call Spread*. The definition of “Vanilla Call Spread Coupon” (as specified in Condition 13(d)(v) (*Definitions Applicable to Index Linked Notes*) of the “Terms and Conditions of the Notes”). Any Interest Amount in respect of an Interest Period and an Interest Payment Date determined pursuant to this definition reflects an amount equal to the greater of (i) zero and (ii) the minimum of (A) a specified percentage (being “X%”) and (B) the performance (being the “Vanilla Index Performance”) of the underlying Index or Basket of Indices, as applicable, for the specified Observation Date or Valuation Date, as applicable.

Index Adjustment Events

If an Index Adjustment Event occurs in respect of an Index, then the Issuer may either (i) require the ILN Calculation Agent to make appropriate adjustments to the Conditions and/or the relevant Pricing Supplement to take into account such Index Adjustment Event or (ii) redeem the Index Linked Notes early in the manner described above.

Prospective investors should note that an Index Adjustment Event includes an Index Modification, an Index Cancellation and an Index Disruption. The Index Adjustment Event provisions are described in greater detail in Condition 13 (*Index Linked Note Provisions*) of the “Terms and Conditions of the Notes”.

Additional Disruption Events

If an Additional Disruption Event is specified to be applicable in the applicable Pricing Supplement and it occurs in respect of an Index, then the Issuer may either (i) require the ILN Calculation Agent to make appropriate adjustments to the Conditions and/or the relevant Pricing Supplement to take into account such Additional Disruption Event, (ii) redeem the Index Linked Notes early in the manner described above or (iii) if “Index Substitution” is specified as applicable in the relevant Pricing Supplement, require the ILN Calculation Agent to replace an Affected Index with a Substitution

Index, as determined by the ILN Calculation Agent in its sole and absolute discretion.

An Additional Disruption Event includes Change in Law, Hedging Disruption, Increased Cost of Hedging, Emerging Market Risk Event or any other Additional Disruption Event, in each case if specified to be applicable in the applicable Pricing Supplement. The Additional Disruption Events are described in greater detail in Condition 13 (*Index Linked Note Provisions*) of the “Terms and Conditions of the Notes”.

Disrupted Days

Condition 13 (*Index Linked Note Provisions*) of the “Terms and Conditions of the Notes” specifies in further detail the consequences of any Valuation Date, an Observation Date or an Averaging Date (or such other date as specified in the applicable Pricing Supplement) being a Disrupted Day.

Postponed Payments

The occurrence of an Index Adjustment Event, an Additional Disruption Event or a Disrupted Day may result in the relevant valuation, determination or calculation being postponed and could instead be made by the ILN Calculation Agent. Payments may also be postponed. This is described in greater detail in Condition 13 (*Index Linked Note Provisions*) of the “Terms and Conditions of the Notes”.

Correction to an Index

The ILN Calculation Agent will, in its sole and absolute discretion, adjust the terms of the relevant Index Linked Notes to account for any corrections made to any price or level published by the relevant Index Sponsor or Successor Index Sponsor. The circumstances in which such adjustments occur are described in further detail in Condition 13 (*Index Linked Note Provisions*) of the “Terms and Conditions of the Notes”.

Further Details in respect of HALVA Notes

(a) Overview

If a Series of Notes is specified in the applicable Pricing Supplement as being HALVA Notes, then any redemption amount for such HALVA Notes (the “**HALVA Index Linked Redemption Amount**”) will be determined by reference to the HALVA Strategy (as defined below).

The HALVA Notes are Index Linked Notes and Zero Coupon Notes. Therefore, Condition 13 (*Index Linked Notes*) and Condition 12 (*Zero Coupon Note Provisions*) of the “Terms and Conditions of the Notes” applies.

The “**HALVA Strategy**” (or the “**Hapoalim Low Volatility Allocation Strategy**”) is an investment strategy pursuant to

which the ILN Calculation Agent dynamically allocates exposure (the “**Notional Exposure Allocations**”) between the following:-

- (i) a certain number of notional securities (including any notional returns (or the relevant proportion) in respect thereof) (the “**Index Components**” which together mean the “**HALVA Basket**”) selected by it from time to time from an Index in the manner described below (such Notional Exposure Allocation being the “**HALVA Basket Exposure**”); and
- (ii) certain notional cash/money market instrument(s) (together, the “**HALVA Cash Component**”) which generate a fixed or floating rate of return (the “**HALVA Cash Component Rate of Return**”) (such Notional Exposure Allocation being the “**HALVA Cash Component Exposure**”). For instance, the applicable Pricing Supplement may specify the HALVA Cash Component Rate of Return to be either a Fixed Rate or a Floating Rate determined by reference to the Reference Rate, in each case as specified in the applicable Pricing Supplement.

For the avoidance of doubt, the HALVA Basket shall take into account any notional returns (including, but not limited to, any dividend amounts which shall be included net of withholding or other tax) (or the relevant proportion) in respect of the applicable Index Components.

The objective of such ongoing Notional Exposure Allocations during the HALVA Term is to maximise the HALVA Index Linked Redemption Amount while minimising its volatility, thereby providing investors with an optimal risk/return investment profile.

The Index, the number of Index Components comprising the HALVA Basket (the “**HALVA Number**”), the Valuation Dates and the HALVA Cash Component Rate of Return are each specified in the applicable Pricing Supplement.

The applicable Pricing Supplement could specify the Valuation Dates to be as frequent as each Scheduled Trading Day falling during the HALVA Term. Furthermore, the applicable Pricing Supplement could specify the HALVA Designation Dates (as defined below) to be quarterly Valuation Dates falling during the HALVA Term.

(b) *Determinations made by ILN Calculation Agent*

During the HALVA Notes Term, the ILN Calculation Agent will make the following determinations:

- (i) determining the Index Components (as described in sub-paragraph (c) below);

- (ii) determining the HALVA Basket Volatility (as described in sub-paragraph (d) below); and
- (iii) determining the Notional Exposure Allocations (as described in sub-paragraph (e) below); and
- (iv) on the Maturity Date, the final Valuation Date or such other date specified in the applicable Pricing Supplement, determining the HALVA Index Linked Redemption Amount (as described in sub-paragraph (f) below).

(c) *Determining the Index Components*

On each Valuation Date specified in the applicable Pricing Supplement as being the “**HALVA Designation Dates**”, the ILN Calculation Agent will determine the historical volatility of all the securities in the applicable Index during a certain period of time immediately preceding such Valuation Date (the “**HALVA Volatility Observation Period**”). The duration of the HALVA Volatility Observation Period is specified in the applicable Pricing Supplement. For instance, with respect to an HALVA Designation Date, the HALVA Volatility Observation Period may be specified as a 63 consecutive Valuation Date period ending 2 Scheduled Trading Days before such HALVA Designation Date.

On the relevant HALVA Designation Date, those securities with the lowest historical volatilities during the HALVA Volatility Observation Period and equal to the HALVA Number are selected by the ILN Calculation Agent as being Index Components and, therefore, constitute the HALVA Basket.

On the relevant HALVA Designation Date that is not the initial Valuation Date, any securities which previously comprised the HALVA Basket and which no longer have the lowest volatilities on such HALVA Designation Date are replaced with new Index Components.

Any security with a zero historical volatility during the HALVA Volatility Observation Period is ignored by the ILN Calculation Agent. For the avoidance of doubt, any security in the Index which is the subject matter of a merger offer or a tender offer is taken into account by the ILN Calculation Agent.

Each of the Index Components is ascribed a weighting in the HALVA Basket by the ILN Calculation Agent by reference to its relative volatility, with the least volatile security receiving the highest weighting and the most volatile security receiving the lowest weighting.

(d) Determining the HALVA Basket Volatility

On each Valuation Date specified in the applicable Pricing Supplement, the ILN Calculation Agent will determine the aggregate realised volatility of the HALVA Basket over two periods of Valuation Dates immediately preceding such Valuation Date (the shorter period being the “**HALVA Basket Shorter Volatility Observation Period**” and the longer period being the “**HALVA Basket Longer Volatility Observation Period**”), with the greater volatility being the “**HALVA Basket Volatility**”.

The durations of the HALVA Basket Shorter Volatility Observation Period and the HALVA Basket Longer Volatility Observation Period are specified in the applicable Pricing Supplement. For instance, with respect to any particular Valuation Date, the HALVA Basket Shorter Volatility Observation Period and the HALVA Basket Longer Volatility Observation Period may be specified as, respectively, a 20 consecutive Valuation Date period ending 2 Scheduled Trading Days before such Valuation Date and a 60 consecutive Valuation Date period ending 2 Scheduled Trading Days before such Valuation Date.

(e) Determining the Notional Exposure Allocations

On each Valuation Date specified in the applicable Pricing Supplement, the ILN Calculation Agent will compare the HALVA Basket Volatility to a figure specified in the applicable Pricing Supplement (the “**HALVA Volatility Cap**”).

Pursuant to the HALVA Strategy, the greater the HALVA Basket Volatility is when compared to the HALVA Volatility Cap, the further the ILN Calculation Agent will (i) decrease the HALVA Basket Exposure and (ii) increase the HALVA Cash Component Exposure.

Conversely, the lower the HALVA Basket Volatility is when compared to the HALVA Volatility Cap, the further the ILN Calculation Agent will (i) increase the HALVA Basket Exposure and (ii) decrease the HALVA Cash Component Exposure.

On each Valuation Date and depending on the HALVA Basket Volatility on such Valuation Date, the HALVA Basket Exposure can be between 0 per cent. and 100 per cent., while the HALVA Cash Component Exposure will be 100 per cent minus the HALVA Basket Exposure.

(f) Determining the HALVA Index Linked Redemption Amount

On the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement, the ILN Calculation Agent will determine the HALVA Index Linked

Redemption Amount which will reproduce the performance of the HALVA Strategy.

Relevant Indices

With respect to any Series of Index Linked Notes, the applicable Pricing Supplement may reference one or more of the following Indices:-

DJ Industrial Average (bbg: INDU) Index

S&P500 (bbg: SPX) Index

Nasdaq 100 (bbg: NDX) Index

Eurostoxx 50 (bbg: SX5E) Index

S&P Europe 350 (bbg: SPE) Index

FTSE 100 (bbg: UKX) Index

FTSE 250 (bbg: MCX) Index

DAX (bbg: DAX) Index

CAC 40 (bbg: CAC) Index

Nikkei (bbg: NKY) Index

Tel Aviv 25 (bbg: TA-25) Index

S&P Nifty 50 (bbg. NIFTY) Index

MSCI World (bbg: MXWO) Index

Hong Kong Stock Exchange Hang Seng China Enterprises Index (bbg: HSCEI:IND)

Korea Stock Exchange KOSPI Index (bbg: KOSPI:IND)

S&P/ASX 200 (bbg: AS51:IND) Index

Russian Depository Index in USD (bbg: RDXUSD:IND)

IBEX 35 Index (bbg: IBEX:IND)

Nikkei 225 (bbg: NKY) Index

Swiss Market Index (bbg: SMI:IND)

Mexican Stock Exchange Mexican bolsa IPC Index (bbg: MEXBOL:IND)

Russell 1000® Index (bbg: RIY:IND)

Russell 2000® Index (bbg: RTY:IND)

The governing rules of each Index (including its methodology for the selection and rebalancing of its constituents, description of market disruption events and adjustment rules) are based on a pre-determined and objective criteria. Other than as described in the risk factors regarding the Index Linked Notes (particularly, the *Adjustments for*

Index Adjustment Events, Additional Disruption Events, Disrupted Days and Potential Conflicts of Interest in respect of Index Linked Notes and the Risks and potential conflicts of interest regarding the ILN Calculation Agent risk factors) and Condition 13 (Index Linked Note Provisions) of the “Terms and Conditions of the Notes”, the Issuer is expected to adhere to the governing rules of each Index.

Description of the Indices

- Dow Jones Industrial Average Index (bbg: INDU)

The Dow Jones Industrial Average™, also referred to as The Dow®, is a price-weighted measure of 30 U.S. blue-chip companies. The Dow® covers all industries with the exception of transportation and utilities, which are covered by the Dow Jones Transportation Average™ and Dow Jones Utility Average™.

While stock selection is not governed by quantitative rules, a stock typically is added to The Dow® only if the company has an excellent reputation, demonstrates sustained growth and is of interest to a large number of investors. Maintaining adequate sector representation within the indices is also a consideration in the selection process.

Further information regarding the Dow Jones Industrial Average Index can be found at:

<http://www.djindexes.com/averages/>

<http://www.bloomberg.com/quote/INDU:IND>

- S&P500 Index (bbg: SPX)

The S&P 500® seeks to gauge the large cap U.S. equities market.

The S&P500 as over US\$ 5.58 trillion benchmarked, with index assets comprising approximately US\$ 1.31 trillion of this total. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities.

Further information regarding the S&P500 Index can be found at:

<http://www.standardandpoors.com/indices/sp-500/en/us/?indexId=spusa-500-usdof--p-us-l-->

<http://www.bloomberg.com/quote/SPX:IND>

- Nasdaq 100 Index (bbg: NDX)

The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial securities listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

Further information regarding the Nasdaq 100 Index can be found at:

<http://www.nasdaq.com/markets/indices/nasdaq-100.aspx>

<http://www.bloomberg.com/quote/NDX:IND>

- Eurostoxx 50 Index (bbg: SX5E)

The EURO STOXX 50 Index, a Blue-chip index for the Eurozone, provides a Blue-chip representation of supersector leaders in the Eurozone. The index covers 50 stocks from 12 Eurozone countries: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. The EURO STOXX 50 Index is licensed to financial institutions to serve as underlying for a wide range of investment products such as Exchange Traded Funds (ETF), Futures and Options, and structured products worldwide.

Further derived are the following single country indices: the EURO STOXX 50 Sub index France, the EURO STOXX 50 Sub index Italy and the EURO STOXX 50 Sub index Spain, covering components from France, Italy and Spain respectively.

Further information regarding the Eurostoxx 50 Index can be found at:

http://www.stoxx.com/indices/index_information.html?symbol=sx5E

<http://www.bloomberg.com/quote/SX5E:IND>

- S&P Europe 350 Index (bbg: SPE)

The S&P 250 is an equity index drawn from 17 major European markets, covering approximately 70% of the region's market capitalisation.

Further information regarding the S&P Europe 250 Index can be found at:

<http://us.spindices.com/indices/equity/sp-europe-250>

- FTSE 100 Index (bbg: UKX)

The FTSE 100 Index comprises the 100 most highly capitalised blue chip companies, representing approximately 81% of the UK market. It is used extensively as a basis for investment products, such as derivatives and exchange-traded funds.

Further information regarding the FTSE 100 Index can be found at:

<http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/indices/summary/summary-indices.html?index=UKX>

<http://www.bloomberg.com/quote/UKX:IND>

- FTSE 250 Index (bbg: MEX)

Further information regarding the FTSE 250 Index can be found at:

<http://www.londonstockexchange.com/exchange/prices-and-markets/stocks/indices/summary/summary-indices.html?index=MCX>

- DAX Index (bbg: DAX)

The DAX Index is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.

Further information regarding the DAX Index can be found at:

<http://www.dax-indices.com/EN/index.aspx?pageID=31>

http://www.dax-indices.com/EN/MediaLibrary/Document/Factsheets/20120824_FS%20DAX.pdf

<http://www.bloomberg.com/quote/DAX:IND>

- CAC 40 Index (bbg: CAC)

The CAC 40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. As of December 1, 2003, the index has become a free float weighted index.

Further information regarding the CAC Index can be found at:

<https://indices.nyx.com/fr/products/indices/FR0003500008-XPAR>

<http://www.bloomberg.com/quote/CAC:IND>

- Nikkei 225 (bbg: NKY) Index

The Nikkei Index (Nikkei-225 Stock Average) is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

Further information regarding the Nikkei Index can be found at:

<http://www.bloomberg.com/quote/NKY:IND>

- Tel Aviv 25 Index (bbg: TA-25) Index

The TA-25 index tracks the prices of the shares of the 25 companies with the highest market capitalization on the Tel Aviv Stock Exchange. It serves as an underlying asset for options and futures, Index-Linked Certificates and Reverse Certificates traded on the exchange and worldwide.

Further information regarding the Tel Aviv 25 Index can be found at:

<http://www.tase.co.il/TASEEng/MarketData/Indices/MarketCap/IndexMainDataMarket.htm?IndexId=142&Action=1>

<http://www.bloomberg.com/quote/TA-25:IND>

- S&P Nifty 50 Index (bbg. NIFTY)

The S&P CNX Nifty, a free float market capitalization index, is an index for large companies on the National Stock Exchange of India. It consists of 50 companies representing 24 sectors of the economy.

Further information regarding the S&P Nifty 50 Index can be found at:

http://www.nseindia.com/products/content/equities/indices/s_n_p_cnx_nifty.htm

http://www.nseindia.com/content/indices/ind_cnx_nifty.pdf

<http://www.bloomberg.com/quote/SX5E:IND>

- MSCI World Index (bbg: MXWO; NDUEACWF)

The MSCI World Index captures large and mid cap representation across 24 Developed Market Countries. With 1,623 constituents, the Index covers approximately 85% of the free float adjusted market capitalization in each country.

Further information regarding the MSCI World Index can be found at:

http://www.msci.com/resources/factsheets/index_fact_sheet/msci-world-index.pdf

<http://www.bloomberg.com/quote/MXWO:IND>

- Hong Kong Stock Exchange Hang Seng China Enterprises Index (bbg: HSCEI:IND)

The Hang Seng China Enterprises Index is a free float capitalization-weighted index comprised of H-Shares listed on the Hong Kong Stock Exchange and included in the Hang Seng Mainland Composite Index.

Further information regarding the HSCEI Index can be found at:

http://www.hsi.com.hk/HSI-Net/static/revamp/contents/en/dl_centre/factsheets/FS_HSCEIe.pdf

<http://www.bloomberg.com/quote/HSCEI:IND>

- Korea Stock Exchange KOSPI Index (bbg: KOSPI:IND)

The KOSPI Index is a capitalization-weighted index of all common shares on the Korean Stock Exchanges

Further information regarding the KOSPI Index can be found at:

http://eng.krx.co.kr/m1/m1_4/m1_4_2/m1_4_2_1/UHPENG01004_02_01_01.html

<http://www.bloomberg.com/quote/KOSPI:IND>

- S&P/ASX 200 (bbg: AS51:IND) Index

The S&P/ASX 200 measures the performance of the 200 largest index-eligible stocks listed on the ASX by float-adjusted market capitalization. Representative liquid and tradable, it is widely considered Australia's preeminent benchmark index. The index is float-adjusted. The index was launched in April 2000.

Further information regarding the ASX 200 Index can be found at:

<http://www.asx.com.au/products/index-charts.htm>

<http://www.bloomberg.com/quote/AS51:IND>

- Russian Depository Index in USD (bbg: RDXUSD:IND)

The Russian Depository Index is a modified capitalization-weighted index. The index is comprised of the most liquid depository receipts on Russian shares that are traded on the London Stock Exchange.

Further information regarding the RDXUSD Index can be found at:

<http://en.indices.cc/indices/details/rdu>

<http://www.bloomberg.com/quote/RDXUSD:IND>

- IBEX 35 Index (bbg: IBEX:IND)

The IBEX 35 is the official index of the Spanish Continuous Market. The index is comprised of the 35 most liquid stocks traded on the Continuous market. It is calculated, supervised and published by the Sociedad de Bolsas. The equities use free float shares in the index calculation.

Further information regarding the IBEX 35 Index can be found at:

<http://www.bolsamadrid.es/ing/asp/Mercados/Precios.aspx?indice=ES1100000000&punto=indice>

<http://www.bloomberg.com/quote/IBEX:IND>

- Swiss Market Index (bbg: SMI:IND)

As a blue chip index, the SMI® is Switzerland's most important stock index and comprises the 20 largest equities in the SPI. The SMI represents about 85% of the total capitalisation of the Swiss equity market. It is a free-float-adjusted, which means that only the tradable portion of the shares is taken into account in the index.

Further information regarding the SMI Index can be found at:

http://www.six-swiss-exchange.com/indices/shares/smi_en.html

<http://www.bloomberg.com/quote/SMI:IND>

- Mexican Stock Exchange Mexican bolsa IPC Index (bbg: MEXBOL:IND)

The Mexican IPC index (Indice de Precios y Cotizaciones) is a capitalization weighted index of the leading stocks traded on the Mexican Stock Exchange.

Further information regarding the MEXBOL Index can be found at:

<http://www.bloomberg.com/quote/MEXBOL:IND>

- Russell 1000® Index (bbg: RIY:IND)

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market

Further information regarding the Russell 1000® Index can be found at:

http://www.russell.com/indexes/data/fact_sheets/us/russell_1000_index.asp

<http://www.bloomberg.com/quote/RIY:IND>

- Russell 2000® Index (bbg: RTY:IND)

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Further information regarding the Russell 2000® Index can be found at:

http://www.russell.com/indexes/data/fact_sheets/us/russell_2000_index.asp

<http://www.bloomberg.com/quote/RTY:IND>

The information contained in each of the referenced websites consists of information that is publicly available and should not be construed as forming a part of this Offering Circular. Neither the Issuer nor the Guarantor has independently verified any such information, and neither accepts any responsibility for error or omission.

Past performance of any index, as cited in any of the referenced web sites, is no guarantee, and may not be indicative, of future

performance.

**Equity Linked
Notes:**

Amounts payable in respect of any Series of Equity Linked Notes (as defined in the “Terms and Conditions of the Notes”) specified as Range Accrual Notes in the applicable Pricing Supplement will be calculated by reference to certain Shares (being the “**Range Accrual Shares**”) which form part of a Basket of Shares. The number of Range Accrual Shares within such Basket of Shares shall be the “**Range Accrual Number of Shares**” and shall be specified in the applicable Pricing Supplement .

Therefore, the return on the Range Accrual Notes (being interest and principal, as specified in the applicable Pricing Supplement) is linked to the performance of the relevant Range Accrual Shares.

Example calculations of the returns (being principal and interest) on the Range Accrual Notes are presented in the “Example Equity Linked Note Calculations” below.

Final Redemption of Range Accrual Notes

Any Series of Equity Linked Notes specified as Range Accrual Notes will be redeemed on the Maturity Date for the Final Redemption Amount (being the Range Accrual Redemption Amount) in the following manner:

- (i) on the Final Observation Date specified in the applicable Pricing Supplement and in respect of each Range Accrual Share within the applicable Basket of Shares, the ILN Calculation Agent shall determine its Settlement Price as a percentage of its Initial Price (being a “**Range Accrual Percentage**”). The Range Accrual Share with the **lowest** Range Accrual Percentage shall be the “**Range Accrual Worst Performer**”;
- (ii) if each Range Accrual Percentage is at least equal to, or greater than, the Range Accrual Required Percentage, the Range Accrual Notes shall be redeemed for their principal amount; and
- (iii) if any Range Accrual Percentage is less than the Range Accrual Required Percentage, the Range Accrual Notes shall be redeemed for an amount equal to the product of (A) the principal amount, (B) the Range Accrual Percentage of the Range Accrual Worst Performer as at the Final Observation Date and (C) the Range Accrual Multiplier. This would mean such Range Accrual Notes are be redeemed for *less* than their principal amount.

The final redemption provisions are specified in greater detail in Condition 14(h) (*Conditions Applicable to Equity Linked Notes*) of the

“Terms and Conditions of the Notes”.

Early Redemption of Range Accrual Notes

If the Call Option is specified in the applicable Pricing Supplement as being applicable, any Series of Equity Linked Notes specified as Range Accrual Notes may be redeemed by the Issuer at the relevant Optional Redemption Amount (Call) in accordance with Condition 16(c) (*Redemption at the option of the Issuer*) of the “Terms and Conditions of the Notes”.

Interest on Range Accrual Notes

In respect of an Interest Period for any Series of Equity Linked Notes specified as Range Accrual Notes, interest shall only accrue at the fixed rate specified in the applicable Pricing Supplement (being the “**Range Accrual Fixed Rate**”) for those Scheduled Trading Days on which the Settlement Price for *each* Range Accrual Share within the applicable Basket of Shares is at least equal to 75 per cent. of the Initial Price of such Range Accrual Share or such other per cent. specified in the applicable Pricing Supplement (being the “**Range Accrual Coupon Requirement**”). For the avoidance of doubt, in respect of a Scheduled Trading Day during an Interest Period on which the Settlement Price for any Range Accrual Share is less than 75 per cent. of the Initial Price of such Range Accrual Share or such other per cent. specified in the applicable Pricing Supplement, no interest shall accrue.

The interest provisions are specified in greater detail in Condition 14(h) (*Definitions Applicable to Equity Linked Notes*) of the “Terms and Conditions of the Notes”.

Potential Adjustment Events

If a Potential Adjustment Event occurs in respect of any Share, then in certain circumstances the Issuer may require the ILN Calculation Agent to make, in its sole and absolute discretion, appropriate adjustment(s) to the Weighting (if applicable) and/or any of the other terms of the Conditions and/or the applicable Pricing Supplement. Potential Adjustment Events are described in greater detail in Condition 14(e)(i) (*Potential Adjustment Events*) of the “Terms and Conditions of the Notes”.

Extraordinary Events

If an Extraordinary Event occurs in respect of any Share, the Issuer may either (i) require the ILN Calculation Agent to make, in its sole and absolute discretion, appropriate adjustment(s) to the Weighting (if applicable) and/or any of the other terms of the Conditions and/or the applicable Pricing Supplement and/or, in the case of a Basket of

Shares, make the changes specified in item (iii), (ii) redeem the Notes early or on a delayed basis and in whole or in part or (iii) in the case of a Basket of Shares, require the ILN Calculation Agent to substitute, in its sole and absolute discretion, any affected Share as well as make such adjustment(s) to the “Terms and Conditions of the Notes” and/or the applicable Pricing Supplement as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate.

Extraordinary Events include De-Listing, Insolvency, Merger Event, Nationalisation, Tender Offer (unless specified as not applicable in the relevant Pricing Supplement), Listing Change (unless specified as not applicable in the relevant Pricing Supplement), Listing Suspension (unless specified as not applicable in the relevant Pricing Supplement) and any other Additional Extraordinary Event specified in the applicable Pricing Supplement. Extraordinary Events are described in greater detail in Condition 14(e)(ii) (*Extraordinary Events*) of the “Terms and Conditions of the Notes”.

Additional Disruption Events

If an Additional Disruption Event is specified to be applicable in the applicable Pricing Supplement and it occurs in respect of any Share, then the Issuer may either (i) require the ILN Calculation Agent to make, in its sole and absolute discretion, appropriate adjustment(s) to the Weighting (if applicable) and/or any of the other terms of the Conditions and/or the applicable Pricing Supplement and/or, in the case of a Basket of Shares, make the changes specified in item (iii), (ii) redeem the Notes early or on a delayed basis or (iii) require the ILN Calculation Agent to substitute, in its sole and absolute discretion, any affected Share as well as make such adjustment(s) to the “Terms and Conditions of the Notes” and/or the applicable Pricing Supplement as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate.

Additional Disruption Events include Change in Law, Hedging Disruption, Increased Cost of Hedging, Increased Cost of Stock Borrow, Insolvency Filing, Loss of Stock Borrow, Emerging Market Risk Event or any other Additional Disruption Event, in each case if specified to be applicable in the applicable Pricing Supplement. Additional Disruption Events are described in greater detail in Condition 14(g) (*Additional Disruption Events*) of the “Terms and Conditions of the Notes”.

Disrupted Days

Condition 14(d) (*Disrupted Day*) of the “Terms and Conditions of the Notes” as well as the applicable definitions in Condition 14(h) (*Conditions Applicable to Equity Linked Notes*) of the “Terms and Conditions of the Notes” specify in further detail the consequences of

any Valuation Date, an Averaging Date or an Observation Date (or such other date specified in the applicable Pricing Supplement) being a Disrupted Day.

Postponed Payments

The occurrence of a Potential Adjustment Event, an Extraordinary Event, an Additional Disruption Event or a Disrupted Day may result in the relevant valuation, determination or calculation being postponed and could instead be made by the ILN Calculation Agent. Payments may also be postponed. This is described in greater detail in Condition 14 (*Equity Linked Note Provisions*) of the “Terms and Conditions of the Notes”.

Correction of Share Price

The ILN Calculation Agent will, in its sole and absolute discretion, adjust the terms of the relevant Equity Linked Notes to account for any corrections of any Share. The circumstances in which such adjustments occur are described in further detail in Condition 14(f) (*Correction of Share Price*) of the “Terms and Conditions of the Notes”.

Description of the Shares

With respect to any Series of Equity Linked Notes, the applicable Pricing Supplement may specify one or more Shares which form part of any of the following indicies:

DJ Industrial Average (bbg: INDU) Index

S&P500 (bbg: SPX) Index

Nasdaq 100 (bbg: NDX) Index

Eurostoxx 50 (bbg: SX5E) Index

S&P Europe 350 (bbg: SPE) Index

FTSE 100 (bbg: UKX) Index

FTSE 250 (bbg: MEX) Index

DAX (bbg: DAX) Index

CAC 40 (bbg: CAC) Index

Nikkei (bbg: NKY) Index

Tel Aviv 25 (bbg: TA-25) Index

S&P Nifty 50 (bbg. NIFTY) Index

MSCI World (bbg: MXWO) Index

Hong Kong Stock Exchange Hang Seng China Enterprises Index (bbg: HSCEI:IND)

Korea Stock Exchange KOSPI Index (bbg: KOSPI:IND)

S&P/ASX 200 (bbg: AS51:IND) Index

Russian Depository Index in USD (bbg: RDXUSD:IND)

IBEX 35 Index (bbg: IBEX:IND)

Nikkei 225 (bbg: NKY) Index

Swiss Market Index (bbg: SMI:IND)

Mexican Stock Exchange Mexican bolsa IPC Index (bbg: MEXBOL:IND)

Russell 1000® Index (bbg: RIY:IND)

Russell 2000® Index (bbg: RTY:IND)

Redemption:

The Pricing Supplement relating to each Tranche of Notes will indicate either that the Notes of such Tranche will have no scheduled maturity (in the case of Undated Subordinated Notes) or will have a stated maturity (in the case of Unsubordinated Notes and Dated Subordinated Notes). The Pricing Supplement will indicate either that the Notes of such Tranche cannot be redeemed prior to their stated maturity (other than in specific instalments (see below), if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer upon giving not less than five nor more than 30 business days' notice and/or the holders of the Notes upon giving not less than 15 nor more than 30 days' irrevocable notice (or such other notice period (if any) as is indicated in the applicable Pricing Supplement) to the holders of the Notes or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such terms as are indicated in the applicable Pricing Supplement . Notes which have a maturity of less than one year may be subject to restrictions on their denomination and distribution.

The applicable Pricing Supplement may provide that Notes may be repayable in two or more instalments of such amounts and on such dates as indicated therein.

**Optional
Redemption:**

Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Pricing Supplement.

**Tax
Redemption:**

Except as described in “Optional Redemption” above, early redemption will only be permitted for tax reasons as described in Condition 16(b) (*Redemption and Purchase — Redemption for tax reasons*).

Interest:

Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate, a floating rate, by reference to Index(ices) (in the case of Index Linked Notes) or by reference to Share(s) (in the

case of Equity Linked Notes) and the method of calculating interest may vary between the issue date and the Maturity Date of the Series.

Denominations: No Notes may be issued under the Programme which (a) have a minimum denomination of less than EUR 100,000 (or nearly equivalent in another currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Negative Pledge: The Unsubordinated Notes will have the benefit of a negative pledge as described in Condition 6 (*Negative Pledge*).

The Terms and Conditions of Dated Subordinated Notes and Undated Subordinated Notes will contain no negative pledge provision.

Cross Default: The Unsubordinated Notes will have the benefit of a cross default as described in Condition 19 (*Events of Default*).

The Terms and Conditions of Dated Subordinated Notes and Undated Subordinated Notes will contain no cross default provision.

Taxation: All payments in respect of Notes will be made free and clear of withholding taxes of Curaçao, or Israel, as the case may be, unless the withholding is required by law.

Governing Law: English law, except for Conditions 4B (*Status — Dated Subordinated Notes*) and 4C (*Status — Undated Subordinated Notes*) which will be governed by the laws of Curaçao and Conditions 5B (*Status — Senior Subordinated Guarantee*) and 5C (*Status — Junior Subordinated Guarantee*) which will be governed by the laws of Israel.

Enforcement of Notes in Global Form: In the case of Global Notes, individual investors' rights against the Issuer are governed by a Deed of Covenant dated 3 June 2014 a copy of which will be available for inspection at the specified office of the Fiscal Agent.

Selling Restrictions: For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, Canada, the European Economic Area, the United Kingdom, Curaçao, Israel, Uruguay, Brazil, and Japan, see “Subscription and Sale” below.

EXAMPLE CALCULATIONS

Example Index Linked Note Calculations

The example calculations below are intended to demonstrate the methodology for the calculation of (i) Interest Amounts payable in respect of Index Linked Notes and (ii) Index Linked Redemption Amounts. The examples are presented for illustrative purposes only and are not intended to be representative of any Note issued under this Offering Circular or of any actual return payable in respect of any Note issued under this Offering Circular.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Offering Circular have the same meanings in this section.

Basket of Indices

Unless otherwise specified below, the following example illustrates the manner by which the Reference Level of a Basket of Indices is to be calculated when determining the Index Linked Redemption Amount or the interest on Index Linked Notes if such are expressed to be linked to the performance of a Basket of Indices.

Example

In this example, the Reference Level of the Basket of Indices will depend upon the performance of each of four individual Indices, the FTSE 100 (Bbg: UKX Index), Dow Jones Eurostoxx 50 (Bbg: SX5E Index), S&P 500 (Bbg: SPX Index) and Nikkei 225 (Bbg: NKY Index) in equal proportion (i.e. 1/4 FTSE 100 Index; 1/4 Dow Jones Eurostoxx 50 Index; 1/4 S&P 500 Index, 1/4 Nikkei 225 Index). The “Weighting” of each of these Indices in this Basket of Indices as set out in the Pricing Supplement would be 1/4.

In order to calculate the Reference Level of a Basket of Indices, the relevant Index Weighting must first be calculated, using the following formula:

$$\text{Index Weighting} = \text{Weighting} \times \left(\frac{100}{\text{Reference Level}_0} \right),$$

where Reference Level₀ is the official closing level of the relevant Index on the Issue Date (or other date specified in the Pricing Supplement).

The table below contains (fictional) closing levels of the four Indices comprising the example Basket of Indices on the date specified for Reference Level₀ in the Pricing Supplement (which is generally Observation Date₀ or the Issue Date of the Notes). The Index Weighting is calculated using the formula above, and the contribution of each Index to Reference Level₀ of the Basket of Indices is shown (in the far right-hand column). An example calculation for Index Weighting (using the value for Reference Level₀ in the table) of the FTSE 100 is as follows:

$$\text{Index Weighting} = \frac{1}{4} \times \left(\frac{100}{6000} \right) = 0.00417$$

Index (Bbg)	Reference Level₀ (of Index)	Weighting	Index Weighting	Contribution to Reference Level
UKX	6000	1/4	0.00417	25
SX5E	2500	1/4	0.01000	25
SPX	1500	1/4	0.01667	25
NKY	11000	1/4	0.00227	25
Reference Level				<u>100</u>

The calculation methodology produces a Reference Level₀ for the Basket of Indices of 100, for convenience.

Reference Levels on subsequent Observation Dates (or Averaging Dates, as the case may be) for the above example Basket of Indices will be calculated using the same Index Weightings calculated above and the relevant Reference Levels for each Index on the relevant date. For example, the Reference Level of the Basket of Indices on a (fictional) Observation Date₁ (Reference Level₁) would be calculated as follows:

Index (Bbg)	Reference Level₁ (of Index)	Weighting	Index Weighting	Contribution to Reference Level₁ (of Basket of Indices)
UKX	6250	1/4	0.00417	26.0412
SX5E	2800	1/4	0.01000	28.0000
SPX	1400	1/4	0.01667	23.3333
NKY	9500	1/4	0.00227	21.5909
Reference Level				<u>98.9659</u>

In the above example, the movements of the indices, when the relevant Index Weightings have been taken into account, have produced a small drop in the Reference Level of the Basket of Indices.

Index Linked Final Redemption Amounts

In the cases of Reverse Convertible Index Linked Notes and Total Return Index Linked Notes, the Final Redemption Amount will be linked to the performance of an underlying Index or Indices. In each of the following descriptions and examples, references to the Reference Level of an Index include references to the Reference Level of a Basket of Indices as illustrated above, unless otherwise stated.

Reverse Convertible Index Linked Redemption Amount

The Reverse Convertible Index Linked Note pays a fixed Interest Amount, but the principal returned at the maturity of the Note (the Redemption Amount) is at risk if the underlying Index, on the final Observation Date of the Note (normally the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement), has fallen below its value as at the start of the Note (normally the Issue Date).

Example

In this example, the Note is linked to the FTSE 100 Index. At the Issue Date, the level of the Index (Reference Level₀) was 6000, and at the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement, the level of the Index (Reference Level_i) is 4500.

If Reference Level_i had been 6000 or higher, the Redemption Amount would simply have been the principal amount of the Note. Where Reference Level_i is lower than Reference Level₀, as in this example, the following formula is used:

$$\left(1 - \frac{\text{Reference Level}_i}{\text{Reference Level}_0}\right), \text{ or in this example } \left(1 - \frac{4500}{6000}\right), \text{ being } 75\%.$$

The Reverse Convertible Index Linked Index Linked Redemption Amount is therefore 75% multiplied by the principal amount of the Notes.

Total Return Index Linked Redemption Amount

The Total Return Index Linked Note redeems at an amount when compared to its principal amount is in proportion to the performance of the Index it is linked to. If by the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement, the relevant Index has fallen by e.g. 10% compared with its value at the Issue Date, the Final Redemption Amount will be 90% of the principal amount, subject to any caps or other condition specified in the applicable Pricing Supplement. If by the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement, the Index has risen by e.g. 10%, the Final Redemption Amount will be 110% of the principal amount, subject to any caps or other condition specified in the applicable Pricing Supplement. This proportion is calculated as follows:

$$\left(\frac{\text{Reference Level}_i}{\text{Reference Level}_0}\right)$$

Example 1

If the Total Return Index Linked Note is linked to the DAX Index, and the initial level of the Index (Reference Level₀) was 7500, and at the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement, the level of the Index (Reference Level_i) is 8500, the Final Redemption Amount of the Notes would be:

$\left(\frac{8500}{7500}\right)$ (being 113.33%) of the principal amount of the Notes.

Example 2

Assume the applicable Pricing Supplement specifies the Final Redemption Amount shall be subject to a cap of 15% of Reference Price_o (such cap being the Total Return Index Linked Redemption Amount Cap). Furthermore, assume the applicable Pricing Supplement specifies that, if Reference Price_i is less than Reference Price_o, but nevertheless equal to, or greater than, 80% of Reference Price_o, then the Index Linked Note shall be redeemed for its Calculation Amount (such condition being the Total Return Index Linked Redemption Amount Condition and such percentage being the Total Return Index Linked Redemption Amount Percentage).

If Reference Price_i was 7500, and at the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement, Reference Price_o was 7000, the Final Redemption Amount of the Indexed Linked Note would be its Calculation Amount (since 7000 is 93.33% of 7500).

HALVA Index Linked Redemption Amount

Payoff Description overview

The performance of the HALVA Notes is linked to the performance of a dynamic allocation (“**HALVA Strategy**”) between (i) an investment in a periodically selected stocks (the “**Stock Basket**”) from a selected equity index (the HALVA Index) and (ii) an investment in an interest bearing cash/money market instrument(s) (“**Cash Investment**”).

The dynamic allocation between the Stock Basket and the Cash Investment is based on the observed historic volatility of the Stock Basket. On each trading day during the life of the HALVA Notes, the volatility of the Stock Basket over a short period is compared with that of a longer period. The higher of these two figures (the HALVA Basket Volatility) is then used in a formula to determine a quantity called the **HALVA Basket Exposure**. The HALVA Basket Exposure can in theory be any percentage between 0% and 100%. If the HALVA Basket Volatility is lower than or equal to another quantity, the HALVA Volatility Cap, the HALVA Basket Exposure will be 100%, otherwise the HALVA Basket Exposure will be below 100% and will fall as the HALVA Basket Volatility rises.

The HALVA Basket Exposure determines how much of the performance of the HALVA Strategy will be dependent on the Cash Investment and how much on the performance of the Stock Basket. If the HALVA Basket Exposure is 100%, the performance will be entirely based on the Stock Basket; the lower the HALVA Basket Exposure is, the more the performance depends on the Cash Investment.

Example Calculation of Halva Strategy

Calculation of Weight of each Stock in the Stock Basket for each Rebalance Period

On each HALVA Designation Date, the historic volatility for each stock in the HALVA Index is calculated. The five Stocks with the lowest volatility are selected to form the Stock Basket. The table below displays some example, fictitious data.

These five stocks constitute the Stock Basket for the period from the current HALVA Designation Date until the next following HALVA Designation Date. Each of the stocks is given a weighting within the Stock Basket (the HALVA Weighting), using the following methodology:

A Volatility Factor for each stock is calculated by finding the inverse of its historic volatility. The Volatility Factors for the example Stock Basket are displayed in the table. The Volatility Factors are summed (to give 32.28 in the example).

The Volatility Weighting of each stock in the Stock Basket is calculated by dividing its Volatility Factor by the sum of the Volatility Factors.

Finally, the HALVA Weighting of each stock is found by doing the following calculation:

$$\text{HALVA Weighting} = \text{Volatility Weighting} \times \frac{\text{Strategy Designation Date Level}}{\text{Stock Price on Designation Date}}$$

The Strategy Designation Date Level is the HALVA Strategy Level on the HALVA Designation Date. In the table the HALVA Strategy Level is taken to be equal to 1, or 100%.

Table:

<u>Stock (Bbg)</u>	<u>Price on HALVA Designation Date</u>	<u>Historic volatility</u>	<u>Volatility Factor</u>	<u>Volatility Weighting Calculation</u>	<u>Volatility Weighting</u>	<u>HALVA Weighting</u>
JNJ UN	90	12%	8.33	= 8.33 / 32.28	25.81%	0.002868
PG UN	80	14%	7.14	= 7.14 / 32.28	22.13%	0.002766
MCD UN	100	16%	6.25	= 6.25 / 32.28	19.36%	0.001936
WMT UN	77	18%	5.56	= 5.56 / 32.28	17.21%	0.002235
XOM UN	93	20%	5.00	= 5.00 / 32.28	15.49%	0.001665

Calculation of HALVA Basket Exposure

The dependence of the HALVA Strategy Level on (i) the Stock Basket and (ii) the Cash Investment is based on The HALVA Basket Exposure. The HALVA Basket Exposure is calculated as follows:

On each trading day, the historic volatilities of the Stock Basket as observed over (i) the HALVA Basket Shorter Volatility Observation Period and (ii) the HALVA Basket Longer

Volatility Observation Period are observed. For these calculations, the HALVA Basket Level is calculated as the sum of the individual stock prices in their relevant HALVA Weightings.

The maximum of the two volatility figures calculated for each of the shorter and longer periods discussed above, as measured on each trading day, (the HALVA Basket Volatility) is used in the calculation of the HALVA Basket Exposure on each trading day, as follows:

$$\text{HALVA Basket Exposure} = \min \left[100\%, \frac{\text{HALVA Volatility Cap}}{\text{HALVA Basket Volatility}} \right]$$

For example, if on a particular trading day the volatility over the shorter period was 12%, and the volatility over the longer period was 20%, the HALVA Basket Volatility would be 20%. The HALVA Basket Exposure for that trading day would be equal to the minimum of (i) 100% and (ii) the HALVA Volatility Cap (which is assumed to be 15% in this example) divided by 20%, i.e. 75%, and hence the HALVA Basket Exposure would be 75%.

Example Strategy Closing Level Calculation

Having established the HALVA Basket Exposure, the Strategy Closing Level for that trading day can then be calculated, in accordance with the following formula:

$$\text{Strategy}_t = \text{Strategy}_{t-1} + \text{VCF}_t \times \sum_y \text{HALVA Weighting}_y \times (\text{px}_y(t) - \text{px}_y(t-1)) + \text{Interest}$$

In the above formula:

- (i) Strategy_t is shorthand for the HALVA Strategy Level on trading day “t”;
- (ii) px_y(t) and px_y(t-1) are the stock prices of the constituent stocks on trading day “t” and “t-1” respectively;
- (iii) Interest = Strategy_(t-1) × (1 - HALVA Basket Exposure) × Rate × $\frac{\text{days}}{360}$;

The simplest example calculation of the HALVA Strategy Level is to look at the calculation on the first trading day (“t”=1) after the commencement of the trade (“t”=0), when HALVA Strategy Level is equal to 1.

Stock Basket contribution to HALVA Strategy Level

The Stock Basket contribution is calculated using the below formula:

$$\sum_y \text{HALVA Weighting}_y \times (\text{px}_y(t) - \text{px}_y(t-1))$$

This formula gives the sum, as a percentage, of the change in the individual stock prices between trading days “t-1” and “t”, where each stock is weighted according to its HALVA Weighting.

If this calculation showed a percentage change of 0.93%, this would be multiplied by the HALVA Basket Exposure of 75% (calculated above) to give a contribution from the Stock Basket element of 0.70%.

Cash Investment contribution to Strategy Closing Level

Assuming there is only one calendar day between trading day “t-1” and trading day “t”, and assuming an interest rate of 5%, the calculation for the “Interest” component will be:

$$\text{Interest} = \text{Strategy}_{(t-1)} \times (1 - \text{HALVA Basket Exposure}) \times \text{Rate} \times \frac{\text{days}}{360}$$

Or

$$\text{Interest} = 1 \times (1 - 75\%) \times 5\% \times \frac{1}{360} = 0.0035\%$$

Thus, HALVA Strategy Level_t = 100% + 0.70% + 0.0035% = 100.7035%.

Final Redemption Amount

The Final Redemption Amount is calculated as follows:

$$\text{Final Redemption Amount} = \text{Principal Amount} \times \frac{\text{Final HALVA Strategy Level}}{\text{Initial HALVA Strategy Level}}$$

The above is floored at zero.

If the HALVA Strategy evolves in accordance with the above description through the life of the HALVA Notes to Final HALVA Strategy Level of 107%, and the Initial HALVA Strategy Level is taken to be 100%, the Final Redemption Amount will therefore be 107% x the Principal Amount.

Index Linked Interest Amounts

In each of the following descriptions and examples, references to the Reference Level of an Index include references to the Reference Level of a Basket of Indices as illustrated above, unless otherwise stated.

Asian Call

The Asian Call Coupon is designed to pay an Interest Amount based on the average performance of the relevant Index (or Basket of Indices). The average is normally measured over periodic (e.g. monthly) Averaging Dates towards the maturity of the Note, as compared with the initial value of the Index (Reference Level₀), provided that this performance is greater than zero. On occasion, the Note will be structured such that it only pays an Interest Amount if this average performance exceeds a minimum (the strike level) of, e.g. 10%.

Example

In this example, the underlying Index is the FTSE 100 Index.

Firstly, the Asian Index Performance is calculated, being the average of the performances of the FTSE 100 relative to its initial level (Reference Level₀, or Reference Level_{strike} in the applicable Pricing Supplement). In the table below are (fictional) values for the FTSE 100 on the Averaging Dates that would be specified in the Pricing Supplement, and their corresponding

performances relative to Reference Level₀, expressed as a percentage. In this example there are six Averaging Dates, Reference Level₀ is 6000, and the Asian Call Strike is 100%, so Reference Level_{strike} is equal to 6000 (6000 multiplied by 100%).

The Index performance on any Averaging Date_i (in this and other examples “i” simply refers to the number of the Averaging Date in question, i.e. 1st, 2nd, 3rd etc.) is calculated in accordance with the following formula:

$$\left(\frac{\text{Reference Level}_i - \text{Reference Level}_{\text{strike}}}{\text{Reference Level}_0} \right)$$

The first Index Performance (i.e. for Averaging Date₁) is therefore calculated as follows, given the values in the table below:

$$\left(\frac{6600 - 6000}{6000} \right), \text{ being } 10\%.$$

Averaging Date_i	Reference Level_i	Index performance
Averaging Date ₁	6600	10.00%
Averaging Date ₂	6500	8.33%
Averaging Date ₃	6550	9.17%
Averaging Date ₄	6675	11.25%
Averaging Date ₅	6700	11.67%
Averaging Date ₆	6650	10.83%
	Asian Index Performance:	10.21%

To obtain the Asian Index Performance, the average of the Index performances in the far right hand column in the table is found. The Asian Call Coupon in the above example would be the maximum of zero and the Asian Index Performance, in this case 10.21%. The cash amount payable would be 10.21% multiplied by the Calculation Amount (in general, the principal amount of the Note).

Note that if the Asian Call Strike had been 110%, the Asian Index Performance would have been 0.21% rather than 10.21%.

Asian Call Spread

The Asian Call Spread Coupon involves the same calculation of the Asian Index Performance as for the Asian Call Coupon. However, the Asian Call Spread Coupon is calculated by finding the maximum of zero and the Asian Index Performance, subject to a maximum percentage amount (“X%” in the applicable Pricing Supplement).

Example

If the maximum amount was expressed to be e.g. 10%, the Asian Call Spread Coupon would, given the example figures under Asian Call Coupon, be 10% rather than 10.21% (assuming an Asian Call Strike of 100%).

Autocall Coupon

Autocallable Notes are generally structured such that the Note will automatically redeem if, on a particular Observation Date (often these are annual), the underlying Index has reached or exceeded a certain level. At this point, an Interest Amount is paid. The Interest Amount (the Autocall Coupon) will generally be a fixed percentage (“X%”) multiplied by the number of years since the Issue Date. Once an Autocall Coupon is paid and the Note has redeemed, there are no further Interest Amounts payable.

Example

In this example, there are 4 scheduled Observation Dates, occurring annually from the Issue Date of the Notes. The underlying Index is the FTSE 100 Reference Level₀ of the FTSE 100 is 6000, and X% = 5%

Observation Date_i	Reference Level_i
Observation Date ₁	5950
Observation Date ₂	5900
Observation Date ₃	6100
Observation Date ₄	Not Applicable

Given the example figures above, no Autocall Coupon was payable following Observation Date₁ or Observation Date₂, as the Reference Level of the Index for each of these dates was below 6000. As Reference Level₃ (6100) exceeded 6000, the Autocall Coupon is 3 x 5% = 15%. As the Note paid an Autocall Coupon, the Note redeems after Observation Date₃ and there are no further Observation Dates, so Observation Date₄ is ignored.

Cliquet Coupon

A “cliquet” generally refers to a payment calculated as a sum of performances of an Index, where each performance is subject to a minimum and maximum and the performance of the Index in any period is found by measuring the Reference Level of the Index reached at the end of that period (Reference Level_i) against the Reference Level reached at the end of the preceding period (Reference Level_{i-1}). This is distinct from e.g. the Asian Call Coupon, where each of the performances to be averaged is measured against the Reference Level on the Issue Date (Reference Level₀). Once the sum of the performances is obtained, the maximum of this sum and zero is then typically paid as the Cliquet Coupon.

Example

In this example, the Interest Period will be each year following the Issue Date until the Redemption Date, the term of the Notes is 3 years, with Observation Dates occurring quarterly from the Issue Date of the Notes, and the underlying Index is the FTSE 100.

Each quarterly Cliquet Index Performance is calculated by performing the following calculation:

$$\left(\frac{\text{Reference Level}_i - \text{Reference Level}_{i-1}}{\text{Reference Level}_{i-1}} \right)$$

to obtain the quarterly performance, and then subjecting the output value to a maximum and minimum of 3% and -3% respectively.

Observation Date_i	Reference Level_i	Quarterly performance	Cliquet Index Performance	Interest Period
0	6000	N/A	N/A	N/A
1	5900	-1.67%	-1.67%	1
2	5950	0.85%	0.85%	1
3	6100	2.52%	2.52%	1
4	6150	0.82%	0.82%	1
5	6250	1.63%	1.63%	2
6	6450	3.20%	3.00%	2
7	6300	-2.33%	-2.33%	2
8	6100	-3.17%	-3.00%	2
9	6300	3.28%	3.00%	3
10	6400	1.59%	1.59%	3
11	6600	3.13%	3.00%	3
12	6500	-1.52%	-1.52%	3

In the table above, the calculation of the quarterly performance on, for example, Observation Date₆ was therefore as follows:

$$\left(\frac{6450 - 6250}{6250} \right), \text{ being } 3.2\%. \text{ This was subject to the maximum of } 3.0\%, \text{ and hence the Cliquet}$$

Index Performance for this Observation Date was 3.0%.

Having obtained the Cliquet Index Performances, the Cliquet Coupon for a particular Interest Period is found by summing the Cliquet Index Performances for that period and finding the maximum of this number and zero.

In this example, the Cliquet Coupon for the first Interest Period is the maximum of (i) the sum of the first 4 Cliquet Index Performances {-1.67%, 0.85%, 2.52% and 0.82%}, being 2.52%, and (ii) zero – hence the coupon is 2.52%. For second Interest Period, the sum of the Cliquet

Index Performances is -0.70%, and hence the Cliquet Coupon is 0.0%. The final Cliquet Coupon is 6.07%.

Conditional Coupon

The Conditional Coupon is an Interest Amount that is payable on condition that the underlying Index is at or above a certain level (the Coupon Barrier Level) on particular dates. If the condition is satisfied, the coupon is paid, and *vice versa*.

Example

In this example, there are three Observation Dates (following the Issue Date) corresponding to three Interest Payment Dates. The level of the Index (FTSE 100) at the Issue Date (Reference Level₀) is 6000.

The Coupon Barrier Levels for each Observation Date may be the same percentage of the Reference Level₀ or a series of percentages specific to each Observation Date. In this example, the Coupon Barrier Level rises with each year of the life of the Note – from 105% to 115%. The Conditional Coupon (“X%” in the applicable Pricing Supplement) rises from 4% to 12% in respect of each successive Observation Date.

Observation Date _i	Coupon Barrier Level (% , Index points)	X%	Reference Level _i	Conditional Coupon
1	105%, 6300	4%	6400	4%
2	110%, 6600	8%	6500	0%
3	115%, 6900	12%	6905	12%

The above demonstrates that even though, on Observation Date₂, Reference Level₂ was above Reference Level₀, the Coupon Barrier Level was not reached and hence no coupon was payable. In the other cases, the Coupon Barrier Level was reached.

Shark Fin Coupon – Single Index

The Shark Fin Coupon is, in general, intended to pay out any positive performance of an Index in an Interest Period, unless that Index has reached or exceeded a high barrier during such Interest Period. If the barrier is hit, a fixed percentage will be payable as the Interest Amount.

The Shark Fin Coupon reflects an amount equal to the maximum of zero and the “Shark Fin Index Performance” of the underlying Index during the relevant Interest Period. If the Index has not reached or exceeded an upper barrier (the Coupon Barrier Level) on any of the Observation Dates during such Interest Period (typically the Observation Dates will be on each trading day in the relevant Interest Period), the Shark Fin Index Performance will simply be the performance of the Index over such period. If the barrier has been reached or exceeded, the Shark Fin Index Performance will be a fixed percentage amount (a rebate, or “X%” in the applicable Pricing Supplement).

Example

In this example, the rebate (X%) is 5%. The Coupon Barrier Level is 120% of Reference Level₀, in this case 120% multiplied by 6000, being 7200. The underlying Index is the FTSE 100, and there is one Interest Period. The Observation Dates are on each trading day during the Interest Period.

If the FTSE 100 never closes at or above 7200 during the relevant Interest Period, the Reference Level_i (being the Reference Level measured on the last Observation Date of the relevant Interest Period) will be measured and the Shark Fin Index Performance calculated in accordance with the following formula:

$$\left(\frac{\text{Reference Level}_i - \text{Reference Level}_0}{\text{Reference Level}_0} \right)$$

If the FTSE 100 ever closes at or above 7200 during the relevant Interest Period, the Shark Fin Index Performance will be the rebate of 5%, irrespective of the Reference Level reached by the Index at the end of the Interest Period.

The Shark Fin Coupon is the maximum of 0% and the Shark Fin Index Performance calculated above. The table below shows three example calculations of the Shark Fin Coupon:

Example	Highest closing level of FTSE 100 during Interest Period	Coupon Barrier Level reached?	Reference Level_i	Shark Fin Index Performance	Shark Fin Coupon
1	6100	No	5900	-1.67%	0%
2	7300	Yes	6700	5%	5%
3	6750	No	6905	15.08%	15.08%

In the table above, the calculation for Example 2 demonstrates that, as the Coupon Barrier Level was reached, the Shark Fin Index Performance was 5%, notwithstanding that the final Reference Level reached by the Index was 6700.

Shark Fin Coupon – Basket of Indices

Unlike for other calculations of Interest Amounts and Redemption Amounts applicable to Index Linked Notes, the example calculation of Reference Level for a Basket of Indices detailed above does not apply to the Shark Fin Coupon where the Note refers to more than one underlying Index. Instead, the Shark Fin Index Performance is calculated for each individual Index (per the methodology described above). Each Index will have its own Coupon Barrier Level, being (per the example above) 120% multiplied by the Reference Level₀ for that Index.

Once the Shark Fin Index Performances are calculated for each underlying Index in the Note, the average of these performances is found (the Shark Fin Index Basket Performance). The

Shark Fin Coupon is calculated as the maximum of zero and the Shark Fin Index Basket Performance.

Stability Coupon

The Stability Coupon is paid provided that the underlying Index remains within a specified range (detailed in the applicable Pricing Supplement as the Higher Coupon Barrier Level and Coupon Barrier Level in respect of the upper and lower limits of the range respectively) when measured on each Observation Date during an Interest Period. If the Index remains within such range, the Interest Amount will be calculated by taking the absolute amount of the performance of the Index, whether it is positive or negative. If the Index closes outside the range on any Observation Date, the coupon will be zero.

Example

In this example, the Reference Level₀ of the FTSE 100 Index is 6000. The Higher Coupon Barrier Level is 120% x 6000, being 7200, and the Coupon Barrier Level is 80% x 6000, being 4800 (the range is therefore 4800 to 7200). The example assumes a four year tenor of the notes, and annual Interest Payment Dates.

If the FTSE 100 never closes at or above 7200 or at or below 4800 during the relevant Interest Period, the Reference Level_i will be measured at the end of such period and the Index performance calculated in accordance with the following formula:

$$\left(\frac{\text{Reference Level}_i - \text{Reference Level}_0}{\text{Reference Level}_0} \right)$$

The Stability Coupon will be the absolute value of the number produced by the above formula (i.e. an Index performance of either -5% or +5% would both pay a Stability Coupon of 5%).

If the FTSE 100 closes at or above 7,200 or at or below 4,800 during the relevant Interest Period, the Stability Coupon will be zero. The table below illustrates how the amount of the Stability Coupon paid depends both on the performance of the Index and whether it remains within the range. Particular attention is drawn to the Stability Coupon paid in respect of Observation Date₁ of 10%, reflecting the absolute value of the Index performance of -10%.

Observation Date _i	Highest / Lowest closing level of FTSE 100 during Interest Period	Did Index remain within range?	Reference Level _i	Index performance	Stability Coupon
1	6,500 / 5,750	Yes	5,400	-10.00%	10.00%
2	7,250 / 6,000	No	6,700	11.67%	0.00%
3	6,000 / 4,500	No	6,905	15.08%	0.00%
4	6,500 / 5,500	Yes	6,300	5.00%	5.00%

Vanilla Call, Vanilla Call Spread

The Vanilla Call works in a very similar way to the Asian Call described above, but does not take an average of the performance of the underlying Index – it merely measures the final performance. The Vanilla Call Coupon will be the maximum of zero and the performance of the Index.

Example

In the example below, the Reference Level of the FTSE 100 is 6000 on the Issue Date (Reference Level₀), and the Reference Level at the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement (Reference Level₁) is 6900.

The Index performance is calculated according to the following formula:

$$\left(\frac{\text{Reference Level}_1 - \text{Reference Level}_0}{\text{Reference Level}_0} \right)$$

Using the example figures, the Index performance is 15%. The Vanilla Call Coupon is the maximum of zero and the Index performance, in this case 15%.

Vanilla Call Spread

The Vanilla Call Spread Coupon involves the same calculation of Index Performance as for the Vanilla Call Coupon. However, the Vanilla Call Coupon is then found as the maximum of zero and the Index Performance, subject to a maximum percentage amount.

Example

If the maximum amount was expressed to be e.g. 8%, the Vanilla Call Spread Coupon would, using the example figures given under the Vanilla Call above, be 8% rather than 10%.

Example Equity Linked Notes Calculations

The example calculations below are intended to demonstrate the methodology for the calculation of Equity Linked Redemption Amounts. The examples, the percentages and multipliers are for illustrative purposes only and are not intended to be representative of any Note issued under this Offering Circular or of any actual return payable in respect of any Note under this Offering Circular.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Offering Circular have the same meanings in this section

The return (being interest and principal) on the Range Accrual Notes is linked to the performance of the Range Accrual Shares within a Basket of Shares.

In respect of an Interest Period, interest will only accrue at the fixed rate specified in the applicable Pricing Supplement for those Scheduled Trading Days falling within such Interest Period on which the Relevant Prices of all the relevant Range Accrual Shares (when taken as a percentage of their respective Initial Prices) are greater than 75% (or such other percentages as specified in the applicable Pricing Supplement).

Provided that the Call Option is specified to be applicable in the relevant Pricing Supplement, any Series of fully paid Range Accrual Notes can be redeemed on any day prior to their stated Maturity Date by the Issuer for the principal amount. However, if the Issuer does not exercise the Call Option, then such Notes will be redeemed on their stated Maturity Date in the following manner:-

- (i) on the Final Observation Date specified in the applicable Pricing Supplement and in respect of each Range Accrual Share, the ILN Calculation Agent shall determine its Settlement Price as a percentage of its Initial Price (being the “**Range Accrual Percentages**”). The Range Accrual Share with the lowest Range Accrual Percentage shall be the “**Range Accrual Worst Performer**”;
- (ii) if each Range Accrual Percentage is at least equal to, or greater than, 50% (or such other percentage specified in the applicable Pricing Supplement), then such Notes shall be redeemed for their principal amount; and
- (iii) if any Range Accrual Percentage is less than 50% (or such other percentage specified in the applicable Pricing Supplement), then such Notes shall be redeemed for an amount equal to the product of (A) the principal amount, (B) the Range Accrual Percentage of the Range Accrual Worst Performer and (C) the number 2 (or such other multiplier specified in the applicable Pricing Supplement).

Example of interest calculations

Assume that the Calculation Amount for a fully paid Series of Range Accrual Notes is USD1,000,000 and the fixed rate is 9.35%. Furthermore, assume that an Interest Period has 90 days, 75 of which are Scheduled Trading Days. On only 35 of these Scheduled Trading Days, the Relevant Prices of all the Range Accrual Shares within the relevant Basket of Shares has been greater than 75% of their Initial Prices.

On this basis, the Interest Amount for such Interest Period is as follows:-

Calculation Amount x fixed rate x (Scheduled Trading Days on which condition has been satisfied/365)

$$\text{USD1,000,000} \times 9.35\% \times (35/365) = \text{USD8,965.75}$$

Example of principal calculations

In this example, the Trade Date is taken to be 12 May 2016, the Final Observation Date is taken to be 15 August 2018 and the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement is taken to be 25 September 2018. Assume that the Calculation Amount is USD1,000,000.

On the Final Observation Date, the Range Accrual Percentage for each Range Accrual Share is determined in the following manner:-

	Initial Price (USD)	Relevant Price (USD) on Final Observation Date	Range Accrual Percentage
Halliburton Co (Bloomberg Code: HAL UN Equity)	120	100	83%
General Motors Co (Bloomberg Code: GM UN Equity)	75	35	40%
Rio Tinto plc (Bloomberg Code: RIO LN Equity)	85	100	85%

This means that the Range Accrual Worst Performer is General Motors. As its Range Accrual Percentage is less than 50%, the Notes will be redeemed in the following manner:-

Calculation Amount x Range Accrual Percentage of the Range Accrual Worst Performer x 2

USD1,000,000 x 40% x 2 = USD800,000

RISK FACTORS

Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but (i) the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes and/or (ii) the inability of the Guarantor to guarantee such interest, principal or other amounts on or in connection with any Notes may, in either case, occur for other reasons and the Issuer does not represent that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.

Words and expressions defined in the “Terms and Conditions of the Notes” below or elsewhere in this Offering Circular have the same meanings in this section.

Overview of the factors that may affect the Issuer’s and the Guarantor’s ability to fulfil their obligations under Notes issued under the Programme and under the Guarantee

Unless otherwise specified by reference to the Guarantor or the Issuer, the risks specified in this section apply in the context of the Guarantor and its subsidiaries and affiliates (the “**Bank Hapoalim Group**”) generally as well as on an individual basis to the Guarantor and the Issuer.

Through its/their business operations, the Issuer, the Guarantor and/or the Bank Hapoalim Group is/are exposed to a number of risks which could have a material adverse effect on its/their business, financial condition, operations and reputation, as well as the value and liquidity of its/their securities. These risks include, but are not limited to, exposure to the Guarantor (in the case of the Issuer), credit risk, market risk, share price risk, liquidity risk, operational risk, legal risk, reputation risk, competition risk, legislation, regulation and judicial risk, condition of the Israeli economy, condition of the global economy and political/security risk.

A detailed explanation of these risks is presented in the sections headed “Risks Relating to the Issuer” and “Risks Relating to the Guarantor” below. Prospective investors should review these sections carefully as the risks specified therein may have an adverse impact on the Issuer’s and/or the Guarantor’s ability to fulfil its/their respective under the Notes.

Neither the Issuer nor the Guarantor nor the Bank Hapoalim Group can completely predict all market and other developments. The Issuer’s and/or the Guarantor’s management cannot fully protect against all types of risk. Furthermore, not all of these risks are within the Issuer’s, the Guarantor’s and/or the Bank Hapoalim Group’s control. Other risks may have an adverse effect on the Issuer, the Guarantor and/or the Bank Hapoalim Group.

Risk Relating to the Notes Generally

There is no active trading market for the Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of

Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application could be made for the Notes issued under the Programme to be admitted to listing on the Official List of the FCA and to trading on the professional securities market of the London Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

The Notes may be redeemed prior to maturity

Unless in the case of any particular Tranche of Notes the relevant Pricing Supplement specify otherwise, in the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Curaçao or Israel or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

In addition, if in the case of any particular Tranche of Notes the relevant Pricing Supplement specify that the Notes are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes the Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer or the Guarantor in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

The Issuer's and Guarantor's obligations under Subordinated Notes are subordinated

The Issuer's and Guarantor's obligations under Subordinated Notes will be unsecured and subordinated. In the event of a winding-up of the Issuer or the Guarantor as the case may be or the appointment of an administrator of the Issuer and/or the Guarantor where the administrator has given notice that he/she intends to declare and distribute a dividend, the relevant Noteholders' claims shall be subordinated to the claims of all unsubordinated creditors of the Issuer and/or the Guarantor. In such event, the relevant Noteholders' claims will become due and payable and capable of proof in such winding up or such administration, as the case may be, but only to the extent that assets will remain available in such winding up or such administration, as the case may be, after all unsubordinated claims have been satisfied in full or full provision therefor has been made. Accordingly, no payments of amounts due under the Notes will be made to the Noteholders following the commencement of the winding up of the Issuer and/or the Guarantor or the giving of such notice by the administrator except where all sums due from the Issuer and/or the Guarantor in respect of all such unsubordinated claims are paid in full.

Minimum Denomination

In relation to any issue of Notes which have a denomination consisting of the Specified Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of EUR 100,000 (or its equivalent) that are not integral multiples of EUR 100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

Noteholder meetings, modification and waivers

The terms and conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

Under the EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain

other countries). A number of non-EU countries and territories including Switzerland and Curaçao have agreed to adopt similar measures (a withholding system in the case of Switzerland and Curaçao) with effect from the same date.

EU Capital Requirements Directive

Noteholders should consult their own advisers as to the consequences to and effect on them of the application of the EU Capital Requirements Directive (Directive numbers 2006/48/EC and 2006/49/EEU, as amended (“**CRD**”)), as implemented by their own regulator, to their holding of type of Notes. The recent amendments to the CRD could lead to certain investors being subject to additional regulatory obligations. These regulatory obligations would vary depending on the type of investor and the jurisdiction in which they are regulated. Investors should be aware that such regulatory obligations may adversely affect their own holding of the Notes (if they fall within one of the relevant categories of regulated investors) and may adversely affect the price for which they can sell the Notes or their ability to sell the Notes at all. The investor should make its own determination as to such treatment, conduct appropriate due diligence and/or seek professional advice and, where relevant, consult its regulator. The Issuer is not responsible for informing Noteholders of the effects of the changes to risk-weighting which will result for investors from the adoption of CRD by their own regulator.

Settlement Risk

Settlement of the Notes is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor any Agent shall incur any liability whatsoever if it is unable to effect the transactions contemplated as a result of any such laws, regulations or practices. Neither the Issuer nor any Agent shall under any circumstances be liable for any acts or defaults of any clearing system in relation to the performance of its duties in relation to the Notes.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in the Specified Currency (or in any currency selected by the ILN Calculation Agent in the case of an early unwind in the case of a Series of Index Linked Notes (the “**ILN Early Unwind Currency**”)). This presents certain risks relating to currency conversions of an investor’s financial activities are denominated principally in a currency or currency unit (the **Investor’s Currency**) other than the Specified Currency or the ILN Early Unwind Currency, as applicable. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or the ILN Early Unwind Currency, as applicable, or revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over the Investor’s Currency may impose or modify exchange controls. An appreciation in the value of the Investor’s Currency relative to the Specified Currency or the ILN Early Unwind Currency, as applicable, would decrease (1) the Investor’s Currency-equivalent yield on the Notes, (2) the Investor’s Currency-equivalent value of the principal on the Notes and (3) the Investor’s Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Payments under the Notes may be subject to U.S. withholding under FATCA

The Issuer (and where appropriate, the Guarantor) and other non-U.S. financial institutions through which payments on the Notes are made may be required to withhold U.S. tax at a rate of up to 30 per cent. on all, or a portion of, payments made after 31 December 2016 in respect of any Notes which are issued (or materially modified) after 31 December 2012 or that are treated as equity for U.S. federal tax purposes whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as “**FATCA**”) or similar law implementing an intergovernmental approach to FATCA.

This withholding tax may be triggered if: (i) the Issuer is or becomes a foreign financial institution (“**FFI**”) for the purposes of FATCA that enters into and complies with an agreement with the U.S. Internal Revenue Service (“**IRS**”) to provide certain information on its account holders (making the Issuer a “**Participating FFI**”), (ii) the Issuer has a positive “passthru payment percentage” (as determined under FATCA), and (iii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a United States Account“ of the Issuer, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any FFI that is an investor, or through which payment on the Notes is made, is not a Participating FFI.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the Notes, the Issuer would have no obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, a Paying Agent or any other party as a result of the deduction or withholding of such amount. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

An investor that is not a Participating FFI that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

FATCA is particularly complex and significant aspects of the application of FATCA are not currently clear. The above description is based on proposed regulations and interim guidance that is subject to change.

Risks Related to the Structure of a Particular Issue of Notes

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common of such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature of Notes is likely to limit their value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure by an investor to pay any subsequent instalment(s) could result in (a) such investor's interest in respect of such Notes being blocked in accordance with the procedures of Euroclear and/or Clearstream, Luxembourg, as the case may be, until the issue price is paid in full and/or further notice from the Issuer, which will result in such investor being unable to trade such notes and (b) any such investor losing all of his/her investment.

Variable Rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or cap or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread of the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rate on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rate on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Index Linked Notes

The Issuer may issue Index Linked Notes with principal, premium, interest or other amounts determined by reference to a particular Index or Indices, as applicable, and (in the case of HALVA Notes) cash/money market instrument(s).

Therefore, the return on the Index Linked Notes (whether of principal and/or or interest, as specified in the applicable Pricing Supplement) is linked to the performance of a particular

Index or a Basket of Indices and (in the case of HALVA Notes) cash/money market instrument(s). An investment in such Index Linked Notes entails significant risks that are not associated with investments in conventional debt securities. In some circumstances, the value of the Index Linked Notes and/or the amount paid at maturity or early redemption (as applicable) may be less than the purchase price amount of the Index Linked Notes and may be zero, If this occurs, a potential investor may lose some or all of the amount it invested in the Index Linked Notes.

In respect of any Series of Index Linked Notes, potential investors should be aware that:

- (i) the market price of such Notes may be volatile and the market price of such Notes at any time is likely to be affected primarily by changes in the level of the relevant Index or Indices, as applicable, and (in the case of HALVA Notes) cash/money market instrument(s) to which such Notes are linked. It is impossible to predict how the level of any particular Index or any particular cash/money market instrument(s) will vary over time;
- (ii) they may receive no interest or additional amounts, as applicable, or they may receive interest or additional amounts at a rate that is less than that payable on a conventional fixed rate or floating rate debt Note issued at the same time;
- (iii) upon early redemption, payment of principal may occur at a different time or in a different currency than expected. For instance, this is expressed in greater detail in the definitions of “Early Termination Amount”, “Early Redemption Amount (Tax)”, “Optional Redemption Amount (Call)” and “Optional Redemption Amount (Put)”, each as specified in Condition 2 (*Interpretation*) of the “Terms and Conditions of the Notes”, which definitions prospective investors should consult alongside the applicable Pricing Supplement ;
- (iv) they may lose all or a substantial portion of their investment;
- (v) if the principal of and/or premium or other amount payable on such a Note is so indexed, the amount of principal and/or premium or other amount payable in respect thereof may be less than the original purchase price of such Note and less than the nominal or face amount of Notes, and the amount of principal and/or premium or other amount payable may even be zero;
- (vi) they should be willing to hold these Notes until the maturity date as the secondary market for such Notes may be limited or non-existent and if there is a limited secondary market then the lack of demand may reduce the market price at which Notes may be sold prior to maturity or early redemption;
- (vii) the market price will be affected by a number of factors independent of the creditworthiness of the Issuer and will depend on the value of the applicable Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) as well as the volatility of the applicable Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s), the time remaining to the maturity of such Notes, the amount outstanding of such Notes, market interest rates, yield rates and the market for other types of related and unrelated financial instruments, the financial results and prospects

of the issuer of each constituent comprising the applicable Index(ices) or the applicable cash/money market instrument(s) and (in the case of HALVA Notes) any institution where interests in respect of the applicable cash/money market instrument(s) are being held or otherwise managed;

- (viii) an Index or (in the case of HALVA Notes) cash/money market instrument(s) may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other Notes, funds or indices and may depend on a number of interrelated factors over which the Issuer has no control, including economic, financial and political events in one or more jurisdictions, including factors affecting capital markets or money markets generally, the stock exchange on which any Index (or any constituent comprising an Index) and/or obligation of the Sponsor of the Index (or the issuer of any constituent comprising an Index) may be traded and (in the case of HALVA Notes) the manner by which interests in the applicable cash/money market instrument(s) are being held or otherwise managed. Additionally, if the formula used to determine the amounts payable with respect to such Notes contains a multiplier or leverage factor, the effect of any change in the Index(ices) or (in the case of HALVA Notes) cash/money market instrument(s) will be increased (or decreased if the multiplier or relevant factor is less than one) and this increase (or decrease) may be significant;
- (ix) the timing of changes in an Index (or any constituent comprising an Index) and/or (in the case of HALVA Notes) cash/money market instrument(s) may affect the actual yield to potential investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Index and/or (in the case of HALVA Notes) cash/money market instrument(s), the greater the effect on yield;
- (x) Notes are of limited maturity and, unlike direct investments in a share, index, fund, index, commodity, cash/money market instrument or other asset, potential investors are not able to hold them beyond the maturity date or the early redemption date (as applicable) in the expectation of a recovery in the price of the underlying; and
- (xi) the price at which a potential investor will be able to sell Notes prior to the maturity date or the early redemption date (as applicable) may be at a substantial discount to the market value of the Notes at the time they are issued depending on the performance of the Index(ices) and (in the case of HALVA Notes) the applicable cash/money market instrument(s).

The historical experience of the relevant currencies, commodities, interest rates, equities, indices, funds, cash/money market instrument(s) or other financial variables should not be taken as an indication of future performance of such currencies, commodities, interest rates, equities, indices, funds, cash/money market instrument(s) or other financial variables during the term of any Index Linked Note. Potential investors should consult their own financial and legal advisors as to the risks entailed by an investment in such Notes and the suitability of such Notes in light of their particular circumstances.

As the amount of interest or additional amount (as applicable) payable periodically and/or amount payable at maturity or early redemption (as applicable) may be linked to the performance of an Index or Indices, as applicable, and (in the case of HALVA Notes) cash/money market instrument(s), a prospective investor in such an Index Linked Note must

generally be correct about the direction, timing and magnitude of an anticipated change in the value of the Index or Indices, as applicable, and (in the case of HALVA Notes) cash/money market instrument(s).

Where the applicable Pricing Supplement specify one or more Indices and (in the case of HALVA Notes) cash/money market instrument(s), the relevant Index Linked Notes will represent an investment linked to the economic performance of such Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) and prospective investors should note that the return (if any) on their investment in such Index Linked Notes will depend upon the performance of such Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s). Potential investors should also note that while the market value of Index Linked Notes is linked to such Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) and will be influenced (positively or negatively) by such Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s), any change may not be comparable and may be disproportionate. It is impossible to predict how the level of the relevant Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) will vary over time. In contrast to a direct investment in the relevant Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s), Index Linked Notes represent the right to receive payment of the relevant cash amount on the relevant maturity date or early redemption date (as applicable) as well as periodic payments of interest or additional amounts (as applicable) (if specified in the applicable Pricing Supplement), all or some of which may be determined by reference to the performance of the relevant Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s). The applicable Pricing Supplement will set out the provisions for the determination of any cash amount and of any periodic interest or additional amount payments (as applicable).

Fluctuations in the value and/or volatility of the relevant Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) may affect the value of the relevant Index Linked Notes. Investors in Index Linked Notes may risk losing their entire investment if the value of the relevant Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) does not move in the anticipated direction.

There is no return on Index Linked Notes other than the potential payment of the relevant cash amount on the maturity date or early redemption date (as applicable) and payment of any periodic interest or additional amount (as applicable).

Other factors which may influence the market value of Index Linked Notes include the creditworthiness of the Issuer, the Index Sponsor(s) of the relevant Index(ices), the issuer(s) of the constituent(s) comprising the Index(ices), (in the case of HALVA Notes) the issuer(s) of the applicable cash/money market instrument(s) and the entity(ies) holding or otherwise managing interests in such cash/money market instrument(s), general market sentiment, interest rates, potential dividend or interest payments (as applicable) in respect of the relevant Index(ices) or its/their constituent(s) and/or and (in the case of HALVA Notes) cash/money market instrument(s), changes in the method of calculating the level of the relevant Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) from time to time and market expectations regarding the future performance of the relevant Index(ices), its/their composition and such Index Linked Notes.

The value of such Index(ices) on any day will reflect the value of its constituents on such day. Changes in the composition of such Index(ices) and factors (including those described above) which either affect or may affect the value of the constituents, will affect the value of such Index(ices) and therefore may affect the return on an investment in Index Linked Notes.

The Issuer may issue several issues of Index Linked Notes relating to a particular Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s). However, no assurance can be given that the Issuer will issue any Index Linked Notes other than the Index Linked Notes to which the applicable Pricing Supplement relate. At any given time, the number of Index Linked Notes outstanding may be substantial. Index Linked Notes provide opportunities for investment and pose risks to Investors as a result of fluctuations in the value of the Index(ices) and (in the case of HALVA Notes) cash/money market instrument(s) to which such Index Linked Notes relate.

Index Adjustment Events, Additional Disruption Events and Disrupted Days in Respect of Index Linked Notes

If (i) an Index Modification, an Index Cancellation or an Additional Disruption Event occurs or (ii) the ILN Calculation Agent determines that either (A) an Index Disruption Event or a Market Disruption Event has occurred on a Valuation Date, an Averaging Date, an Observation Date or a scheduled payment date or (B) an Exchange or a Related Exchange has failed to open on a Valuation Date, an Averaging Date, an Observation Date or a scheduled payment date, then any consequential postponement of such Valuation Date, Averaging Date, Observation Date or a scheduled payment date and/or any alternative provisions for valuation or payment provided for in the “Terms and Conditions of the Notes” and the applicable Pricing Supplement may have an adverse effect on the value of or payment received on such Index Linked Notes. Any alternative provisions for valuation or payments shall be binding on the Noteholders.

Adjustments for Index Adjustment Events, Additional Disruption Events and Disrupted Days and Potential Conflicts of Interest in Respect of Index Linked Notes

It is expected that the ILN Calculation Agent will adhere to the governing rules of each Index (including its methodology for the selection and re-balancing of its components, description of market disruption events and adjustment rules). For instance, as described in Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*), an Index Modification would not arise in respect a modification to an Index prescribed in the relevant formula or method to maintain such Index in the event of changes in constituent stock and capitalisation and other routine events.

Potential investors should nevertheless be aware that the “Terms and Conditions of the Notes” (particularly, Condition 13(d)(i) (*Successor Index Sponsor Calculates and Reports an Index*), Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*), Condition 13(d)(iii) (*Additional Disruption Event*) and Condition 13(d)(iv) (*Correction to an Index*) and the definitions of “Disrupted Day”, “Valuation Date”, “Observation Date”, “Averaging Date” and “Reference Level”) permit the ILN Calculation Agent to exercise its sole and absolute discretion in making its calculations or determinations in order to address (i) a Successor Sponsor or a Successor Index, (ii) an Index Modification, (iii) an Index Cancellation, (iv) an Index Disruption, (v) an Additional Disruption Event, (vi) a Disrupted Day or (vii) corrections

to an Index. Any such discretion exercised by, or any calculation made by, the Calculation Agent shall be binding on the Noteholders.

Equity Linked Notes

The Issuer may issue Equity Linked Notes with principal, premium, interest or other amounts determined by reference to a particular Share or a Basket of Shares, as applicable. Therefore, the return on the Equity Linked Notes (whether of principal and/or interest, as specified in the applicable Pricing Supplement) is linked to the performance of a particular Share or a Basket of Shares. Although an investment in Equity Linked Notes may bear similar market risks to a direct equity investment, potential investors should take into account the effect of any conditions or formulae on any returns in respect of such Equity Linked Notes.

An investment in such Equity Linked Notes entails significant risks that are not associated with investments in conventional debt securities. In some circumstances, the value of the Equity Linked Notes and/or the amount paid at maturity or early redemption (as applicable) may be less than the purchase price amount of the Equity Linked Notes and may be zero. If this occurs, a potential investor may lose some or all of the amount it invested in the Equity Linked Notes.

In respect of any Series of Equity Linked Notes, potential investors should be aware that:

- (i) the market price of such Notes may be volatile and the market price of such Notes at any time is likely to be affected (whether positively or negatively) by changes in the price or prices of the relevant Share(s) to which such Notes are linked as well as any formulae specified in respect of such Notes. Due to this, a prospective investor in such an Equity Linked Notes must generally be correct about the direction, timing and magnitude of an anticipated change in the value of the Share or Shares, as applicable, after taking into account the effect of any applicable formulae. It is impossible to predict how the price(s) of the relevant Share(s) will vary over time;
- (ii) they may receive no or limited amount of interest or additional amounts, as applicable, or they may receive interest or additional amounts at a rate that is less than that payable on a conventional fixed rate or floating rate debt Note issued at the same time;
- (iii) upon early redemption, payment of principal may occur at a different time or in a different currency than expected. For instance, this is expressed in greater detail in (A) the definitions of “Early Termination Amount”, “Early Redemption Amount (Tax)”, “Optional Redemption Amount (Call)” and “Optional Redemption Amount (Put)”, each as specified in Condition 2 (*Interpretation*) of the “Terms and Conditions of the Notes”, which definitions prospective investors should consult alongside the applicable Pricing Supplement and (B) the consequences of Extraordinary Events (Condition 14(e)(ii)(B)) and the consequences of Additional Disruption Events (Condition 14(g)(A));
- (iv) they may lose all or a substantial portion of their investment;
- (v) they should be willing to hold these Notes until the maturity date as the secondary market for such Notes may be limited or non-existent and if there is a limited secondary market then the lack of demand may reduce the market value at which Notes may be sold prior to maturity or early redemption;

- (vi) the market value of the Notes will be affected by a number of factors independent of the creditworthiness of the Issuer and will depend on the price(s) of the applicable Share(s) as well as the volatility of the applicable Share(s), the time remaining to the maturity of such Notes, any relevant formulae specified in respect of such Notes, the amount outstanding of such Notes, market interest rates, yield rates and the market for other types of related and unrelated financial instruments, the financial results and the prospects of the relevant Share Company or Basket Company, as applicable;
- (viii) in general, the earlier the change in price of the Share(s), the greater the effect on yield;
- (ix) a Share may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other Notes, funds or shares and may depend on a number of interrelated factors over which the Issuer has no control, including economic, financial and political events in one or more jurisdictions, including factors affecting capital markets or money markets generally and the stock exchange on which any Share may be traded. The historic experience of the relevant Share(s) should not be taken as an indication of future performance of such Share(s) during the term of any Equity Linked Note. Additionally, if the formula used to determine the amounts payable with respect to such Notes contains a multiplier, a leverage factor or any conditionality, the effect of any change in the Share(s) will be increased (or decreased) and this increase (or decrease) may be significant;
- (x) Notes are of limited maturity and, unlike direct investments in share(s), potential investors are not able to hold them beyond the maturity date or the early redemption date (as applicable) in the expectation of a recovery in the price(s) of such share(s); and
- (xi) the price at which a potential investor will be able to sell Notes prior to the maturity date or the early redemption date (as applicable) may be at a substantial discount to the market value of the Notes at the time they are issued depending on the performance of the Share(s).

Potential investors should consult their own financial and legal advisors as to the risks entailed by an investment in such Notes and the suitability of such Notes in light of their particular circumstances.

The Issuer may issue several Series or Tranches of Equity Linked Notes relating to particular Share(s). However, no assurance can be given that the Issuer will issue any Equity Linked Notes other than the Equity Linked Notes to which the applicable Pricing Supplement relate. At any given time, the number of Equity Linked Notes outstanding may be substantial.

A holder of the Equity Linked Notes will not be a beneficial owner of the Share(s) and, therefore, will not be entitled to receive any dividends or similar amounts paid on the Share(s), nor will it be entitled to purchase the Share(s) by virtue of its ownership of such Notes. Moreover, it will not be entitled to any voting rights or other control rights that holders of the Share(s) may have with respect to the Share Company or the Basket Company, as applicable. Unless otherwise specified in the applicable Pricing Supplement, any Interest Amount and/or Redemption Amount and/or any additional amount will not reflect the payment of any dividends on the Share(s). Accordingly, any returns on such Notes will not reflect any returns an investor would realise if it actually owned the Share(s) and received dividends, if any, paid on those

Share(s). Therefore, the yield to maturity based on the methodology for calculating any Interest Amount and/or Redemption Amount and/or any additional amount will not be the same yield as would be produced if the Share(s) were purchased directly and held for a similar purpose.

Determinations made by the ILN Calculation Agent in respect of Market Disruption Events, Potential Adjustment Events, Extraordinary Events and Additional Disruption Events may have an adverse effect on the value of the Notes.

Upon determining that a Market Disruption Event, Potential Adjustment Event, Extraordinary Event or Additional Disruption Event has occurred in relation to an Share or the relevant Share Company or Basket Company, as applicable, the ILN Calculation Agent has broad discretion to make certain determinations to account for such event, including to make adjustments to the terms of the Notes, which determinations may have an adverse effect on the market value of the Notes.

Potential Adjustment Events (as defined in Condition 14(h) (*Definitions Applicable to Equity Linked Note*)) include (a) a sub-division, consolidation or reclassification of the relevant Shares or a free distribution, or dividend of any such Shares to existing holders of the relevant Shares by way of bonus, capitalisation or similar issue, (b) a distribution, issue or dividend to existing holders of the relevant Shares of certain share capital or securities, (c) an extraordinary dividend, (d) a call by a Basket Company or Share Company, as the case may be, in respect of relevant Shares that are not fully paid, (e) a repurchase by the Basket Company or its subsidiaries or Share Company or its subsidiaries, as the case may be, of relevant Shares, (f) in the case of a Basket Company or a Share Company, as the case may be, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of such Basket Company or Share Company, (g) any adjustment effected as a result of any shareholder rights plan or arrangement described in (f) and (h) any other event having, in the opinion of the ILN Calculation Agents acting in its sole and absolute discretion, a dilutive or concentrative effect on the value of the shares.

Extraordinary Events include (a) a delisting of the shares on an exchange, (b) an insolvency (where all the Shares of the Basket Company or the Share Company, as applicable, are transferred to a trustee, liquidator or similar official) or bankruptcy of the Basket Company or the Share Company, as applicable, (c) a listing change; (d) a listing suspension; (e) a merger event entailing the consolidation of the Shares with those of another entity, (f) a nationalisation of the Basket Company or the Share Company, as applicable, or transfer of the Shares to a governmental entity and (g) a tender offer or takeover offer that results in transfer of the Shares to another entity.

Additional Disruption Event include Change of Law, Hedging Disruption, Increased Cost of Hedging, Increased Cost of Stock Borrow, Insolvency Filing, Loss of Stock Borrow, Emerging Market Risk Event or any other Additional Disruption Event, in each case, if specified as applicable in the applicable Pricing Supplement.

Risks and Potential Conflicts of Interest Regarding the ILN Calculation Agent

Upon the occurrence of certain events (including a Market Disruption Event, a Potential Adjustment Event, an Extraordinary Event, an Additional Disruption Event, a Disrupted Day or corrections to an Index or a Share Price), in respect of Index Linked Notes or Equity Linked

Notes, as applicable, the ILN Calculation Agent has discretion in making the requisite determinations, calculations, corrections or other changes in accordance with the “Terms and Conditions of the Notes”.

An example of the ILN Calculation Agent potentially exercising its discretion is the failure of the relevant Index Sponsor to publish the level of the relevant Index which is needed to determine a payment under a Series of Index Linked Notes or Series of Equity Linked Notes, as applicable (such occurrence being an “Index Disruption” for a Series of Index Linked Notes). Upon such occurrence, the Issuer may (but is not obliged to) redeem the Notes early or, alternately, it may (but is not obliged to) require the ILN Calculation Agent to determine, in its sole and absolute discretion, whether such occurrence has a material effect on such Notes and, if is, calculate the required level in lieu of a published level on the relevant Valuation Date or Observation Date, as applicable.

Prospective investors should note that the exercise of any discretion by the ILN Calculation Agent could adversely affect the value of or the rate of return on the relevant Index Linked Note or the Equity Linked Notes, as applicable.

When making the requisite determinations or calculations, the ILN Calculation Agent would act solely as agent of the Issuer and would not assume any obligations towards, or relationship of agency or trust for or with, any of the Noteholders.

The Issuer reserves the right, at any time and without consulting or notifying the Noteholders, to vary or terminate the appointment of the ILN Calculation Agent and/or to appoint a successor ILN Calculation Agent. The ILN Calculation Agent may be any person appointed by the Issuer from time to time, including, but not limited to, the Issuer itself, Bank Hapoalim B.M. (being the Guarantor), Bank Hapoalim (Switzerland) Ltd. and/or any of its Affiliates.

To the extent that the ILN Calculation Agent is Bank Hapoalim B.M. (being the Guarantor), Bank Hapoalim (Switzerland) Ltd. and/or any of its Affiliates or the Issuer itself, prospective investors should be aware that potential conflicts of interest may arise due to any determinations or calculations made by the ILN Calculation Agent since it would be affiliated with the Issuer (or may be the Issuer itself) and would be acting as the Issuer’s agent (as mentioned above). In particular, prospective investors should be aware that, whilst the ILN Calculation Agent is obliged to make such determinations or calculations in accordance with the “Terms and Conditions of the Notes”, it is not obliged to take into account the interests of any particular Noteholder.

Risks Relating to the Issuer

As summarised in the section headed “*Overview of the factors that may affect the Issuer’s and the Guarantor’s ability to fulfil their obligations under Notes issued under the Programme and under the Guarantee*” above and as discussed in detail in this section, the Issuer is exposed to various risks arising from its activities.

Each of the following risks may have an adverse effect on the Issuer’s ability to fulfil its obligations under the Notes.

Exposure to the Guarantor

The Issuer is a wholly owned subsidiary of the Guarantor. It has been established to issue securities from time to time to finance the operations of the Guarantor and it does not engage in any other independent operating activities. Since the Issuer depends entirely on the Guarantor for its ongoing funding requirements, the Issuer's creditworthiness cannot be separated from the creditworthiness of the Guarantor.

Any material and adverse change affecting the Guarantor would also affect the Issuer and may impact the Issuer's ability to fulfil its obligations under the Notes. For instance, the Guarantor's insolvency could result in the Issuer being unable to pay interest, principal or other amounts on or in connection with any outstanding Notes. Due to this dependence, prospective investors should carefully review not just this and the other risk factors specified below in respect of the Issuer but also the section entitled "Risks related to the Guarantor" on the basis that all the risk factors applicable to the Guarantor also apply equally to the Issuer. In particular, prospective investors should carefully review the risk factors in such section which are stated to have a "medium" effect (i.e. "credit risk", "condition of the Israeli economy", "condition of the global economy", "political/security risk").

Market Risk

Market risk reflects the present or future risk to the Issuer's income and capital arising from changes in prices, rates and spreads in the financial markets. The Issuer relies entirely upon the Guarantor to pay any amounts on or in connection with any outstanding Notes. For instance, if any Series of Notes is denominated in, for example, U.S. dollars but the Issuer is receiving funds to pay amounts in connection with such Series of Notes from the Guarantor which arise from income streams denominated in, for example, Shekels, then the Issuer is exposed to exchange-rate risk.

Furthermore, due to the dependence of the Issuer on the Guarantor, any other market risk to which the Guarantor is exposed from time to time will directly affect the Issuer and could impact the Issuer's ability to pay interest, principal or other amounts on or in connection with any outstanding Notes. Prospective investors should review "Market Risk" in the section entitled "*Risks Relating to the Guarantor*" below on the basis that it applies equally to the Issuer.

Liquidity Risk

Liquidity risk reflects the present or future risk to the Issuer's profits, stability and performance of its obligations under any outstanding Notes arising from an inability to meet its liquidity needs. The Issuer relies upon the Guarantor to meet its ongoing liquidity requirements, including, but not limited to, for the purposes of making any payments under the Notes. For example, a liquidity constraint could arise if the Issuer does not receive the requisite funding from the Guarantor to make an ongoing payment in respect of an outstanding Series of Notes on or prior to its due date.

Due to the dependence of the Issuer on the Guarantor, any other liquidity risk to which the Guarantor is exposed will directly affect the Issuer and could impact the Issuer's ability to pay any amounts on or in connection with any outstanding Notes. As a result, prospective investors

should review “Liquidity Risk” in the section entitled “*Risks Relating to the Guarantor*” below on the basis that it applies equally to the Issuer.

Operational Risk

Operational risk reflects the present or future risk to the Issuer’s income, capital and performance of its obligations under any outstanding Notes arising from failed or faulty internal processes, human actions, system malfunctions or external events. Although the Issuer is an independent legal entity and is established in a jurisdiction other than the jurisdiction where the Guarantor is established, the Issuer nevertheless shares various systems and operations (including policies, procedures and systems for human resources, information security, survivability and recovery) with the Guarantor and the possibility of conflicts of interest arising cannot be wholly eliminated.

The lack of complete independence means that any operational risk affecting the Guarantor will also affect the Issuer and could impact the Issuer’s ability to pay interest, principal or other amounts on or in connection with any outstanding Notes. As a result, prospective investors should review “Operational Risk” in the section entitled “*Risks Relating to the Guarantor*” below on the basis it applies equally to the Issuer.

Legal Risk

Legal risk reflects the risk to the Issuer’s income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Issuer, which may cause damage to the Issuer’s income, capital and/or performance of its obligations under any outstanding Notes. Such legal risks may arise in respect of a number of jurisdictions, particularly the Netherland Antilles (where there Issuer is established) and England and Wales (which is the governing law for any Series of Notes), and may impact the Issuer’s ability to pay interest, principal or other amounts on or in connection with any outstanding Notes.

The Issuer shares its legal function (including for the purposes of managing and monitoring legal risk) with the Guarantor and the possibility of conflicts of interest arising cannot be wholly eliminated. In addition, as the Issuer depends on the Guarantor for its ongoing funding requirements, the specific legal risks to which the Guarantor is exposed would directly affect the Issuer and could impact the Issuer’s ability to pay interest, principal or other amounts on or in connection with any outstanding Notes. On this basis, prospective investors should review “Legal Risk” in the section entitled “*Risks Relating to the Guarantor*” below on the basis it applies equally to the Issuer (including the legal proceedings which have been brought against the Bank Hapoalim Group).

Legislation, Regulation and Judicial Risk

This is the risk to the Issuer’s income, capital and performance of its obligations under any outstanding Notes arising from legislation, directives, rules and regulations, guidance and/or judicial decisions of any legislative, regulatory agency or judicial body that adversely changes to the Issuer’s business environment.

The Issuer is established in the Netherlands Antilles which, as at the date of this Offering Circular, is considered to be a favourable jurisdiction for the Issuer’s present and ongoing

activities. No assurance can be given as to the impact of any possible judicial decision or change to the laws, rules or regulations of the Netherlands Antilles which may adversely affect the Issuer's activities and, therefore, its ability to pay some or all of the interest, principal or other amounts on or in connection with any outstanding Notes.

Furthermore, as the Issuer is entirely dependent on the Guarantor to pay any amounts on or in connection with any outstanding Notes, any legislation, regulation or judicial risk to which the Guarantor is exposed also directly impacts the Issuer. On this basis, prospective investors should review "Legislation, Regulation and Judicial Risk" in the section entitled "*Risks Relating to the Guarantor*" below on the basis it applies equally to the Issuer.

Risks Relating to the Guarantor

The section headed "*Overview of the factors that may affect the Issuer's and the Guarantor's ability to fulfil their obligations under Notes issued under the Programme and under the Guarantee*" above and this section below address the main risk factors to which the Guarantor is exposed due to its banking activities. In this respect, prospective investors should also refer to the section headed "*Risk Management*" below (including the "Risk Factor Table" contained in such section) that notes the Guarantor's assessment of the levels of such risks.

The following risk factors could have an adverse effect on the Guarantor's ability to (i) guarantee any interest, principal or other amounts on or in connection with any outstanding Notes and/or (ii) (as described in the section headed "Risks Relating to the Issuer" above) provide the funding support to the Issuer which is required by it to pay any interest, principal or other amounts on or in connection with any outstanding Notes.

Credit risk

Credit risk is the risk arising from the failure of the Guarantor's borrowers to fulfil their obligations to the Guarantor. As explained in the section headed "*Risk Management*" below, credit risk has a "medium" risk effect on the Guarantor's ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

The credit portfolio is a material component of the Guarantor's asset portfolio. Accordingly, deterioration in the stability of borrowers may have an adverse effect on the Guarantor's asset value and profitability. To minimise this risk, the Guarantor has developed various mitigation methods such as a credit risk management policy, credit policy and exposure limits with regard to borrowers/sectors/products in the various segments of activity.

Risk in respect of the quality of borrowers and collateral - A deterioration in the quality of borrowers and in the value of collateral provided to the Guarantor to secure credit may have an adverse effect on the probability of collecting the credit, and therefore on the Guarantor's asset value and profitability. The Guarantor has a credit policy and exposure limits with regard to different types of borrowers in the various segments of activity and products. Monitoring of compliance with these limits is carried out routinely.

Risk in respect of sectoral concentration - There is a level of credit risk arising from a high volume of credit granted to borrowers belonging to a particular sector of the economy and investments in products sensitive to that sector, relative to the credit portfolio. Deterioration in business activity in such an economic sector may lead to an increase in borrowers' inability to

repay and to the reduction in value of collateral provided by some borrowers belonging to the sector, causing an adverse effect on the Guarantor's asset value and profitability. The Bank of Israel and the Board of Directors of the Guarantor have set limits on the maximum exposure to the various economic sectors and control of compliance with these limits is carried out routinely.

Risk in respect of concentration of borrowers/ borrower groups - Present or future risk arising from deterioration in the financial condition of a large borrower or group of borrowers relative to the credit portfolio may cause an adverse effect on the probability of collecting the credit and, therefore, on the Guarantor's asset value and profitability. The Bank of Israel and the Board of Directors of the Guarantor have set limits on the maximum exposure to borrowers and groups of borrowers, and monitoring of compliance with these limits is carried out routinely.

In addition, the Guarantor has adopted the use of methods designed for measurement of sectoral and borrower concentration, and monitors the level of concentration as measured by these methods. The Guarantor has a hierarchy of authority that outlines a sequence of credit authorisations, 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. Uniform instruction and training further minimises any credit risk affecting the Guarantor. Furthermore, the Guarantor conducts stress tests designed to assess adherence of credit and credit concentration risks with the bank's risk appetite and risk capacity.

Although it is expected that the aforementioned mitigation methods employed by the Guarantor and/or imposed by the Bank of Israel would prevent or reduce any losses suffered by the Guarantor resulting of the failure of one or more borrowers to fulfil its or their obligations, this cannot be assured. If the Guarantor suffers significant losses due to the default of one or more of its borrowers, the Guarantor could be unable to (i) guarantee any interest, principal or other amounts on or in connection with any outstanding Notes and/or (ii) provide the funding support to the Issuer which is required by it to pay any interest, principal or other amounts on or in connection with any outstanding Notes.

Market Risk

Market risk is the risk to the Guarantor's income and capital arising from changes in prices, rates and spreads in the financial markets. As explained in the section headed "*Risk Management*" below, market risk has a "low" risk effect on the Guarantor's ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Market risk management differs between exposures that arise in the course of the Guarantor's routine asset and liability management and exposures in the trading book.

Interest Rate Risk - This is the risk to the income and capital of the Guarantor arising from changes in interest rates, mainly the exposure to interest rates in different currencies which may cause a decrease in income from interest. Exposure arising from the Guarantor's overall routine activity is managed in accordance with estimates regarding market variables and subject to limits on the sensitivity of the capital of the Guarantor (including financial subsidiaries under its management) to specified scenarios of change in the shekel, CPI-linked, and dollar interest-rate curves. Exposures to trading and market making in interest rates are managed subject to limits that are routinely approved and controlled.

Inflation risk / exchange-rate risk - This is the risk to the Guarantor's income and capital arising from linkage-base exposure and currency exposure in the areas of trading and market making. Linkage-base exposure is the exposure of financial capital to three linkage segments: unlinked shekel, CPI-linked shekel, and foreign currency. Changes in market conditions may cause losses as a result of both linkage-base exposure and trading activity. The distribution of active financial capital (including financial subsidiaries under the Guarantor's management) among the segments is managed routinely, according to market conditions, and subject to limits. Trading exposure is carried out subject to limits that are routinely approved and controlled.

If the assumptions which the Guarantor has made for the purposes of establishing market risk management (including any limits) become incorrect or if there are unexpectedly severe movements in the financial markets, then the Guarantor may suffer losses. For instance, such losses could arise if the floating rate exposures of the Guarantor significantly exceed pre-determined tolerance limits.

In extreme instances, losses arising from market risk could result in the Guarantor being unable to (i) guarantee any interest, principal or other amounts on or in connection with any outstanding Notes and/or (ii) provide the funding support to the Issuer which is needed by it to pay any interest, principal or other amounts on or in connection with any outstanding Notes. However, as mentioned above, market risk is considered to have a "low" risk effect on the Guarantor's obligations in respect of any outstanding Notes.

Share Price Risk

Share price risk is the risk to the Guarantor's income and capital arising from a decline in the value of shares held by the Guarantor. The Guarantor holds shares primarily for investment purposes (not for trading) and a decline in the value of these shares may impair the Guarantor's profitability.

If the Guarantor suffers significant losses due to share price risk, then it may be unable to meet its ongoing liabilities, including guaranteeing its obligations under any outstanding Notes and/or providing funding support to the Issuer which is needed by the Issuer to pay its obligations under any outstanding Notes. However, as explained in the section headed "*Risk Management*" below, share price risk has a "low" risk effect on the Guarantor's ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Liquidity Risk

Liquidity risk is the risk to the Guarantor's profit and stability arising from an inability to supply its liquidity needs. Liquidity risk at the Guarantor, in foreign currency and in shekels, is managed and controlled routinely, in accordance with Bank Hapoalim Group policy, with the aim of ensuring the ability to cope competitively even in exceptional supply and demand situations in the financial markets. The Guarantor operates a control system based on an advanced internal model using scenarios. Deposits at the Guarantor have been stable over extended periods.

For instance, liquidity risk may arise if, due to political, economic or any other reasons beyond the control of the Guarantor, depositors at the Guarantor withdraw a significant amount of deposits within a short period of time. Such a sudden withdrawal could result in the Guarantor

being unable to meet its ongoing liabilities, including guaranteeing its obligations under any outstanding Notes and/or providing funding support to the Issuer which is needed by the Issuer to pay its obligations under any outstanding Notes. However, as explained in the section headed “*Risk Management*” below, liquidity risk has a “low” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Operational Risk

Operational risk is the present or future risk to the Guarantor's income and capital that may arise from failed or faulty internal processes, human actions, system malfunctions or external events. This definition includes the risk of embezzlement and fraud as well as legal risk, but does not include strategic risk and risk to reputation. Failures related to one of the aforementioned factors may cause possible damage to the Guarantor’s profitability. The Guarantor manages these risks by way of policies, procedures and systems in various areas, including human resources, information security, security, process control, and survivability and recovery.

For instance, operational risk may arise if the Guarantor’s information technology (IT) security procedures are breached whether accidentally or deliberately, and unauthorised fund transfers are made. If the losses which the Guarantor suffers are significant, then it may be unable to meet its ongoing liabilities, including guaranteeing its obligations under any outstanding Notes and/or providing funding support to the Issuer which is needed by the Issuer to pay its obligations under any outstanding Notes. However, as explained in the section headed “*Risk Management*” below, operational risk has a “low” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Legal Risk

Legal risk is the risk to the Guarantor's income and capital resulting from unexpected events such as legal claims, including class-action suits, inability to enforce contracts, or rulings against the Guarantor, which may cause damage to the Guarantor's profitability. Such legal risk may arise from a number of jurisdictions, particularly Israel (where the Guarantor is established) and England and Wales (which is the governing law for any Series of Notes).

Legal risk is managed and monitored with the assistance of internal and external legal counsel.

The Guarantor and its consolidated subsidiaries are parties 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 Hapoalim Group’s operations during the normal course of business. The causes of the claims against the Bank Hapoalim Group are various and wide ranging. For a description of certain legal proceedings that may be material to the Guarantor’s results or operations and financial condition, see “*Legal Proceedings - Annex A*”. As highlighted in such annex, prospective investors should note that the additional exposure in respect of claims filed against the Bank Hapoalim Group on various matters that have a “reasonably possible” probability of materialisation amounts to approximately NIS 89 million as of 31 March 2014. Prospective investors should note that this figure does not take into account those pending legal proceedings specified in Paragraph B of such annex whose chances of success cannot be ascertained at this stage. For instance, item 1 of

Paragraph B of such annex specifies a class-action suit for a total amount of approximately NIS 1.7 billion.

If the losses suffered by the Guarantor as a result of this and any other legal proceedings outlined in such annex are significant, then it may be unable to meet its ongoing liabilities, including guaranteeing its obligations under any outstanding Notes and/or providing funding support to the Issuer which is needed by the Issuer to pay its obligations under any outstanding Notes. However, as explained in the section headed “*Risk Management*” below, legal risk has a “low” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Reputation Risk

Reputation risk is the damage to the Guarantor's reputation as a stable, credible financial institution in the eyes of customers, shareholders, investors, business partners, and regulatory agencies may lead to the transfer of customers' activity to other providers of financial services, causing damage to the Guarantor's activity and profitability.

If the Guarantor suffers significant losses due to deterioration in its reputation, then it may be unable to meet its ongoing liabilities, including guaranteeing its obligations under any outstanding Notes and/or providing funding support to the Issuer which is needed by the Issuer to pay its obligations under any outstanding Notes. However, as explained in the section headed “*Risk Management*” below, reputation risk has a “low” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Competition Risk

Competitive risks arise from the banking system in Israel and 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; in addition, there is 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 Guarantor's market share and profitability.

If the Guarantor suffers significant losses due to excessive competition, then it may be unable to meet its ongoing liabilities, including guaranteeing its obligations under any outstanding Notes and/or providing funding support to the Issuer which is needed by the Issuer to pay its obligations under any outstanding Notes. However, as explained in the section headed “*Risk Management*” below, competition risk has a “low” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Legislation, Regulation and Judicial Risk

This is the risk to the Guarantor's income and capital arising from any legislation, directive, rule, regulation, guidance and/or judicial decision of any legislative body, regulatory agency or judicial body that introduces changes to the Guarantor's business environment. Such changes may occasionally influence the Guarantor's ability to offer certain services and/or may obligate

the Guarantor to carry out technological and other investments at considerable cost, while disrupting schedules for development of other planned services.

If the Guarantor suffers significant losses due to a change in law, then it may be unable to meet its ongoing liabilities, including guaranteeing its obligations under any outstanding Notes and/or providing funding support to the Issuer which is needed by the Issuer to pay its obligations under any outstanding Notes. However, as explained in the section headed “*Risk Management*” below, legislation, regulation and judicial risk has a “low” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Condition of the Israeli Economy

The Guarantor is one of the two largest banks in Israel. Therefore, its activities and results reflect developments in the Israeli economy.

Israel was one of the countries least affected by the economic crisis in 2008-2009. The recession was short and mild compared to other advanced economies. Israel's credit rating did not change during the crisis; it was raised to A+ by S&P in September 2011 and remained unchanged since then. The banking sector showed reduced profitability, but financial institutions remained stable and no government intervention was required. The economy has returned to a growth pattern since the second quarter of 2009, and grew by an average of 5.1% in 2010 and 2011.

Growth dropped to an annual level of 3.4% in 2012 and 3.3% in 2013. The main reason for the slower growth rate is a fall in the growth of exports. It should be noted that current estimates for growth in 2013 include the effect of natural gas production from the Tamar field, which began production in the second quarter. Natural gas replaces energy material imports and its contribution to growth is estimated at approximately 0.8 per cent. The labor market is sound with unemployment at 6% and a record high participation rate in the labor force.

The government's fiscal situation deteriorated to some extent due to lower tax receipts and higher expenditures during 2012. A new government was established after general elections in January 2013 and adapted a fiscal plan in the middle of 2013 aiming to cut approximately 3% of GDP. The fiscal situation has improved as a result of that plan as well as other factors.

However although Israel outperformed most advanced economies and the economy is still growing, since Israel is a very open market, future economic conditions will rely to a great extent on global trends. A slowdown in global economic activity may pose a future risk to the Guarantor's income and capital. Such developments may cause deterioration in the condition of some of the Guarantor's borrowers, and decrease the quality of the Guarantor's credit portfolio.

The housing market: Since the middle of 2007, housing prices increased nationally by approximately 85%. A shortage of housing units and low interest rates were contributing factors in the rise in prices. The number of housing starts began to rise in 2010, and the Bank of Israel issued several directives with respect to the mortgage market as part of an effort to cool down the rise in prices. The Guarantor is exposed to this market since it provides credit for commercial and residential construction and household mortgages.

As explained in the section headed “*Risk Management*” below, the condition of the Israeli economy has a “medium” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Condition of the Global Economy

The financial performance of the Guarantor's business could be adversely affected by global economic cycles and volatility in international markets. Factors such as interest rates, inflation, the level of unemployment, investor sentiment, the availability and cost of credit, overall customer demand, the liquidity of financial markets, the impact of fiscal and monetary policy, changes in government legislation and the level and volatility of equity prices could have a negative effect on the performance and financial strength of some businesses in Israel.

The Guarantor is active in the global financial markets and in foreign trade finance. These activities expose the Guarantor to changing developments in the international arena, including some European countries currently experiencing a debt crisis. These crises have the potential to adversely affect the region and the Guarantor's results.

As explained in the section headed “*Risk Management*” below, the condition of the global economy has a “medium” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

Political/Security Risk

This is the present or future risk to the Guarantor's income and capital arising out of the security situation in Israel.

For much of its history, the State of Israel has found itself in conflict with its surrounding neighbours, including five wars with various combinations of Arab states and frequent terror attacks from Palestinian groups and entities. Most recently, since the end of June 2014, Palestinian terror groups operating in the Gaza Strip attacked Israel, including approximately 1300 in the eight day period between July 8-16. In response, Israel has launched a military operation in the Gaza Strip, “Operation Defensive Edge”. As of the date hereof, this operation is still ongoing.

Similar clashes in the past have resulted in a temporary slowdown throughout the economy, and, in particular, in foreign-trade activity and in certain industries such as tourism and construction. A potential risk of such situations damages the political and commercial relations between Israel and other countries. It could also have an adverse effect on the Guarantor's ability to raise capital in foreign currency, on various investors, and on the condition of some of the Guarantor's borrowers and the probability of collecting credit from these borrowers.

As explained in the section headed “*Risk Management*” below, security risk has a “medium” risk effect on the Guarantor’s ability to guarantee any interest, principal or other amounts on or in connection with any outstanding Notes.

INFORMATION INCORPORATED BY REFERENCE

The following information shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (1) the audited financial statements (including the auditors' report thereon and notes thereto) of the Issuer in respect of the years ended 31 December 2011, 31 December 2012 and 31 December 2013;
- (2) the audited financial statements (including the auditors' report thereon and notes thereto) of the Guarantor in respect of the years ended 31 December 2011, 31 December 2012 and 31 December 2013 (set out on pages 291 to 449, 281 to 473 and 293 to 479 respectively, of the 2011, 2012 and 2013 annual reports of the Guarantor) made public on March 28, 2012, March 29, 2013 and March 31, 2014, respectively;
- (3) the interim unaudited quarterly financial statements of the Guarantor in respect of the three months ended 31 March 2014;
- (4) the interim unaudited quarterly financial statements of the Issuer in respect of the three months ended 31 March 2014;
- (5) the Terms and Conditions of the Notes set out on pages 29 to 60 of the Offering Circular dated 22 May 2003;
- (6) the Terms and Conditions of the Notes set out on pages 30 to 60 of the Offering Circular dated 6 August 2008;
- (7) the Terms and Conditions of the Notes set out on pages 28 to 59 of the Offering Circular dated 1 October 2009;
- (8) the Terms and Conditions of the Notes set out on pages 27 to 58 of the offering Circular dated 7 October 2010;
- (9) the Terms and Conditions of the Notes set out on pages 27 to 58 of the offering Circular dated 7 October 2011;
- (10) the Terms and Conditions of the Notes set out on pages 52 to 117 of the Offering Circular dated 23 January 2013;
- (11) the Terms and Conditions of the Notes set out on pages 63 to 134 of the Offering Circular dated 18 October 2013;
- (12) the Terms and Conditions of the Notes set out on pages 69 to 134 of the Offering Circular dated 3 June 2014; and
- (13) the Guarantor's Compensation Plan made public and reported to the Israeli Stock Exchange on 31 August 2010 and to the London Stock Exchange on 21 September 2010 (a copy of which can be found on the website of the London Stock Exchange as well as the website of Bloomberg (<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a4Dy9EHIU3nM>) and the website of Reuters

<http://www.reuters.com/article/2012/09/24/idUS109061+24-Sept-2012+RNS20120924>)).

The Issuer and the Guarantor will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed either to the Issuer or, as the case may be, the Guarantor at their respective registered offices set out at the end of this Offering Circular.

The documents in relation to the Issuer deemed to be incorporated herein by reference are available to the public on the national storage website at the following address:

<http://www.morningstar.co.uk/uk/nsm>

The documents in relation to the Guarantor deemed to be incorporated herein by reference are available to the public on the Guarantor's website at the following address:

http://www.bankhapoalim.com/wps/portal/int/article?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/bhint/int/home/irelations/FinancialInformation&proceed=1

FORMS OF THE NOTES

Each Tranche of Notes will initially be in the form of either a temporary global note (the “**Temporary Global Note**”), without interest coupons, or a permanent global note (the “**Permanent Global Note**”), without interest coupons, in each case as specified in the relevant Pricing Supplement. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a “**Global Note**”) will be deposited on or around the issue date of the relevant Tranche of the Notes with a depository or a common depository for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and/or Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) and/or any other relevant clearing system.

The relevant Pricing Supplement will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent; and
- (ii) receipt by the Fiscal Agent of a certificate or certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system dated not earlier than the Exchange Date,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however, that* in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes includes language substantially to the following effect: “EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000”.

If the relevant Pricing Supplement specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange

Permanent Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement ; or
- (ii) at any time, if so specified in the relevant Pricing Supplement ; or
- (iii) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Permanent Global Note”, then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 19 (*Events of Default*) occurs. However, in relation to any Notes issued with a denomination of EUR100,000 (or equivalent) and integral multiples of EUR1,000 (or equivalent), each Permanent Global Note representing such Notes shall only be exchangeable to for Definitive Notes in the limited circumstances of (1) closure of Euroclear Bank or Clearstream,

Luxembourg or an alternative clearing system for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise or where such clearing system announces an intention permanently to cease business; (2) default of the relevant Issuer; or (3) exchange at the option of the relevant Issuer due to adverse tax consequences as a result of the Notes being in global form.

The Permanent Global Note will also become exchangeable, in whole but not in part and at the option of the Issuer, for Definitive Notes if, by reason of any change in the laws of Curaçao or Israel, the Issuer or the Guarantor is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes includes language substantially to the following effect: “EUR 100,000 and integral multiples of EUR 1,000 in excess thereof up to and including EUR 199,000”.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “Terms and Conditions of the Notes” below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form” below.

Legend concerning United States persons

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, together with the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes while in Global Form” below.

1. Introduction

- (a) *Programme:* Hapoalim International N.V. (the “**Issuer**”) has established a Global Medium Term Note Programme (the “**Programme**”) for the issuance of up to U.S.\$2,500,000,000 in aggregate principal amount of notes (the “**Notes**”) guaranteed by Bank Hapoalim B.M. (the “**Guarantor**”).
- (b) *Pricing Supplement:* Notes issued under the Programme are issued in series (each a “**Series**”) and each Series may comprise one or more tranches (each a “**Tranche**”) of Notes. Each Tranche is the subject of a Pricing Supplement (the “**Pricing Supplement**”) which supplements these terms and conditions (the “**Conditions**”). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.
- (c) *Agency Agreement:* The Notes are the subject of an amended and restated issue and paying agency agreement dated 3 June 2014 (the “**Agency Agreement**”) between the Issuer, the Guarantor, Citibank, N.A. as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the “**Paying Agents**”, which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes).
- (d) *Deed of Guarantee:* The Notes are the subject of a deed of guarantee dated 3 June 2014 (the “**Deed of Guarantee**”) entered into by the Guarantor.
- (e) *The Notes:* All subsequent references in these Conditions to “Notes” are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing and copies may be obtained from Bank Hapoalim B.M. at 63-65 Yehuda Halevy Street, Tel Aviv 65781, Israel.
- (f) *Summaries:* Certain provisions of these Conditions are summaries of the Agency Agreement and the Deed of Guarantee and are subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons, if any, (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Guarantee applicable to them. Copies of

the Agency Agreement and the Deed of Guarantee are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. Interpretation

- (a) *Definitions:* In these Conditions the following expressions have the following meanings:

“**Accrual Yield**” has the meaning given in the relevant Pricing Supplement;

“**Additional Business Centre(s)**” means the city or cities specified as such in the relevant Pricing Supplement;

“**Additional Financial Centre(s)**” means the city or cities specified as such in the relevant Pricing Supplement;

“**Affiliate**” means any entity controlled directly or indirectly, by the Issuer, any entity that controls, directly or indirectly, the Issuer, or any entity under common control with the Issuer. As used herein “**control**” means the ownership of a majority of the voting power of the entity and “controlled by” and “controls” shall be construed accordingly.

“**Business Day**” means:

- (i) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (ii) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

“**Business Day Convention**”, in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) “**Following Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day;
- (ii) “**Modified Following Business Day Convention**” or “**Modified Business Day Convention**” means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (iii) “**Preceding Business Day Convention**” means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

- (iv) “**FRN Convention**”, “**Floating Rate Convention**” or “**Eurodollar Convention**” means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred *provided, however, that*:
- (A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
 - (B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day;
 - (C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (v) “**No Adjustment**” means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

“**Calculation Agent**” means the Fiscal Agent or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s);

“**Calculation Amount**” has the meaning given in the relevant Pricing Supplement;

“**Coupon Sheet**” means, in respect of a Note, a coupon sheet relating to the Note;

“**Day Count Fraction**” means, in respect of the calculation of an amount for any period of time (the “**Calculation Period**”), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

- (i) if “**Actual/Actual (ICMA)**” is so specified, means:
 - (A) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (B) where the Calculation Period is longer than one Regular Period, the sum of:

- (C) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and
 - (D) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (a) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;
- (ii) if “**Actual/365**”, “**Actual/Actual**” or “**Actual/Actual (ISDA)**” is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
 - (iii) if “**Actual/365 (Fixed)**” is so specified, means the actual number of days in the Calculation Period divided by 365;
 - (iv) if “**Actual/360**” is so specified, means the actual number of days in the Calculation Period divided by 360;
 - (v) if “**30/360**” is so specified, means the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the Calculation Period is the 31st day of a month but the first day of the Calculation Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (ii) the last day of the Calculation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
 - (vi) if “**30E/360**” or “**Eurobond Basis**” is so specified means, the number of days in the Calculation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Calculation Period unless, in the case of the final Calculation Period, the date of final maturity is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month);

“**Early Redemption Amount (Tax)**” means:

- (i) in respect of any Note other than an Index Linked Note or an Equity Linked Note, its principal amount; or
- (ii) in respect of any Index Linked Note or any Equity Linked Note:

- (A) its principal amount;
- (B) if “Fair Market Value (Early Redemption Amount (Tax))” is specified to be applicable in the relevant Pricing Supplement and “ILN Cost of Unwinding (Early Redemption Amount (Tax))” is not specified to be applicable in the relevant Pricing Supplement , its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity Linked Note immediately prior to the date on which it is to be redeemed; or
- (C) if both “Fair Market Value (Early Redemption Amount (Tax))” and “ILN Cost of Unwinding (Early Redemption Amount (Tax))” are specified to be applicable in the relevant Pricing Supplement , its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity Linked Note immediately prior to the date on which it is to be redeemed *less* the ILN Cost of Unwinding.

For the purposes of determining the fair market value of an Index Linked Note or an Equity Linked Note under item (B) or (C) above, no account shall be taken of the financial condition of the Issuer and/or its Affiliates and the Issuer shall be presumed to be able to perform fully its obligations in respect of the Index Linked Notes or the Equity Linked Note;

“Early Termination Amount” means:

- (i) in respect of any Note other than an Index Linked Note or an Equity Linked Note, its principal amount; or
- (ii) in respect of any Index Linked Note or any Equity Linked Note,
 - (A) its principal amount;
 - (B) if “Fair Market Value (Early Termination Amount)” is specified to be applicable in the relevant Pricing Supplement and “ILN Cost of Unwinding (Early Termination Amount)” is not specified to be applicable in the relevant Pricing Supplement, its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity Linked Note immediately prior to the date on which it is to be redeemed; or
 - (C) if both “Fair Market Value (Early Termination Amount)” and “ILN Cost of Unwinding (Early Termination Amount)” are

specified to be applicable in the relevant Pricing Supplement, its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity Linked Note immediately prior to the date on which it is to be redeemed *less* the ILN Cost of Unwinding.

For the purposes of determining the fair market value of an Index Linked Note or and Equity Linked Note under item (B) or (C) above, no account shall be taken of the financial condition of the Issuer and/or its Affiliates and the Issuer shall be presumed to be able to perform fully its obligations in respect of the Index Linked Notes or the Equity Linked Notes;

“**Equity Linked Notes**” are Notes to which Condition 14 (*Equity Linked Note Provisions*) applies;

“**Extraordinary Resolution**” has the meaning given in the Agency Agreement;

“**Final Redemption Amount**” means (i) in respect of any Note other than an Index Linked Note, its principal amount or (ii) in respect of an Index Linked Note, the Index Linked Redemption Amount or its principal amount or (iii) in respect of an Equity Linked Note, the Equity Linked Redemption Amount or its principal amount;

“**Fixed Coupon Amount**” has the meaning given in the relevant Pricing Supplement;

“**Fixed Rate Notes**” are Notes to which Condition 7 (*Fixed Rate Note Provisions*) applies;

“**Floating Rate Notes**” are Notes to which Condition 8 (*Floating Rate Note Provisions*) applies;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (i) any obligation to purchase such Indebtedness;
- (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (iv) any other agreement to be responsible for such Indebtedness;

“Guarantee of the Notes” means the guarantee of the Notes given by the Guarantor in the Deed of Guarantee;

“Hedging Entity” means:

- (A) the Issuer;
- (B) the Guarantor;
- (C) the ILN Calculation Agent;
- (D) any Affiliate; and/or
- (E) any entity (or entities) acting on behalf of the Issuer as specified in the applicable Pricing Supplement that is (or are) engaged in any underlying or hedging transactions related to the Index or the Shares, if applicable, in respect of the Issuer’s obligations under the Index Linked Notes or the Equity Linked Notes, as applicable.

“ILN Calculation Agent” means Bank Hapoalim B.M. or such other Person specified in the relevant Pricing Supplement as the party responsible for making certain determinations or calculations in respect of any Series of Index Linked Notes or any Series of Equity Linked Notes, as applicable;

“ILN Cost of Unwinding” means, in respect of the Early Termination Amount, the Early Redemption Amount (Tax), Optional Redemption Amount (Call), Optional Redemption Amount (Put) or any amount payable pursuant to Condition 14(e)(ii)(B) (*Consequences of the occurrence of an Extraordinary Event*) or pursuant to Condition 14(g) (*Additional Disruption Events*) and in respect of any Series of Index Linked Notes or any Series of Equity Linked Notes, as applicable, the cost to the Issuer, the Guarantor and/or any other Hedging Entity unwinding any underlying related hedging arrangements in respect of such Series of Index Linked Notes or such Series of Equity Linked Notes, as applicable, as determined by the ILN Calculation Agent in its sole and absolute discretion.

In respect of the Early Termination Amount, the Early Redemption Amount (Tax), Optional Redemption Amount (Call), Optional Redemption Amount (Put) or any amount payable pursuant to Condition 14(e)(ii)(B) (*Consequences of the occurrence of an Extraordinary Event*) or pursuant to Condition 14(g) (*Additional Disruption Events*) and in respect of any Series of Index Linked Notes or any Series of Equity Linked Notes, as applicable, the applicable Pricing Supplement may specify the maximum and/or minimum amounts that may be attributable as an ILN Cost of Unwinding as well as additional provisions (if any) relevant for determining the ILN Cost of Unwinding (the **“ILN Cost of Unwinding Further Provisions”**).

“Indebtedness” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;

- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Index Linked Notes**” are Notes to which Condition 13 (*Index Linked Note Provisions*) applies;

“**Instalment Amount**” means, in relation to an Instalment Note, the amount of principal that will be repaid in respect of that Note on an Instalment Date, as specified in the applicable Pricing Supplement;

“**Instalment Date**” means, in relation to an Instalment Note, the date upon which an Instalment Amount will be repaid in respect of that Note, as specified in the applicable Pricing Supplement;

“**Instalment Notes**” means Notes to which Condition 11 (*Instalment Note Provisions*) applies and that are repayable in instalments in the Instalment Amounts and on the Instalment Dates;

“**Interest Amount**” means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

“**Interest Commencement Date**” means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

“**Interest Determination Date**” has the meaning given in the relevant Pricing Supplement;

“**Interest Payment Date**” means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

- (i) as the same may be adjusted in accordance with the relevant Business Day Convention; or
- (ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in

accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

“**Interest Period**” means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

“**Inverse Floating Rate**” means an interest rate equal to a fixed rate minus a rate based upon a Reference Rate as specified in the applicable Pricing Supplement ;

“**ISDA Definitions**” means the 2000 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.) or, if so specified in the relevant Pricing Supplement , the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

“**Issue Date**” has the meaning given in the relevant Pricing Supplement;

“**Margin**” has the meaning given in the relevant Pricing Supplement;

“**Maturity Date**” has the meaning given in the relevant Pricing Supplement;

“**Maximum Redemption Amount**” has the meaning given in the relevant Pricing Supplement;

“**Minimum Redemption Amount**” has the meaning given in the relevant Pricing Supplement;

“**Optional Redemption Amount (Call)**” means:

- (i) in respect of any Note other than an Index Linked Note or an Equity Linked Note, its principal amount; or
- (ii) in respect of any Index Linked Note or any Equity Linked Note,
 - (A) its principal amount;
 - (B) if “Fair Market Value (Optional Redemption Amount (Call))” is specified to be applicable in the relevant Pricing Supplement and “ILN Cost of Unwinding (Optional Redemption Amount (Call))” is not specified to be applicable in the relevant Pricing Supplement , its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity

Linked Note immediately prior to the date on which it is to be redeemed; or

- (C) if both “Fair Market Value (Optional Redemption Amount (Call))” and “ILN Cost of Unwinding (Optional Redemption Amount (Call))” are specified to be applicable in the relevant Pricing Supplement , its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity Linked Note immediately prior to the date on which it is to be redeemed *less* the ILN Cost of Unwinding.

For the purposes of determining the fair market value of an Index Linked Note under item (B) or (C) above, no account shall be taken of the financial condition of the Issuer and/or its Affiliates and the Issuer shall be presumed to be able to perform fully its obligations in respect of the Index Linked Notes or the Equity Linked Note;

“Optional Redemption Amount (Put)” means:

- (i) in respect of any Note other than an Index Linked Note or an Equity Linked Note, its principal amount; or
- (ii) in respect of any Index Linked Note or any Equity Linked Note,
 - (A) its principal amount;
 - (B) if “Fair Market Value (Optional Redemption Amount (Put))” is specified to be applicable in the relevant Pricing Supplement and “ILN Cost of Unwinding (Optional Redemption Amount (Put))” is not specified to be applicable in the relevant Pricing Supplement , its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity Linked Note immediately prior to the date on which it is to be redeemed; or
 - (C) if both “Fair Market Value (Optional Redemption Amount (Put))” and “ILN Cost of Unwinding (Optional Redemption Amount (Put))” are specified to be applicable in the relevant Pricing Supplement , its principal amount or such other amount in any currency determined by the ILN Calculation Agent in its sole and absolute discretion to be equal to the fair market value of the nominal amount of such Index Linked Note or such Equity Linked Note immediately prior to the date on which it is to be redeemed *less* the ILN Cost of Unwinding.

For the purposes of determining the fair market value of an Index Linked Note or an Equity Linked Note under item (B) or (C) above, no account shall be taken of the financial condition of the Issuer and/or its Affiliates and the Issuer shall be presumed to be able to perform fully its obligations in respect of the Index Linked Notes or the Equity Linked Note;

“**Participating Member State**” means a Member State of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

“**Partly Paid Notes**” means Notes to which Condition 10 (*Partly Paid Note Provisions*) applies and whose full nominal value has not been paid by their holders;

“**Payment Business Day**” means:

- (i) if the currency of payment is euro, any day which is:
 - (E) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (F) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (ii) if the currency of payment is not euro, any day which is:
 - (A) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
 - (B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**Principal Financial Centre**” means, in relation to any currency, the principal financial centre for that currency *provided, however, that:*

- (i) in relation to euro, it means the principal financial centre of such Member State of the European Communities as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

- (ii) in relation to Australian dollars, it means either Sydney or Melbourne and, in relation to New Zealand dollars, it means either Wellington or Auckland; in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

“**Put Option Notice**” means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“**Put Option Receipt**” means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

“**Rate of Interest**” means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement ;

“**Redemption Amount**” means, as appropriate, the Final Redemption Amount, the Index Linked Redemption Amount, the Equity Linked Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount and/or delivery as may be specified in, or determined in accordance with the provisions of these Conditions and the relevant Pricing Supplement;

“**Reference Banks**” means the institutions specified as such or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money market) which is most closely connected with the Relevant Rate as determined by the Calculation Agent on behalf of the Issuer, in its sole and absolute discretion;

“**Reference Price**” has the meaning given in the relevant Pricing Supplement;

“**Reference Rate**” means:

- (i) in relation to LIBOR, the British Bankers' Association Interest Settlement Rate for the relevant currency and period;
- (ii) in relation to EURIBOR, the percentage rate per annum determined by the Banking Federation of the European Union for the relevant period;
- (iii) in relation to BBSW, the percentage rate per annum for the relevant currency and period;
- (iv) in relation to CIBOR, the percentage rate per annum for the relevant currency and period;
- (v) in relation to CDOR, the percentage rate per annum for the relevant currency and period;

- (vi) in relation to CHIBOR, the percentage rate per annum for the relevant currency and period;
- (vii) in relation to HIBOR, the percentage rate per annum for the relevant currency and period;
- (viii) in relation to NIBOR, the percentage rate per annum for the relevant currency and period;
- (ix) in relation to BBR, the percentage rate per annum for the relevant currency and period,
- (x) in relation to PRIBOR, the percentage rate per annum for the relevant currency and period;
- (xi) in relation to STIBOR, the percentage rate per annum for the relevant currency and period;
- (xii) in relation to TELBOR, the percentage rate per annum for the relevant currency and period;
- (xiii) in relation to TIBOR, the percentage rate per annum for the relevant currency and period;
- (xiv) in relation to FED FUNDS, the percentage rate per annum for the relevant currency and period,

displayed on the Relevant Screen Page. If the Relevant Screen Page is replaced or service ceases to be available, the Calculation Agent may specify another page or service displaying the appropriate rate;

“**Regular Period**” means:

- (i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which any Interest Payment Date falls; and
- (iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where “**Regular Date**” means the day and month (but not the year) on which

any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

“**Relevant Date**” means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

“**Relevant Financial Centre**” has the meaning given in the relevant Pricing Supplement;

“**Relevant Screen Page**” means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

“**Relevant Time**” has the meaning given to it in Condition 8 (*Floating Rate Note Provisions*) of the Conditions;

“**Reserved Matter**” means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

“**Specified Currency**” has the meaning given in the relevant Pricing Supplement;

“**Specified Denomination(s)**” has the meaning given in the relevant Pricing Supplement;

“**Specified Office**” has the meaning given in the Agency Agreement;

“**Specified Period**” has the meaning given in the relevant Pricing Supplement;

“**Subsidiary**” means, in relation to any Person (the “**first Person**”) at any particular time, any other Person (the “**second Person**”):

- (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

“**Talon**” means a talon for further Coupons;

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“**TARGET Settlement Day**” means any day on which TARGET2 is open for the settlement of payments in euro;

“**Treaty**” means the Treaty establishing the European Communities, as amended; and

“**Zero Coupon Notes**” means Notes to which Condition 12 (*Zero Coupon Note Provisions*) applies and which may be issued at its nominal amount or at a discount to it and will not bear interest.

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;
- (ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;
- (iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;
- (iv) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 17 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions. Furthermore, any reference to principal in relation to Instalment Notes shall be deemed to include the Instalment Amount;
- (v) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 17 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (vi) references to Notes being “outstanding” shall be construed in accordance with the Agency Agreement;
- (vii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant

Pricing Supplement gives no such meaning or specifies that such expression is “not applicable” then such expression is not applicable to the Notes; and

- (viii) any reference to the Agency Agreement or the Deed of Guarantee shall be construed as a reference to the Agency Agreement or the Deed of Guarantee, as the case may be, as amended and/or supplemented up to and including the Issue Date of the Notes.

3. **Form Denomination and Title**

The Notes are in bearer form in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Pricing Supplement .

Notes may be Instalment Notes, Partly Paid Notes or a combination of any of the foregoing, depending on the Redemption/Payment Basis shown in the applicable Pricing Supplement.

4. **Status of the Notes and Subordination**

4A Status — Unsubordinated Notes

- (a) This Condition 4A is applicable to Notes specified in the applicable Pricing Supplement as being unsubordinated or not specified as being subordinated (“**Unsubordinated Notes**”).
- (b) The Unsubordinated Notes (subject to Condition 6 (*Negative Pledge*)) constitute direct, unsecured, unsubordinated and general obligations of the Issuer and rank *pari passu* without any preference or priority among themselves and equally with all other existing and future unsecured and unsubordinated obligations of the Issuer other than obligations in respect of claims preferred by law and any subordinated obligations.

4B Status — Dated Subordinated Notes

- (b) This Condition 4B is applicable to Notes specified in the applicable Pricing Supplement as being dated subordinated notes (“**Dated Subordinated Notes**”).

- (c) The Dated Subordinated Notes constitute direct, unsecured and general obligations of the Issuer, subordinated as described below, and rank *pari passu* without any preference or priority among themselves and equally with all other existing and future unsecured and dated subordinated obligations of the Issuer.

The rights of the holders of Dated Subordinated Notes against the Issuer are subordinated, in the event of the bankruptcy, winding-up or liquidation of the Issuer, to the claims of Senior Creditors of the Issuer (as defined below), so that amounts due and payable in respect of such Subordinated Notes shall be due and payable by the Issuer in such bankruptcy, winding-up or liquidation only if, and to the extent that, the Issuer could make payment thereof rateably with the claims of other Senior Subordinated Creditors of the Issuer (as defined below) and still be able to pay its debts to Senior Creditors in full immediately thereafter.

A report in writing (as to the ability of the Issuer to pay its debts to Senior Creditors in full) by the Issuer's receiver in bankruptcy, or the Liquidator in winding-up or liquidation shall, unless the contrary is proved, be treated and accepted by the Issuer, the Guarantor and the holders of the Dated Subordinated Notes as correct and sufficient evidence thereof.

"Senior Creditors of the Issuer" means all of the creditors of the Issuer who are unsubordinated creditors of the Issuer.

"Senior Subordinated Creditors of the Issuer" means creditors of the Issuer (including, without limitation, holders of Dated Subordinated Notes) whose claims against the Issuer are subordinated in the event of the bankruptcy, winding-up or liquidation of the Issuer in any manner to the claims of any unsecured and unsubordinated creditors of the Issuer but excluding those subordinated creditors of the Issuer (if any) whose claims rank, or are expressed to rank, junior to (i) the claims of holders of Dated Subordinated Notes and/or (ii) the claims of any other creditors of the Issuer whose claims rank, or are expressed to rank, *pari passu* with the claims of the holders of Dated Subordinated Notes.

4C Status — Undated Subordinated Notes

- (a) This Condition 4C is applicable to Notes specified in the applicable Pricing Supplement as being undated subordinated notes ("**Undated Subordinated Notes**").
- (b) The Undated Subordinated Notes constitute direct, unsecured and general obligations of the Issuer, subordinated as described below, and rank *pari passu* without any preference or priority among themselves and equally with all other existing and future unsecured, undated and subordinated obligations of the Issuer. Claims in respect of the Undated Subordinated Notes will rank in priority to the rights and claims of holders of all classes of equity (including the holders of preference shares, if any).

The rights of the holders of Undated Subordinated Notes against the Issuer are subordinated to the claims of Senior Creditors (as defined below) of the Issuer in that the

payment of principal, redemption amount, interest or other amounts in respect of such Undated Subordinated Notes will be conditional upon the Issuer and the Guarantor being solvent at the time of payment by the Issuer and in that no principal, redemption amount, interest or other amounts shall be payable in respect of such Undated Subordinated Notes except to the extent that the Issuer and (assuming that a payment was then due by the Guarantor) the Guarantor could make such payment and still be solvent (whether or not it is bankrupt or is being liquidated or sequestrated or is in winding-up) immediately thereafter.

For the purposes of this Condition 4C (*Status — Undated Subordinated Notes*), each of the Issuer and the Guarantor shall be considered to be solvent if (i) it is able to pay its debts to Senior Creditors as they fall due and (ii) its Assets exceed its Liabilities (in each case as defined in Condition 5C (*Status — Junior Subordinated Guarantee*) below) to Senior Creditors.

A report as to the solvency of the Issuer or the Guarantor by two directors of the Issuer or, as the case may be, the Guarantor or the auditors of the Issuer or, as the case may be, the Guarantor or (if the Issuer or, as the case may be, the Guarantor is in winding-up) its liquidator shall, in the absence of proven error, be treated and accepted by the Issuer, the Guarantor and the holders of Undated Subordinated Notes as correct and sufficient evidence thereof. Amounts representing interest in respect of which the condition referred to in this paragraph is not satisfied on the due date for the payment thereof shall, so long as the same remains unpaid, constitute “**Arrears of Interest**” (otherwise than for the purposes of Condition 9 (*Undated Subordinated Notes Provisions*)). Arrears of Interest shall not bear interest.

“**Senior Creditors**” means in relation to the Issuer or the Guarantor, creditors of the Issuer or, as the case may be, the Guarantor (a) who are unsubordinated creditors of the Issuer or, as the case may be, the Guarantor or (b) whose claims are, or are expressed to be, subordinated to the claims of depositors and/or other creditors, whether subordinated or unsubordinated, of the Issuer or, as the case may be, the Guarantor other than those whose claims rank, or are expressed to rank, *pari passu* with or junior to the claims of the holders of the Undated Subordinated Notes.

5. **Status of the Guarantee**

5A *Status — Unsubordinated Guarantee*

- (a) This Condition 5A is applicable to Notes specified in the applicable Pricing Supplement as being guaranteed on an unsubordinated basis or not specified as being guaranteed on a subordinated basis.
- (b) The due and punctual payment of the principal and interest (if any) in respect of the Notes has been unconditionally and irrevocably guaranteed by the Guarantor (the “**Unsubordinated Guarantee**”). The Guarantee (subject to Condition 6 (*Negative Pledge*)) constitutes a direct, unsecured, unsubordinated and general obligation of the Guarantor and ranks equally with all its other existing and future unsecured and unsubordinated obligations, including those in respect of

deposits, but excluding any debts for the time being preferred by law and any subordinated obligations.

5B *Status — Senior Subordinated Guarantee*

- (a) This Condition 5B is applicable to Notes specified in the applicable Pricing Supplement as being guaranteed on a senior subordinated basis.
- (b) The due and punctual payment of the principal and interest (if any) in respect of the relevant Notes has been unconditionally and irrevocably guaranteed by the Guarantor on a senior subordinated basis (the “**Senior Subordinated Guarantee**”). The Senior Subordinated Guarantee constitutes a direct, unsecured and general obligation of the Guarantor, subordinated as described below, and ranks equally with its obligations in respect of any other Notes to which this Condition 5B (*Status — Senior Subordinated Guarantee*) is expressed to apply.

The rights of the holders of the relevant Notes against the Guarantor under the Senior Subordinated Guarantee are subordinated, in the event of the bankruptcy, winding-up or sequestration of the Guarantor, to the claims of Senior Creditors of the Guarantor (as defined below), so that amounts guaranteed under the Senior Subordinated Guarantee in respect of such Notes shall be due and payable by the Guarantor in such bankruptcy, winding-up or sequestration only if, and to the extent that, the Guarantor could make payment thereof rateably with the claims of other Senior Subordinated Creditors of the Guarantor (as defined below) and still be able to pay its debts to the Senior Creditors of the Guarantor in full immediately thereafter.

A report in writing (as to the ability of the Guarantor to pay its debts to Senior Creditors in full) by the Guarantor’s receiver in bankruptcy, or liquidator in winding-up shall, unless the contrary is proved, be treated and accepted by the Guarantor and the holders of the relevant Notes as correct and sufficient evidence thereof.

“**Senior Creditors of the Guarantor**” and “**Senior Subordinated Creditors of the Guarantor**” shall have the same meanings as “**Senior Creditors of the Issuer**” and “**Senior Subordinated Creditors of the Issuer**” as defined above but as if references therein to the Issuer were references to the Guarantor.

5C *Status — Junior Subordinated Guarantee*

- (a) This Condition 5C is applicable to Notes specified in the applicable Pricing Supplement as being guaranteed on a junior subordinated basis.
- (b) The due and punctual payment of the principal and interest (if any) in respect of the relevant Notes has been guaranteed by the Guarantor on a junior subordinated basis (the “**Junior Subordinated Guarantee**”).
- (c) The Junior Subordinated Guarantee constitutes a direct, unsecured and general obligation of the Guarantor, subordinated as described below, and ranks equally with all its other existing and future unsecured and undated obligations in respect of Undated Subordinated Notes. Claims in respect of the Junior Subordinated

Guarantee will rank in priority to the rights and claims of holders of all classes of equity (including holders of preference shares, if any).

- (d) The rights of the holders of the relevant Notes against the Guarantor under the Junior Subordinated Guarantee are subordinated to the claims of Senior Creditors (as defined in Condition 4C (*Status — Undated Subordinated Notes*)) of the Guarantor in that the payment of amounts guaranteed under the Junior Subordinated Guarantee will be conditional on the Guarantor being solvent at the time of payment by the Guarantor and in that no amounts guaranteed under the Undated Subordinated Guarantee shall be payable except to the extent that the Guarantor could make such payment and still be solvent (whether or not it is being sequestrated or is in winding-up) immediately thereafter. For this purpose, the Guarantor shall be considered to be solvent if it is able to pay its debts to Senior Creditors (as defined in Condition 4C (*Status — Undated Subordinated Notes*)) of the Guarantor in full.

A report as to the solvency of the Guarantor by two directors of the Guarantor or the auditors of the Guarantor or (if it is in winding-up) its liquidator shall, in the absence of proven error, be treated and accepted by the Issuer, the Guarantor and the holders of the relevant Notes as correct and sufficient evidence thereof.

For the purposes of these Conditions:

“**Assets**” means the total assets of the Issuer or, as the case may be, the Guarantor; and

“**Liabilities**” means the total liabilities of the Issuer or, as the case may be, the Guarantor, each as shown by the latest published audited balance sheet of the Issuer or, as the case may be, the Guarantor but adjusted for contingencies and for subsequent events, all valued in such manner as such directors, auditors or liquidator, as the case may be, may determine.

N.B. If the Issuer or the Guarantor would not otherwise be solvent for the purposes of this Condition 5C (Status — Junior Subordinated Guarantee), the amount of the principal and sums which would otherwise be payable as interest on the Undated Subordinated Notes will be available to meet the losses of the Issuer and/or the Guarantor.

6. **Negative Pledge**

In respect of Unsubordinated Notes only, so long as any of the Unsubordinated Notes remains outstanding (as defined in the Agency Agreement):

- (a) the Issuer will not create or have outstanding any mortgage, lien (not being a lien arising by operation of law), pledge or other charge upon the whole or any part of its present or future undertaking or assets to secure any obligation now or hereafter existing without at the same time according to the Notes the same security as is granted to, or is outstanding in respect of, such obligation or as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement); and

- (b) the Guarantor will not create or have outstanding any mortgage, lien (not being a lien arising by operation of law), pledge or other charge upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital), to secure any listed borrowings (as defined below), or to secure any guarantee or indemnity in respect of any listed borrowings, without at the same time according to the Notes the same security as is granted to, or is outstanding in respect of, such listed borrowings, guarantee or indemnity, or as shall be approved by an Extraordinary Resolution.

As used above, “**listed borrowings**” means any loan or other indebtedness now or hereafter existing which is in the form of, or represented by, bonds, debentures, notes or other securities or instruments which are denominated or payable, or confer a right to receive payment of principal or interest in any currency other than that of the State of Israel, and which are capable of being quoted, listed, ordinarily dealt in or traded on any stock exchange or other recognised securities market.

7. **Fixed Rate Note Provisions**

- (a) *Application:* This Condition 7 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Condition 17 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (*Fixed Rate Note Provisions*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (d) *Calculation of interest amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount (or if the Notes are Partly Paid Notes, the aggregate amount paid up), multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount (or, if the Calculation Agent determines so in respect of are Partly Paid Notes, the

aggregate amount paid up). For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

8. **Floating Rate Note Provisions**

- (a) *Application:* This Condition 8 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Accrual of interest:* The Notes bear interest from the Interest Commencement Date at the Rate of Interest payable in arrears on each Interest Payment Date, subject as provided in Condition 17 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 8 (*Floating Rate Note Provisions*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (c) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:
 - (i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine, unless otherwise specified in the applicable Pricing Supplement, the Reference Rate which appears on the Relevant Screen Page as at:
 - (a) 11.00 a.m. London time, in the case of LIBOR;
 - (b) 11.00 a.m. Brussels time, in the case of EURIBOR;
 - (c) 10.10 a.m. Sydney time, in the case of BBSW;
 - (d) 11.00 a.m. Copenhagen time, in the case of CIBOR;
 - (e) 10.00 a.m. Toronto time, in the case of CDOR;
 - (f) at the applicable time, determined by the Calculation Agent, in the case of CHIBOR;
 - (g) 11.00 a.m. Hong Kong time, in the case of HIBOR;
 - (h) 12.00 p.m. Oslo time, in the case of NIBOR;

- (i) 11.00 a.m. Wellington time, in the case of BBR;
- (j) 11.00 a.m. Prague time, in the case of PRIBOR;
- (k) 11.00 a.m. Stockholm time, in the case of STIBOR;
- (l) in the case of TELBOR, 1.00 p.m. Tel Aviv time on Monday, Tuesday, Wednesday or Thursday and 12.00 p.m. Tel Aviv time on Friday;
- (m) 11.00 a.m. Tokyo time, in the case of TIBOR;
- (n) 3.00 p.m. New York City time, in the case of FED FUNDS,

or in the manner specified in the applicable Pricing Supplement, in the case of a payment obligation not determined by reference to a Reference Rate (the “**Relevant Time**”) on the relevant Interest Determination Date;

- (ii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
- (iii) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
 - (A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean of such quotations; and
- (iv) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; *provided*,

however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

- (d) *ISDA Determination:* If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where “ISDA Rate” in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
- (i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement ;
 - (ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement ; and
 - (iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement .
- (e) *Maximum or Minimum Rate of Interest:* If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.
- (f) *Inverse Floating Rate Notes:* If an Inverse Floating Rate is specified in the relevant Pricing Supplement, then the Rate of Interest for the Inverse Floating Rate Notes shall be equal to the greater of (i) zero and (ii) the Inverse Floating Rate less than the Rate of Interest determined in accordance with this Condition 8 (*Floating Rate Note Provisions*).
- (g) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount (or if the Notes are Partly Paid Notes, the aggregate amount paid up), multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified

Denomination of the relevant Note divided by the Calculation Amount (or, if the Calculation Agent determines so in respect of are Partly Paid Notes, the aggregate amount paid up). For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

- (h) *Calculation of other amounts:* If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.
- (i) *Publication:* The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.
- (j) *Notifications etc:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 (*Floating Rate Note Provisions*) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Guarantor, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

9. **Undated Subordinated Notes Provisions**

Each Undated Subordinated Note bears interest on its nominal amount (or, if it is a partly paid note, the amount paid up) from (and including) the Interest Commencement Date and such interest shall, subject to Condition 4C (*Status — Undated Subordinated Notes*), be payable in arrears on each Compulsory Interest Payment Date (as defined below) in respect of the interest accrued in the Interest Period ending on the day immediately preceding such date. On any Optional Interest Payment Date (as defined below) there

may be paid (if the Issuer so elects but subject to Condition 4B (*Status — Dated Subordinated Notes*)) the interest accrued in the Interest Period ending on the day immediately preceding such date but the Issuer shall not have any obligation to make such payment and any failure to pay shall not constitute a default by the Issuer for any purpose. Any interest not paid on an Optional Interest Payment Date shall, so long as the same remains unpaid, constitute “**Arrears of Interest**”. Arrears of Interest may at the option of the Issuer be paid in whole or in part at any time upon the expiration of not less than seven days’ notice to such effect given to the holders of Undated Subordinated Notes in accordance with Condition 25 (*Notices*), but all Arrears of Interest on all Undated Subordinated Notes outstanding shall (subject to Condition 4C (*Status — Undated Subordinated Notes*)) become due in full on whichever is the earliest of (i) the Interest Payment Date immediately following the date upon which a dividend is next declared or paid on any class of share capital of the Guarantor, (ii) the date set for any redemption pursuant to paragraphs (b) and (c) of Condition 16 (*Redemption and Purchase*) and (iii) the date on which an order is made or an effective resolution is passed for the winding-up, bankruptcy or dissolution of the Issuer or the Guarantor. If notice is given by the Issuer of its intention to pay the whole or part of Arrears of Interest, the Issuer shall be obliged (subject to Condition 4C (*Status — Undated Subordinated Notes*)) to do so upon the expiration of such notice. Where Arrears of Interest are paid in part, each such payment shall be applied in or towards satisfaction of the full amount of the Arrears of Interest accrued in respect of the earliest Interest Period in respect of which Arrears of Interest have accrued and have not been paid in full. Arrears of Interest shall not bear interest, unless otherwise specified in the applicable Pricing Supplement.

For the purposes hereof the following expressions have the following meanings:

“**Compulsory Interest Payment Date**” means any Interest Payment Date if, in the six months immediately preceding such Interest Payment Date, any dividend has been declared or paid on any class of share capital of the Guarantor.

“**Optional Interest Payment Date**” means any Interest Payment Date other than a Compulsory Interest Payment Date.

10. **Partly Paid Note Provisions**

- (a) *Application:* This Condition 10 (*Partly Paid Note Provisions*) is applicable to the Notes only if the Partly Paid Note Provisions are specified in the relevant Pricing Supplement to be applicable.
- (b) *Interest on Partly Paid Notes:* In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue in accordance with Condition 7 (*Fixed Rate Note Provisions*) or Condition 8 (*Floating Rate Note Provisions*) on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Pricing Supplement .
- (c) *Redemption of Party Paid Notes:* Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of Condition 16 (*Redemption and Purchase*) and the applicable Pricing Supplement.

11. **Instalment Note Provisions**

- (a) *Application:* This Condition 11 (*Instalment Note Provisions*) is applicable to the Notes only if the Instalment Note Provisions are specified in the relevant Pricing Supplement to be applicable.
- (b) *Interest on Instalment Notes:* In the case of Instalment Notes (other than Instalment Notes which are Zero Coupon Notes), interest will accrue in accordance with Condition 7 (*Fixed Rate Note Provisions*) or Condition 8 (*Floating Rate Note Provisions*).
- (c) *Redemption of Instalment Notes:* If the Notes are repayable in instalments, they will be redeemed in the Instalment Amounts and on the relevant Instalment Dates. In the case of early redemption, such Notes will be redeemed in accordance with the provisions of Condition 16 (*Redemption and Purchase*) and the applicable Pricing Supplement.

12. **Zero Coupon Note Provisions**

- (a) *Application:* This Condition 12 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Interest on Instalment Notes:* Other than as specified in this Condition 12 (*Zero Coupon Note Provisions*), no interest will accrue in respect of Zero Coupon Notes.
- (c) *Late payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (d) *Interest and other Calculations:* where a Note, the Interest Basis of which is specified to be Zero Coupon, is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the amount as described in Condition 16(h) (*Early redemption of Zero Coupon Notes*).

13. **Index Linked Note Provisions**

- (a) *Application:* This Condition 13 (*Index Linked Note Provisions*) is applicable to the Notes only if the Index Linked Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Interest on Index Linked Notes:* In the case of Index Linked Notes, the applicable Pricing Supplement will specify whether interest (if any) in respect thereto will be determined in accordance with:
- (i) Condition 7 (*Fixed Rate Note Provisions*);
 - (ii) Condition 8 (*Floating Rate Note Provisions*);
 - (iii) the definition of “Asian Call Coupon” (as specified herein);
 - (iv) the definition of “Asian Call Spread Coupon” (as specified herein);
 - (v) the definition of “Autocall Coupon” (as defined herein);
 - (vi) the definition of “Cliquet Coupon” (as specified herein);
 - (vii) the definition of “Conditional Coupon” (as specified herein);
 - (viii) the definition of “Shark Fin Coupon” (as specified herein);
 - (ix) the definition of “Stability Coupon” (as specified herein);
 - (x) the definition of Vanilla Call Coupon (as specified herein); or
 - (xi) the definition of “Vanilla Call Spread Coupon” (as specified herein),

provided that, in the case of items (iii) to (xi) (inclusive), the resulting figure being rounded to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount (or, if the Calculation Agent determines so in respect of are Partly Paid Notes, the aggregate amount paid up). For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

- (c) *Redemption of Index Linked Notes:* Index Linked Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with Condition 16 (*Redemption and Purchase*) and the applicable Pricing Supplement.

An Index Linked Note will be settled by the payment of the Final Redemption Amount, which may be either: (i) the principal amount (to the extent it has been paid up, if the Index Linked Note is a Partly Paid Note) or (ii) the Index Linked Redemption Amount (which may be either the Reverse Convertible Index Linked Redemption Amount, the Total Return Index Linked Redemption Amount or the HALVA Index Linked Redemption Amount). The Final Redemption Amount

may be adjusted for costs, losses and expenses incurred by or on behalf of the Issuer in connection with the redemption of an Index Linked Note.

If an Index Linked Note becomes redeemable in accordance with this Condition 13(c) (Redemption of Index Linked Notes), then upon payment of the Final Redemption Amount in respect of such Index Linked Note, the Issuer shall have discharged its obligations in respect of such Index Linked Note and shall have no other liability or obligation whatsoever in respect thereof. The Final Redemption Amount may be less than the nominal amount of an Index Linked Note. Any shortfall shall be borne by the Noteholder and no liability shall attach to the Issuer.

(d) *Adjustments to an Index, Additional Disruption Events and Definitions applicable to Index Linked Notes*

(i) *Successor Index Sponsor Calculates and Reports an Index*

If a relevant Index is (A) not calculated and announced by the Index Sponsor but is calculated and announced by a successor sponsor (the “**Successor Sponsor**”) acceptable to the ILN Calculation Agent, in its sole and absolute discretion, or (B) replaced by a successor index using, in the sole and absolute determination of the ILN Calculation Agent, the same or a substantially similar formula for and method of calculation as used in the calculation of that Index, then in each case that index (the “**Successor Index**”) will be deemed to be the Index.

(ii) *Modification and Cessation of Calculation of an Index*

If (x) on or prior to a Valuation Date, an Observation Date or an Averaging Date (or such other date as specified in the applicable Pricing Supplement), the relevant Index Sponsor makes or announces that it will make a material change in the formula for, or the method of calculating, a relevant Index or in any other way materially modifies that Index (other than a modification prescribed in that formula or method to maintain that Index in the event of changes in constituent stock and capitalisation and other routine events) (an “**Index Modification**”) or permanently cancels the Index and no Successor Index exists (an “**Index Cancellation**”) or (y) on a Valuation Date, an Observation Date or an Averaging Date (or such other date as specified in the applicable Pricing Supplement), the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and announce a relevant Index (an “**Index Disruption**” and, together with an Index Modification and an Index Cancellation, an “**Index Adjustment Event**”), then the Issuer in its sole and absolute discretion may:

(A) require the ILN Calculation Agent, in its sole and absolute discretion, to determine if such Index Adjustment Event has a material effect on the relevant Index Linked Notes and, if so, to calculate the Reference Level using, in lieu of a published level

for that Index, the level for that Index as at the Valuation Time on that Valuation Date, Observation Date or Averaging Date or such other date as specified in the applicable Pricing Supplement, as the case may be. The ILN Calculation Agent may, but is not obliged, to calculate the Reference Level in accordance with the formula for, and method of calculating, that Index last in effect prior to the change, failure or cancellation by using those securities that comprised that Index immediately prior to that Index Adjustment Event;

- (B) on giving notice to the Noteholders in accordance with Condition 25 (*Notices*) redeem all, but not some only, the relevant Index Linked Notes, each principal amount of Notes equal to the Calculation Amount being redeemed at the Early Termination Amount.

Upon the occurrence of an Index Adjustment Event, the Issuer shall give notice as soon as practicable to the relevant Noteholders in accordance with Condition 25 (*Notices*) stating the occurrence of an Index Adjustment Event and giving details thereof and the action proposed to be taken in relation thereto, provided that any failure to give, or non-receipt of, such notice shall not affect the validity of the occurrence and effect of such Index Adjustment Event or the validity of any action (or inaction) taken by the Issuer or the ILN Calculation Agent. The Issuer shall make available for inspection by Noteholders copies of any such determinations.

(iii) *Additional Disruption Event*

If Additional Disruption Events are specified as applicable in the relevant Pricing Supplement, then if an Additional Disruption Event occurs, the Issuer in its sole and absolute discretion may:

- (A) require the ILN Calculation Agent to determine, in its sole and absolute discretion, the appropriate adjustment, if any, to be made to any one or more of the terms of these Conditions and/or the applicable Pricing Supplement to account for the Additional Disruption Event and determine the effective date of that adjustment;
- (B) give notice to the Noteholders in accordance with Condition 25 (*Notices*) and redeem all, but not some only, the relevant Index Linked Notes, each principal amount of Notes equal to the Calculation Amount being redeemed at the Early Termination Amount; or
- (C) if the relevant Pricing Supplement provide that “**Index Substitution**” is applicable, then on or after the Additional Disruption Event, the ILN Calculation Agent may, in its sole and

absolute discretion, select one or more indices (each a “**Substitute Index**”) to substitute in places of the relevant Index or Indices (the “**Affected Index**” or the “**Affected Indices**”), as applicable, which is affected by such Additional Disruption Event and the Substitute Index or Substitute Indices, as applicable, will be deemed to be the, or an, “**Index**” for the purposes of the relevant Index Linked Notes, and the ILN Calculation Agent will make such adjustment, if any, to any of the terms of these Conditions as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate.

Upon the occurrence of an Additional Disruption Event, the Issuer shall give notice as soon as practicable to the relevant Noteholders in accordance with Condition 25 (*Notices*) stating the occurrence of an Additional Disruption Event and giving details thereof and the action proposed to be taken in relation thereto, provided that any failure to give, or non-receipt of, such notice shall not affect the validity of the occurrence and effect of such Additional Disruption Event or the validity of any action (or inaction) taken by the Issuer or the ILN Calculation Agent. The Issuer shall make available for inspection by Noteholders copies of any such determinations.

(iv) *Correction to an Index*

In the event that any price or level published by the relevant Index Sponsor or Successor Index Sponsor which is utilised for any calculation or determination made for the purposes of the relevant Index Linked Notes is subsequently corrected, the ILN Calculation Agent will, in its sole and absolute discretion, adjust the terms of the relevant Index Linked Notes to account for such correction, provided that such correction is published and made available to the public by the Index Sponsor or Successor Index Sponsor during a period following original publication equal in duration to the period in which a trade in futures or options contracts relating to the Index on the relevant Related Exchange would customarily settle according to the rules of such Related Exchange, or if there are multiple Related Exchanges in respect of the Index, the longest such period, and further provided, that such publication of such correction is made sufficiently (in the sole and absolute discretion of the ILN Calculation Agent) in advance of the Maturity Date or the Interest Payment Date (if any), as the case may be.

(v) *Definitions Applicable to Index Linked Notes*

“**A**” has the meaning given to it in the applicable Pricing Supplement or, if it is not defined in the applicable Pricing Supplement, it shall mean the Calculation Amount (or, if the Index Linked Notes are Partly Paid Notes, the aggregate amount paid up).

“**Additional Disruption Event**” means Change in Law, Hedging Disruption, Increased Cost of Hedging, Emerging Market Risk Event or any other Additional Disruption Event, in each case if specified to be applicable in the applicable Pricing Supplement.

“**Asian Call Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, an Interest Amount determined in accordance with the following formula:

$$A \times \text{Max}[0\%, \text{Asian Index Performance}].$$

“**Asian Call Spread Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, the Interest Amount determined in accordance with the following formula:

$$A \times \text{Max}[0\%, \text{Min}(X\%, \text{Asian Index Performance})].$$

“**Asian Call Strike**” shall apply to the definition of “Reference Level_{strike}” and shall be expressed as a percentage or a set of percentages in the applicable Pricing Supplement.

“**Asian Index Performance**” means, unless specified otherwise in the applicable Pricing Supplement:

$$\sum_{i=1}^n \left[\frac{\text{Reference Level}_i - \text{Reference Level}_{\text{strike}}}{\text{Reference Level}_0} \times \frac{1}{n} \right]$$

“**Autocall Coupon**” means an Interest Amount determined in accordance with the following:

- (A) if, on an Autocall Observation Date_i, the Reference Level_i is less than the Reference Level₀ of the relevant Index or Basket of Indices, as applicable, an amount equal to zero;
- (B) if, on an Autocall Observation Date_i, the Reference Level_i is greater than, or equal to, the Reference Level₀ of the relevant Index or Basket of Indices, as applicable, an amount calculated in accordance with the following formula:

$$A \times (X\% \times i),$$

where “i” is equal to any integral number from, and including, 1 to, and including, n.

- (C) for the avoidance of doubt, if on an Autocall Observation Date_i, the Reference Level_i is greater than, or equal to, the Reference Level₀ of the relevant Index or Basket of Indices, as applicable, then all subsequent Autocall Observation Dates_i shall be disregarded and no further Autocall Coupons shall be payable.

“**Autocall Observation Date_i**” shall apply to the definition of “Autocall Coupon” and shall be a date or a set of dates specified in the applicable Pricing Supplement.

“**Averaging Date**” means each date specified as an Averaging Date in the applicable Pricing Supplement provided that, if such date is not a Scheduled Trading Day, the Averaging Date shall be the immediately succeeding Scheduled Trading Day unless, in the opinion of the ILN Calculation Agent, acting in its sole and absolute discretion, such day is a Disrupted Day. If any Averaging Date is a Disrupted Day, then:

- (A) if “**Omission**” is specified in the applicable Pricing Supplement, such Averaging Date will be deemed not to be a relevant Averaging Date for purposes of determining the relevant Reference Level. If through operation of this provision no Averaging Date would occur, then for the purposes of determining the Reference Level on the final Averaging Date, such Averaging Date shall be deemed to be a Valuation Date that was a Disrupted Day;
- (B) if “**Postponement**” is specified in the applicable Pricing Supplement, then for purposes of determining the Reference Level, such Averaging Date shall be deemed to be a Valuation Date that was a Disrupted Day irrespective of whether, pursuant to such determination, that deferred Averaging Date would fall on a date that already is or is deemed to be an Averaging Date for the Index Linked Notes; or
- (C) if “**Modified Postponement**” is specified in the applicable Pricing Supplement, then:
 - (i) where the Notes relate to a single Index, the Averaging Date shall be the first succeeding Valid Date. If the first succeeding Valid Date has not occurred as of the Valuation Time on the eighth Scheduled Trading Day immediately following the original date, that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in respect of the relevant Scheduled Valuation Date, then (A) that eighth Scheduled Trading Day shall be deemed to be the Averaging Date (irrespective of whether that eighth Scheduled Trading Day is already an Averaging Date) and (B) the ILN Calculation Agent shall determine the Reference Level for that Averaging Date in accordance with paragraph (a)(ii) of the definition of “Valuation Date” below; or
 - (ii) where the Notes relate to a Basket of Indices, the Averaging Date for each Index not affected by the occurrence of a Disrupted Day shall be the Scheduled

Averaging Date, and the Averaging Date for each Index affected by the occurrence of a Disrupted Day (each an “**Affected Index**”) shall be the first succeeding Valid Date in relation to such Affected Index. If the first succeeding Valid Date has not occurred as of the Valuation Time on the eighth Scheduled Trading Day immediately following the original date, that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the final Averaging Date in respect of the relevant Scheduled Valuation Date, then (A) that eighth Scheduled Trading Day shall be deemed to be the Averaging Date (irrespective of whether that eighth Scheduled Trading Day is already an Averaging Date) in respect of the Affected Index and (B) the ILN Calculation Agent shall determine the Reference Level of the Affected Index for that Averaging Date in accordance with paragraph (b)(ii) of the definition of “Valuation Date” below; and

- (iii) “**Valid Date**” shall mean a Scheduled Trading Day that is not a Disrupted Day and on which another Averaging Date in respect of the relevant Valuation Date does not or is not deemed to occur.

“**Basket of Indices**” means a basket comprising two or more Indices specified in the applicable Pricing Supplement in the relevant Weightings, as specified in the applicable Pricing Supplement.

“**Change in Law**” means that, on or after the Trade Date (as specified in the applicable Pricing Supplement):

- (A) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or
- (B) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority),

the ILN Calculation Agent determines in its sole and absolute discretion that:

- (i) it has become illegal to hold, acquire or dispose of any relevant security comprised in an Index; or
- (ii) the Issuer will incur a materially increased cost in performing its obligations in relation to the Index Linked Notes (including, without limitation, due to any increase in

tax liability, decrease in tax benefit or other adverse effect on the tax position of the Issuer and/or any Hedging Entity).

“**Change in Tax Law**” means, in respect of an Emerging Market Risk Event, the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs after the Trade Date, as specified in the relevant Pricing Supplement .

“**Cliquet Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, an Interest Amount equal to:

$$A \times \text{Max} \left[\sum_{i=1}^n \text{Cliquet Index Performance}_i, 0 \right]$$

“**Cliquet Index Performance_i**” means:

$$\text{Min} \left[X\%, \text{Max} \left(\frac{\text{Reference Level}_i - \text{Reference Level}_{i-1}}{\text{Reference Level}_{i-1}}, Z\% \right) \right]$$

where “i” is equal to any integral number from, and including, 1 to, and including, n.

“**Conditional Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, an Interest Amount equal to the greater of:

(A) zero; and

(B) if:

(i) on the relevant Observation Date, the Reference Level of the relevant Index or Basket of Indices, as applicable, is above the Coupon Barrier Level, an amount determined in accordance with the following formula:

(A x X%); or

(ii) on the relevant Observation Date, the Reference Level of the relevant Index or Basket of Indices, as applicable, is below the Coupon Barrier Level, an amount equal to zero.

“**Coupon Barrier Level**” shall apply to the definition of “Conditional Coupon”, “Shark Fin Index Performance” or “Stability Coupon” and shall be expressed in the applicable Pricing Supplement either as a single number or, with respect to certain prescribed periods of time, certain corresponding numbers.

“Disrupted Day” means:

- (A) where the Index is not specified in the applicable Pricing Supplement as being a Multi-Exchange Index, any Scheduled Trading Day on which a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or on which a Market Disruption Event has occurred; or
- (B) where the Index is specified in the applicable Pricing Supplement as being a Multi-Exchange Index, any Scheduled Trading Day on which:
 - (i) the Index Sponsor fails to publish the level of the Index;
 - (ii) any Related Exchange fails to open for trading during its regular trading session; or
 - (iii) a Market Disruption Event has occurred.

“Early Closure” means the closure on any Exchange Business Day of the Exchange in respect of any Component Security (which, for the avoidance of doubt, may be an Index Component) or any Related Exchange prior to its Scheduled Closing Time unless such earlier closing is announced by such Exchange or Related Exchange, as the case may be, at least one hour prior to the earlier of:

- (A) the actual closing time for the regular trading session on such Exchange or Related Exchange, as the case may be, on such Exchange Business Day; and
- (B) the submission deadline for orders to be entered into the relevant Exchange or Related Exchange system for execution at the relevant Valuation Time on such Exchange Business Day.

“Emerging Market Risk Event” means:

- (A) a Hedging Entity is materially restricted, after using commercially reasonable efforts, from:
 - (i) freely realising, recovering, receiving, repatriating, remitting or transferring the proceeds of its hedge positions between accounts within the jurisdiction where its hedge positions are established or otherwise listed, represented or related (the **“Affected Jurisdiction”**) or from accounts within the Affected Jurisdiction to accounts outside of the Affected Jurisdiction;

- (ii) determining a rate at which any currency relevant to the Index Linked Notes or its hedge positions can be exchanged; or
 - (iii) converting any currency relevant to the Index Linked Notes or its hedge positions into another currency relevant to the Index Linked Notes or its hedge positions through customary legal channels, including, but not limited to, where one currency rate cannot be directly converted into another;
- (B) any currency exchange rate relevant to the Index Linked Notes or its hedge positions splitting into dual or multiple exchange rates;
- (C) the occurrence of any event in any Affected Jurisdiction beyond the control of a Hedging Entity which makes it materially more difficult for such a Hedging Entity and/or any of its Affiliates to fulfil its obligations connected to the relevant Index Linked Notes and/or or results in an adjustment or termination of its hedge positions; and/or
- (D) (i) the occurrence in a jurisdiction relating to hedge positions of (1) a Change in Tax Law, or (2) the imposition of a new or changed governmental, revenue or taxing authority practice, or in the application or official interpretation of any law, or the removal or amendment of any concession in each case in relation to hedge positions (a “**Change in Tax Practice**”), or (ii) where there is a substantial likelihood of a Change in Tax Law or a Change in Tax Practice;

“**Exchange**” means:

- (A) where the Index is not specified in the applicable Pricing Supplement as being a Multi-Exchange Index, each exchange or quotation system specified as such for such Index in the applicable Pricing Supplement, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the securities comprising such Index has temporarily relocated (provided that the ILN Calculation Agent has determined that there is comparable liquidity relative to the securities comprising such Index on such temporary substitute exchange or quotation system as on the original Exchange); or

- (B) where the Index is specified in the applicable Pricing Supplement as being a Multi-Exchange Index, in relation to each component security included in that Index (each a “**Component Security**”), the principal stock exchange on which such Component Security is principally traded, as determined by the ILN Calculation Agent.

“**Exchange Business Day**” means:

- (A) where the Index is not specified in the applicable Pricing Supplement as being a Multi-Exchange Index, any Scheduled Trading Day on which each Exchange and each Related Exchange are open for trading during their respective regular trading sessions, notwithstanding any such relevant Exchange or Related Exchange closing prior to its Scheduled Closing Time; or
- (B) where the Index is specified in the applicable Pricing Supplement as being a Multi-Exchange Index, any Scheduled Trading Day on which:
 - (i) the Index Sponsor publishes the level of the Index; and
 - (ii) each Related Exchange is open for trading during its regular trading session,

notwithstanding any such Related Exchange closing prior to its Scheduled Closing Time and in each case as adjusted in accordance with the Business Day Convention outlined in the applicable Pricing Supplement .

“**Exchange Disruption**” means any event (other than an Early Closure) that disrupts or impairs (as determined by the ILN Calculation Agent in its sole and absolute discretion) the ability of market participants in general to effect transactions in, or obtain market values for:

- (A) relating to any Component Security (which, for the avoidance of doubt, may be an Index Component) on the Exchange in respect of such Component Security; or
- (B) (x) in the case of Index Linked Notes other than HALVA Notes, futures or options contracts relating to the Index on any Related Exchange or (y) in the case of HALVA Notes, futures or options relating to (i) one or more securities (which, for the avoidance of doubt, may be Index Components) that comprise the Index or (ii) the Index on any Related Exchange.

“**Hedging Disruption**” means that the relevant Hedging Entity is unable, after using commercially reasonable efforts, to:

- (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the Index or other price risk of the Issuer issuing and performing its obligations with respect to the Index Linked Notes; or
- (B) realise, recover, remit, receive, repatriate or transfer the proceeds of any such transaction(s) or asset(s).

“**Higher Coupon Barrier Level**” shall apply to the definition of “Stability Coupon” and shall be expressed in the applicable Pricing Supplement either as a single number or, with respect of certain prescribed periods of time, certain corresponding numbers.

“**Increased Cost of Hedging**” means that the relevant Hedging Entity would incur a materially increased (as compared with circumstances existing on the Trade Date) amount of tax, duty, expense or fee (other than brokerage commissions) to:

- (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the market or risk (including, without limitation, equity price risk, foreign exchange risk and interest rate risk) of the relevant securities or other risk of the Issuer issuing and performing its obligations with respect to the Index Linked Notes; or
- (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s),

provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer and/or the relevant Hedging Entity shall not be deemed an Increased Cost of Hedging.

“**Index**” and “**Indices**” mean, subject to adjustment in accordance with this Condition 13 (*Index Linked Note Provisions*), one or more of the following indices specified in the applicable Pricing Supplement and related expressions shall be construed accordingly:

DJ Industrial Average (bbg: INDU) Index

S&P500 (bbg: SPX) Index

Nasdaq 100 (bbg: NDX) Index

Eurostoxx 50 (bbg: SX5E) Index

S&P Europe 350 (bbg: SPE) Index

FTSE 100 (bbg: UKX) Index

FTSE 250 (bbg: MEX) Index

DAX (bbg: DAX) Index

CAC 40 (bbg: CAC) Index

Nikkei (bbg: NKY) Index

Tel Aviv 25 (bbg: TA-25) Index

S&P Nifty 50 (bbg: NIFTY) Index

MSCI World (bbg: MXWO) Index

Hong Kong Stock Exchange Hang Seng China Enterprises Index
(bbg: HSCEI:IND)

Korea Stock Exchange KOSPI Index (bbg: KOSPI:IND)

S&P/ASX 200 (bbg: AS51:IND) Index

Russian Depository Index in USD (bbg: RDXUSD:IND)

IBEX 35 Index (bbg: IBEX:IND)

Nikkei 225 (bbg: NKY) Index

Swiss Market Index (bbg: SMI:IND)

Mexican Stock Exchange Mexican bolsa IPC Index (bbg:
MEXBOL:IND)

Russell 1000® Index (bbg: RIY:IND)

Russell 2000® Index (bbg: RTY:IND)

“**Index Adjustment Event**” has the meaning given to it in Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*).

“**Index Cancellation**” has the meaning given to it in Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*).

“**Index Disruption**” has the meaning given to it in Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*).

“**Index Linked Redemption Amount**” means, with respect to any Series of Index Linked Notes, an amount determined in accordance with any of the following formulae, as specified in the applicable Pricing Supplement:

- (A) the Reverse Convertible Index Linked Redemption Amount;
- (B) the Total Return Index Linked Redemption Amount; or
- (C) the HALVA Index Linked Redemption Amount.

“**Index Modification**” has the meaning given to it in Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*).

“**Index Sponsor**” means, in relation to an Index, the corporation or other entity that:

- (A) is responsible for setting and reviewing the rules and procedures and the methods of calculation and adjustments, if any, related to such Index; and
- (B) announces (directly or through an agent) the level of such Index on a regular basis during each Scheduled Trading Day, which as of the Issue Date is the index sponsor specified for such Index in the applicable Pricing Supplement .

“**Index Weighting**” means, with respect to an Index comprised in a Basket of Indices, unless otherwise specified in the applicable Pricing Supplement , an amount equal to:

$$\text{Weighting} \times \left(\frac{100}{\text{Reference Level}_0} \right),$$

Where Reference Level₀ is the Reference Level of the relevant Index on the Observation Date so specified in the applicable Pricing Supplement.

“**Market Disruption Event**” means, in respect of an Index:

- (A) where the relevant Index is not specified in the applicable Pricing Supplement as being a Multi-Exchange Index:
 - (i) the occurrence or existence at any time during the one hour period that ends at the relevant Valuation Time of:
 - (A) any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise:

- (i) (A) in the case of Index Linked Notes other than HALVA Notes, relating to securities that comprise 20% or more of the level of the relevant Index on any relevant Exchange(s) or (B) in the case of HALVA Notes, one or more securities (which, for the avoidance of doubt, may be Index Components) that comprise the relevant Index at such time on any related Exchange; or
 - (ii) (A) in the case of Index Linked Notes other than HALVA Notes, in futures or options contracts relating to the relevant Index on any relevant Related Exchange or (B) in the case of HALVA Notes, in futures or options contracts relating to (x) one or more securities (which, for the avoidance of doubt, may be Index Components) that comprise the relevant Index at such time on any relevant Related Exchange or (y) the relevant Index on any relevant Related Exchange; or
- (B) any event (other than an event described in paragraph (ii) below) that disrupts or impairs (as determined by the ILN Calculation Agent) the ability of market participants in general:
 - (i) to effect transactions in, or obtain market values for (A) in the case of Index Linked Notes other than HALVA Notes, securities that comprise 20% or more of the level of the relevant Index on any relevant Exchange(s) or (B) in the case of HALVA Notes, one or more securities (which, for the avoidance of doubt, may be Index Components) that comprise the relevant Index at such time on any relevant Exchange; or

- (ii) (A) in the case of Index Linked Notes other than HALVA Notes, to effect transactions in, or obtain market values for, futures or options contracts relating to the relevant Index on any relevant Related Exchange or (B) in the case of HALVA Notes, to effect transactions in, or obtain market values for, futures or options contracts relating to (x) one or more securities (which, for the avoidance of doubt, may be Index Components) that comprise the relevant Index at such time on any relevant Related Exchange or (y) the relevant Index on any relevant Related Exchange,

which in either case the ILN Calculation Agent determines is material; or

- (ii) the closure on any Exchange Business Day of any relevant Exchange(s) relating to (A) in the case Index Linked Notes other than HALVA Notes, securities that comprise 20% or more of the level of the relevant Index or any Related Exchange(s) or (B) in the case of HALVA Notes, any relevant Exchange or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or such Related Exchange(s), as the case may be, at least one hour prior to the earlier of:
 - (A) the actual closing time for the regular trading session on such Exchange(s) or such Related Exchange(s) on such Exchange Business Day; and
 - (B) the submission deadline for orders to be entered into the Exchange or Related Exchange system for execution at the Valuation Time on such Exchange Business Day.

In the case of Index Linked Notes other than HALVA Notes only, for the purposes of determining whether a Market Disruption Event in respect of an Index exists at

any time, if a Market Disruption Event occurs in respect of a Component Security at any time, then the relevant percentage contribution of that Component Security to the level of the Index shall be based on a comparison of:

- (i) the portion of the level of the Index attributable to that Component Security; and
- (ii) the overall level of the Index,

in each case immediately before the occurrence of such Market Disruption Event;

(B) where the relevant Index is specified in the applicable Pricing Supplement as being a Multi-Exchange Index either:

- (i) the occurrence or existence, in respect of any Component Security, of:
 - (A) a Trading Disruption which the ILN Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange on which such Component Security is principally traded;
 - (B) an Exchange Disruption, which the ILN Calculation Agent determines is material, at any time during the one hour period that ends at the relevant Valuation Time in respect of the Exchange on which such Component Security is principally traded;
or
 - (C) an Early Closure; and
- (ii) in the case of Index Linked Notes other than HALVA Notes only, the aggregate of all Component Securities in respect of which a Trading Disruption, an Exchange Disruption or an Early Closure occurs or exists, comprises 20% or more of the level of the Index; or
- (iii) (A) in the case of Index Linked Notes other than HALVA Notes, the occurrence or existence, in respect of futures or options contracts relating to the Index and (B) in the case of HALVA Notes, the occurrence or existence, in respect of futures or options relating to (x) one or more securities

(which, for the avoidance of doubt, may be Index Components) that comprise the relevant Index at such time on any relevant Related Exchange or (y) the relevant Index on any relevant Related Exchange, of:

- (A) a Trading Disruption which the ILN Calculation Agent determines is material, at any time during the one hour period that ends at the Valuation Time in respect of any Related Exchange; or
- (B) an Exchange Disruption which the ILN Calculation Agent determines is material, at any time during the one hour period that ends at the Valuation Time in respect of any Related Exchange; or
- (C) an Early Closure.

In the case of Index Linked Securities other than HALVA Notes only, for the purposes of determining whether a Market Disruption Event exists in respect of a Multi-Exchange Index exists at any time, if a Market Disruption Event occurs in respect of such Component Security included in the Index at any time, then the relevant percentage contribution of that Component Security to the level of the Index shall be based on a comparison of:

- (i) the portion of the level of the Index attributable to that Component Security; and
- (ii) the overall level of the Index,

in each case using the official opening weightings as published by the relevant Index Sponsor as part of the market “opening data” immediately before the occurrence of such Market Disruption Event.

“**Multi-Exchange Index**” means an Index identified or specified as such in the applicable Pricing Supplement or, if not so identified or specified, any Index which the ILN Calculation Agent determines to be a Multi-Exchange Index.

“**n**” applies to the definition of “Asian Index Performance”, “Autocall Coupon” or “Cliquet Coupon” and shall mean the number of Observation Dates or Averaging Dates, as applicable, specified in the applicable Pricing Supplement, provided that if no Observation Dates or Averaging Dates, as applicable, are specified, then “n” means one Observation Date or Averaging Date, as applicable.

“Observation Date(s)” means each date specified as such in the applicable Pricing Supplement, provided that if such date is not a Scheduled Trading Day, the Observation Date shall be the immediately succeeding Scheduled Trading Day unless, in the opinion of the ILN Calculation Agent, such day is a Disrupted Day. If such day is a Disrupted Day, then:

- (A) where the Notes relate to a single Index, the Observation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Observation Date is a Disrupted Day. In that case, (i) the eighth Scheduled Trading Day shall be deemed to be the Observation Date, notwithstanding the fact that such day is a Disrupted Day and (ii) the ILN Calculation Agent, shall, where practicable, determine the Reference Level in the manner set out in in this Condition 13 (*Index Linked Note Provisions*) and in the applicable Pricing Supplement , or, if not set out or not so practicable, determine the Reference Level in its sole and absolute discretion, including (but without any obligation to do so) by determining the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with (and subject to Condition 13(d)(i) (*Successor Index Sponsor Calculates and Reports and Index*), Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*) and Condition 13(d)(iv) (*Correction to an Index*)) the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted level as of the Valuation Time on that eighth Scheduled Trading Day of each security comprised in the Index (or, if an event giving rise to a Disrupted Day in relation to such security) has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value of the relevant security as of the Valuation Time on that eighth Scheduled Trading Day);
- (B) where the Notes relate to a Basket of Indices, the Observation Date for each Index not affected by the occurrence of a Disrupted Day shall be the Scheduled Observation Date, and the Observation Date for each Index affected by the occurrence of a Disrupted Day (each an **“Affected Index”**) shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to the Affected Index unless each of the eight

Scheduled Trading Days immediately following the Scheduled Observation Date is a Disrupted Day relating to the Affected Index.

In that case, (i) the eighth Scheduled Trading Day shall be deemed to be that Observation Date for the Affected Index, notwithstanding the fact that such day is a Disrupted Day and (ii) the ILN Calculation Agent shall, where practicable, determine the Reference Level in the manner set out in this Condition 13 (*Index Linked Note Provisions*) and in the applicable Pricing Supplement, or, if not set out or not so practicable, determine the Reference Level in its sole and absolute discretion, including (but without any obligation to do so) by determining the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with (and subject to Condition 13(d)(i) (*Successor Index Sponsor Calculates and Reports and Index*), Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*) and Condition 13(d)(iv) (*Correction to an Index*)) the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted level as of the Valuation Time on that eighth Scheduled Trading Day of each security comprised in the Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value of the relevant security as of the Valuation Time on that eighth Scheduled Trading Day).

“Observation Period” means the period specified as such in the applicable Pricing Supplement.

“Redemption Barrier Level” shall apply to the definition of “Reverse Convertible Index Linked Redemption Amount” and shall be expressed in the applicable Pricing Supplement either as a single number or, with respect to prescribed periods of time, certain corresponding numbers.

“Reference Level” means, unless otherwise specified in the applicable Pricing Supplement and in respect of a Valuation Date, Observation Date or Averaging Date:

- (A) where the Index Linked Notes are specified in the applicable Pricing Supplement to relate to a single Index, an amount (which shall be deemed to be an amount of the Specified Currency) equal to the official closing level of

the Index as calculated and published by the Index Sponsor or Successor Index Sponsor on the relevant date (or if a Valuation Time other than the Scheduled Closing Time is specified in the applicable Pricing Supplement, the level of the Index determined by the ILN Calculation Agent at such Valuation Time on the relevant date) or (and notwithstanding the foregoing) as otherwise determined by the ILN Calculation Agent in its sole and absolute discretion; and

- (B) where the Index Linked Notes are specified in the applicable Pricing Supplement to relate to a Basket of Indices, an amount (which shall be deemed to be an amount of the Specified Currency) equal to the sum of the values calculated for each Index as the official closing level of each Index as published by the Index Sponsor or Successor Index Sponsor on the relevant date (or, if a Valuation Time other than the Scheduled Closing Time is specified in the applicable Pricing Supplement, the level of each Index determined by the ILN Calculation Agent at such Valuation Time on the relevant date) or (and notwithstanding the foregoing) as determined by the ILN Calculation Agent in its sole and absolute discretion, multiplied in each case by the relevant Index Weighting.

“**Reference Level_i**” means (i) the level of the Index or Basket of Indices, as applicable, specified in the applicable Pricing Supplement or (ii) the Reference Level of the Index or Basket of Indices, as applicable, on the relevant Valuation Date, Observation Date(s), Averaging Date(s) or such other date, as specified in the applicable Pricing Supplement.

“**Reference Level_o**” means (i) the level of the Index or Basket of Indices, as applicable, specified in the applicable Pricing Supplement or (ii) the Reference Level of the Index or Basket of Indices, as applicable, on the relevant Trade Date, Observation Date(s), Averaging Date(s) or such other date, as specified in the applicable Pricing Supplement.

“**Reference Level_{strike}**” means (i) the level of the Index or Basket of Indices, as applicable, specified in the applicable Pricing Supplement or (ii) if not specified, the product of (A) the Asian Call Strike and (B) the Reference Level_o.

“**Related Exchange**” means, subject to the proviso below, in relation to an Index, each exchange or quotation system specified as such for such Index in the applicable Pricing Supplement, any successor to such exchange or quotation system or any substitute

exchange or quotation system to which trading in futures or options contracts relating to such Index has temporarily relocated (provided that the ILN Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Index on such temporary substitute exchange or quotation system as on the original Related Exchange), provided that where ‘All Exchanges’ is specified as the Related Exchange in the applicable Pricing Supplement, ‘Related Exchange’ shall mean each exchange or quotation system where trading has a material effect (as determined by the ILN Calculation Agent) on the overall market for futures or options contracts relating to such Index.

“Reverse Convertible Index Linked Redemption Amount” means, with respect to an Index Linked Note, an amount equal to the greater of:

- (A) zero; and
- (B) if:
 - (i) on the Reverse Convertible Observation Date, the Reference Level of the relevant Index or Basket of Indices, as applicable, is at or above the Redemption Barrier Level, A; or
 - (ii) on the Reverse Convertible Observation Date, the Reference Level of the relevant Index or Basket of Indices, as applicable, is below the Redemption Barrier Level, an amount determined in accordance with the following formula:

$$A \times \left(\frac{\text{Reference Level}_i}{\text{Reference Level}_0} \right)$$

“Reverse Convertible Observation Date” shall apply to the definition of “Reverse Convertible Index Linked Redemption Amount” and shall be a date or a set of dates specified in the applicable Pricing Supplement.

“Scheduled Averaging Date” means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been an Averaging Date.

“Scheduled Closing Time” means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours.

“**Scheduled Observation Date**” means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been an Observation Date.

“**Scheduled Trading Day**” means:

- (A) where the Index is not specified in the applicable Pricing Supplement as being a Multi-Exchange Index, any day on which each Exchange and each Related Exchange are scheduled to be open for trading for their respective regular trading sessions; or
- (B) where the Index is specified in the applicable Pricing Supplement as being a Multi Exchange Index, any day on which:
 - (i) the Index Sponsor is scheduled to publish the level of that Index; and
 - (ii) each Related Exchange is scheduled to be open for trading for its regular trading session.

“**Scheduled Valuation Date**” means any original date that, but for the occurrence of an event causing a Disrupted Day, would have been a Valuation Date.

“**Shark Fin Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, an Interest Amount determined in accordance with the following formula:

- (A) in the case of an Index,
Max[0%, Shark Fin Index Performance]; or
- (B) in the case of a Basket of Indices,
Max[0%, Shark Fin Index Basket Performance].

“**Shark Fin Index Performance**” means, with respect to an Index, (i) as specified in the applicable Pricing Supplement or (ii) if not specified, then if the Reference Level on any applicable Observation Date:

- (A) is never equal to, or greater than, the Coupon Barrier Level, then an amount determined in accordance with the following formula:

$$A \times \left(\frac{\text{Reference Level}_i - \text{Reference Level}_0}{\text{Reference Level}_0} \right); \text{ else}$$

- (B) X%.

“**Shark Fin Index Basket Performance**” means, unless specified otherwise in the applicable Pricing Supplement, an amount equal to the arithmetic mean of the Shark Fin Index Performances in respect of each Index included in the relevant Basket of Indices.

“**Stability Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, an Interest Amount equal to the greater of:

- (A) zero; and
- (B) if:
 - (i) during the relevant Observation Period, the Reference Level of the Index or Basket of Indices, as applicable, is never at or above the Higher Coupon Barrier Level and is never at or below the Coupon Barrier Level, an amount determined in accordance with the following formula:

$$A \times \text{Max} \left[1 - \frac{\text{Reference Level}_i}{\text{Reference Level}_0}, \frac{\text{Reference Level}_i}{\text{Reference Level}_0} - 1 \right]$$

; else

- (ii) zero.

“**Successor Index**” has the meaning given to it in Condition 13(d)(i) (*Adjustments to an Index and Additional Disruption Events*).

“**Successor Sponsor**” has the meaning given to it in Condition 13(d)(i) (*Adjustments to an Index and Additional Disruption Events*).

“**Total Return Index Linked Redemption Amount**” means, with respect to an Index Linked Note, an amount determined in accordance with the following conditions:

- (i) if $\text{Reference Level}_0 < \text{Reference Level}_i$, then:

$A \times \left(\frac{\text{Reference Level}_i}{\text{Reference Level}_0} \right)$, provided that the Total Return Index Linked Redemption Amount shall not exceed the product of (i) A and (ii) the Total Return Index Linked Redemption Amount Cap.

- (ii) if the Total Return Index Linked Redemption Amount Condition is specified to be applicable, then if (Total Return Index

Linked Redemption Amount Percentage x Reference Level₀) < Reference Level_i < Reference Level₀, then A

(iii) if Reference Level_i < Reference Level₀, then:

$$A \times \left(\frac{\text{Reference Level}_i}{\text{Reference Level}_0} \right)$$

For the avoidance of doubt, if the Total Return Index Linked Redemption Amount Condition is not specified to be applicable in the relevant Pricing Supplement, then condition (ii) above shall be ignored.

“**Total Return Index Linked Redemption Amount Cap**” means such percentage as specified in the applicable Pricing Supplement or, if not such percentage is specified, then 100 per cent.

“**Total Return Index Linked Redemption Amount Percentage**” means such percentage as specified in the applicable Pricing Supplement.

“**Trade Date**” means the date specified as such in the applicable Pricing Supplement.

“**Trading Disruption**” means any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange, as the case may be, or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise:

- (A) relating to any Component Security (which, for the avoidance of doubt, may be an Index Component) on the Exchange in respect of such Component Security; or
- (B) (x) in the case of Index Linked Notes other than HALVA Notes, in futures or options contracts relating to the Index on any Related Exchange or (y) in the case of HALVA Notes, in futures or options relating to (i) one or more securities (which, for the avoidance of doubt, may be Index Components) that comprise the Index or (ii) the Index on any Related Exchange.

“**Valuation Date**” means each date specified as such in the applicable Pricing Supplement or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day unless, in the opinion of the ILN Calculation Agent, such day is a Disrupted Day. If such day is a Disrupted Day, then:

- (A) where the Index Linked Notes other than HALVA Notes relate to a single Index, the Valuation Date shall be the

first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day. In that case (i) the eighth Scheduled Trading Day for the Index shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day; and (ii) the ILN Calculation Agent, shall, where practicable, determine the Reference Level in the manner set out in this Condition 13 (*Index Linked Note Provisions*) and in the applicable Pricing Supplement, or, if not set out or not so practicable, determine the Reference Level in its sole and absolute discretion, including (but without any obligation to do so) by determining the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with (and subject to Condition 13(d)(i) (*Successor Index Sponsor Calculates and Reports and Index*), Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*) and Condition 13(d)(iv) (*Correction to an Index*)) the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted level as of the Valuation Time on that eighth Scheduled Trading Day of each security comprised in the Index (or, if an event giving rise to a Disrupted Day in relation to such security has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value of the relevant security as of the Valuation Time on that eighth Scheduled Trading Day);

- (B) where the Notes relate to a Basket of Indices, the Valuation Date for each Index not affected by the occurrence of a Disrupted Day shall be the Scheduled Valuation Date, and the Valuation Date for each Index affected by the occurrence of a Disrupted Day (each an “**Affected Index**”) shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day relating to the Affected Index, unless each of the eight Scheduled Trading Days immediately following the Scheduled Valuation Date is a Disrupted Day relating to the Affected Index.

In that case (i) that eighth Scheduled Trading Day shall be deemed to be the Valuation Date for the Affected Index, notwithstanding the fact that such day is a Disrupted Day and (ii) the ILN Calculation Agent shall

where practicable, determine the Reference Level in the manner set out in Condition 13 (*Index Linked Note Provisions*) and in the applicable Pricing Supplement, or, if not set out or if not so practicable, determine the Reference Level in its sole and absolute discretion, including (but without any obligation to do so) by determining the level of the Index as of the Valuation Time on that eighth Scheduled Trading Day in accordance with (and subject to Condition 13(d)(i) (*Successor Index Sponsor Calculates and Reports and Index*), Condition 13(d)(ii) (*Modification and Cessation of Calculation of an Index*) and Condition 13(d)(iv) (*Correction to an Index*)) the formula for and method of calculating the Index last in effect prior to the occurrence of the first Disrupted Day using the Exchange traded or quoted level as of the Valuation Time on that eighth Scheduled Trading Day of each security comprised in the Index (or, if an event giving rise to a Disrupted Day has occurred in respect of the relevant security on that eighth Scheduled Trading Day, its good faith estimate of the value of the relevant security as of the Valuation Time on that eighth Scheduled Trading Day); or

- (C) in the case of HALVA Notes, the Disrupted Day shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day. The ILN Calculation Agent shall, for the purposes of making any calculations required to be made in respect of such HALVA Notes, determine its good faith estimate of the value of one or more relevant securities (which, for the avoidance of doubt, may be Index Components) that comprise the Index at such time as of the Valuation Time on that Disrupted Day.

“Valuation Time” means:

- (A) where the Index is not specified in the applicable Pricing Supplement as being a Multi-Exchange Index, the Valuation Time specified in the applicable Pricing Supplement or, if no Valuation Time is specified, the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date, Observation Date or Averaging Date, as the case may be, in relation to each Index to be valued. If the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time; or

- (B) where the Index is specified in the applicable Pricing Supplement as being a Multi Exchange Index, the Valuation Time specified in the applicable Pricing Supplement or, if no Valuation Time is specified:
- (i) for the purposes of determining whether a Market Disruption Event has occurred:
 - (A) in respect of a Component Security, the Scheduled Closing Time on the relevant Exchange in respect of such Component Security; and
 - (B) in respect of any options contracts or futures contracts on the Index, the close of trading on the relevant Related Exchange; and
 - (ii) in all other circumstances, the time at which the official closing level of the Index is calculated and published by the Index Sponsor.

If, for the purposes of paragraph (i) above, the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Valuation Time shall be such actual closing time.

“**Vanilla Call Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, an Interest Amount determined in accordance with the following formula:

$A \times \text{Max}[0\%, \text{Vanilla Index Performance}]$.

“**Vanilla Call Spread Coupon**” means, with respect to any Interest Period and the applicable Interest Payment Date, an Interest Amount determined in accordance with the following formula:

$A \times \text{Max}[0\%, \text{Min}(X\%, \text{Vanilla Index Performance})]$.

“**Vanilla Index Performance**” means, unless specified otherwise in the applicable Pricing Supplement:

$$\left(\frac{\text{Reference Level}_i - \text{Reference Level}_0}{\text{Reference Level}_0} \right)$$

“**Weighting**”, means the weight to be applied to each of the Indices comprising the Basket of Indices, as specified in the applicable Pricing Supplement.

“X%” shall apply to the definition of “Asian Call Spread”, “Autocall Coupon”, “Conditional Coupon”, “Shark Fin Index Performance” or “Vanilla Call Spread Coupon”. “X%” shall be expressed either as a single percentage or, with respect to certain prescribed periods of time, certain corresponding percentages.

“Z%” shall apply to the definition of “Cliquet Index Performance”. “Z%” shall be expressed either as a single percentage or, with respect to certain prescribed periods of time, certain corresponding percentages.

(vi) *Additional Definitions Applicable to HALVA Notes*

“**Annualised Volatility_M(Z)**” in respect of variable “Z” means:

$$\sqrt{252} \times \sqrt{\frac{1}{M} \sum_{t=1}^M (\text{LRZ}_t - \overline{\text{LRZ}_t})^2}$$

where:

“**LRZ_t**” means, for each Valuation Date_t, the daily logarithmic return of variable “Z” measured between Valuation Date_{t-1} and Valuation Date_t, calculated as follows:

$$\ln\left(\frac{Z_t}{Z_{t-1}}\right)$$

where Z_t means the value of variable “Z” on Valuation Date_t;

$\overline{\text{LRZ}_t}$ is the arithmetic mean of all the values of LRZ_t as calculated above for each applicable Valuation Date_t;

“**M**” is the number of Valuation Dates falling in the period in respect of which the above calculation is being performed;

“**t**” is an integer ranging from 1 to M;

“**Valuation Date₀**” means the (M+1) the Valuation Date before the Valuation Date on which the above calculation is being performed, and “**Valuation Date_M**” means the Valuation Date immediately preceding the Valuation Date on which the above calculation is being performed, and all intermediate Valuation Date_t are to be interpreted accordingly.

“**Final HALVA Strategy Level**” means the HALVA Strategy Level on the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement.

“**HALVA Basket**” means, at any time during the HALVA Term, the applicable Index Components selected in accordance with these Terms

and Conditions equal to the HALVA Number. For the avoidance of doubt, the HALVA Basket shall take into account any notional returns (including, but not limited to, any dividend amounts which shall be included net of withholding or other tax) (or the relevant proportion) in respect of the applicable Index Components.

“**HALVA Basket Level_t**” means, in respect of Valuation Date_t, a percentage calculated in accordance with the following formula:

$$\sum_y \text{HALVA Weighting}_y \times \text{px}_y(\text{Valuation Date}_t)$$

“**HALVA Basket Longer Volatility Observation Period**” means the period specified as such in the applicable Pricing Supplement.

“**HALVA Basket Shorter Volatility Observation Period**” means the period specified as such in the applicable Pricing Supplement.

“**HALVA Basket Volatility**” means:

$$\max[\text{Vol}_x(\text{HALVA Basket Level}_t), \text{Vol}_y(\text{HALVA Basket Level}_t)]$$

where:

“**x**” means the number of Valuation Dates in the HALVA Basket Shorter Volatility Observation Period; and

“**y**” means the number of Valuation Dates in the HALVA Basket Longer Volatility Observation Period;

“**HALVA Cash Component**” means, at any time during the HALVA Term, certain notional cash/money market instrument(s) which generate the HALVA Cash Component Rate of Return.

“**HALVA Cash Component Rate of Return**” means the rate of interest specified in the applicable Pricing Supplement. For the avoidance of doubt, the HALVA Cash Component Rate of Return may be a fixed or floating rate and may be determined by the ILN Calculation Agent by reference to such notional amount, period (or designated maturity), day count fraction, minimum and maximum rates and margin(s) as specified in the applicable Pricing Supplement .

“**HALVA Designation Period**” means the period from and including a HALVA Designation Date to but excluding the next following HALVA Designation Date.

“**HALVA Designation Date**” means any of the dates so specified in the applicable Pricing Supplement.

“**HALVA Index**” means the Index specified in the applicable Pricing Supplement.

“**HALVA Index Linked Redemption Amount**” means, in respect of a Series of HALVA Notes, an amount determined in accordance with the following formula:

$$A \times \left(\frac{\text{Final HALVA Strategy Level}}{\text{Initial HALVA Strategy Level}} \right)$$

For the avoidance of doubt, the amount calculated above cannot be lower than zero.

“**HALVA Notes**” means those Index Linked Notes specified as “HALVA Notes” in the applicable Pricing Supplement and to which the HALVA Strategy applies.

“**HALVA Number**” means the number of Index Components specified in the applicable Pricing Supplement.

“**HALVA Strategy**” (or the “**Hapoalim Low Volatility Allocation Strategy**”) is an investment strategy pursuant to which the ILN Calculation Agent dynamically allocates exposure during the HALVA Term between the HALVA Basket and the HALVA Cash Component.

“**HALVA Strategy Level**” means, with respect to any applicable Valuation Date, a percentage calculated in accordance with the following formula:

$$\begin{aligned} \text{Strategy}_t &= \text{Strategy}_{t-1} \\ &+ \text{HALVA Basket Exposure}_t \times \sum_y \text{HALVA Weighting}_y \times (\text{px}_y(t) - \text{px}_y(t-1)) \\ &+ \text{Interest}_t \end{aligned}$$

where:

“**Strategy_t**” means the HALVA Strategy Level on Valuation Date_t;

“**Strategy_{t-1}**” means the HALVA Strategy Level on Valuation Date_{t-1};

“**HALVA Basket Exposure_t**” means the HALVA Basket Exposure on Valuation Date_t;

“**t**” means any integer;

“**y**” means an integer ranging from one to the HALVA Number.

“**Interest**” means, on Valuation Date_t, the percentage figure calculated in accordance with the following formula:

$$\text{Strategy}_{(t-1)} \times (1 - \text{HALVA Basket Exposure}_t) \times \text{Rate} \times \text{HALVA Day Count Fraction}$$

where:

“**HALVA Day Count Fraction**” has the meaning given to it in the applicable Pricing Supplement, and for the which the relevant period (being the “Calculation Period”) shall be the calendar days from but excluding Valuation Date_{t-1} to and including Valuation Date_t;

“**Rate**” means the HALVA Cash Component Rate of Return; and

“**Valuation Date_t**” means the Valuation Date on which the above calculation is being performed, and “**Valuation Date_{t-1}**” means the immediately preceding Valuation Date.

“**HALVA Term**” means the period from, and including, the Issue Date to, and including, the final Valuation Date, the Maturity Date or such other date specified in the applicable Pricing Supplement.

“**HALVA Volatility Cap**” means the percentage figure as specified in the applicable Pricing Supplement.

“**HALVA Basket Exposure**” means, on any Valuation Date, a percentage calculated in accordance with the following formula:

$$\min \left[100\%, \frac{\text{HALVA Volatility Cap}}{\text{HALVA Basket Volatility}} \right]$$

“**HALVA Weighting_y**” means, in respect of an Index Component_y and a HALVA Designation Period beginning on a HALVA Designation Date:

$$\text{Volatility Weighting}_y \times \frac{\text{Strategy Designation Date Level}}{px_y(\text{HALVA Designation Date})}$$

where “**Strategy Designation Date Level**” means, on any Strategy Designation Date, the HALVA Strategy Level.

“**Index Component_y**” means, in respect of a HALVA Designation Period, the stocks equal to the HALVA Number lowest comprising the HALVA Index which have the lowest values of Index Component Volatility_y.

“**Index Component Volatility_y**” means, in respect of an Index Component_y, Vol_M(px_y(t)) measured over the Index Component Volatility Observation Period.

“**Index Component Volatility Observation Period**” means the period specified in the applicable Pricing Supplement.

“**Initial HALVA Strategy Level**” means the HALVA Strategy Level on the Issue Date, the Trade Date or such other date as specified in the applicable Pricing Supplement.

“**px_y(t)**” means the closing price per share of Index Component_y on Valuation Date_t.

“**px_y(t-1)**” means the closing price per share of Index Component_y on Valuation Date_{t-1}.

“**Valuation Date_t**” means, unless otherwise specified, any of the Valuation Dates specified in the applicable Pricing Supplement, and “**Valuation Date_{t-1}**” is to be interpreted as being the immediately preceding Valuation Date.

“**Vol_M(Z)**” means, on any Valuation Date, the Annualised Volatility_M(Z) of variable “Z” determined by reference to the immediately preceding “M” Valuation Dates (and excluding the current Valuation Date).

“**Volatility Factor_y**” means, in respect of Index Component_y, the inverse of the Index Component Volatility_y of such Index Component_y.

“**Volatility Weighting_y**” means, in respect of Index Component_y, a percentage calculated in accordance with the following formula:

$$\frac{\text{Volatility Factor}_y}{\sum_y \text{Volatility Factor}_y}$$

14. **Equity Linked Note Provisions**

- (a) *Application:* This Condition 14 (*Equity Linked Note Provisions*) is applicable to the Notes only if the Equity Linked Note Provisions are specified in the relevant Pricing Supplement as being applicable.
- (b) *Interest on Equity Linked Notes:* In the case of Equity Linked Notes, the applicable Pricing Supplement will specify whether interest (if any) in respect thereto will be determined in accordance with:
- (i) Condition 7 (*Fixed Rate Note Provisions*);
 - (ii) Condition 8 (*Floating Rate Note Provisions*);
 - (iii) Condition 12 (*Zero Coupon Note Provisions*);
 - (iv) the definition of “Range Accrual Coupon” (as specified herein), the resulting figure being rounded to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount (or, if the Calculation Agent determines so in respect of

are Partly Paid Notes, the aggregate amount paid up). For this purpose a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

- (c) *Redemption of Equity Linked Notes:* Equity Linked Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with Condition 16 (*Redemption and Purchase*) and the applicable Pricing Supplement. An Equity Linked Note will be settled by the payment of the Final Redemption Amount, which may be either: (i) the principal amount (to the extent it has been redeemed prior to its Maturity Date paid up) or (ii) the Equity Linked Redemption Amount (being the Range Accrual Redemption Amount). The Final Redemption Amount may be adjusted for costs, losses and expenses incurred by or on behalf of the Issuer in connection with the redemption of an Equity Linked Note.

If an Equity Linked Note becomes redeemable in accordance with this Condition 14(c) (Redemption of Equity Linked Notes), then upon payment of the Final Redemption Amount in respect of such Equity Linked Note, the Issuer shall have discharged its obligations in respect of such Equity Linked Note and shall have no other liability or obligation whatsoever in respect thereof. The Final Redemption Amount may be less than the nominal amount of an Equity Linked Note. Any shortfall shall be borne by the Noteholder and no liability shall attach to the Issuer.

- (d) *Disrupted Day.* Upon the occurrence of a Disrupted Day on any day that, but for the occurrence of such Disrupted Day, would have been the Valuation Date, an Averaging Date or an Observation Date (or such other date as specified in the applicable Pricing Supplement), the Issuer shall give notice as soon as practicable to the relevant Noteholders in accordance with Condition 25 (*Notices*) stating the occurrence of a Disrupted Day, and giving details thereof and the action proposed to be taken in relation thereto, provided that any failure to give, or non-receipt of, such notice shall not affect the validity of and effect the occurrence of the Disrupted Day or the validity of any action (or inaction) taken by the Issuer or the ILN Calculation Agent. The Issuer shall make available for inspection by Noteholders copies of any such determinations.

- (e) ***Potential Adjustment Events and Extraordinary Events***

(i) *Potential Adjustment Events*

- (A) If the Issuer or the ILN Calculation Agent on its behalf, determining in its sole and absolute discretion, either that a Potential Adjustment Event has occurred in respect of the Basket Company or the Share Company, as the case may be, or that a declaration has been made by the Basket Company or the Share Company, as the case may be, of the terms of any Potential Adjustment Event, the Issuer may require, in its sole and absolute discretion, the ILN Calculation Agent to:

- (1) determine, in its sole and absolute discretion, whether such Potential Adjustment Event has a diluting or concentrative effect on the theoretical value of the Shares;
- (2) if so, make the appropriate adjustment(s), if any, to be made to, any one or more of the Weighting (if applicable) and/or any one or more other terms of these Conditions and/or the applicable Pricing Supplement as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate to account for that diluting or concentrative effect (provided that no adjustment(s) will be made to account solely for changes in volatility, expected dividends, stock loan rate or liquidity relative to the relevant Share); and
- (3) determine, in its sole and absolute discretion, the effective date(s) of that adjustment(s).

The ILN Calculation Agent may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an options exchange (“**Exchange Based Adjustment**”) to options on the Shares traded on that options exchange.

- (B) Upon the making of any adjustment(s) by the ILN Calculation Agent pursuant to this Condition 14(e)(i) (*Potential Adjustment Events*), the Issuer shall give notice as soon as practicable to the relevant Noteholders in accordance with Condition 25 (*Notices*), other than where Exchange Based Adjustment applies, giving brief details of such adjustment(s), the applicable Potential Adjustment Event and the Potential Adjustment Event Effective Date, provided that any failure to give, or non-receipt of, such notice shall not affect the validity of such adjustment(s), the applicable Potential Adjustment Event or the Potential Adjustment Event Effective Date.

(ii) *Extraordinary Events*

- (A) The occurrence of any of De-Listing, Insolvency, Merger Event, Nationalisation, Tender Offer (unless Tender Offer is specified as not applicable in the relevant Pricing Supplement), Listing Change (unless Listing Change is specified as not applicable in the relevant Pricing Supplement), Listing Suspension (unless Listing Suspension is specified as not applicable in the relevant Pricing Supplement) or any Additional Extraordinary Event, as the case may be, shall be an “**Extraordinary Event**”, the consequences of which are set forth in Condition 14(e)(ii)(B) (*Extraordinary Events*) below:

- (1) “**De-Listing**” means, in respect of any relevant Shares, that the Exchange announces pursuant to the rules of such Exchange, that such Shares cease (or will cease) to be listed, traded or publicly quoted on the Exchange for any reason (other than a Merger Event or Tender Offer) and are not immediately re-listed, re-traded or re-

quoted on an exchange or quotation system located in the same country as the Exchange (or, where the Exchange is within the European Union, in a member state of the European Union).

- (2) “**Insolvency**” means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Basket Company or Share Company, as the case may be, (i) all the Shares of that Basket Company or Share Company, as the case may be, are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Shares of that Basket Company or Share Company, as the case may be, become legally prohibited from transferring them.
- (3) “**Listing Change**” means, in respect of any relevant Shares, that such Shares cease (or will cease) to be listed, traded or publicly quoted on the listing compartment or the relevant market of the Exchange on which such Shares were listed, traded or publicly quoted on the Issue Date, for any reason (other than a Merger Event or Tender Event or where this is a De-Listing).
- (4) “**Listing Suspension**” means, in respect of any relevant Shares, that the listing of such Shares on the Exchange has been suspended (other than where this is a De-Listing).
- (5) “**Merger Event**” means, in respect of any relevant Shares, any (i) reclassification or change of such Shares that results in a transfer of or an irrevocable commitment to transfer all of such Shares outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Basket Company or Share Company, as the case may be, with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Basket Company or Share Company, as the case may be, is the continuing entity and which does not result in a reclassification or change of all of such Shares outstanding), (iii) takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Shares of the Basket Company or Share Company, as the case may be, that results in a transfer of or an irrevocable commitment to transfer all such Shares (other than such Shares owned or controlled by such other entity or person) or (iv) consolidation, amalgamation, merger or binding share exchange of the Basket Company or its subsidiaries or the Share Company or its subsidiaries, as the case may be, with or into another entity in which the Basket Company or Share Company, as the case may be, is the continuing entity and which does not result in a reclassification or change of all such Shares outstanding but results in the outstanding Shares (other than Shares owned or controlled by such other entity) immediately prior to such event

collectively representing less than 50 per cent. of the outstanding Shares immediately following such event, in each case if the relevant Extraordinary Event Effective Date is on or before, the latest of the last occurring Valuation Date, Averaging Date, Observation Date or the Maturity Date (or such other date as specified in the applicable Pricing Supplement), as the case may be.

- (6) “**Nationalisation**” means that all the Shares or all or substantially all the assets of the Basket Company or Share Company, as the case may be, are nationalised, expropriated or are otherwise transferred to any governmental agency, authority, entity or instrumentality thereof.
- (7) “**Tender Offer**” means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. (the “**Percentage Range**”) of the outstanding voting shares of the Basket Company or Share Company, as the case may be, as determined by the ILN Calculation Agent, based upon the making of filings with governmental or self-regulatory agencies or such other information as the ILN Calculation Agent deems relevant.
- (8) “**Additional Extraordinary Event**” means any additional extraordinary event specified in the applicable Pricing Supplement.

(B) Consequences of the occurrence of an Extraordinary Event:

If an Extraordinary Event occurs in relation to a Share, the Issuer, in its sole and absolute discretion, may take the actions described in (1), (2), (3), (4) (if applicable) or (5) below:

- (1) require the ILN Calculation Agent to determine, in its sole and absolute discretion, the appropriate adjustment(s), if any, to be made to the Weighting (if applicable) and/or any one or more of the other terms of these Conditions and/or the applicable Pricing Supplement to account for the relevant Extraordinary Event, and determine, in its sole and absolute discretion, the effective date of such adjustment(s). The relevant adjustment(s) may include, without limitation, adjustments to account for changes in volatility, expected dividends, stock loan rate or liquidity relevant to the Shares or to the relevant Series of Equity Linked Notes. The ILN Calculation Agent may (but need not) determine the appropriate adjustment(s) by reference to the adjustment in respect of the relevant Extraordinary Event made by any options exchange to options on the Shares traded on that options exchange. In addition, in relation to a Basket of

Shares, the ILN Calculation Agent may adjust the Basket of Shares in accordance with the provisions of sub-paragraph (5) below;

- (2) in the case of any of Series of Equity Linked Notes relating to a Basket of Shares, give notice to Noteholders in accordance with Condition 25 (*Notices*) and redeem the Notes in part. If the Notes are so redeemed in part, the portion (the “**Redeemed Amount**”) of each Note representing the affected Share(s) shall be redeemed and the Issuer will:
 - I. pay to each Noteholder in respect of each Note held by him an amount equal to the fair market value of the Redeemed Amount, taking into account the relevant Extraordinary Event less the ILN Cost of Unwinding, in each case as determined by the ILN Calculation Agent in its sole and absolute discretion; and
 - II. require the ILN Calculation Agent to determine, in its sole and absolute discretion, the appropriate adjustment(s), if any, to be made to the Weighting (if applicable) and/or any one or more of the other terms of these Conditions and/or the applicable Pricing Supplement to account for such redemption in part. For the avoidance of doubt, the remaining part of each Note after such cancellation and adjustment shall remain outstanding with full force and effect. Payments will be made in such manner as shall be notified to the Noteholders in accordance with Condition 25 (*Notices*);
- (3) unless Delayed Redemption on the Occurrence of an Extraordinary Event is specified as being applicable in the Pricing Supplement, give notice to the Noteholders in accordance with Condition 25 (*Notices*) and redeem all, but not some only, the relevant Series of Equity Linked Notes, each principal amount of Notes equal to the Calculation Amount being redeemed at the Early Termination Amount;
- (4) if Delayed Redemption on the Occurrence of an Extraordinary Event is specified as being applicable in the Pricing Supplement, require the ILN Calculation Agent to calculate the fair market value of each Note, taking into account the relevant Extraordinary Event less the ILN Cost of Unwinding (the “**Calculated Extraordinary Event Amount**”) as soon as practicable following the occurrence of the relevant Extraordinary Event (the “**Calculated Extraordinary Event Amount Determination Date**”) and on the Maturity Date

redeem each Note at an amount calculated by the ILN Calculation Agent equal to the Calculated Extraordinary Event Amount plus interest accrued on the Calculated Extraordinary Event Amount on a daily basis from, and including, the Calculated Extraordinary Event Amount Determination Date to, but excluding, the Maturity Date, each such daily accrual rate being either (x) a rate equal to Issuer's funding cost on or about the relevant day as determined by the ILN Calculation Agent in its sole and absolute discretion or (y) such other rate as determined by the ILN Calculation Agent in its sole and absolute discretion;

- (5) in the case of a Series of Equity Linked Notes linked to a Basket of Shares, require the ILN Calculation Agent to adjust the Basket of Shares to include a Share selected by it in accordance with the criteria for share selection set out below (each a “**Substitute Share**”) for each Share (each, an “**Affected Share**”) of each Basket Company (each, an “**Affected Basket Company**”) which is affected by such Extraordinary Event and the Substitute Share will be deemed to be a “**Share**”, and the issuer of such shares a “**Basket Company**”, for the purposes of the relevant Series of Equity Linked Notes, and the ILN Calculation Agent will make such adjustment(s) to any term of these Conditions and/or the applicable Pricing Supplement as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate, provided that in the event that any amount payable under such Series of Equity Linked Notes was to be determined by reference to an initial price (the “**Initial Price**”) of the Affected Share, the relevant Initial Price of each Substitute Share will be determined by the ILN Calculation Agent in accordance with the following formula:

Initial Price = A x (B/C), where:

“A” is the official closing price of the relevant Substitute Share on the relevant Exchange on the Substitution Date (as defined below);

“B” is the Initial Price of the relevant Affected Share; and

“C” is the fair market value of the relevant Affected Share on the Substitution Date (as defined below) (which may be determined (x) by reference to the official closing price of the Affected Share on the relevant Exchange and/or such other source(s) as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate or (y) in such

manner as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate).

Such substitution and the relevant adjustment to the Basket of Shares will be deemed to be effective as of the date selected by the ILN Calculation Agent (the “**Substitution Date**”) in its sole and absolute discretion and specified in the notice referred to below which may, but need not, be the relevant Extraordinary Event Effective Date.

The Weighting (if applicable) of each Substitute Share in the Basket of Shares will be equal to the Weighting of the relevant Affected Share.

In order to be selected as a Substitute Share, the relevant share must satisfy the following criteria, in the sole and absolute discretion of the ILN Calculation Agent:

- I. where the relevant Extraordinary Event is a Merger Event or a Tender Offer and the relevant share is not already included in the Basket of Shares, the relevant share shall be an ordinary share of the entity or person (other than the Affected Basket Company) involved in the Merger Event or the making of the Tender Offer, that is, or that as of the relevant Extraordinary Event Effective Date (i) is promptly scheduled to be, publicly quoted, traded or listed on an exchange or quotation system located in the same country as the relevant Exchange (or, where the relevant Exchange is within the European Union, in any member state of the European Union) and (ii) is not subject to any currency exchange controls, trading restrictions or other trading limitations; or
- II. where (I) above does not apply, including in the case of an Extraordinary Event other than a Merger Event or a Tender Offer:
 - (A) the issuer of the share shall, to the extent possible, belong to the same economic sector as the Affected Basket Company and shall not already be included in the Basket of Shares; and
 - (B) the issuer of the share shall, to the extent possible, have a comparable market capitalisation, international standing and exposure as the Affected Basket Company in respect of the Affected Share.

(C) Notification of Extraordinary Events to Noteholders

If an Extraordinary Event has occurred and the ILN Calculation Agent determines, in its sole and absolute discretion, that any adjustment(s) in accordance with the above provisions is or are necessary (other than the provisions specified in Condition 14(e)(ii)(B)(2) and 14(e)(ii)(B)(3)), then the Issuer, as soon as reasonably practicable, shall give notice to the Noteholders in accordance with Condition 25 (*Notice*) stating the occurrence of the Extraordinary Event, giving details thereof and the adjustment(s) to be taken in relation thereto, including, in the case of Condition 14(e)(ii)(B)(5), the identity of the Substitute Shares and the Substitution Date, provided that any failure to give, or non-receipt of, such notice shall not affect the validity of such adjustment(s) or any such Extraordinary Event.

(f) *Correction of Share Price*

If the relevant price of the relevant Share published on a given day and used or to be used by the ILN Calculation Agent to make any determination under any Series of Equity Linked Notes is subsequently corrected and the correction is published by the relevant Exchange, the ILN Calculation Agent may, in its sole and absolute discretion, adjust the terms of the relevant Equity Linked Notes to take into account such correction.

(g) *Additional Disruption Events*

(A) If an Additional Disruption Event are specified as applicable in the relevant Pricing Supplement, then if an Additional Disruption Event occurs, the Issuer in its sole and absolute discretion may take the action described in (1), (2), (3) (if applicable) or (4):

- (1) require the ILN Calculation Agent to determine, in its sole and absolute discretion, the appropriate adjustment(s), if any, to be made to the Weighting (if applicable) and/or any of the other terms of these Conditions and/or the applicable Pricing Supplement to account for the Additional Disruption Event and determine the effective date of such adjustment(s). In addition, in relation to a Basket of Shares, the ILN Calculation Agent may adjust the Basket of Shares in accordance with the provisions of sub-paragraph (4) below; or
- (2) unless Delayed Redemption on Occurrence of Additional Disruption Event is specified as being applicable in the Pricing Supplement, give notice to the Noteholders in accordance with Condition 25 (*Notices*) and redeem all, but not some only, the relevant Series of Equity Linked Notes, each principal amount of Notes equal to the Calculation Amount being redeemed at the Early Termination Amount; or
- (3) if Delayed Redemption on Occurrence of Additional Disruption Event is specified as being applicable in the Pricing Supplement, require the ILN

Calculation Agent to calculate the fair market value of each Note, taking into account the relevant Additional Disruption Event less the ILN Cost of Unwinding (the “**Calculated Additional Disruption Amount**”) as soon as practicable following the occurrence of the relevant Additional Disruption Event (the “**Calculated Additional Disruption Amount Determination Date**”) and on the Maturity Date redeem each Note at an amount calculated by the ILN Calculation Agent equal to the Calculated Additional Disruption Amount plus interest accrued on the Calculated Additional Disruption Amount on a daily basis from, and including, the Calculated Additional Disruption Amount Determination Date to, but excluding, the Maturity Date, each such daily accrual rate being either (x) a rate equal to Issuer's funding cost on or about the relevant day as determined by the ILN Calculation Agent in its sole and absolute discretion or (y) such other rate as determined by the ILN Calculation Agent in its sole and absolute discretion; or

- (D) in the case of a Series of Equity Linked Notes linked to a Basket of Shares, require ILN Calculation Agent to adjust the Basket of Shares to include a Share selected by it in accordance with the criteria for share selection set out below (each a “**Substitute Share**”) for each Share (each an “**Affected Share**”) which is affected by such Additional Disruption Event and the Substitute Share will be deemed to be a “**Share**” and the issuer of such shares a “**Basket Company**” for the purposes of the relevant Series of Equity Linked Notes, and the ILN Calculation Agent will make such adjustment(s) to any term of these Conditions and/or the applicable Pricing Supplement as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate, provided that in the event that any amount payable under the Notes was to be determined by reference to an initial price (the “**Initial Price**”) of the Affected Share, the Initial Price of each Substitute Share will be determined by the ILN Calculation Agent in accordance with the following formula:

Initial Price = A x (B/C), where:

“A” is the official closing price of the relevant Substitute Share on the relevant Exchange on the Substitution Date (as defined below);

“B” is the Initial Price of the relevant Affected Share; and

“C” is the fair market value of the relevant Affected Share on the Substitution Date (as defined below) (which may be determined (x) by reference to the official closing price of the Affected Share on the relevant Exchange and/or such other source(s) as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate or (y) in such manner as the ILN Calculation Agent, in its sole and absolute discretion, determines appropriate).

Such substitution and the relevant adjustment to the Basket of Shares will be deemed to be effective as of the date selected by the ILN Calculation

Agent (the “**Substitution Date**”) in its sole and absolute discretion and specified in the notice referred to below which may, but need not, be the relevant date of the Additional Disruption Event.

The Weighting (if applicable) of each Substitute Share in the Basket of Shares will be equal to the Weighting of the relevant Affected Share.

In order to be selected as a Substitute Share, the relevant share must be a share which, in the sole and absolute discretion of the ILN Calculation Agent:

- (I) is not already included in the Basket of Shares;
 - (II) the Issuer of such share belongs, to the extent possible, to the same economic sector as the Basket Company in respect of the Affected Share; and
 - (III) the Issuer of such share, to the extent possible, has a comparable market capitalisation, international standing and exposure as the Affected Basket Company in respect of the Affected Share.
- (B) If an Additional Disruption Event occurs and the ILN Calculation Agent determines, in its sole and absolute discretion, that any adjustment(s) in accordance with the provisions specified in Condition 14(g)(A) (*Additional Disruption Event*) (other than Condition 14(g)(A)(2)) are necessary, the Issuer, as soon as reasonably practicable, shall give notice to the Noteholders in accordance with Condition 25 (*Notices*) stating the occurrence of the Additional Disruption Event, giving details thereof and the adjustment(s) to be taken in relation thereto, including, in the case of Condition 14(g)(A)(4), the identity of the substitute Shares and the Substitution Date, provided that any failure to give, or non-receipt of, such notice shall not affect the validity of such adjustment(s) or any such Additional Disruption Event.

(h) *Definitions applicable to Equity Linked Notes*

“**A**” has the meaning given to it in the applicable Pricing Supplement or, if it is not defined in the applicable Pricing Supplement, it shall mean the Calculation Amount (or, if the Equity Linked Notes are Partly Paid Notes, the aggregate amount paid up).

“**Additional Disruption Event**” means any of Change in Law, Hedging Disruption, Increased Cost of Hedging, Increased Cost of Stock Borrow, Insolvency Filing, Loss of Stock Borrow, Emerging Market Risk Event or any other Additional Disruption Event, in each case, if specified to be applicable in the applicable Pricing Supplement.

“**Averaging Date**” means each date specified as an Averaging Date in the applicable Pricing Supplement provided that, if such date is not a Scheduled Trading Day, the Averaging Date shall be the next following Scheduled Trading Day unless, in the opinion of the ILN Calculation Agent, acting in

its sole and absolute discretion, such day is a Disrupted Day. If any Averaging Date is a Disrupted Day, then:

- (i) if “**Omission**” is specified as applying in the applicable Pricing Supplement, then such date will be deemed not to be an Averaging Date for the purposes of determining the relevant Settlement Price, provided that if through the operation of this provision no Averaging Date would occur, then the provisions of the definition of “Valuation Date” will apply for the purposes of determining the relevant Settlement Price on the final Averaging Date as if such Averaging Date were a Valuation Date that was a Disrupted Day;
- (ii) if “**Postponement**” is specified as applying in the applicable Pricing Supplement, then the provisions of the definition of “Valuation Date” will apply for the purposes of determining the relevant Settlement Price on that Averaging Date as if such Averaging Date were a Valuation Date that was a Disrupted Day irrespective of whether, pursuant to such determination, that deferred Averaging Date would fall on a date that already is or is deemed to be an Averaging Date for the Equity Linked Notes; or
- (iii) if “**Modified Postponement**” is specified as applying in the applicable Pricing Supplement then:

- (A) in the case of Equity Linked Notes relating to a single Share, the Averaging Date shall be the first succeeding Valid Date (as defined below). If the first succeeding Valid Date has not occurred for a number of consecutive Scheduled Trading Days equal to the Specified Maximum Days of Disruption immediately following the original date that, but for the occurrence of another Averaging Date or Disrupted Day, would have been the relevant Averaging Date, then (i) that last such consecutive Scheduled Trading Day shall be deemed to be the Averaging Date (irrespective of whether such Scheduled Trading Day is already an Averaging Date) and (ii) the ILN Calculation Agent shall determine the relevant Settlement Price for that Averaging Date in accordance with sub-paragraph (i) of the definition of Valuation Date below;

- (B) in the case of Equity Linked Notes relating to a Basket of Shares, the Averaging Date for each Share shall be the first succeeding Valid Date in relation to every Share forming part of the Basket of Shares. If the first succeeding Valid Date in relation to every Share forming part of the Basket of Shares has not occurred for a number of consecutive Scheduled Trading Days equal to the Specified Maximum Days of Disruption immediately following the original date (the “**Initial Date**”) that, but for the occurrence of another

Averaging Date or Disrupted Day, would have been the relevant Averaging Date, then (i) such Scheduled Trading Day shall be deemed to be the Averaging Date (irrespective of whether that last such consecutive Scheduled Trading Day is already an Averaging Date) in respect of every Share and (ii) the ILN Calculation Agent shall determine the relevant level, price or amount for that Averaging Date in accordance with sub-paragraph (ii) of the definition of Valuation Date below; and

- (C) for the purposes of these Terms and Conditions, “**Valid Date**” means a Scheduled Trading Day that is not a Disrupted Day and on which another Averaging Date in respect of the relevant Valuation Date does not or is not deemed to occur.

“**Basket Company**” means each company specified as such in the applicable Pricing Supplement and “**Basket Companies**” means all such companies.

“**Basket of Shares**” means a basket composed of Shares of each Basket Company specified in the applicable Pricing Supplement in the Weightings or numbers of Shares of each Basket Company specified in the applicable Pricing Supplement.

“**Change in Law**” means that, on or after the Trade Date (as specified in the applicable Pricing Supplement) (i) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (ii) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the ILN Calculation Agent determines, in its sole and absolute discretion, that (A) it has become illegal to hold, acquire or dispose of any relevant Share and/or (B) the Issuer will incur a materially increased cost in performing its obligations in relation to the relevant Series of Equity Linked Notes (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on the tax position of the Issuer and/or any Hedging Entity).

“**Change in Tax Law**” means, in respect of an Emerging Market Risk Event, the enactment, promulgation, execution or ratification of, or any change in or amendment to, any law (or in the application or official interpretation of any law) that occurs after the Trade Date, as specified in the applicable Pricing Supplement.

“**Clearance System**” means the principal domestic clearance system customarily used for settling trades in the relevant Share.

“**Clearance System Business Days**” means, in respect of a Clearance System, any day on which such Clearance System is (or, but for the occurrence of an event which results in the Clearance System being unable

to clear the transfer of a relevant security would have been) open for the acceptance and execution of settlement instructions.

“**Coupon Valuation Date**” means the date specified as such in the applicable Pricing Supplement.

“**De-Listing**” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“**Disrupted Day**” means any Scheduled Trading Day on which (i) a relevant Exchange or any Related Exchange fails to open for trading during its regular trading session or (ii) a Market Disruption Event has occurred.

“**Early Closure**” means the closure on any Exchange Business Day of the relevant Exchange(s) or any Related Exchange(s) prior to its Scheduled Closing Time unless such earlier closing time is announced by such Exchange(s) or Related Exchange(s), as the case may be, at least one hour prior to the earlier of (i) the actual closing time for the regular trading session on such Exchange(s) or Related Exchange(s), as the case may be, on such Exchange Business Day and (ii) the submission deadline for orders to be entered into the relevant Exchange or Related Exchange system for execution at the relevant “**Valuation Time**” on such Exchange Business Day.

“**Emerging Market Risk Event**” means:

- (i) a Hedging Entity is materially restricted, after using commercially reasonable efforts, from:
 - (A) freely realising, recovering, receiving, repatriating, remitting or transferring the proceeds of its hedge positions between accounts within the jurisdiction where its hedge positions are established or otherwise listed, represented or related (the “**Affected Jurisdiction**”) or from accounts within the Affected Jurisdiction to accounts outside of the Affected Jurisdiction;
 - (B) determining a rate at which any currency relevant to the Equity Linked Notes or its hedge positions can be exchanged; or
 - (C) converting any currency relevant to the Equity Linked Notes or its hedge positions into another currency relevant to the Equity Linked Notes or its hedge positions through customary legal channels, including, but not limited to, where one currency rate cannot be directly converted into another.
- (ii) any currency exchange rate relevant to the Equity Linked Notes or its hedge positions splitting into dual or multiple exchange rates.

- (iii) the occurrence of any event in any Affected Jurisdiction beyond the control of a Hedging Entity which makes it materially more difficult for such a Hedging Entity and/or any of its Affiliates to fulfil its obligations connected to the relevant Equity Linked Notes and/or results in an adjustment or termination of its hedge positions; and/or
- (iv) (a) the occurrence in a jurisdiction relating to hedge positions of (1) a Change in Tax Law, or (2) the imposition of a new or changed governmental, revenue or taxing authority practice, or in the application or official interpretation of any law, or the removal or amendment of any concession in each case in relation to hedge positions (a “**Change in Tax Practice**”), or (b) where there is a substantial likelihood of a Change in Tax Law or a Change in Tax Practice;

“**Equity Linked Redemption Amount**” means, with respect to any Series of Equity Linked Notes, an amount determined in accordance with any of the following formulae, as specified in the applicable Pricing Supplement:

Range Accrual Redemption Amount.

“**Exchange**” means, in respect of a Share, each exchange or quotation system specified as such for such Share in the applicable Pricing Supplement, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in the Share has temporarily relocated (provided that the ILN Calculation Agent has determined that there is comparable liquidity relative to such Share on such temporary substitute exchange or quotation system as on the original Exchange).

“**Exchange Business Day**” means either (i) in the case of a single Share, Exchange Business Day (Single Share Basis) or (ii) in the case of a basket of Shares or other assets, (a) Exchange Business Day (All Shares Basis) or (b) Exchange Business Day (Per Share Basis), in each case as specified in the Pricing Supplement.

“**Exchange Business Day (All Shares Basis)**” means, in respect of a Basket of Shares, any Scheduled Trading Day on which each Exchange and each Related Exchange are open for trading in respect of all Shares comprised in the Basket of Shares during their respective regular trading sessions, notwithstanding any such Exchange or Related Exchange closing prior to its Scheduled Closing Time.

“**Exchange Business Day (Per Share Basis)**” means, in respect of a Share, any Scheduled Trading Day on which the relevant Exchange and Related Exchange in respect of such Share is open for trading during its respective regular trading session, notwithstanding any such Related Exchange closing prior to its Scheduled Closing Time.

“Exchange Business Day (Single Share Basis)” means any Scheduled Trading Day on which the relevant Exchange and the relevant Related Exchange, if any, are open for trading during their respective regular trading session(s), notwithstanding any such relevant Exchange or relevant Related Exchange closing prior to their Scheduled Closing Time.

“Exchange Disruption” means, any event (other than an Early Closure) that disrupts or impairs (as determined by the ILN Calculation Agent in its sole and absolute discretion) the ability of market participants in general (i) to effect transactions in, or obtain market values for, the Shares on the relevant Exchange or (ii) to effect transactions in, or obtain market values for, futures or options contracts relating to the relevant Share on any relevant Related Exchange.

“Extraordinary Event” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“Extraordinary Event Effective Date” means, in respect of an Extraordinary Event, the date on which such Extraordinary Event occurs, as determined by the ILN Calculation Agent in its sole and absolute discretion.

“Final Observation Date” means the final Observation Date (or, if only one Observation Date is specified, such Observation Date).

“Hedging Disruption” means that the relevant Hedging Entity is unable, after using commercially reasonable efforts, to (i) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the equity price risk or any other relevant risk, including (but not limited to) the currency risk of the Issuer issuing and performing its obligations with respect to the Equity Linked Notes, or (ii) realise, recover, remit, receive, repatriate or transfer the proceeds of any such transaction(s) or asset(s).

“Hedging Shares” means the number of Shares that the relevant Hedging Entity deems necessary to hedge the equity or other risk of entering into and performing its and/or the Issuer’s obligations with respect to any Series of Equity Linked Notes.

“Increased Cost of Hedging” means that the relevant Hedging Entity would incur a materially increased (as compared with circumstances existing on the Trade Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (i) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the market risk (including, without limitation, equity price risk, foreign exchange risk and interest rate risk) of the Issuer issuing and performing its obligations with respect to the Equity Linked Notes, or (ii) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely

due to the deterioration of the creditworthiness of the Issuer and/or the relevant Hedging Entity shall not be deemed an Increased Cost of Hedging.

“**Increased Cost of Stock Borrow**” means that the relevant Hedging Entity would incur a rate to borrow any Share that is greater than the Initial Stock Loan Rate.

“**Initial Price**” means, in respect of any Share, the price specified in the applicable Pricing Supplement (or, if no price is so specified, the Initial Price shall be determined as if the Relevant Price definition applied on the Trade Date or any other applicable date).

“**Initial Stock Loan Rate**” means, in respect of a Share, the initial stock loan rate specified in relation to such Share in the Pricing Supplement or, if no such rate is specified, such rate as determined by the ILN Calculation Agent in its sole and absolute discretion.

“**Insolvency**” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“**Insolvency Filing**” means that a Share Company or Basket Company institutes or has instituted against it by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, or it consents to a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official or it consents to such a petition, provided that proceedings instituted or petitions presented by creditors and not consented to by the Share Company or Basket Company shall not be deemed an Insolvency Filing.

“**Listing Change**” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“**Listing Suspension**” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“**Loss of Stock Borrow**” means that the relevant Hedging Entity is unable, after using commercially reasonable efforts, to borrow (or maintain a borrowing of) any Share in an amount equal to the Hedging Shares at a rate equal to or less than the Maximum Stock Loan Rate.

“**Market Disruption Event**” means, in relation to any Series of Equity Linked Notes relating to a single Share or a Basket of Shares, in respect of a Share, the occurrence or existence of (i) a Trading Disruption, (ii) an Exchange Disruption, which in either case the ILN Calculation Agent, in its sole and absolute discretion, determines is material, at any time during the

one hour period that in all circumstances that ends at the relevant Valuation Time or (iii) an Early Closure.

“**Maximum Stock Loan Rate**” means, in respect of a Share, the maximum stock loan rate specified in the applicable Pricing Supplement or, if no such rate is specified, such rate as determined by the ILN Calculation Agent in its sole and absolute discretion.

“**Merger Event**” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“**Nationalisation**” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“**Observation Date**” means each date specified as an Observation Date in the applicable Pricing Supplement, or if any such date is not a Scheduled Trading Day, the immediately following Scheduled Trading Day unless, in the opinion of the ILN Calculation Agent, any such day is a Disrupted Day. If any such day is a Disrupted Day, then the provisions relating to Omission, Postponement or Modified Postponement, as the case may be, contained in the definition of Averaging Date shall apply *mutatis mutandis* as if references in such provisions to Averaging Date were to Observation Date.

“**Observation Period**” means the period specified as the Observation Period in the applicable Pricing Supplement.

“**Potential Adjustment Event**” means any of the following:

- (1) a subdivision, consolidation or reclassification of relevant Shares (unless resulting in a Merger Event) or a free distribution or dividend of any such Shares to existing holders by way of bonus, capitalisation or similar issue;
- (2) a distribution, issue or dividend to existing holders of the relevant Shares of (a) such Shares or (b) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Basket Company or Share Company, as the case may be, equally or proportionately with such payments to holders of such Shares or (c) share capital or other securities of another issuer acquired or owned (directly or indirectly) by the Basket Company or Share Company, as the case may be, as a result of a spin-off or other similar transaction or (d) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or in other consideration) at less than the prevailing market price as determined by the ILN Calculation Agent;
- (3) an extraordinary dividend as determined by the ILN Calculation Agent;

- (4) a call by a Basket Company or Share Company, as the case may be, in respect of relevant Shares that are not fully paid;
- (5) a repurchase by the Basket Company or its subsidiaries or Share Company or its subsidiaries, as the case may be, of relevant Shares whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;
- (6) in respect of a Basket Company or Share Company, as the case may be, an event that results in any shareholder rights being distributed or becoming separated from shares of common stock or other shares of the capital stock of such Basket Company or Share Company, as the case may be, pursuant to a shareholder rights plan or arrangement directed against hostile takeovers that provides upon the occurrence of certain events for a distribution of preferred stock, certificates, debt instruments or stock rights at a price below their market value, as determined by the ILN Calculation Agent;
- (7) any adjustment effected as a result of any shareholder rights plan or arrangement as described in (6) above; or
- (8) any other event having, in the opinion of the ILN Calculation Agent, acting in its sole and absolute discretion, a diluting or concentrative or other effect on the theoretical value of the relevant Shares.

“Potential Adjustment Event Effective Date” means, in respect of a Potential Adjustment Event, (i) the date determined by the Issuer (or the ILN Calculation Agent on its behalf in its sole and absolute discretion) that such Potential Adjustment Event has occurred in respect of the relevant Basket Company or Share Company, as the case may be or (ii) the date on which a declaration has been made by the relevant Basket Company or Share Company, as the case may be, of the terms of such Potential Adjustment Event, as determined by the Issuer (or the ILN Calculation Agent on its behalf) in its sole and absolute discretion.

“Range Accrual Coupon” means, with respect to any Interest Period and the applicable Interest Payment Date, the Interest Amount determined in accordance with the following formula:

The product of (i) A, (ii) the Range Accrual Fixed Rate and (iii) the relevant Day Count Fraction (determined by reference to the number of Scheduled Trading Days in the relevant Interest Period in respect of which the Range Accrual Coupon Requirement has been satisfied).

“Range Accrual Fixed Rate” means a per annum percentage which has the meaning given to it in the applicable Pricing Supplement.

“Range Accrual Multiplier” means such number as specified in the applicable Pricing Supplement, or if no such number is specified, than 2.

“**Range Accrual Number of Shares**” means the number of Range Accrual Shares specified in the applicable Pricing Supplement.

“**Range Accrual Notes**” means any Series of Equity Linked Notes which has been specified as such in the applicable Pricing Supplement.

“**Range Accrual Percentage**” means, with respect of each Range Accrual Share in the applicable Basket of Shares and the Final Observation Date, a percentage determined by the ILN Calculation Agent which is equal to the product of (A) the Settlement Price as of the Valuation Time on such Final Observation Date (or such other date specified in the applicable Pricing Supplement) divided by the Initial Price and (B) 100 (and the term “**Range Accrual Percentages**” shall be construed accordingly).

“**Range Accrual Redemption Amount**” means, with respect to an Equity Linked Note which is a Range Accrual Note, an amount determined in accordance with the following:

(A) if each Range Accrual Percentage is at least equal to, or greater than, the Range Accrual Required Percentage, then A; or

(B) if any Range Accrual Percentage is less than the Range Accrual Required Percentage, then

$$A \times \left(\frac{\text{Settlement Price of Range Accrual Worst Performer}}{\text{Initial Price of Range Accrual Worst Performer}} \right) \times \text{Range}$$

Accrual Multiplier, floored at zero. Unless specified in the applicable Pricing Supplement, the Settlement Price will be determined as of the Valuation Time in the Final Observation Date.

In respect of any Series of Range Accrual Notes and a Scheduled Trading Day falling during an Interest Period, the “**Range Accrual Coupon Requirement**” shall be satisfied if the Relevant Price for each Range Accrual Share in the applicable Basket of Shares as of the Valuation Time on such Scheduled Trading Day is at least equal to 75 per cent. of the Initial Price of such Range Accrual Share, or such other percentage as specified in the applicable Pricing Supplement.

“**Range Accrual Required Percentage**” means such percentage as specified in the applicable Pricing Supplement, or if no such percentage is specified, then 50 per cent.

“**Range Accrual Share**” means any of the Shares within the applicable Basket of Shares as specified in the applicable Pricing Supplement (and the term “**Range Accrual Shares**” shall be construed accordingly):

“**Range Accrual Worst Performer**” means, with respect to the Final Observation Date, the Range Accrual Share which has the lowest Range Accrual Percentage.

“Redemption Valuation Date” means the date specified as such in the applicable Pricing Supplement.

“Related Exchange” means, in relation to a Share, each exchange or quotation system on which option contracts or futures contracts relating to such Share are traded, or each exchange or quotation system specified as such for such Share in the applicable Pricing Supplement, any successor to such exchange or quotation system or any substitute exchange or quotation system to which trading in futures or options contracts relating to such Share has temporarily relocated (provided that the ILN Calculation Agent has determined that there is comparable liquidity relative to the futures or options contracts relating to such Share on such temporary substitute exchange or quotation system as on the original Related Exchange), provided that where **“All Exchanges”** is specified as the Related Exchange in the applicable Pricing Supplement, **“Related Exchange”** shall mean each exchange or quotation system where trading has a material effect (as determined by the ILN Calculation Agent) on the overall market for futures or options contracts relating to such Share.

“Relevant Price” means, subject as referred to in relation to any Trade Date, Issuer Date, Averaging Date, Observation Date or Valuation Date, as the case may be, in the case of a Share, an amount equal to the official closing price (or the price at the Valuation Time on the relevant Settlement Price Date or Averaging Date, as the case may be, if so specified in the Pricing Supplement) quoted on the relevant Exchange for such Share on (i) if Averaging is not specified in the applicable Pricing Supplement, the relevant Settlement Price Date, or (ii) if Averaging is specified in the applicable Pricing Supplement, the relevant Averaging Date or if, in the opinion of the ILN Calculation Agent, any such official closing price (or the price at the Valuation Time on the relevant Settlement Price Date or such Averaging Date, as the case may be, if so specified in the applicable Pricing Supplement) cannot be so determined and the relevant Settlement Price Date or Averaging Date, as the case may be, is not a Disrupted Day, an amount determined by the ILN Calculation Agent to be equal to the arithmetic mean of the closing fair market buying price (or the fair market buying price at the Valuation Time on the relevant Settlement Price Date or such Averaging Date, as the case may be, if so specified in the applicable Pricing Supplement) and the closing fair market selling price (or the fair market selling price at the Valuation Time on the relevant Settlement Price Date or Averaging Date, as the case may be, if so specified in the Pricing Supplement) for the Share based, at the ILN Calculation Agent's discretion, either on the arithmetic mean of the foregoing prices or middle market quotations provided to it by two or more financial institutions (as selected by the ILN Calculation Agent) engaged in the trading of the Share or on such other factors as the ILN Calculation Agent shall decide, such amount to be converted, if so specified in the applicable Pricing Supplement, into the Specified Notes Currency at the Exchange Rate on the relevant Settlement

Price Date or Averaging Date and such converted amount to be the Relevant Price, all as determined by or on behalf of the ILN Calculation Agent.

“**Scheduled Closing Time**” means, in respect of an Exchange or Related Exchange and a Scheduled Trading Day, the scheduled weekday closing time of such Exchange or Related Exchange on such Scheduled Trading Day, without regard to after hours or any other trading outside of the regular trading session hours subject as provided in Valuation Time below.

“**Scheduled Trading Day**” means either (i) in the case of a single Share, Scheduled Trading Day (Single Share Basis) or (ii) in the case of a Basket of Shares, (a) Scheduled Trading Day (All Shares Basis) or (b) Scheduled Trading Day (Per Share Basis), in each case as specified in the applicable Pricing Supplement.

“**Scheduled Trading Day (All Shares Basis)**” means, in respect of a Basket of Shares, any day on which each Exchange and each Related Exchange are scheduled to be open for trading in respect of all Shares comprised in the Basket of Shares for their respective regular trading sessions.

“**Scheduled Trading Day (Per Share Basis)**” means in respect of a Basket of Shares, any day on which the relevant Exchange and Related Exchange in respect of such Share are scheduled to be open for trading for their respective regular trading sessions.

“**Scheduled Trading Day (Single Share Basis)**” means any day on which the relevant Exchange and the relevant Related Exchange are scheduled to be open for trading during their respective regular trading session(s).

“**Scheduled Valuation Date**” means, in respect of a Share, any original date that, but for the occurrence of an event causing a Disrupted Day, would have been a Valuation Date.

“**Settlement Cycle**” means, in respect of a Share, the period of Clearance System Business Days following a trade in the Share on the Exchange in which settlement will customarily occur according to the rules of such Exchange.

“**Settlement Price**” means, subject as referred to in relation to any Averaging Date, Observation Date or Valuation Date, as the case may be:

- (i) in the case of Equity Linked Notes relating to a single Share, (A) if Averaging is not specified in the applicable Pricing Supplement, the Relevant Price for the relevant Settlement Price Date, or (B) if Averaging is specified in the Pricing Supplement, the arithmetic mean of the Relevant Prices of the Share on each Averaging Date, all as determined by or on behalf of the ILN Calculation Agent in a commercially reasonable manner; and

- (ii) in the case of Equity Linked Notes relating to a Basket of Shares, (A) if Averaging is not specified in the applicable Pricing Supplement, the Relevant Price for the relevant Settlement Price Date, or (B) if Averaging is specified in the applicable Pricing Supplement, the arithmetic mean of the Relevant Prices for each Share in the Basket of Shares on each Averaging Date, all as determined by or on behalf of the ILN Calculation Agent in a commercially reasonable manner.

“**Settlement Price Date**” means any Trade Date, Issuer Date, Observation Date, Valuation Date or the last Averaging Date as the case may be.

“**Shares**” and “**Share**” mean in the case of any Series of Equity Linked Notes relating to a Basket of Shares, each share and, in the case of any Series of Equity Linked Notes relating to a single Share, the share specified in the applicable Pricing Supplement and related expressions shall be construed accordingly. Any Share specified in the applicable Pricing Supplement shall form part of one or more of the following Indices (as such term is defined in Condition 13(d)(v) (*Definitions applicable to Index Linked Notes*):

DJ Industrial Average (bbg: INDU) Index

S&P500 (bbg: SPX) Index

Nasdaq 100 (bbg: NDX) Index

Eurostoxx 50 (bbg: SX5E) Index

S&P Europe 350 (bbg: SPE) Index

FTSE 100 (bbg: UKX) Index

FTSE 250 (bbg: MEX) Index

DAX (bbg: DAX) Index

CAC 40 (bbg: CAC) Index

Nikkei (bbg: NKY) Index

Tel Aviv 25 (bbg: TA-25) Index

S&P Nifty 50 (bbg: NIFTY) Index

MSCI World (bbg: MXWO) Index

Hong Kong Stock Exchange Hang Seng China Enterprises Index (bbg: HSCEI: IND)

Korea Stock Exchange KOSPI Index (bbg: KOSPI: IND)

S&P/ASX 200 (bbg: AS51: IND) Index

Russian Depository Index in USD (bbg: RDXUSD: IND)

IBEX 35 Index (bbg: IBEX: IND)

Nikkei 225 (bbg: NKY) Index

Swiss Market Index (bbg: SMI: IND)

Mexican Stock Exchange Mexican bolsa IPC Index (bbg: MEXBOL: IND)

Russell 1000® Index (bbg: RIY: IND)

Russell 2000® Index (bbg: RTY: IND)

“**Share Company**” means, in the case of any Series of Equity Linked Notes relating to a single Share, the company that has issued such Share.

“**Share Correction Period**” means (i) the period specified in the applicable Pricing Supplement, or (ii) if none is so specified, one Settlement Cycle.

“**Specified Maximum Days of Disruption**” means eight (8) Scheduled Trading Days or such other number of Scheduled Trading Days specified in the applicable Pricing Supplement.

“**Tender Event**” has meaning given to it in Condition 14(e)(ii) (*Extraordinary Events*).

“**Trade Date**” means the date specified as such in the applicable Pricing Supplement.

“**Trading Disruption**” means, any suspension of or limitation imposed on trading by the relevant Exchange or Related Exchange, as the case may be, or otherwise and whether by reason of movements in price exceeding limits permitted by the relevant Exchange or Related Exchange or otherwise (i) relating to the Share, or (ii) in futures or options contracts relating to such Share on any relevant Related Exchange.

“**Valuation Date**” means the Coupon Valuation Date, and/or Redemption Valuation Date, as the case may be, specified in the applicable Pricing Supplement or, if such date is not a Scheduled Trading Day, the next following Scheduled Trading Day unless, in the opinion of the ILN Calculation Agent, such day is a Disrupted Day. If such day is a Disrupted Day, then:

- (i) in the case of Equity Linked Notes relating to a single Share, the Valuation Date shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day, unless each of the number of consecutive Scheduled Trading Days equal to the Specified Maximum Days of Disruption immediately following the Scheduled Valuation Date is a Disrupted Day. In that case, (i) the last such consecutive Scheduled

Trading Day shall be deemed to be the Valuation Date, notwithstanding the fact that such day is a Disrupted Day and (ii) the ILN Calculation Agent shall, where practicable, determine, in its sole and absolute discretion, the Settlement Price in the manner set out in the applicable Pricing Supplement or, if not set out or if not practicable, determine the Settlement Price in accordance with its good faith estimate of the Settlement Price as of the Valuation Time on that last such consecutive Scheduled Trading Day; or

(ii) in the case of Equity Linked Notes relating to a Basket of Shares, the Valuation Date for each Share shall be the first succeeding Scheduled Trading Day that is not a Disrupted Day in respect of any Shares forming part of the Basket of Shares unless each of the number of consecutive Scheduled Trading Days equal to the Specified Maximum Days of Disruption immediately following the Scheduled Valuation Date (the “**Initial Date**”) is a Disrupted Day relating to any Share of the Basket of Shares. In that case, (i) the last such consecutive Scheduled Trading Day shall be deemed to be the Valuation Date for each Share of the Basket of Shares, notwithstanding the fact that such day is a Disrupted Day with respect to any Share and (ii) the ILN Calculation Agent shall, where practicable, determine, in its sole and absolute discretion, the Settlement Price using (1) in the case of the an affected Share, the manner set out in the applicable Pricing Supplement or, if not set out or if not practicable, determine the Settlement Price in accordance with its good faith estimate of the Settlement Price as of the Valuation Time on that last such consecutive Scheduled Trading Day or (2) in the case of any other Share, the manner set out in the applicable Pricing Supplement or, if not set out or if not practicable, determine the Settlement Price as of the Valuation Time on that last such consecutive Scheduled Trading Day or on the Initial Date or on the first immediately preceding Valuation Date that was not a Disrupted Day in respect of such other Share, in each case in its sole and absolute discretion.

“**Valuation Time**” means Coupon Valuation Time or the Valuation Time specified in the applicable Pricing Supplement, as the case may be, or, if no Valuation Time is specified, the Scheduled Closing Time on the relevant Exchange on the relevant Valuation Date or Averaging Date, as the case may be, in relation to each Share to be valued, provided that if the relevant Exchange closes prior to its Scheduled Closing Time and the specified Valuation Time is after the actual closing time for its regular trading session, then the Coupon Valuation time or the Valuation Time, as the case may be, shall be such actual closing time.

“**Weighting**” means the weighting to be applied to each item of the Basket of Shares as specified in the applicable Pricing Supplement.

15. **Accrual of Interest**

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) The date on which all amounts due in respect of such Note have been paid; and
- (b) Five days after the date on which the full amount of the moneys payable has been received by the Fiscal Agent and notice to that effect has been given in accordance with Condition 25 (*Notices*).

16. **Redemption and Purchase**

- (a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, or unless such Notes are specified in the applicable Pricing Supplement as being Undated Subordinated Notes, the Notes (including each Instalment Note, each Partly Paid Note, each Index Linked Note, each Equity Linked Note and each Zero Coupon Note) will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10(c) (*Redemption of Partly Paid Notes*), Condition 11(b) (*Redemption of Instalment Notes*), Condition 13(c) (*Redemption of Index Linked Notes*), Condition 14(c) (*Redemption of Equity Linked Notes*) and Condition 17 (*Payments*).
- (b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:
 - (i) at any time (if the Floating Rate Note Provisions are not specified in the relevant Pricing Supplement as being applicable); or
 - (ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable),

on giving not less than 30 nor more than 60 days' notice to the Fiscal Agent and to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to the date fixed for redemption, if:

- (A) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 16 (*Redemption and Purchase*) or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts as a result of any change in, or amendment to, the laws or regulations of Curaçao or Israel or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or

regulations, which change or amendments becomes effective on or after the Issue Date of the first Tranche of the Notes; and;

- (B) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

- (i) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made; or
- (ii) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts or the Guarantor would be obliged to make such withholding or deduction if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (1) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (2) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts or (as the case may be) the Guarantor has or will become obliged to make such withholding or deduction as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 16(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 16(b) (*Redemption for tax reasons*).

- (c) *Redemption at the option of the Issuer:* If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer (and/or, in the case of Undated Subordinated Notes, at the option of the Guarantor) in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 5 Business Days nor more than 30 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption

Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

- (d) *Partial redemption:* If the Notes are to be redeemed in part only on any date in accordance with Condition 16(c) (*Redemption at the option of the Issuer*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law and the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 16(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.
- (e) *Redemption at the option of Noteholders:* If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 16(e) (*Redemption at the option of Noteholders*), the holder of a Note must, not less than 15 nor more than 30 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 16(e) (*Redemption at the option of Noteholders*), may be withdrawn; *provided, however, that* if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 16(e) (*Redemption at the option of Noteholders*), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.
- (f) *No Fixed Maturity:* This Condition 16(f) (*No Fixed Maturity*) is applicable to Undated Subordinated Notes. There is no fixed redemption date for the Notes and the Issuer shall (subject to the provisions of Condition 4C (*Status — Undated Subordinated Notes*)) if such Condition is applicable, and without prejudice to the

provisions of Condition 19 (*Events of Default*) only have the right to repay such Notes in accordance with such provisions of this Condition 16 (*Redemption and Purchase*) as are specified in the applicable Pricing Supplement as being applicable to such Undated Subordinated Notes.

- (g) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (h) of this Condition 16 (*Redemption and Purchase*).
- (h) *Early redemption of Zero Coupon Notes:* The Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:
 - (i) the Reference Price; and
 - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 16(h) (*Early redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

- (i) *Purchase:* The Issuer, the Guarantor or any of the Guarantor's subsidiaries may at any time purchase Notes (provided that, in the case of Bearer Notes in definitive form, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, re-issued, resold or, at the option of the Issuer or the Guarantor, surrendered to any Paying Agent for cancellation.
- (j) *Cancellation:* All Notes which are redeemed as provided in paragraphs (a) to (h) above will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so redeemed and cancelled and all Notes purchased and surrendered for cancellation pursuant to paragraph (i) above (together with all unmatured Receipts, Coupons and Talons purchased and surrendered for cancellation therewith) shall be forwarded to the Fiscal Agent and cannot be reissued or resold.

17. **Payments**

- (a) *Principal:* Payments of principal shall be made only against presentation and (payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial

Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

- (b) *Interest:* Payments of interest shall, subject to paragraph (h) below, be made only against presentation and (payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.
- (c) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (d) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 18 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) *Deductions for unmatured Coupons:* If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Note is presented without all unmatured Coupons relating thereto:
 - (i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
 - (ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

- (B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (payment is made in full) surrender of the relevant missing Coupons.

- (f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 17(f) (*Unmatured Coupons void*) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 16(b) (*Redemption for tax reasons*), Condition 16(e) (*Redemption at the option of Noteholders*), Condition 16(c) (*Redemption at the option of the Issuer*) or Condition 19 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days*: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) above).
- (i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons*: On or after the Maturity Date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Fiscal Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 20 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

18. **Taxation**

- (a) *Gross up:* All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Curaçao or Israel or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:
- (i) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or
 - (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC; or
 - (iii) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or
 - (iv) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

Notwithstanding any other provisions contained herein, the Issuer (or, if applicable, the Guarantor) shall be permitted to withhold or deduct any amounts required by the rules of Sections 1471 through 1474 of the U.S. Internal Revenue Code (or any amended or successor provisions), pursuant to any inter-governmental agreement or implementing legislation adopted by another jurisdiction in connection with these provisions, or pursuant to any agreement with the U.S. Internal Revenue Service (“**FATCA withholding**”) as a result of a holder, beneficial owner or an intermediary that is not an agent of the Issuer not being entitled to receive payments free of FATCA withholding. The Issuer (or, if applicable, the Guarantor) will have no obligation to pay additional amounts or otherwise indemnify an investor for any such FATCA withholding deducted or withheld by the Issuer, the paying agent or any other party.

- (b) *Taxing jurisdiction:* If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than Curaçao or Israel respectively, references in these Conditions to Curaçao or Israel shall be construed as references to Curaçao or (as the case may be) Israel and/or such other jurisdiction.

19. **Events of Default**

19A *Events of Default — Unsubordinated Notes*

This Condition 19A is applicable to Notes specified in the applicable Pricing Supplement as being unsubordinated or not specified as being subordinated.

If any one or more of the following events (each an “**Event of Default**”) shall occur:

- (a) there is default for more than 14 days in the payment of any principal or interest due in respect of the Notes or any of them; or
- (b) there is default in the performance or observance by the Issuer or the Guarantor of any other obligation in respect of the Notes (other than any obligation for the payment of any principal or interest due in respect of the Notes) and such default continues for a period of 30 days after notice thereof has been given to the Issuer and the Guarantor; or
- (c) any indebtedness of the Issuer or the Guarantor having an aggregate outstanding principal amount in excess of U.S. \$20,000,000 (or its equivalent at the relevant time in any other currency or currencies), other than the Notes, shall become prematurely repayable as a result of a default in respect of the terms thereof or the Issuer or the Guarantor defaults in the repayment of any such indebtedness at the maturity thereof or at the expiration of any applicable grace period therefore (or, in the case of any indebtedness due on demand, defaults in the payment thereof on demand or at the expiration of any applicable grace period) or any guarantee or indemnity in respect of any indebtedness of others having an aggregate outstanding principal amount in excess of U.S. \$20,000,000 (or its equivalent at the relevant time in any other currency or currencies) given by the Issuer or the Guarantor (other than the guarantee of the Guarantor in respect of the Notes) shall not be honoured when due and called upon; or
- (d) an order is made or an effective resolution is passed for the winding up the Issuer or the Guarantor (except for the purposes of a merger, reconstruction or amalgamation the terms of which have previously been approved by an Extraordinary Resolution); or
- (e) the Issuer or the Guarantor (except in each case for the purposes of a merger, reconstruction or amalgamation the terms of which have previously been approved by an Extraordinary Resolution) stops or threatens to stop payment or ceases or threatens to cease to carry on its business, or an encumbrancer takes possession or a receiver is appointed or a distress or execution is levied or enforced upon or sued out against the whole or a material part of the assets of the Issuer or the Guarantor and, in the case of a distress or execution, is not discharged within 30 days, or any order is made or effective resolution is passed

by the Issuer or the Guarantor granting or applying for a suspension of payments or appointing a liquidator, receiver or trustee of the Issuer or the Guarantor or of a substantial part of the assets of either of them,

then any Noteholder may, by written notice to the Issuer and the Guarantor at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, declare the Notes held by such Noteholder to be forthwith due and payable whereupon the same shall become forthwith due and payable at the Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentation, demand, protest or other notice of any kind unless such Event of Default has been remedied prior to the receipt of such notice by the Fiscal Agent.

For the purposes of paragraph (c) above, any indebtedness which is in a currency other than U.S. dollars shall be translated into U.S. dollars at the “spot” rate for the sale of the U.S. dollars against the purchase of the relevant currency as quoted by the Fiscal Agent on the calendar day in London corresponding to the calendar day on which such premature repayment becomes due or, as the case may be, such default occurs (or, if for any reason such a rate is not available on that day, on the earliest possible date thereafter).

19B *Events of Default — Dated Subordinated Notes and Undated Subordinated Notes*

This Condition 19B is applicable to Notes specified in the applicable Pricing Supplement as being Dated Subordinated Notes and Undated Subordinated Notes.

The following events or circumstances as modified by, and/or such other events as may be specified in, the applicable Pricing Supplement (each an “**Event of Default**”) shall be events giving rise to the limited remedies set out in Condition 19C (*Acceleration*) below:

- (a) there is default for more than 14 days after a Compulsory Interest Payment Date or any other date upon which the payment of interest is due and payable, in the payment of any principal or interest due in respect of the relevant Dated Subordinated Notes or Undated Subordinated Notes, as the case may be, or any of them; or
- (b) an order is made or an effective resolution is passed for the winding-up or dissolution of the Issuer or the Guarantor.

For the purposes of Condition 19B, in relation to Undated Subordinated Notes, a payment shall be deemed to be due even if the Condition in Condition 5C(d) (*Status — Junior Subordinated Guarantee*) is not satisfied but, for the avoidance of doubt, the election by the Issuer pursuant to Condition 9 (*Undated Subordinated Notes Provisions*) not to make any payment of interest shall not constitute a default.

19C *Acceleration*

- (a) In the event of the occurrence of either of the Events of Default set out above in Condition 19B(a) or (b), the holder of any Note of the Series may, subject to (b)

below, by notice to the Fiscal Agent, declare any such Notes to be due and payable and may institute proceedings for a winding-up or liquidation of the Issuer or for proving or claiming in any winding-up or liquidation of the Issuer; and

- (b) no remedy against the Issuer (including, without limitation, any right to sue for a sum of damages which has the same economic effect as an acceleration of the Issuer's payment obligations), other than the institution of proceedings for winding-up or liquidation of the Issuer, shall be available to the holders of any Notes for the recovery of amounts owing in respect of the Notes or in respect of any breach by the Issuer of any obligation, Condition or provision binding on it under the terms of the Notes. In particular, no holder of any Note or Coupon shall be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owing by the Issuer in respect of such Note or Coupon (whether prior to, or following, any bankruptcy, liquidation, winding-up or sequestration of the Issuer).

If any of the rights and claims of any Noteholder against the Issuer is discharged by any payment whether voluntary or in any other circumstances received from or on account of the Issuer or the Guarantor (including by way of credit, set-off, counterclaim or otherwise howsoever) or from any liquidation, receiver, manager or statutory manager of the Issuer or the Guarantor in breach of Conditions 4B (*Status — Dated Subordinated Notes*), 4C (*Status — Undated Subordinated Notes*), 5B (*Status — Senior Subordinated Guarantee*), 5C (*Status — Junior Subordinated Guarantee*) or 19B (*Events of Default — Dated Subordinated Notes and Undated Subordinated Notes*), such Noteholder will immediately pay an amount equal to the amount of such discharge to the Issuer or the Guarantor or, in the event of its bankruptcy, liquidation, winding-up or sequestration, the receiver in bankruptcy, liquidator or trustee for the Issuer or the receiver in bankruptcy, liquidator or trustee of the Guarantor and accordingly any such discharge will be deemed not to have taken place.

If any Note becomes due and repayable pursuant to this Condition 19C (*Acceleration*), it shall be repaid at its Early Termination Amount less, in the case of any Instalment Note, the aggregate amount of all instalments that shall have become due and payable in respect of such Note under any other Condition prior to the date affixed for redemption (which amount, is and to the extent not then paid, remains due and payable), together with all interest (if any) accrued thereon.

20. **Prescription**

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

21. **Replacement of Notes and Coupons**

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent (and, if the Notes are then admitted to listing,

trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

22. **Agents**

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) specified in the relevant Pricing Supplement. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent or Calculation Agent additional or successor paying agents; *provided, however, that:*

- (a) the Issuer and the Guarantor shall at all times maintain a Fiscal Agent; and
- (b) the Issuer and the Guarantor shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive; and
- (c) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer and the Guarantor shall at all times maintain a Calculation Agent; and
- (d) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent in any particular place, the Issuer and the Guarantor shall maintain a Paying Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

23. **Meetings of Noteholders; Modification and Waiver**

- (a) *Meetings of Noteholders:* The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not

less than 5 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on any matter (other than an Extraordinary Resolution or a Reserved Matter sanctioned by an Extraordinary Resolution) will be one or more Persons holding or representing one twentieth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

- (b) *Modification:* The Fiscal Agent, the Issuer and/or the Guarantor may agree, subject as provided below, without the consent of the Noteholders, Receiptholders or Couponholders, to:
- (i) any modification (except as mentioned above) of the Agency Agreement which is not materially prejudicial to the interests of the Noteholders; or
 - (ii) any modification of the Notes, the Receipts, the Coupons or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of the law of the jurisdiction in which the Issuer or, as the case may be, the Guarantor is incorporated.

Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 25 (*Notices*) as soon as practicable thereafter.

24. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

25. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper,

on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

26. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

27. **Governing Law and Jurisdiction**

- (a) *Governing law:* Conditions 4B (*Status — Dated Subordinated Notes*) and 4C (*Status — Undated Subordinated Notes*) will be governed by the laws of Curaçao. Conditions 5B (*Status — Senior Subordinated Guarantee*) and 5C (*Status — Junior Subordinated Guarantee*) will be governed by the laws of Israel. Subject thereto, the Notes and all matters arising from or connected with the Notes are governed by, and shall be construed in accordance with, English law.
- (b) *English courts:* The courts of England have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising from or connected with the Notes.
- (c) *Appropriate forum:* The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.
- (d) *Rights of the Noteholders to take proceedings outside England:* Condition 27(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 27 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.
- (e) *Service of process:* Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Bank Hapoalim B.M., London Branch at 8-12 Brook Street, London W1Y 1AA or at any address of the Guarantor in Great Britain at which service of process may be served on it in accordance with section 1139 of the Companies Act 2006. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition 27 (*Governing*

Law and Jurisdiction) applies to Proceedings in England and to Proceedings elsewhere.

28. **ILN Calculation Agent**

In acting under the Issue and Paying Agency Agreement and in connection with the Notes and Coupons, the ILN Calculation Agent acts solely as agent of the Issuer and does not assume any obligations towards, or relationship of agency or trust for or with, any of the Noteholders or Couponholders.

The Issuer reserves the right at any time to vary or terminate the appointment of the ILN Calculation Agent and/or to appoint a successor ILN Calculation Agent. Furthermore, the Issuer is under no obligation to give notice of any change in the appointment of the ILN Calculation Agent to the Noteholders.

The ILN Calculation Agent may be any person appointed by the Issuer from time to time, including, but not limited to, the Issuer itself, Bank Hapoalim B.M., Bank Hapoalim (Switzerland) Ltd. or, in each case, any of its affiliates.

FORM OF PRICING SUPPLEMENT

Pricing Supplement dated [●]

Hapoalim International N.V.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

Guaranteed by

Bank Hapoalim B.M.

under the **U.S.\$2,500,000,000**

Global Medium Term Note Programme

Part 1 Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]] which [together] constitute[s] listing particulars for the purposes of Chapter 4 of the FCA's Listing Rules. References herein to the "Prospectus Rules" mean the United Kingdom Listing Authority's Prospectus Rules. This document constitutes the pricing supplement for the Notes described herein and must be read in conjunction with the Offering Circular [as so supplemented] for the purposes of the Prospectus Rules.

The Offering Circular [and the supplemental Offering Circular] are available to the public for viewing during normal business hours at the Issuer at Schottegatweg Oost 44, Curaçao and copies may be obtained from the Issuer Schottegatweg Oost 44, Curaçao and Bank Hapoalim (Luxembourg) Ltd. at 18 Boulevard Royal, 2017, Luxembourg and Bank Hapoalim (Switzerland) Ltd. at Stockerstrasse 33, CH 8093, Zurich, Switzerland and on its website –

<http://www.bankhapoalim.com/icmm/uploads/files/HapoalimInternationalNV.pdf>.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]]. These Pricing Supplement constitute the pricing supplement of the Notes described herein and must be read in conjunction with the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]].

The Offering Circular [and the supplemental Offering Circular] are available to the public for viewing during normal business hours at the Issuer at Schottegatweg Oost 44, Curaçao and copies may be obtained from the Issuer at Schottegatweg Oost 44, Curaçao and Bank Hapoalim (Luxembourg) Ltd. at 18 Boulevard Royal, 2017, Luxembourg and Bank Hapoalim (Switzerland) Ltd. at Stockerstrasse 33, CH 8093, Zurich, Switzerland and on its website –

<http://www.bankhapoalim.com/icmm/uploads/files/HapoalimInternationalNV.pdf>.

- 1 (i) Issuer: Hapoalim International N.V.
- (ii) Guarantor: Bank Hapoalim B.M.
- 2 [(i) [Series Number:] [●]]
- [(ii) [Tranche Number:
- [(If fungible with an [●]
- existing Series, details of
- that Series, including the
- date on which the Notes
- become fungible).]
- 3 Specified Currency or Currencies:
- [●]
- 4 Aggregate Nominal Amount of
Notes admitted to trading:
- [(i) [Series:] [●]]
- [(ii) [Tranche: [●]]]
- 5 Issue Price: [●] % of the Aggregate Nominal
Amount [plus accrued interest
from [●]]
- 6 (i) Specified Denominations: [●]
- (ii) Calculation Amount [●]
- 7 [(i) Issue Date:
- [●]
- [(ii) Interest Commencement [[●]/[Issue Date]/[Not
Date: applicable]]
- 8 Maturity Date:
- [●]
- 9 Interest Basis: [Fixed Rate]
- [Floating Rate]
- [Zero Coupon]
- 10 Redemption/Payment Basis: [Redemption at par]
- [Partly Paid]

- [Instalment]
- 11 Change of Interest or Redemption/Payment Basis: [●]
- 12 Put/Call Options: [Investor Put]
[Issuer Call]
[Fully Paid]
- 13 (i) Status of the Notes: [Unsubordinated Notes]/[Dated Subordinated Notes]/[Undated Subordinated Notes]
- (ii) Status of the Guarantee: [Unsubordinated Guarantee]/[Senior Subordinated Guarantee]/[Junior Subordinated Guarantee]
- [(iii)] [Date [Board] approval [●] [and [●], respectively] for issuance of Notes [and Guarantee] obtained:

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

- 14 **Fixed Rate Note Provisions** [Applicable]/[Not Applicable]
- (i) Rate[(s)] of Interest: [●]% per annum [payable [annually]/[semi-annually]/[quarterly]/[monthly] in arrear]
- (ii) Interest Payment Date(s): [●] in each year [adjusted in accordance with the Business Day Convention [adjusted in accordance with [●]]/[Not adjusted]
- (iii) Business Day Convention: [Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
- (iv) Business Centre(s): [●]
- (v) Fixed Coupon Amount[(s)]: [●] per Calculation Amount
- (vi) Broken Amount(s): [●] per Calculation Amount, payable on the Interest Payment

- Date falling [in/on] [●]
- (vii) Day Count Fraction: [30/360]/[Actual/Actual
[[ICMA]/[ISDA]]/[●]
- (viii) Determination Dates: [[●] in each year]/[Not
Applicable]/[●]
- 15 **Floating Rate Note Provisions** [Applicable/Not Applicable]
- (i) Interest Period(s) [●]
- (ii) Specified Interest [●]
Payment Dates:
- (iii) First Interest Payment [●]
Date:
- (iv) Business Day [Floating Convention]/[Following
Business Day Convention]/[Modified
Following Business Day
Convention]/[Preceding
Business Day Convention] Rate
- (v) Business Centre(s): [●]
- (vi) Manner in which the [Screen Rate
Rate(s) of Interest is/are
to be determined: Determination]/[ISDA
Determination]/[●]
- (vii) Party responsible for [●]
calculating the Rate(s) of
Interest and Interest
Amount(s) (if not the
[Agent]):
- (viii) Screen Rate
Determination:
- Reference Rate: [LIBOR] [EURIBOR] [BBSW]
[CIBOR] [CDOR] [CHIBOR]
[HIBOR] [NIBOR] [BBR]
[PRIBOR] [STIBOR] [TIBOR]
[TELBOR] [FED FUNDS]
- Interest Determination [●]
Date(s):
- Relevant Screen Page: [●]

- Relevant Time: [●]
- (ix) ISDA Determination:
 - Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
- (x) Margin(s): [+/-][●]% per annum
- (xi) Minimum Rate of [●]% per annum Interest:
- (xii) Maximum Rate of [●]% per annum Interest:
- (xiii) Inverse Floating Rate: [[●]% per annum]/[●]
- (xix) Day Count Fraction: [●]

16 **Zero Coupon Note Provisions** [Applicable]/[Not Applicable]

- (i) [Amortisation/Accrual] Yield: [●] % per annum
- (ii) Reference Price: [●]

PROVISIONS RELATING TO REDEMPTION

17 **Call Option** [Applicable]/[Not Applicable]

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Calculation Amount
- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [●] per Calculation Amount
 - (b) Maximum Redemption Amount: [●] per Calculation Amount
- (iv) Notice period: [●]

18 **Put Option** [Applicable]/[Not Applicable]

- (i) Optional Redemption [●]
Date(s):
- (ii) Optional Redemption [●] per Calculation Amount
Amount(s) of each Note
and method, if any, of
calculation of such
amount(s):
- (iii) Notice period: [●]
- 19 **Final Redemption Amount of** [●] per Calculation Amount
each Note (other than for Undated
Subordinated Notes)
- 20 **Redemption Amount(s) per** [●]
Calculation Amount payable on
redemption for taxation reasons
or on event of default or other
early redemption and/or the
method of calculating the same
(if required or if different from
that set out in the Conditions):
- 21 Form of Notes: **Bearer Notes:**

[Temporary Global Note
exchangeable for a Permanent
Global Note which is
exchangeable for Definitive
Notes at any time / on the expiry
of [●] business day's notice / in
the limited circumstances
specified in the Permanent
Global Note.]

[Temporary Global Note
exchangeable for Definitive
Notes on [●] days' notice.]

[Permanent Global Note
exchangeable for Definitive
Notes at any time / on the expiry
of [●] business day's notice / in
the limited circumstances
specified in the Permanent
Global Note]. [Registered Notes]
- 22 Talons for future Coupons or [Yes/No]
Receipts to be attached to

Definitive Notes (and dates on which such Talons mature):

23 Redenomination, renominatisation and reconventioning provisions: [Not Applicable/The provisions [in Condition [●] apply]

24 Details relating to Partly Paid Notes: [●]

Amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:

25 Details relating to Instalment Notes: [●]

(i) Instalment Amount(s): [●]

(ii) Instalment Date(s): [●]

THIRD PARTY INFORMATION

[●] has been extracted from [●]. The Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as [it/each of them] is aware and is able to ascertain from information published by [], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Hapoalim International N.V.:

By:

Duly authorised

Signed on behalf of Bank Hapoalim B.M.:

By:

Duly authorised

Part 2
Other Information

26 **LISTING**

- (i) Listing: London PSM
- (ii) Admission to Application has been made for the Notes to be
trading: admitted to the Official List of the FCA and to
trading on the Professional Securities Market of
the London Stock Exchange
- Date from which [●]
admission effective:
- (iii) Estimate of total [●]
expenses related to
admission to trading:

27 **RATINGS**

- Ratings: The Notes to be issued [have been/are expected
to be] rated:
- Standard & Poor's Credit Market Services
Europe Limited (trading as Standard & Poor's
Ratings Services): [●]]
- [Moody's Investor Service Limited: [●]]

28 **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE
[ISSUE/OFFER]**

[Save for any fees payable to a Dealer (as discussed in ["Subscription and Sale"]), so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.]

29 **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL
EXPENSES**

- (i) Reasons for the offer: [●]
- (See ["Use of Proceeds"] wording in the
Offering Circular if reasons for offer
different from making profit and/or hedging
certain risks will need to include those

reasons here.)]

[(ii)] Estimated net proceeds: [●]

[(iii)] Estimated total expenses: [●]

30 **[Fixed Rate Notes Only -YIELD**

Indication of yield: [●]

31 **OPERATIONAL INFORMATION**

ISIN Code: [●]

Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s): [Not Applicable [●]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

FORM OF PRICING SUPPLEMENT FOR INDEX LINKED NOTES

Pricing Supplement dated [●]

Hapoalim International N.V.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

Guaranteed by

Bank Hapoalim B.M.

under the U.S.\$2,500,000,000

Global Medium Term Note Programme

**Part 1
Contractual Terms**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]] which [together] constitute[s] listing particulars for the purposes of Chapter 4 of the FCA's Listing Rules. References herein to the "Prospectus Rules" mean the United Kingdom Listing Authority's Prospectus Rules. This document constitutes the pricing supplement for the Notes described herein and must be read in conjunction with the Offering Circular [as so supplemented] for the purposes of the Prospectus Rules.

The Offering Circular [and the supplemental Offering Circular] are available to the public for viewing during normal business hours at the Issuer at Schottegatweg Oost 44, Curaçao and copies may be obtained from the Issuer Schottegatweg Oost 44, Curaçao and Bank Hapoalim (Luxembourg) Ltd. at 18 Boulevard Royal, 2017, Luxembourg and Bank Hapoalim (Switzerland) Ltd. at Stockerstrasse 33, CH 8093, Zurich, Switzerland and on its website –

<http://www.bankhapoalim.com/icmm/uploads/files/HapoalimInternationalNV.pdf>.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]]. These Pricing Supplement constitute the pricing supplement of the Notes described herein and must be read in conjunction with the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]].

The Offering Circular [and the supplemental Offering Circular] are available to the public for viewing during normal business hours at the Issuer at Schottegatweg Oost 44, Curaçao and copies may be obtained from the Issuer at Schottegatweg Oost 44, Curaçao and Bank Hapoalim (Luxembourg) Ltd. at 18 Boulevard Royal, 2017, Luxembourg and Bank Hapoalim (Switzerland) Ltd. at Stockerstrasse 33, CH 8093, Zurich, Switzerland and on its website:–

<http://www.bankhapoalim.com/icmm/uploads/files/HapoalimInternationalNV.pdf>.

1	(i)	Issuer:	Hapoalim International N.V.
	(ii)	Guarantor:	Bank Hapoalim B.M.
	(iii)	ILN Calculation Agent:	Hapoalim International N.V.
2	[(i)	[Series Number:]	[●]

	[(ii)	[Tranche Number:	
		[(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	[•]
3		Specified Currency or Currencies:	[•]
4		Aggregate Nominal Amount of Notes admitted to trading:	
	[(i)]	[Series:]	[•]
	[(ii)	[Tranche:	[•]]
5		Issue Price:	[•]% of the Aggregate Nominal Amount [plus accrued interest from [•]]
6	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount	[•]
7	(i)	Issue Date:	[•]
8	(ii)	Trade Date:	[•]
	[(iii)	Interest Commencement Date:	[•]/[Issue Date]/[Trade Date]/[Not applicable]
9		Maturity Date:	[•]
10		Interest Basis:	[Fixed Rate] [Floating Rate] [Zero Coupon] [Asian Call Coupon] [Asian Call Spread Coupon] [Autocall Coupon] [Cliquet Coupon] [Conditional Coupon] [Shark Fin Coupon] [Stability Coupon] [Vanilla Call Coupon] [Vanilla Call Spread Coupon]
11		Redemption Basis:	[Redemption at par] [Index Linked Redemption Amount – Reverse Convertible Index Linked Redemption Amount] [Index Linked Redemption Amount – Total Return]

		Index Linked Redemption Amount]
		[Index Linked Redemption Amount – HALVA Index Linked Redemption Amount]
12	Payment Basis:	[Partly Paid] [Instalment] [Fully Paid]
13	Change of Interest or Redemption Basis or Payment Basis:	[●]
14	Put/Call Options:	[Investor Put] [Issuer Call] [Not Applicable]
15	(i) Status of the Notes:	[Unsubordinated Notes]/[Dated Subordinated Notes]/[Undated Subordinated Notes]
	(ii) Status of the Guarantee:	[Unsubordinated Guarantee]/[Senior Subordinated Guarantee]/[Junior Subordinated Guarantee]
	[(iii)] [Date [Board] approval for issuance of Notes [and Guarantee] obtained:	[●] [and [●], respectively]

PROVISIONS RELATING TO INDEX LINKED NOTES

16	Index Description and Other Provisions	
	(i) Whether the Notes relate to a single Index or a Basket of Indices:	[Single Index]/[Basket of Indices]
	(ii) Identity of the relevant Index/Indices:	[DJ Industrial Average (bbg: INDU) Index] [S&P500 (bbg: SPX) Index] [Nasdaq 100 (bbg: NDX) Index] [Eurostoxx 50 (bbg: SX5E) Index] [FTSE 100 (bbg: UKX) Index] [DAX (bbg: DAX) Index] [CAC 40 (bbg: CAC) Index] [Nikkei (bbg: NKY) Index] [Tel Aviv 25 (bbg: TA-25) Index] [S&P Nifty 50 (bbg: NIFTY) Index] [MSCI World (bbg: MXWO) Index] [Hong Kong Stock Exchange Hang Seng China

		Enterprises Index (bbg: HSCEI:IND)]
		[Korea Stock Exchange KOSPI Index (bbg: KOSPI:IND)]
		[S&P/ASX 200 (bbg: AS51:IND) Index]
		[Russian Depository Index in USD (bbg: RDXUSD:IND)]
		[IBEX 35 Index (bbg: IBEX:IND)]
		[Swiss Market Index (bbg: SMI:IND)]
		[Mexican Stock Exchange Mexican bolsa IPC Index (bbg: MEXBOL:IND)]
		[Russell 1000® Index (bbg: RIY:IND)]
		[Russell 2000® Index (bbg: RTY:IND)]
	(iii)	Details of the relevant Index Sponsor(s): [•]
	(iv)	Whether any Index is a Multi-Exchange Index: [•]/[Not Applicable]
	(v)	Weighting (in the case of a Basket of Indices): [•]/[Not Applicable]
17	Valuation Date(s):	[•]/[Not Applicable]
18	Valuation Time:	[•]/[As set out in Condition 13(d)(v)]
19	Averaging Dates:	[•]/[Not Applicable]
20	Observation Period(s):	[•]/[Not Applicable]
21	Observation Dates:	[•]/[Not Applicable]
22	Disrupted Day:	[•]/[Condition 13(d)(v) applies]
		[For Averaging Date(s), [Omission]/[Postponement]/[Modified Postponement]]
23	Additional Disruption Event(s):	[Change in Law] [Hedging Disruption] [Increased Cost of Hedging] [Emerging Market Risk Event] [•]
24	Hedging Entity:	[As set out in Condition 13(d)(v)]/[•] is an additional Hedging Entity for the purposes of Condition 13]
25	ILN Cost of Unwinding Further Provisions:	[As set out in Condition 13(d)(v)]/[•] is an additional provision for the purposes of Condition 13]

26	Index Substitution:	[Applicable]/[Not Applicable]
27	Exchange(s):	[•]
28	Related Exchange(s)	[•]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

29	Fixed Rate Note Provisions	[Applicable/Not Applicable]
	(i) Rate[(s)] of Interest:	[•]% per annum [payable [annually]/[semi-annually]/[quarterly]/[monthly] in arrear]
	(ii) Interest Payment Date(s):	[•] in each year [adjusted in accordance with the Business Day Convention]/[adjusted in accordance with [•]]/[Not adjusted]
	(iii) Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[•]
	(iv) Business Centre(s):	[•]
	(v) Fixed Coupon Amount[(s)]:	[•] per Calculation Amount
	(vi) Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on][•]
	(vii) Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[•]
	(viii) Determination Dates:	[[•] in each year]/[Not Applicable]/[•]
30	Floating Rate Note Provisions	[Applicable]/[Not Applicable]
	(i) Interest Period(s)	[•]
	(ii) Specified Interest Payment Dates:	[•]
	(iii) First Interest Payment Date:	[•]
	(iv) Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]
	(v) Business Centre(s):	[•]
	(vi) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]/[•]
	(vii) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[•]
	(viii) Screen Rate Determination:	

	- Reference Rate:	[LIBOR] [EURIBOR] [BBSW] [CIBOR] [CDOR] [CHIBOR] [HIBOR] [NIBOR] [BBR] [PRIBOR] [STIBOR] [TIBOR] [TELBOR] [FED FUNDS]
	- Interest Determination Date(s):	[•]
	- Relevant Screen Page:	[•]
	- Relevant Time:	[•]
(ix)	ISDA Determination:	
	- Floating Rate Option:	[•]
	- Designated Maturity:	[•]
	- Reset Date:	[•]
(x)	Margin(s):	[+/-][•]% per annum
(xi)	Minimum Rate of Interest:	[•]% per annum
(xii)	Maximum Rate of Interest:	[•]% per annum
(xiii)	Inverse Floating Rate:	[[•]% per annum]/[•]
(xix)	Day Count Fraction:	[•]

31

Asian Call Coupon Note Provisions

[Applicable]/[Not Applicable]

[A x Max[0%, Asian Index Performance]]

(i)	Interest Period(s):	[•]
(ii)	Specified Interest Payment Dates:	[•]
(iii)	First Interest Payment Date:	[•]
(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[•]
(v)	Business Centre(s):	[•]
(vi)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[•]
(viii)	Determination Dates:	[[•] in each year][Not Applicable][•]
(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[•]/[Not Applicable]
(x)	A:	[Calculation Amount]/[•]
(xi)	Asian Index Performance:	[As set out in Condition 13(d)(v)]/[•]

	(xii)	Reference Level:	[As set out in Condition 13(d)(v)]/[●]
	(xiii)	Reference Level _i :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
	(xiv)	Reference Level _o :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
	(xv)	Reference Level _{strike} :	[As set out in Condition 13(d)(v)]/[●]
	(xvi)	Asian Call Strike:	[●]%
	(xvii)	n:	[●] [Observation Date(s)]/[Averaging Date(s)]/[●]
32		Asian Call Spread Coupon Note Provisions	[Applicable]/[Not Applicable] <i>[A x Max{0%, Min(X%, Asian Index Performance)}]</i>
	(i)	Interest Period(s):	[●]
	(ii)	Specified Interest Payment Dates:	[●]
	(iii)	First Interest Payment Date:	[●]
	(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
	(v)	Business Centre(s):	[●]
	(vi)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[●]
	(viii)	Determination Dates:	[[●] in each year]/[Not Applicable]/[●]
	(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[●]/[Not Applicable]
	(x)	A:	[Calculation Amount]/[●]
	(xi)	Asian Index Performance:	[As set out in Condition 13(d)(v)]/[●]
	(xii)	Reference Level:	[As set out in Condition 13(d)(v)]/[●]
	(xiii)	Reference Level _i :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
	(xiv)	Reference Level _o :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
	(xv)	Reference Level _{strike} :	[As set out in Condition 13(d)(v)]/[●]
	(xvi)	Asian Call Strike:	[●]%
	(xvii)	n:	[●] [Observation Date(s)]/[Averaging Date(s)]/[●]

	(xviii)	X%:	[Not Applicable] [•]% [In respect of the following periods, the following corresponding percentages: [•] [•]% [•] [•]%
33		Autocall Coupon Provisions	[Applicable]/[Not Applicable]
	(i)	Interest Period(s):	[•]
	(ii)	Specified Interest Payment Dates:	[•]
	(iii)	First Interest Payment Date:	[•]
	(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[•]
	(v)	Business Centre(s):	[•]
	(vi)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
	(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[•]
	(viii)	Determination Dates:	[[•] in each year][Not Applicable][•]
	(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[•]/[Not Applicable]
	(x)	A:	[Calculation Amount]/[•]
	(xi)	Autocall Observation Date:	[•]
	(xii)	Reference Level:	[As set out in Condition 13(d)(v)]/[•]
	(xiii)	Reference Level ₁ :	[•][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[•]]
	(xiv)	Reference Level ₀ :	[•][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[•]]
	(xv)	i:	[•] [Observation Date(s)]/[Averaging Date(s)]/[•]
	(xvi)	n:	[•] [Observation Date(s)]/[Averaging Date(s)]/[•]
	(xvii)	X%:	[Not Applicable] [•]% [In respect of the following periods, the following corresponding percentages: [•] [•]% [•] [•]%
34		Conditional Coupon Provisions	[Applicable]/[Not Applicable]

(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]
(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
(v)	Business Centre(s):	[●]
(vi)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[●]
(viii)	Determination Dates:	[[●] in each year]/[Not Applicable]/[●]
(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[●]/[Not Applicable]
(x)	A:	[Calculation Amount]/[●]
(xi)	Reference Level:	[As set out in Condition 13(d)(v)]/[●]
(xii)	Coupon Barrier Level:	[●]
(xiii)	X%:	[Not Applicable] [●]% [In respect of the following periods, the following corresponding percentages: [●] [●]% [●] [●]%
35	Cliquet Coupon Provisions	[Applicable]/[Not Applicable]

$$\frac{1}{A} \times \text{Max} \left(\left(\sum_{i=1}^n [\text{CliquetIndexPerformance}_i] \right), 0 \right)$$

(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]
(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
(v)	Business Centre(s):	[●]
(vi)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]

(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [[ICMA]/[ISDA]]]/[●]
(viii)	Determination Dates:	[[●] in each year][Not Applicable][●]
(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[●]/[Not Applicable]
(x)	A:	[Calculation Amount]/[●]
(xi)	Cliquet Index Performance:	[As set out in Condition 13(d)(v)]/[●]
(xii)	Reference Level:	[As set out in Condition 13(d)(v)]/[●]
(xiii)	Reference Level;	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
(xiv)	n:	[●] [Observation Date(s)]/[Averaging Date(s)]/[●]
(xv)	X%:	[Not Applicable] [●]% [In respect of the following periods, the following corresponding percentages: [●] [●]% [●] [●]%
(xvi)	Z%:	[Not Applicable] [●]% [In respect of the following periods, the following corresponding percentages: [●] [●]% [●] [●]%
36	Shark Fin Coupon Provisions	[Applicable]/[Not Applicable] [Max[0%, Shark Fin Index Performance]] [Max[0%, Shark Fin Index Basket Performance]]
(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]
(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
(v)	Business Centre(s):	[●]
(vi)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [[ICMA]/[ISDA]]]/[●]

(viii)	Determination Dates:	[[●] in each year][Not Applicable][●]
(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[●]/[Not Applicable]
(x)	A:	[Calculation Amount]/[●]
(xi)	Shark Fin Index Performance:	[As set out in Condition 13(d)(v)]/[●]
(xii)	Shark Fin Index Basket Performance:	[As set out in Condition 13(d)(v)]/[●]/[Not Applicable]
(xiii)	Reference Level:	[As set out in Condition 13(d)(v)]/[●]
(xiv)	Reference Level _i :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
(xv)	Reference Level _o :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
(xvi)	i:	[●] [Observation Date(s)]/[Averaging Date(s)]/[●]
(xvii)	Coupon Barrier Level:	[●]
(xviii)	X%:	[Not Applicable] [●]% [In respect of the following periods, the following corresponding percentages: [●] [●]% [●] [●]%

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	Stability Coupon Provisions	[Applicable]/[Not Applicable]
(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]
(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
(v)	Business Centre(s):	[●]
(vi)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[●]
(viii)	Determination Dates:	[[●] in each year][Not Applicable][●]
(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[●]/[Not Applicable]

- (x) A: [Calculation Amount]/[•]
- (xi) Reference Level: [As set out in Condition 13(d)(v)]/[•]
- (xii) Reference Level_i: [•][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[•]]
- (xiii) Reference Level_o: [•][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[•]]
- (xiv) i: [•][Observation Date(s)]/[Averaging Date(s)]/[•]
- (xv) Coupon Barrier Level: [•]
- (xvi) Higher Coupon Barrier Level: [•]

38

Vanilla Call Coupon Provisions [Applicable]/[Not Applicable]

[A x Max{0%, Vanilla Index Performance}]

- (i) Interest Period(s): [•]
- (ii) Specified Interest Payment Dates: [•]
- (iii) First Interest Payment Date: [•]
- (iv) Business Day Convention: [Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[•]
- (v) Business Centre(s): [•]
- (vi) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
- (vii) Day Count Fraction: [30/360]/[Actual/Actual [[ICMA]/[ISDA]]]/[•]
- (viii) Determination Dates: [[•] in each year][Not Applicable][•]
- (ix) Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent): [•]/[Not Applicable]

- (x) A: [Calculation Amount]/[•]
- (xi) Vanilla Index Performance: [As set out in Condition 13(d)(v)]/[•]
- (xii) Reference Level: [As set out in Condition 13(d)(v)]/[•]
- (xiii) Reference Level_i: [•][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[•]]
- (xiv) Reference Level_o: [•][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[•]]

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Vanilla Call Spread Coupon Provisions [Applicable]/[Not Applicable]

[A x Max{0%, Min(X%, Vanilla Index Performance)}]

(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]
(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
(v)	Business Centre(s):	[●]
(vi)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[●]
(viii)	Determination Dates:	[[●] in each year][Not Applicable]/[●]
(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[●]/[Not Applicable]
(x)	A:	[Calculation Amount]/[●]
(xi)	Vanilla Index Performance:	[As set out in Condition 13(d)(v)]/[●]
(xii)	Reference Level:	[As set out in Condition 13(d)(v)]/[●]
(xiii)	Reference Level ₁ :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
(xiv)	Reference Level ₀ :	[●][Reference Level on [Trade Date]/[Observation Date(s)]/[Averaging Date(s)]/[●]]
(xv)	X%:	[Not Applicable] [●]% [In respect of the following periods, the following corresponding percentages: [●] [●]% [●] [●]%

40 **Zero Coupon Note Provisions** [Applicable]/[Not Applicable]

(i) [Amortisation/Accrual] Yield: [●]% per annum

(ii) Reference Price: [●]

PROVISIONS RELATING TO REDEMPTION

41 **Call Option** [Applicable]/[Not Applicable]

(i) Optional Redemption Date(s): [●]

	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount [Fair Market Value (Optional Redemption Amount (Call)): [Applicable][Not Applicable]] [ILN Cost of Unwinding (Optional Redemption Amount (Call)): [Applicable][Not Applicable]]
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[●] per Calculation Amount
		(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv)	Notice period:	[●]
42		Put Option	[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s):	[●]
	(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount [Fair Market Value (Optional Redemption Amount (Put)): [Applicable][Not Applicable]] [ILN Cost of Unwinding (Optional Redemption Amount (Put)): [Applicable][Not Applicable]]
	(iii)	Notice period:	[●]
43		Final Redemption Amount of each Note (other than for Undated Subordinated Notes)	[[●] per Calculation Amount] [Index Linked Redemption Amount – Reverse Convertible Index Linked Redemption Amount] [A: [Calculation Amount]/[●]] Reverse Convertible Observation Date: [●] Redemption Barrier Level: [●] Reference Level: [As set out in Condition 13(d)(v)]/[●] Reference Level _i : [●][Reference Level on [Trade Date]/[Observation Date(s)]]/[Averaging Date(s)]/[●] Reference Level _o : [●][Reference Level on [Trade Date]/[Observation Date(s)]]/[Averaging Date(s)]/[●] [Index Linked Redemption Amount – Total Return Index Linked Redemption Amount] [A: [Calculation Amount]/[●]] Reference Level: [As set out in Condition 13(d)(v)]/[●] Reference Level _i : [●][Reference Level on [Trade

Date(s)]/[Observation Date(s)]/[●]] Date(s)]/[Averaging

Reference Level_o: [●]] [Reference Level on [Trade Date(s)]/[Observation Date(s)]/[Averaging Date(s)]/[●]]

[Index Linked Redemption Amount – HALVA Index Linked Redemption Amount]

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HALVA Note Provisions

[Applicable]/[Not Applicable]

- (i) Initial HALVA Strategy Level: [●]]%
- (ii) HALVA Basket Longer Volatility Observation Period: [[●]] Scheduled Valuation Date[s] before] [●]]
- (iii) HALVA Basket Shorter Volatility Observation Period: [[●]] Scheduled Valuation Date[s] before] [●]]
- (iv) HALVA Designation Dates: [●]]
- (v) HALVA Number: [●]]
- (vi) HALVA Day Count Fraction: [30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[●]]
- (vii) HALVA Index: [As specified in [Section 16(ii) above]]
- (viii) HALVA Volatility Cap: [●]]
- (ix) Business Day Convention or Exchange Business Day Convention: [Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]]
- (x) Index Component Volatility Observation Period: [[●]] Scheduled Valuation Date[s] before] [●]]
- (xi) HALVA Cash Component Rate of Return:
 - [[●]]%
 - [[LIBOR] [EURIBOR] [BBSW] [CIBOR] [CDOR] [CHIBOR] [HIBOR] [NIBOR] [BBR] [PRIBOR] [STIBOR] [TIBOR] [TELBOR] [FED FUNDS]]
 - [Designated maturity: [●]]
 - [Reset date: [●]]
 - [Day count fraction: [●]]
 - [Determination dates: [●]]
 - [Margin: [●]]
 - [Minimum rate: [●]]
 - [Maximum rate: [●]]

45	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	<p>[●]</p> <p>[Fair Market Value (Early Redemption Amount (Tax)): [Applicable][Not Applicable]]</p> <p>[ILN Cost of Unwinding (Early Redemption Amount (Tax)): [Applicable][Not Applicable]]</p> <p>[Fair Market Value (Early Termination Amount): [Applicable][Not Applicable]]</p> <p>[ILN Cost of Unwinding (Early Termination Amount): [Applicable][Not Applicable]]</p>
46	Form of Notes:	<p>Bearer Notes:</p> <p>[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes at any time / on the expiry of [●] business day's notice / in the limited circumstances specified in the Permanent Global Note.]</p> <p>[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]</p> <p>[Permanent Global Note exchangeable for Definitive Notes at any time / on the expiry of [●] business day's notice / in the limited circumstances specified in the Permanent Global Note]. [Registered Notes]</p>
47	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]
48	Redenomination, renominatisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [●] apply]
49	Details relating to Partly Paid Notes:	[●]
	Amount of each payment comprising the / and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	
50	Details relating to Instalment Notes:	
	(i) Instalment Amount(s):	[●]
	(ii) Instalment Date(s):	[●]

THIRD PARTY INFORMATION

The Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as [it/each of them] is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Hapoalim International N.V.:

By:

Duly authorised

Signed on behalf of Bank Hapoalim B.M.:

By:

Duly authorised

Part 2

Other Information

51 LISTING

- (i) Listing: London PSM
- (ii) Admission to trading: Application has been made for the Notes to be admitted to the Official List of the FCA and to trading on the Professional Securities Market of the London Stock Exchange
- Date from which admission effective: [●]
- (iii) Estimate of total expenses related to admission to trading: [●]

52 RATINGS

- Ratings: The Notes to be issued [have been/are expected to be] rated:
- Standard & Poor's Credit Market Services Europe Limited (trading as Standard & Poor's Ratings Services), a division of the McGraw Hill Companies Inc.: [●]
- [Moody's Investor Service Limited: [●]]

53 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save for any fees payable to a Dealer (as discussed in ["Subscription and Sale"]), so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.]

54 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer: [●]
- (See ["Use of Proceeds"] wording in the Offering Circular if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)
- [(ii)] Estimated net proceeds: [●]
- [(iii)] Estimated total expenses: [●]

55 [Fixed Rate Notes Only -YIELD

- Indication of yield: [●]

56 **PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING**

The Issuer [intends to provide post-issuance information [●]][does not intend to provide post issuance information]

57 **OPERATIONAL INFORMATION**

ISIN Code: [●]

Common Code: [●]

Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s): [Not Applicable [●]]

Delivery: Delivery [against/free of] payment

Names and addresses of additional Paying Agent(s) (if any): [●]

FORM OF PRICING SUPPLEMENT FOR EQUITY LINKED NOTES

Pricing Supplement dated [●]

Hapoalim International N.V.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]

Guaranteed by

Bank Hapoalim B.M.

under the U.S.\$2,500,000,000

Global Medium Term Note Programme

Part 1 Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]] which [together] constitute[s] listing particulars for the purposes of Chapter 4 of the FCA's Listing Rules. References herein to the "Prospectus Rules" mean the United Kingdom Listing Authority's Prospectus Rules. This document constitutes the pricing supplement for the Notes described herein and must be read in conjunction with the Offering Circular [as so supplemented] for the purposes of the Prospectus Rules.

The Offering Circular [and the supplemental Offering Circular] are available to the public for viewing during normal business hours at the Issuer at Schottegatweg Oost 44, Curaçao and copies may be obtained from the Issuer at Schottegatweg Oost 44, Curaçao and Bank Hapoalim (Luxembourg) Ltd. at 18 Boulevard Royal, 2017, Luxembourg and Bank Hapoalim (Switzerland) Ltd. at Stockerstrasse 33, CH 8093, Zurich, Switzerland and on its website –

http://www.bankhapoalim.com/wps/portal/int/article?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/bhint/int/home/irelations/FinancialInformation&proceed=1.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "Conditions") set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]]. These Pricing Supplement constitute the pricing supplement of the Notes described herein and must be read in conjunction with the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]].

The Offering Circular [and the supplemental Offering Circular] are available to the public for viewing during normal business hours at the Issuer at Schottegatweg Oost 44, Curaçao and copies may be obtained from the Issuer at Schottegatweg Oost 44, Curaçao and Bank Hapoalim (Luxembourg) Ltd. at 18 Boulevard Royal, 2017, Luxembourg and Bank Hapoalim (Switzerland) Ltd. at Stockerstrasse 33, CH 8093, Zurich, Switzerland and on its website:–

http://www.bankhapoalim.com/wps/portal/int/article?WCM_GLOBAL_CONTEXT=/wps/wcm/connect/bhint/int/home/irelations/FinancialInformation&proceed=1.

- | | | | |
|---|-------|------------------------|-----------------------------|
| 1 | (i) | Issuer: | Hapoalim International N.V. |
| | (ii) | Guarantor: | Bank Hapoalim B.M. |
| | (iii) | ILN Calculation Agent: | Hapoalim International N.V. |
| 2 | [(i) | [Series Number:] | [●] |
| | [(ii) | [Tranche Number: | |

		[(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).]	[•]
3		Specified Currency or Currencies:	[•]
4		Aggregate Nominal Amount of Notes admitted to trading:	
	(i)	[Series:]	[•]
	(ii)	[Tranche:]	[•]
5		Issue Price:	[•]% of the Aggregate Nominal Amount [plus accrued interest from [•]]
6	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount	[•]
7	(i)	Issue Date:	[•]
8	(ii)	Trade Date:	[•]
	(iii)	Interest Commencement Date:	[•]/[Issue Date]/[Trade Date]/[Not applicable]
9		Maturity Date:	[•]
10		Interest Basis:	[Fixed Rate] [Floating Rate] [Zero Coupon] [Range Accrual Coupon]
11		Redemption Basis:	[Redemption at par] [Equity Linked Redemption Amount - Callable Range Redemption Amount]
12		Payment Basis:	[Partly Paid] [Instalment] [Fully Paid]
13		Change of Interest or Redemption Basis or Payment Basis:	[•]
14		Put/Call Options:	[Investor Put] [Issuer Call] [Not Applicable]

- 15
- (i) Status of the Notes: [Unsubordinated Notes]/[Dated Subordinated Notes]/[Undated Subordinated Notes]
- (ii) Status of the Guarantee: [Unsubordinated Guarantee]/[Senior Subordinated Guarantee]/[Junior Subordinated Guarantee]
- [(iii)] [Date [Board] approval for issuance of Notes [and Guarantee] obtained: [●] [and [●], respectively]

PROVISIONS RELATING TO EQUITY LINKED NOTES

16 Equity Description and Other Provisions

- (i) Whether the Notes relate to a single Share or a Basket of Shares: [Single Share]/[Basket of Shares][, where the Range Accrual Number of Shares is [●]]
- (ii) Identity of the relevant Share Company/Basket Companies:
- [●] specified in the following [Index]/[Indicies]:
 - [DJ Industrial Average (bbg: INDU) Index]
 - [S&P500 (bbg: SPX) Index]
 - [Nasdaq 100 (bbg: NDX) Index]
 - [Eurostoxx 50 (bbg: SX5E) Index]
 - [S&P Europe 350 (bbg:SPE) Index]
 - [FTSE 100 (bbg: UKX) Index]
 - [FTSE 250 (bbg:MEX)]
 - [DAX (bbg: DAX) Index]
 - [CAC 40 (bbg: CAC) Index]
 - [Nikkei (bbg: NKY) Index]
 - [Tel Aviv 25 (bbg: TA-25) Index]
 - [S&P Nifty 50 (bbg. NIFTY) Index]
 - [MSCI World (bbg: MXWO) Index]
 - [Hong Kong Stock Exchange Hang Seng China Enterprises Index (bbg: HSCEI:IND)]
 - [Korea Stock Exchange KOSPI Index (bbg: KOSPI:IND)]
 - [S&P/ASX 200 (bbg: AS51:IND) Index]
 - [Russian Depository Index in USD (bbg: RDXUSD:IND)]
 - [IBEX 35 Index (bbg: IBEX:IND)]
 - [Nikkei 225 (bbg:NKY) Index]
 - [Swiss Market Index (bbg: SMI:IND)]

		[Mexican Stock Exchange Mexican bolsa IPC Index (bbg: MEXBOL:IND)]
		[Russell 1000® Index (bbg: RIY:IND)]
		[Russell 2000® Index (bbg: RTY:IND)]
	(v) Weighting (in the case of a Basket of Shares):	[●]/[Not Applicable]
17	Valuation Date(s):	[●]/[Not Applicable]
18	Valuation Time:	[●]/[As set out in Condition 14(h)]
19	Averaging:	[Applicable]/[Not Applicable]
20	Averaging Dates:	[●]/[Not Applicable]
21	Observation Period(s):	[●]/[Not Applicable]
22	Observation Dates:	[●]/[Not Applicable]
23	Exchange Business Day:	[Share Exchange Business Day (Single Share Basis)]/[Exchange Business Day (All Shares Basis)]/[Exchange Business Day (Per Share Basis)]
24	Scheduled Trading Day:	[Share Exchange Business Day (Single Share Basis)]/[Exchange Business Day (All Shares Basis)]/[Exchange Business Day (Per Share Basis)]
25	Disrupted Day:	[●]/[Condition 14(h) applies]
		[For Averaging Date(s), [Omission]/[Postponement]/[Modified Postponement]]
26	Specified Maximum Days of Disruption	[●]/[If none specified, means eight (8) Scheduled Trading Days as set out in Condition 14(h)]
27	Extraordinary Events	In addition to De-Listing, Insolvency, Merger Event and Nationalisation, the following Extraordinary Events apply to the Notes: Tender Offer: [Applicable]/[Not Applicable] Listing Change: [Applicable]/[Not Applicable] Listing Suspension: [Applicable]/[Not Applicable] Additional Extraordinary Event [Applicable]/[Not Applicable] [If stated as 'Applicable', specify] Delayed Redemption on Occurrence of Extraordinary Event [Applicable]/[Not Applicable]
28	Additional Disruption Event(s):	[Change in Law] [Hedging Disruption] [Increased Cost of Hedging] [Increased Cost of Stock Borrow]

		Insolvency Filing]
		[Loss of Stock Borrow]
		[Emerging Market Risk Event]
		[Other Additional Disruption Event: <i>[specify]</i>]
29	Hedging Entity:	[As set out in Condition 2]/[●] is an additional Hedging Entity for the purposes of Condition 14]
30	ILN Cost of Unwinding Further Provisions:	[As set out in Condition 14(h)]/[●] is an additional provision for the purposes of Condition 14]
31	Exchange(s):	[●]
32	Related Exchange(s)	[●]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

33	Fixed Rate Note Provisions	[Applicable/Not Applicable]
	(i) Rate[(s)] of Interest:	[●]% per annum [payable [annually]/[semi-annually]/[quarterly]/[monthly] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with the Business Day Convention]/[adjusted in accordance with [●]]/[Not adjusted]
	(iii) Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
	(iv) Business Centre(s):	[●]
	(v) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(vi) Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on][●]
	(vii) Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/ISDA]]/[●]
	(viii) Determination Dates:	[●] in each year/[Not Applicable]/[●]
34	Floating Rate Note Provisions	[Applicable]/[Not Applicable]
	(i) Interest Period(s)	[●]
	(ii) Specified Interest Payment Dates:	[●]
	(iii) First Interest Payment Date:	[●]

(iv)	Business Day Convention:	[Floating Rate Convention]/[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]
(v)	Business Centre(s):	[●]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination]/[ISDA Determination]/ [●]
(vii)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[●]
(viii)	Screen Rate Determination:	
	- Reference Rate:	[LIBOR] [EURIBOR] [BBSW] [CIBOR] [CDOR] [CHIBOR] [HIBOR] [NIBOR] [BBR] [PRIBOR] [STIBOR] [TIBOR] [TELBOR] [FED FUNDS]
	- Interest Determination Date(s):	[●]
	- Relevant Screen Page:	[●]
	- Relevant Time:	[●]
(ix)	ISDA Determination:	
	- Floating Rate Option:	[●]
	- Designated Maturity:	[●]
	- Reset Date:	[●]
(x)	Margin(s):	[+/-][●]% per annum
(xi)	Minimum Rate of Interest:	[●]% per annum
(xii)	Maximum Rate of Interest:	[●]% per annum
(xiii)	Inverse Floating Rate:	[[●]% per annum]/[●]
(xix)	Day Count Fraction:	[●]
32	Range Accrual Coupon Provisions	[Applicable]/[Not Applicable]
(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]

(iv)	Business Day Convention:	[Following Business Day Convention]/[Modified Following Business Day Convention]/[Preceding Business Day Convention]/[●]
(v)	Business Centre(s):	[●]
(vi)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(vii)	Day Count Fraction:	[30/360]/[Actual/Actual [(ICMA)/[ISDA]]]/[●]
(viii)	Determination Dates:	[[●] in each year][Not Applicable][●]
(ix)	Party responsible for calculating the Interest Amount (if not the ILN Calculation Agent):	[●]/[Not Applicable]
(x)	A:	[Calculation Amount]/[●]
(xi)	[Initial Price:]	[●]
(xii)	Range Accrual Fixed Rate:	[●]%
(xiii)	Coupon Valuation Date:	[Final Observation Date]/[●]
(xiv)	Final Observation Date:	[●]
(xv)	Range Accrual Coupon Requirement percentage:	[75%]/[●]
(xvi)	Reference Price:	[●]/[As defined in Condition 14(h)]
33	Zero Coupon Note Provisions	[Applicable]/[Not Applicable] [No interest will be paid and the Notes will not be purchased at a discount]
(i)	[Amortisation/Accrual] Yield:	[●]% per annum
(ii)	Reference Price:	[●]

PROVISIONS RELATING TO REDEMPTION

35	Call Option	[Applicable]/[Not Applicable]
(i)	Optional Redemption Date(s):	[●]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount [Fair Market Value (Optional Redemption Amount (Call)): [Applicable][Not Applicable]] [ILN Cost of Unwinding (Optional Redemption Amount

		(Call): [Applicable][Not Applicable]]
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period:	[●]
36	Put Option	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount [Fair Market Value (Optional Redemption Amount (Put)): [Applicable][Not Applicable]] [ILN Cost of Unwinding (Optional Redemption Amount (Put)): [Applicable][Not Applicable]]
	(iii) Notice period:	[●]
37	Final Redemption Amount of each Note (other than for Undated Subordinated Notes)	[[●] per Calculation Amount] [Equity Linked Redemption Amount - Range Accrual Redemption Amount] A: [Calculation Amount]/[●] Initial Price: [●] Date for determining Initial Price: [●] Date for determining Settlement Price: [●] Range Accrual Multiplier: [2]/[●] Range Accrual Required Percentage: [50%]/[●] Final Observation Date: [●] Redemption Valuation Date: [●]
38	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[●] [Fair Market Value (Early Redemption Amount (Tax)): [Applicable][Not Applicable]] [ILN Cost of Unwinding (Early Redemption Amount (Tax)): [Applicable][Not Applicable]] [Fair Market Value (Early Termination Amount): [Applicable][Not Applicable]] [ILN Cost of Unwinding (Early Termination Amount): [Applicable][Not Applicable]]
39	Form of Notes:	Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes at any time / on the expiry of [●] business day's notice / in the limited circumstances specified in the Permanent Global Note.]

[Temporary Global Note exchangeable for Definitive Notes on [●] days' notice.]

[Permanent Global Note exchangeable for Definitive Notes at any time / on the expiry of [●] business day's notice / in the limited circumstances specified in the Permanent Global Note]. [Registered Notes]

- | | | |
|----|--|---|
| 40 | Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): | [Yes/No] |
| 41 | Redenomination, renominalisation and reconventioning provisions: | [Not Applicable/The provisions [in Condition [●] apply] |
| 42 | Details relating to Partly Paid Notes:

Amount of each payment comprising the / and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: | [●] |
| 43 | Details relating to Instalment Notes:

(i) Instalment Amount(s):

(ii) Instalment Date(s): | [●]

[●] |

THIRD PARTY INFORMATION

The Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as [it/each of them] is aware and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of Hapoalim International N.V.:

By:

Duly authorised

Signed on behalf of Bank Hapoalim B.M.:

By:

Duly authorised

Part 2
Other Information

LISTING

- (i) Listing: London PSM
- (ii) Admission to trading: Application has been made for the Notes to be admitted to the Official List of the FCA and to trading on the Professional Securities Market of the London Stock Exchange
- Date from which admission effective: [●]
- (iii) Estimate of total expenses related to admission to trading: [●]

44 RATINGS

Ratings: The Notes to be issued [have been/are expected to be] rated:

Standard & Poor's Credit Market Services Europe Limited (trading as Standard & Poor's Ratings Services), a division of the McGraw Hill Companies Inc.: [●]

[Moody's Investor Service Limited: [●]]

45 INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE [ISSUE/OFFER]

[Save for any fees payable to a Dealer (as discussed in ["Subscription and Sale"]), so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.]

46 REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

- (i) Reasons for the offer: [●]
- (See ["Use of Proceeds"] wording in the Offering Circular if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)
- [(ii)] Estimated net proceeds: [●]
- [(iii)] Estimated total expenses: [●]

47 [Fixed Rate Notes Only -YIELD]

Indication of yield: [•]

48 PERFORMANCE OF INDEX/FORMULA AND OTHER INFORMATION CONCERNING THE UNDERLYING

The Issuer [intends to provide post-issuance information [•]][does not intend to provide post issuance information]

49 OPERATIONAL INFORMATION

(i) ISIN Code: (ii) [•]

(iii) Common Code: (iv) [•]

(v) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking Société Anonyme and the relevant identification number(s): (vi) [Not Applicable [•]]

(vii) Delivery: (viii) Delivery [against/free of] payment

(ix) Names and addresses of additional Paying Agent(s) (if any): (x) [•]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

Each Global Note will be in bearer form. Consequently, in relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions of the Notes to “Noteholder” are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an “**Accountholder**”) must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or the Guarantor to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Issuer or the Guarantor in respect of payments due under the Notes and such obligations of the Issuer and the Guarantor will be discharged by payment to the bearer of the Global Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

- (c) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note; or
- (d) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Fiscal Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note at the Specified Office of the Fiscal Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary

Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (e) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (f) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or
- (g) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under a deed of covenant dated 11 October 2010 (the “**Deed of Covenant**”) executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Deed of Covenant. Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Conditions applicable to Global Notes

Each Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Exercise of put option: In order to exercise the option contained in Condition 15(e) (*Redemption at the option of Noteholders*) the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Fiscal Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 15(c) (*Redemption at the option of the Issuer*) in relation to some only of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the

Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Notices: Notwithstanding Condition 24 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 24 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

DESCRIPTION OF THE ISSUER

Hapoalim International N.V. is a wholly owned subsidiary of Bank Hapoalim B.M. and was incorporated in the Netherlands Antilles as a limited liability company under the Commercial Code of the Netherlands Antilles (as then in effect) and established in Curaçao, the Netherlands Antilles on 11 August 1977 for an indefinite period. It was formed to assist the financing of the activities of the Guarantor. Under its Articles of Incorporation, which were last amended on 4 May 2005, its corporate purpose includes the borrowing and lending of money and the issue of debt securities. The Issuer has no subsidiaries or affiliates. The Issuer is registered with the Commercial Register of the Chamber of Commerce and Industry in Curaçao under registration number 11659. Since its incorporation, the Issuer has not been engaged in any activities other than those relating to the issue of notes guaranteed by the Guarantor.

The Issuer's registered and principal office is at Schottegatweg Oost 44, Curaçao and its telephone number is + 5999 732 2555.

The Managing Directors of the Issuer are:

<u>Name</u>	<u>Principal Outside Activities</u>
Dan Koller.....	Senior Deputy Managing Director and Head of Financial Markets Division, Bank Hapoalim B.M.
Orit Lerer.....	Manager, Bank Hapoalim (Switzerland) Ltd.
Catherine Lemaitre	CEO, Poalim Asset Management
Curaçao Corporation Company N.V. (Directors: Mr. Denis Muys and Mr. Josephus Horsten)	Trust Company, managing director of a large number of Netherlands Antilles companies

The business address of each of the Managing Directors of the Issuer in their capacity as such is c/o Hapoalim International N.V., Schottegatweg Oost 44, Curaçao. None of the Managing Directors have any outside activities that are significant with respect to the Guarantor and its consolidated subsidiaries.

No potential conflicts of interest exist between any duties to the Issuer of the Managing Directors and their private interests or other duties.

No potential conflicts of interest exist between any duties to the Issuer of the Managing Directors of Curaçao Corporation Company N.V. and their commercial and private interests or other duties.

The Issuer has appointed KPMG Accountants B.V., Curaçao, as its independent auditors.

Capitalisation

The Issuer has a maximum nominal capital of U.S. \$1 million of which 250 shares having a nominal value of U.S. \$1,000 per share have been issued and are outstanding. A total of U.S.

\$250,000 has been paid up on such issued shares all of which are beneficially owned by the Guarantor. The Issuer's shares of stock are registered shares.

Objects — purpose

The Issuer continues to act as one of the principal financing vehicles of the Guarantor.

The Issuer issues guaranteed and unsecured notes mainly to finance the operation of the Guarantor.

Dividends paid

No dividends have been paid by the Issuer in the last 5 years.

Outstanding debt

The Issuer has no outstanding debts.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be used by the Guarantor to assist in the financing of its domestic and international business.

DESCRIPTION OF THE GUARANTOR

Bank Hapoalim B.M. (hereinafter: the “**Guarantor**”) 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 Guarantor is a public company listed on the Tel Aviv Stock Exchange. Approximately 78% of its shares are held by the public. The Guarantor is a “banking corporation” and holds a “bank” license under the directives of the Banking (Licensing) Law, 5741-1981.

Operations of the Bank Hapoalim Group in Israel

The Guarantor operates in all areas of banking. The Guarantor's activities are conducted through its two main units: the Corporate Banking Area and the Retail Banking Area. The Corporate Banking Area provides services to most of the Guarantor's business customers. Activities with large corporate clients are conducted through sectors specializing in specific industries which operate from 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 a network of business branches, consisting of 22 branches offering the full range of services required by business clients.

The Retail Banking Area, through the network of branches, serves households, private banking clients, and small businesses. The Area is responsible for operating direct-channel services: Internet services, Poalim by Telephone and mobile services. It also oversees consumer credit and mortgage activities. The Retail Area operates through approximately 260 branches, which provide the full range of banking services.

The Bank Hapoalim Group operates in global financial markets through the Financial Markets Area and through specialized units at the Guarantor's overseas branches and at its subsidiaries. The Group's activity is focused on enabling its clients to trade in a range of financial products on the various markets, and on the management of the Nostro investments of the Guarantor and its subsidiaries. In addition to trading activities, the Group offers securities custody services and provides operational services to financial asset managers.

In addition to its banking business, the Bank Hapoalim Group also engages in related activities, mainly in the areas of credit cards and the capital market. In the credit card sector, the Bank Hapoalim Group, through a subsidiary (the “Isracard Group”), issues, operates and markets credit cards within and outside the Guarantor for use in Israel and overseas and clears transactions executed using its credit cards as well as credit cards issued by others. The Bank Hapoalim 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.

Operations of the Bank Hapoalim Group Abroad

The Bank Hapoalim Group also operates overseas, mainly 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 of branches, representative offices, banking subsidiaries, and asset-

management subsidiaries. The Bank Hapoalim Group also operates in the households sector and in the commercial sector in Turkey and Kazakhstan.

In its private-banking activity, the Bank Hapoalim 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, mainly through the acquisition of participations in credit organised 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 Hapoalim Group maintains ties with foreign banks around the world (hereinafter: “correspondent banks”).

The main focus of the Guarantor's strategy abroad is the development and expansion of its Global Private Banking activity and of its commercial banking (middle market) business in New York. The Guarantor aims to continue to expand its service package and improve its capabilities in the areas of products, marketing, and customer service.

Ratings

In Israel, in local currency, the Guarantor is rated AA+ by S&P Maalot Ltd and Aaa by Midroog, both registered in Israel.

The following ratings have been assigned to the State of Israel and to the Guarantor by the international rating agencies established in the European Union and registered under the CRA Regulation:

	Rating agency	Long-term foreign currency	Short-term foreign currency	Rating outlook	Last update
Israel – sovereign rating:	Moody's	A1	P-1	Stable	August 2013
	S&P	A+	A-1	Stable	March 2014
	Fitch	A	F1	Stable	May 2014
Bank Hapoalim:					December 2013
	Moody's	A2	P-1	Stable	2013
	S&P	BBB+	A-2	Stable	August 2013
	Fitch	A-	F1	Stable	May 2014

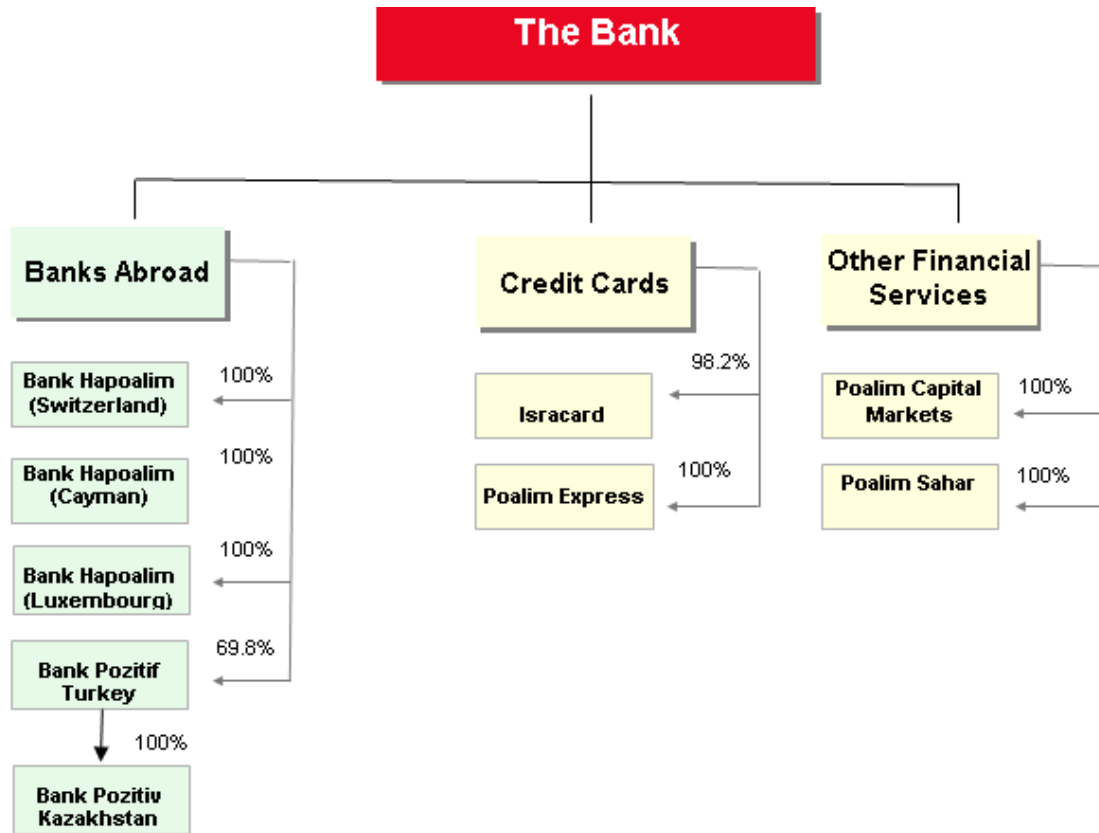
In May 2014, S&P confirmed the foreign currency rating of A+. The rating outlook remains stable.

In May 2014, the local rating agency Midroog reaffirmed the Guarantor’s rating, with no change and raised the outlook to stable (from negative).

In May 2014, Fitch reaffirmed the Guarantor’s long term rating (with no change) and upgraded its short term rating to F1 (from F2).

On May 23 2014, Fitch affirmed Israel’s Long-term foreign and local currency Issuer Default Ratings (“IDR”) at ‘A’ and ‘A+’, respectively. The issue ratings on Israel’s senior unsecured foreign and local currency bonds have also been affirmed at ‘A’ and ‘A+’, respectively.

Set out below is a chart of the Guarantor’s main holdings*:



* The chart includes the principal companies held directly by the Guarantor or indirectly through private subsidiaries under the full ownership of the Guarantor. 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 Guarantor is a principal company in the Bank Hapoalim Group, and in which the Guarantor's investment is at least 1% of the shareholders' equity of the Guarantor, or the Guarantor's share of whose net profit (loss) exceeds 5% of the net profit (or loss) of the Guarantor (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).

Forward Looking Information

Some of the information in this section that does not refer to historical facts constitutes forward-looking information, as defined in the Israeli Securities Law, 5728-1968. The Guarantor'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 Guarantor's control, which may lead to the failure of estimates to materialise and/or changes in the Guarantor'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 markets, exposure to financial risks, the financial stability of borrowers, the behavior of competitors, aspects relating to the Guarantor's image, technological developments, and manpower-related matters, and other areas that affect the activity of the Guarantor and the environment in which it operates, the materialisation of which is uncertain by nature.

The information presented below is based, among other things, on information known to the Guarantor 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 Guarantor'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 materialise at all or may only partially materialise.

Control of the Guarantor

Israel's Banking (Licensing) Law, 5741 – 1981 prescribes that any person or group of persons wishing to hold more than five per-cent. of the means of control of a bank licensed under Israel's banking laws, or to exercise control over such bank, is required to obtain an applicable permit from the Governor of the Bank of Israel, Israel's central bank.

Such permit in respect of the Guarantor was initially granted to a group of Israeli and US companies. As at the date of this Offering Circular, the holders of the permit for control of the Guarantor is Ms. Shari Arison. Her stake in the Guarantor is held through several trusts that have holdings in the Israeli companies, noted below, that own shares in the Guarantor.

Arison Holdings (1998) Ltd. (“Arison Holdings”) holds shares comprising approximately 20.24% of the Guarantor's share capital near the date of publication of this Offering Circular, which constitutes the “controlling interest” (as defined in the control permit issued by the Governor of the Bank of Israel) in the Guarantor.

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 1.30% of the Guarantor's share capital.

Near the date of publication of this Offering Circular, the Arison Group (through Arison Holdings and Arison Investments) holds a total of approximately 21.54% (21.29% fully diluted) of the share capital of the Guarantor.

The Guarantor's governance is subject to various Israeli laws, regulations and administrative directives. These comprise, mainly, The Companies Law, 5759 – 1999, The Securities Law, 5728 – 1968, The Banking Ordinance, 1941, The Banking (Licensing) Law, 5741 – 1981 and Bank of Israel Directives issued under the latter two laws from time to time by the Supervisor of Banks, including the Proper Conduct of Banking Business Directives. These laws, regulations and directives constitute the central legal foundation for the Guarantor's activity, Among other matters, they define the boundaries of the activities permitted to the Guarantor, the activities permitted to the subsidiaries and related companies of the Bank Hapoalim Group, the terms of control and ownership of such companies, the relationships between the Guarantor and its customers, the usage of the Guarantor's assets, and the manner of reporting such activity to the Supervisor of Banks and to the public.

In addition, the Guarantor is subject to extensive legislation regulating its activity in the capital markets, 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 unique topics impose specific duties and rules on banks, including the Guarantor. Examples include the legislation related to the prohibition of money laundering and terrorism financing, the Credit Data Law, legislation relating to housing loans, guarantee laws, etc.

Additional legislation relating to the Guarantor'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 Guarantor'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 Guarantor, from time to time, concerning the various areas of activity. The Guarantor 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 Finance Ministry Deputy General (the Bachar Committee) allows for the imposition, in the case of most of the laws applicable to the activity of the Guarantor, of 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.

Capital Adequacy

Capital Adequacy Target

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives 201-211 concerning capital measurement and adequacy, in order to adjust them to the Basel 3 directives.

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;
- Allocation of capital for CVA risk.

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 the Basel 3 directives 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 not eligible 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 shall be recognized up to a ceiling of 80% on January 1, 2014; the ceiling will be lowered by an additional 10% in each subsequent year, until January 1, 2022.

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital 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.

It was further established that minimum total capital ratios shall stand at 12.5% for the banking system in general, by January 1, 2015, and 13.5% for banking corporations of significant importance, by January 1, 2017.

The Guarantor meets the conditions for the definition of a banking corporation of significant importance, and will therefore be required to comply with a minimum Core Tier 1 capital ratio of 10% and a minimum total capital ratio of 13.5%, beginning January 1, 2017. The aforesaid minimum capital ratios will be calculated in accordance with the Basel 3 directives and the adjustments to be established by the Supervisor of Banks. The Board of Directors of the Guarantor approved these target minimum capital ratios on December 25, 2013.

Strategic Plan

The Guarantor 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 Guarantor'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 Guarantor's formulation of its strategic map and work plans for 2010-2012.

The Guarantor'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 Guarantor to continue to pursue a trajectory of stable growth, despite the challenges and instability in the global economy and financial system, while creating value for its shareholders and other stakeholders and continuing to solidify the leadership of the Guarantor in the Israeli banking system.

In addition, the Guarantor 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 to changes in the competitive environment in which the Guarantor operates.

The multi-year strategic plan is focused on five main themes:

- (1) **Maintaining and strengthening the Guarantor's leadership in Israel** in the various areas of banking, by expanding relationships and activity with the Guarantor'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 Guarantor'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 Guarantor's growth plans, while examining and improving the efficiency of resource allocation and curbing expenses.
- (5) **Business - technological leadership**, through the development of the Guarantor's technological capabilities, with extensive consideration of the future needs of the Guarantor's customers and analysis of trends in financial services.

Activity in all of these areas will be conducted while applying advanced risk management in a manner that is appropriate to the range of activity of the Guarantor.

The Guarantor will work to progress in these areas while emphasizing the cultivation of its human capital and excellence within the organization, based on the core values of the Guarantor and in alignment with the principles of sustainability, as defined in the Guarantor's vision. In this context, the Guarantor will strive 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 Guarantor will continue its focused, resolute efforts to solidify and strengthen its leadership. The Guarantor 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 future environments. The Guarantor will continue to develop the multi-channel experience for customers, through improvement and addition of advanced technological transactions and services via a range of channels: mobile devices, internet, self-service stations, and more. The Guarantor will continue to focus and develop its activity in the area of small businesses and other high-potential segments, through offers uniquely suited to their needs. The Guarantor accords high importance to customer service and strives to improve service while making use of technological means and adapting service to customers' needs.

In the Corporate Banking Area, the Guarantor 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 Guarantor 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 Guarantor also expects this activity to enable it to increase its non-credit revenues in this sector. Concurrently, the Guarantor will work to step up its activity in the middle-market business sector, which is an important element of the backbone of the Israeli economy, through means including the network of Business Branches, while improving and expanding the value offered to customers in this sector. In addition, the Corporate Banking Area will seek to expand its activity in the area of syndication and debt sales. It will seek to conscientiously manage its capital resources and risk-adjusted assets, while maintaining its strong capabilities in the area of risk management.

The activity of the Guarantor in the capital market and in the area of treasury management is centralized under the Financial Markets Area, an Area formed as a result of the consolidation of brokerage activities, securities clearing and operation, and 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 Guarantor's alignment to the needs of its customers, in Israel and overseas, and to the changes in the capital and currency markets. The Guarantor will continue to work to leverage the synergies gained by centralizing these activities. The Guarantor 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 Guarantor 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 Guarantor 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 Guarantor will continue to develop its activity in the commercial segment in the United States, strengthening its value offered to its customers and solidifying its brand in the local market.

Striving for operational excellence and improving expense management will continue to be key principles for the Guarantor. The Guarantor will work to improve its operational efficiency ratio throughout the period of the strategic plan. The push towards operational excellence will allow the Guarantor to make optimal use of its existing resources in order to realise new initiatives. The Guarantor 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 central back office, where activities not involving direct contact with customers will be channelled, thereby improving service to customers while strengthening operational excellence.

Another key theme of the Guarantor's strategy is technological-business leadership. The Guarantor will invest in the development of its technological capabilities and platform, with the goal of ensuring its technological and business leadership. The Guarantor will carry out this goal based on a broad view of 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 Guarantor will continue to develop and launch advanced financial services that respond to its customers' changing needs in an age of advanced technology.

While the strategic plan sets ambitious goals for each of the Guarantor's activities, 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 and 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 Guarantor'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 emphasised that the Guarantor's approved work plans and the working assumptions on which they are based refer to the Guarantor's future activities; therefore, all of the above information in this section with regard to the Guarantor's action plans and intentions, including the return on equity forecast, is "forward-looking information."

DESCRIPTION OF THE GUARANTOR'S BUSINESS BY SEGMENTS OF ACTIVITY

The Bank Hapoalim Group operates in Israel and abroad in all areas of banking through the Guarantor and the Guarantor's subsidiaries, branches, and representative offices, and provides a wide range of banking and financial services to its customers.

The Guarantor also has investments in equity basis investee companies.

The activity of the Bank Hapoalim Group is managed via six principal segments of activity. The division into segments of activity is based on the types of products and services or on the types of customers included in each of the segments. The Board of Management of the Guarantor uses this division to make decisions and to analyse the Group's business results.

The segments of activity are presented according to characteristics stipulated by the Supervisor of Banks.

For details regarding the assignment of customers to the segments of activity, see Note 31 to the Annual Financial Statements for 2013.

Criteria for Assignment of Customers to the Segments

The Guarantor's segments of activity are the following:

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 Guarantor 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 Guarantor in an amount greater than NIS 75,000.

Small Business Segment – Customers included in this segment are those with a revenue turnover of less than NIS 30 million, with indebtedness to the Guarantor of up to NIS 6 million.

Commercial Segment – Customers included in this segment are those with an annual turnover of over NIS 30 million and up to NIS 400 million, or with indebtedness to the Guarantor of more than NIS 6 million and up to NIS 100 million, or customers whose total indebtedness (to the Guarantor or to other lenders) is more than NIS 6 million and up to NIS 250 million. For customers in the construction and real-estate sector, the parameters for inclusion in the Commercial Segment are indebtedness to the Guarantor of more than NIS 6 million and up to NIS 200 million or total indebtedness (to the Guarantor or other lenders) of more than NIS 6 million and up to NIS 400 million.

Corporate Segment – Customers included in this segment are those with a revenue turnover (sales) of over NIS 400 million, with indebtedness to the Guarantor of more than NIS 100 million, or total indebtedness (to the Guarantor or other lenders) of more than NIS 250 million.

For customers in the construction and real-estate sector, indebtedness to the Guarantor is over NIS 200 million or total indebtedness (to the Guarantor or other lenders) is over NIS 400 million.

Financial Management Segment – Responsible for the management of the Guarantor's resources and applications, management of the Nostro portfolio, activity of the dealing rooms (foreign currency and securities), contact and administration of financial entities (in Israel and abroad), and provision of operational services to financial asset managers and operational services in securities to customers of the Guarantor. 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 the issuance of various securities, deposits, interest and foreign currency derivatives.

On January 1, 2014, in accordance with a decision of the Board of Management of the Guarantor, responsibility for the Guarantor's business with management companies of provident funds (other than management companies of provident funds manage within insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area.

Set out below is a detailed description of the segments:

THE HOUSEHOLDS SEGMENT

General and Segment Structure

The Households Segment provides a range of services to private customers who generally operate at relatively low financial volumes. Services are provided to customers of the segment through approximately 260 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 by Mobile," and "Poalim by Telephone." These services are also provided to Guarantor customers belonging to other segments, as well as to walk-in customers.

Express branches were converted, with the range of services offered to these branches' customers expanded and matched to the services provided to all customers of the Guarantor at its traditional branches. During 2013, 13 branches merged and as of a date near the issuance of this Offering Circular, five branches have merged thus far in 2014.

Work plans for the rest of this year include the opening of 4 new Arab-Israeli sector branches and continued examination of mergers of 11 additional branches.

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

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 "banking and financial services" include current-account management services, granting of credit for various

purposes, deposits, and saving plans. For details regarding the services provided by the Guarantor in the “credit card” and “capital market” activities, see the section “Additional Information Concerning Activity in Certain Products,” below.

Customers

The segment's customers mainly include households with low to medium financial wealth. 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 Guarantor.

Supervision, legislative restrictions, regulations, and special constraints applicable to the segment

The Guarantor operates within the framework of laws, regulations, and regulatory directives that apply to the banking system in Israel, under the authority of various entities that include: the Supervisor of Banks, the Supervisor of the Capital Market, Insurance, and Savings in the Ministry of Finance, the Antitrust Commissioner and the Israel Securities Authority.

Update of the Guidelines of the Supervisor of Banks Concerning Real Estate Loans for Housing

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 residential real estate.

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. Pursuant to the March 2013 guidelines, capital in respect of housing loans shall be allocated according to the following weighting rates:
- Housing loans with an LTV of up to 45% shall be weighted at 35%, with no change to the existing rates.
 - Housing loans with an LTV of more than 45%, up to 60%, shall be weighted at 50%, instead of 35%.
 - Housing loans with an LTV 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 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.

The changes in the capital requirements set forth in the directive apply to housing loans executed from January 1, 2013, forward. The rate of the collective allowance in respect of housing loans is required to be no lower than the aforesaid rate, beginning with the financial statements as at June 30, 2013, for the balance of housing loans (the Guarantor included this allowance in the financial statements for the first quarter of 2013).

The directive of the Supervisor of Banks concerning limits on housing loans (mortgages) took effect on September 1, 2013. The main points of the instructions are:

- 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.

The Law for Facilitation and Encouragement of Capital Market Activity

The Law for Facilitation and Encouragement of Capital Market Activity (Legislative Amendments), 2013, was published on January 27, 2014. The law authorizes the Minister of Finance to determine types of financial assets for which investment advice can be provided without an investment advisor's license.

Within proposed legislation for the implementation of a trajectory for facilitation and development of the capital market, draft regulations were published on September 16, 2013, pursuant to which a deposit and loan fund ("Kapam") would be defined as a financial asset for which investment advice or marketing does not require a license. The terms, composition, and method of publishing estimated annual returns for deposit and loan funds are also specified, all subject to approval by the Knesset Finance Committee. A deposit and loan fund is a financial asset constituting a development of an unlinked shekel money-market fund. The fund's returns reflect the implied returns of jumbo deposits and short-term notes (up to one year to maturity).

On October 31, 2013, as part of the implementation of the recommendations of the Committee for the Examination of Increasing Competition in the Banking Industry (the “Zaken Committee”), the Supervisor of Banks issued draft directives concerning “Annual Reports for Customers of Banking Corporations.” The directives are aimed at regularizing banking corporations’ duty to report to their customers on all of the customers’ assets and liabilities with the banking corporation, including total income and expenses during the year in respect of assets, liabilities, and current account activity. According to the preamble to the draft directive, the goal of the annual report is to improve customers’ ability to monitor the activity in their accounts, and to improve the ability to compare different banking products and services. The periodic report is also intended to provide information to customers with regard to their credit rating, as determined by the rating model of the banking corporation.

Proper Conduct of Banking Business Directive 421, Reductions or Additions to Interest Rates

Proper Conduct of Banking Business Directive 421, Reductions or Additions to Interest Rates (the “Directive”), was issued on September 9, 2013. According to the Supervisor of Banks, the Directive is aimed at making it easier for customers to compare and effectively negotiate interest rates on loans or limited-duration deposits.

The Directive states that in loans where the interest rate is not fixed and known over the entire period of the loan, and in loans executed in several parts, at the date of a change in the interest rate on the loan, the same reduction from or addition to the baseline interest rate that applied when the loan was granted shall apply, with permitted exceptions pertaining to the LIBOR rate, as detailed in the directive. For the purposes of the Directive, “loans” also include approved credit limits in accounts and credit limits of charge cards.

The Directive further states that in deposits where the interest rate is not fixed and known over the entire period of the deposit, and in deposits renewed from time to time according to the customer’s instructions, at the date of a change in the interest rate on the deposit or renewal thereof, the same reduction from or addition to the baseline interest rate that applied at the deposit date shall apply.

The directive took effect on January 1, 2014, except with regard to deposits; the inception date for deposits has been postponed to July 1, 2014, in accordance with the directive of December 31, 2013.

Developments in the households segment’s markets or changes in the profile of its customers

In 2013, there were no changes in the profile of the households segment’s customers. However there is a continuing trend of an increase in the households segment’s banking activity through direct channels (automatic teller machines, “Poalim by Telephone,” and “Poalim Online”).

Technological changes that may have a material impact on the households segment

The Poalim Wallet, launched during the first quarter of 2014, offers a package of services for payments, fund transfers, and purchases via smartphone. The Poalim Wallet services represent an upgrade of the mobile wallet application offered by the Guarantor in the last three years. The

application expands the existing range of services and transforms the use of the mobile wallet into a consumer experience.

Innovations in Poalim Wallet:

- Deposits of checks to the customer's account through the application;
- Transfers of funds to smartphone contacts;
- Booking an appointment at the branch via smartphone;
- Receiving location-based CashBack benefits;
- Payments to businesses using the Isracard MyCheck application, and ordering and paying for taxis via smartphone using the TaxiPay application, which is also offered in collaboration with Isracard.

Maintaining Mobile Leadership

After three years and over 300,000 active customers on its applications, the Guarantor launched an advanced smart application for mobile account management, offering a unique, customized banking experience for customers' account activity. The new initiative is designed to enlarge the group of users of this channel and improve the customer experience, while adjusting to innovative trends in this field and making use of the capabilities of new smartphones.

Following the launch, the number of mobile users increased significantly; there are approximately 350,000 active users, as at the end of 2013.

At the end of the year, the Guarantor upgraded its mobile account management application, which allows its customers to deposit checks via mobile devices. Customers who use the application can deposit checks from anywhere, without visiting a branch or a self-service station. Checks are deposited using advanced technology, and customers receive guidance and instructions during the deposit process until it is complete.

Budget Management Tool

The Guarantor is upgrading the budget management tool offered to customers on its website. The new, advanced version encourages customers to manage their budgets in a simple experienced-based format, through means including an innovative interface using gamification themed visual elements.

Tools for Sensible Financial Conduct

- Walk Me - A guidance tool assisting customers with selected actions on the website, step by step, until the action is complete.
- Digital voice chat - Presents customers with extensive, comprehensive information regarding their credit-card activity; presents information based on customers' behavior, historical information, and past queries.
- Activation of new credit cards via the Guarantor's website.

- Presentation of customer-focused personalized messages, based on account status, on the website's current-account screen.

Poalim Voice

An innovative service launched in 2013 allows account management through voice identification alone, without the need to enter a password - a leap forward in customers' ability to conduct dialogue with the Guarantor comfortably and intuitively. The service is currently in an extensive pilot phase, and is under examination ahead of a rollout to all customers.

Competition in the Households Segment

The majority of the household 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 saving plans).

However, the number of customers maintaining accounts with an additional bank is rising, as the segment has been subject to intense competition from other banks for several years, with some of these banks focusing on specific sub-sectors within the segment (e.g., housing loans, public-sector employees, employee groups, and consumer clubs). Further to the trend of recent years, competition in 2013 centered on salary earning customers, with banks introducing special value offers for this target audience. Competition continued to gain momentum as a result of the changes in the market in the previous years, such as the lowering of barriers to transfers between banks; activity of credit card companies and non-bank financial entities in the credit industry; the entry of insurance companies and private brokers into the mutual- fund 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. In 2014, the launch of the Deposit and Loan Fund is expected to strengthen competition, mainly over deposits.

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 volume 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

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 competition 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 amendment of the Banking Rules, issued on November 28, 2012, and applied in two phases, on January 1 and March 1, 2013.

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.

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 will take effect on July 1, 2014.

A circular concerning disclosure of the cost of securities services was issued on April 2, 2014. The changes will take effect on January 1, 2015.

A draft directive of the Bank of Israel concerning opening of accounts over the Internet was issued on April 30, 2014.

The draft was discussed by the advisory committee on May 12, 2014.

The Guarantor is currently reviewing the overall implications for the Guarantor'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 Guarantor'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 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.

The law will take effect six months from publication, and will also apply to loans granted before the inception date.

With regard to the reduction of the number of fees in the area of charge cards and clearing, see the section "Principal Subsidiary and Affiliated Companies – Isracard."

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 further details, see the section “Additional Information Concerning Activity in Certain Products” below.

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 Guarantor therefore applies a policy of creating unique value for customers of the Guarantor, based on the strategy “Take Your Mortgage at Home”. In view of the mounting competition in the area of housing credit in recent years, the Guarantor has continued to maintain a conservative policy.

Products and Services

Dan the Saver – In late 2009, the Guarantor relaunched the familiar and popular brand from the 1950s, Dan the Saver. The brand and the related activities were given a new look and adapted to the current generation of children. The Guarantor is working to encourage savings for children by parents and to increase children's awareness of prudent financial conduct and savings. As part of this effort, the Guarantor created a website for children that teaches the values of savings and banking terminology through games; held workshops for children at community centers and summer camps; and distributed over half a million coin banks for children. The Guarantor recently launched automated machines in which children can deposit their savings, in coins and bills, to a special fee-exempt Dan the Saver account, and continued to expand the Dan the Saver group of savings products for parents.

Poalim Cash Back - The Cash Back Club, launched in 2012, solidified its standing as the Guarantor’s customer club during 2013, its first year of activity. The club offers rebates directly in customers’ accounts on credit-card purchases at any of the participating businesses. The club includes 59 large nationwide chains and thousands of small businesses, where customers benefit from cash rebates in addition to special offers and significant discounts.

New Products

Poalim UP - In 2013, the Guarantor began to develop a range of innovative services for customers under the brand Poalim UP, designed to allow customers to manage their accounts in the way best suited to them. This range will serve as the first step in the creation of new differentiated current-account tracks for customers. The new services and tracks were launched in the first quarter of 2014. The launch is an important breakthrough brought to consumers in the household and small business sectors by the Guarantor, the first bank to introduce accessibly priced current-account tracks representing a discount of 50-80% relative to prices today.

- UP Card – An international prepaid 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 reload 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.

Poalim UP products are also offered as part of the new current-account tracks launched in April 2014.

Personal Financial Planning - In 2012, the Guarantor launched a unique new service, offering customers a personal meeting with a qualified banker, to examine the customer’s overall financial conduct and formulate individually tailored recommendations for future choices. The recommendations are matched to the customer’s profile, plans, and preferences. The service is provided by bankers trained for this purpose, at all branches of the Guarantor.

Collaboration agreements

Collaboration agreements with insurance companies: In order to sell building insurance and life insurance in the course of granting housing loans, the Bank Hapoalim Group has contracted with several leading insurance companies. Customers are offered the option of buying policies from these insurance companies. Customers are free to select the most suitable proposal or purchase insurance elsewhere.

Marketing and Distribution

The segment’s marketing and distributions are conducted through advertising campaigns in newspapers, on television, on the Internet, on the radio, and on billboards. The Guarantor 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 Guarantor, 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 -in a project completed in January 2013, a system has been implemented for the distribution of marketing e-mails and newsletters, in compliance with the Spam Law. This is an inexpensive, quick, effective channel for distribution to our customers, which creates the opportunity for business club partners to present non-banking value offers and later banking offers as well to the Guarantor's customers. Other channels include information presented on screens, informational pamphlets, and postcards at the branches.

Objectives and Business Strategy

The Guarantor 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 Guarantor'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 Guarantor 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 Guarantor'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

Guarantor 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 Guarantor 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 expanded to Poalim by Telephone and the central bank offices, where processes with potential for improvements in services along with improved efficiency are examined.

- The Guarantor 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 Guarantor 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 Guarantor 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 Guarantor 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 Guarantor, 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 Guarantor, 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 Guarantor's preparations for the provision of pension advisory services, see the section "Additional Information Concerning Activity in Certain Products."

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 Guarantor offers services 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 telephones initiated by the Guarantor and an advanced advisory system aided by decision support tools. In providing service to its customers, the segment places special emphasis on the creation of close long-term customer relationships.

The segment's activity in Israel for customers who maintain accounts with the Guarantor's branches in Israel (with the exception of one branch, which is assigned to international activity,

as detailed below) is conducted through the Guarantor'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 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 and representative offices engaged solely in public relations. (For further details regarding the activity of the Bank Hapoalim Group abroad, see the section "Activity of the Bank Hapoalim Group Abroad" below.)

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, it is noted that the Retail Area and the International Area are authorised 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 saving plans. For details regarding the services provided by the Guarantor in the "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

Customers

Private Banking customers in Israel have high net worth and/or future growth potential. Customers (including foreign residents) are categorized based on parameters 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.

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

In Israel:

The year 2013 concluded with gains. The TA-100 stock index was up by 15%. Government bond indices rose, by 4% for unlinked bonds and 3% for CPI-linked bonds. The various Tel Bond indices also rose by up to 8%.

During 2013, Guarantor advisors and clients worked 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. Optimization of the corporate segment of the portfolio was achieved by advisors mostly through debt analysis and through the use of mutual funds, the use of which increased significantly during 2013.

The positive trend in the stock market continued during the first quarter of 2014, similar to 2013, in view of the low interest rate in Israel and globally. Due to the gains in the market over the last year, advisory clients' risk appetite has increased somewhat. Risk components are being focused in shares, at the expense of corporate bonds, due to lower spreads. The Guarantor's customers continue to diversify their investments overseas, using a variety of investment instruments.

Overseas:

The Guarantor emphasized increasing the assets of GPB customers held at the Bank Hapoalim 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

- Savings plans were added to the return calculation model; the data on returns presented in the advisory systems and on the website for customers is now comprehensive. This marks the completion of the development aimed at achieving a calculation of return on a complete investment portfolio, including all components thereof (securities, deposits, and savings plans). The presentation of returns creates transparency with regard to the performance of the investment portfolio, and enables customers and advisors to conduct a mutual dialogue aimed at sensible and responsible financial conduct over time, thereby contributing to customers' financial freedom, in line with the Guarantor's vision.
- Changes and adjustments were applied in the Poalim Advisor due to regulatory requirements, primarily the following:
 - Presentation of data on exposure to corporate bonds in the customer's portfolio, with a distinction between direct holdings and indirect holdings through mutual funds.
 - Definition of an investment policy for the customer's portfolio suited to the customer's risk level and characteristics.

- Upgrade of the investment portfolio analysis report – lateral design and expanded information on assets held in the customer's investment portfolio.

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 Guarantor to customers.

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

Another marketing vehicle 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. 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.

- The clubs emphasize open architecture and individually tailored products.
- Customers are offered international investment portfolio management services based on globally prevalent models through the international desk at Peilim.

Competition in the Private Banking Segment

In Israel:

Some 40% of Private Banking customers in Israel maintain accounts with more than one bank. The entry of insurance companies and private brokers into the mutual 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 personalised service and service packages tailored to customers, investment advisement 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 mortgages, see the corresponding heading in the “Households Segment” section.

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 characterised 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 personalised, 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.

Collaboration agreements

The Guarantor has collaboration agreements with international financial entities that are leaders in the area of global investments. Under these agreements, the Bank Hapoalim 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.

Outlook for development

Over the last few years, a new approach was formulated and implemented in the Private Banking Segment, in view of the changing competitive environment in which the Guarantor 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 Guarantor’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 frameworks 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 responses in the direct channels, including the telephone call center, and empowering the unit’s bankers and advisors.

It is possible that the Guarantor may not succeed in realizing these objectives, due to various causes, including legislative and/or regulatory directives, matters related to the training of a sufficient number of financial advisors, and the intense competition over customers in this segment.

THE SMALL BUSINESS SEGMENT

General and Segment Structure: The Guarantor provides a range of banking services and financial products to small businesses. The segment’s activities are conducted via the

Guarantor's nationwide branch network as well as through direct channels. The segment also provides services to business customers of the Corporate and Commercial Segments.

Activities

2013 was declared the Second Year of Small Businesses at the Guarantor. In 2013, the Guarantor 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 Guarantor's specialized Poalim for Growth fund, a small and mid-sized businesses fund backed by the state, and sector-based funds established by the Guarantor 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 "banking and financial services" include current-account management services, granting of credit for various purposes, deposits, and saving plans. The maximum total credit which the segment's employees may authorize for any single customer, taking into account the customer's needs, financial condition, and financial wealth, is NIS 6 million. 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.

In 2014, the Guarantor plans to offer credit to small businesses through various funds, including the small and mid-sized businesses fund backed by the state, a joint fund with the Israel Manufacturers' Association, and sector-based funds established by the Guarantor in cooperation with leading market players. The Guarantor continues to lead the small and mid-sized businesses fund backed by the state, and has granted credit through the fund to a large number of small and mid-sized businesses. A considerable number of customers are clients of other banks who have chosen to transfer their accounts to Bank Hapoalim. The goal of this effort is to increase the funding available to this sector while reducing risk through collaborations with various elements of the economy (the state, the Manufacturers' Association, and more). All of these are in addition to the business credit offered by the Guarantor to small businesses in the course of its routine operations.

For details regarding the services provided by the Guarantor in the "credit card" and "capital market" activities, see the section "Additional Information Concerning Activity in Certain Products," below.

Activity of the Segment in 2014

During the first quarter of 2014, the Guarantor expanded its solutions for small business by continuing to increase the deployment of business units in its retail branches and of specialized bankers for small businesses. The Guarantor plans to continue this process, in accordance with the strategic trajectory for the Small Business Segment.

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 2013. However, competition in this sector is increasing, reflected in the development of targeted value offers for

recruiting and expanding activity with customers. 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

Updates of authorizations for online activity by businesses – The Guarantor’s business website continues to serve as a venue for accessible, convenient online management of business accounts. This year, the option of updating authorizations was added to the Guarantor’s website. The simple interactive online update procedure enables business clients to benefit from control over activity in their accounts.

Expansion of Poalim for Business application – An option for authorizing and signing foreign-trade transactions was added to the application this year. The new service is designed to serve exporters and importers, turning their smartphones into a working tool for the management of their banking activity.

Activity of the Segment in 2013

The emphasis on activity in the Small Business Segment was reinforced in 2013. The Guarantor accords high importance to this sector, both in view of its general contribution to the development of the Israeli economy, and from a business perspective, as a growth driver for the Retail Banking Area. The Guarantor therefore continues to focus on this sector, expanding the service offering and developing a range of value offers, services, and unique financial tools to help guide the businesses to growth and create a complete package tailored to the needs of the business.

- Development of business tools and guidance to enhance the ability of small businesses to grow and thrive; development of various tools to increase the accessibility of banking services through the various channels, in order to provide optimal solutions for the financial needs of the businesses.
- Granting various benefits in account management to small businesses in general, and to newly established businesses in particular, to assist the business in its first year of life.
- Establishment of specialized loan funds targeted to this segment, such as the Poalim for Growth fund, whose aim is to support and promote small businesses as the foundation for the growth of the Israeli economy as a whole; the Poalim New Business Growth Fund, which is focused on businesses in the setup stage up to two years; the Guarantor’s win of the tender for the Small and Mid-Sized Business Fund backed by the State, 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 fund.
- Establishment of the Cash Back club – The Poalim Cash Back club, established in September 2012, includes all customers of the Guarantor 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 throughout Israel; within four months, not only major chains joined, but also thousands of small businesses,

throughout Israel, across all sectors of B2C activity. Participating businesses enjoy a range of marketing platforms made available by the Guarantor for the promotion of their business.

- **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 Guarantor created Small Business Day, which was held for the second time on January 2-3, 2014. During this event, the public was asked to deliberately prefer and buy from small businesses. The Guarantor's initiative was joined by local government leaders and municipalities, leading organizations in the Israeli economy, and commercial firms. Tens of thousands of businesses chose to register and join the activity, and benefited from opportunities for advertising and promotion of their businesses, which also included the small businesses involved in the Cash Back Club, providing a marketing catalyst for the club.

Customers

The Small Business Segment handles customers from a wide variety of economic sectors with a low volume of business activity, at a low to medium level of business complexity.

In 2014, for the first time, the Poalim CashBack Club is conducting continuous marketing efforts calling on customers of the Guarantor to patronize small businesses near their homes. A different segment of small businesses will be chosen every two months for an exceptionally worthwhile offer exclusive to Bank Hapoalim customers (flower shops, cosmetics, bakeries, garages, and more).

New Products

In May 2013, the Guarantor launched the Compusafe system, marketed in collaboration with Brinks. Compusafe is a system for depositing and managing cash at the customer's place of business, offering an alternative to cash deposits by customers of the Guarantor using "document pouches". The system is a welcome innovation for the business sector, especially small businesses, while also reducing the resources invested by the Guarantor in processing cash and reducing the related security risks.

In March 2014, the Guarantor launched a new service, the drawn check report file, which enables business clients who use large numbers of checks to monitor and track checks drawn on their accounts. The service is an innovative and important service for the business sector, minimizing payment on forged checks and reducing the damages paid for such checks by the Guarantor.

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

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.

On Small Business Day, held in January 2014 as part of the Guarantor'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 Guarantor intends to establish Small Business Day as an annual event.

Competition

Competitors in this segment are 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 that 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

Beginning August 1, 2013, the definition of a small business changed, from corporations with a business turnover of up to NIS 1 million to corporations with a business turnover of up to NIS 5 million. Concurrently, the Supervisor of Banks required the price list to be adjusted such that prices set for an individual or small business are lower than the prices set for large businesses, or at most identical to these prices, for the same services.

For further details, including other 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 distribution network to suit customers' needs.
- Strengthen relationships with and knowledge of customers.
- Achieve an optimal mix of personal service and technological means.

Proper Conduct of Banking Business Directive 311 - See the Section "Risk Management below,"

THE COMMERCIAL SEGMENT

General

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, 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 deployed 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.

Other branches of the Guarantor provide the segment's customers with operational services.

The headquarters of the Corporate Banking Area contains 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 operate outside the Commercial Division.

The Guarantor'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 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 which is validated annually. Investment services are also provided, in the various channels: foreign currency, shekels, securities, etc.

In December 2012, the Guarantor signed a four-year extension to an agreement with the Accountant General of the Ministry of Finance, originally signed in January 2009, pursuant to which the Guarantor provides loans to customers of the segment who meet established criteria. The Guarantor 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.

Customers

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 Guarantor of more than NIS 6 million and up to NIS 100 million, or customers whose total indebtedness (to the Guarantor or to other lenders) is more than NIS 6 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 Guarantor or total indebtedness (to the Guarantor or to other lenders) is over NIS 6 million and up to NIS 400 million.

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

2013 was marked by a continued slowdown in business activity in Israel, influenced by the recession in global growth. The segment’s customers were affected by the slow growth rate and the moderate GDP growth, the low interest rates in Israel, and the decline in exports of goods and services, which was influenced by the weakness in global demand and the appreciation of the shekel. In view of the conditions in the global financial markets and the mixed trends in growth rates in these markets, developments in regional geopolitical conditions, and expectations of a relatively moderate growth rate in the local market, there are still risks to continued growth.

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 Guarantor 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 Guarantor'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.

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 in interest rates and fees offered to customers by competing banks, and in related terms such as financing rates which competitors are willing to approve.

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 the future, this will be carried out in collaboration with an area-level administrative unit, which will begin 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 Guarantor employees and customers, without material dependence on entities external to the Guarantor.

Objectives and Strategy

The strategic objectives of the Guarantor 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 Guarantor'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.

Proper Conduct of Banking Business Directive 311 - See the Section "Risk Management below,"

THE CORPORATE SEGMENT

General

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 Guarantor's Corporate Segment mainly operates through the Corporate Division within the Corporate Area, and through the Guarantor's banking subsidiaries and its US branches which report to the International 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 units responsible for financing and monitoring infrastructure projects; a department that handles debt restructuring, syndication, and risk sales; and a department specializing in complex foreign-trade transactions, which provides services to all customers of the Area engaged in this activity.

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.

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.

On January 1, 2014, in accordance with a decision of the Board of Management of the Guarantor, responsibility for the Guarantor'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

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 "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 Guarantor's branches in the United States.

The Corporate Segment also provides banking services to customers in the construction and real estate sector. Such services include financing of construction projects, granting credit to customers and issuing various types of guarantees including guarantees to buyers of homes. The various banking services are provided to all customers of this segment through the network of 22 branches Business Branches. In addition, the Guarantor's retail branch network provides the Segment's customers with operational services.

Customers

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

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

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

Transactions with related parties – Among other matters, Proper Conduct of Banking Business Directive No. 312, “Business of a Banking Corporation with Related Parties,” imposes a limit on the Guarantor according to which total “debts to the banking corporation,” as this term is defined in the aforesaid directive, excluding certain amounts, of all “related parties” of the Guarantor, as defined in the directive, shall not exceed a total amount equal to 10% of the capital of the Guarantor.

As of the most recent reporting date, the Guarantor is in compliance with these limits.

Limits on debt of a borrower and a group of borrowers – Among other matters, pursuant to the Proper Conduct of Banking Business Directive No. 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 Guarantor, calculated according to Proper Conduct of Banking Business Directive No. 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 Guarantor, shall not exceed 120% of the capital of the Guarantor.

As of the most recent reporting date, the Guarantor is in compliance with these limits.

Financing the acquisition of means of control – Proper Conduct of Banking Business No. 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 banking corporation. 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 most recent reporting date, the Guarantor is in compliance with this limit.

Sectoral limit – Proper Conduct of Banking Business Directive No. 315, “Supplementary Provision 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 a provision within the supplementary provision for doubtful debts, constituting the lower threshold for the group allowance for credit losses. This limit is examined on a non-consolidated basis. The construction and real-estate sector is reaching a weight of 20% of the total indebtedness of the public to the banking corporation.

In addition to the limits described above, pursuant to Proper Conduct of Banking Business Directives, the Board of Directors of the Guarantor establishes limits, from time to time, on the concentration of credit.

As of the most recent reporting date, the Guarantor is in compliance with these limits.

In addition, the Guarantor has implemented a policy of reducing its exposure to areas of concentration in the credit portfolio, which led to a decrease in concentration in 2013.

Type Exemption – Borrower Consortium

On February 28, 2011, the Antitrust Commissioner announced a change in the terms it had established in the past with regard to consortium arrangements. The current terms for consortium arrangements acceptable to the Commissioner primarily include the following:

- A. The formation of the credit consortium is consented to by the client, in advance and in writing, on a separate form.
- B. The client is given the opportunity to negotiate the terms of the credit with any of the members of the consortium, including through another person acting on the client’s behalf.
- C. When both the Guarantor and Bank Leumi LeIsrael Ltd. are members of the consortium, the formation of the consortium shall be permitted only if the aggregate amount of

credit which both banks are required to grant exceeds NIS 300 million. The limit established in this section shall not apply to consortium arrangements involving the repayment of a debt arising from credit granted by the Guarantor and Bank Leumi LeIsrael Ltd. prior to August 18, 2002, to the same person.

D.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.

E. According to the requirements of the Commissioner, meetings or talks of the participants in the consortium must be documented, in accordance with the details required in the Commissioner's letter.

These terms are currently in effect until June 30, 2014.

Technological Changes that May Have a Material Impact on the corporate 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. Use of the "Matbea" system has been expanded, with the aim of improving work processes, information management, and monitoring of segment customers' activity.

Structure of competition in the corporate segment, and changes therein

There is a high level of competition in this area from banking entities. Competition is reflected in service, prices, financing terms, and rapid response. The Bank Hapoalim Group competes in this area against the four other major banking groups in Israel, as well as foreign banks with representative offices in Israel. The Guarantor's activity through its banking subsidiaries and its US branches is conducted in a highly competitive environment dominated by global financial institutions.

Marketing and Distribution

Banking products and services are marketed and distributed to customers through the Sales and Business Development Department in the Corporate Division. 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, including in the areas of the dealing room, investment advising, foreign trade and current accounts. In the future, this will be carried out in collaboration with an area-level administrative unit, which will begin to operate in 2014.

CRMs are in continuous contact with the customers they serve, in order to respond to their banking needs, market the Guarantor's products, and tailor financing solutions to various transactions.

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 Guarantor's leadership with the segment's customers.
- Organize and lead complex financing arrangements, including financing of infrastructure projects and collaboration with other financiers 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.

THE FINANCIAL MANAGEMENT SEGMENT

General and Segment Structure

The activity of the Guarantor 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 portfolio primarily includes the management of assets and liabilities alongside the 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, bank deposits, 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 and position management are mainly conducted through the dealing rooms, which offer services for the Guarantor'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 pricing and development of sophisticated financial products.

Most of the income of the segment derives from exposure management in the banking book and in the trading portfolio, and from spreads on 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, pursuant to Section 23A of the Banking Law, the Guarantor 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 centralised under the authority of a Member of the Board of Management and Head of 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 Guarantor's branches overseas. Treasury activity also encompasses the coordination of management of the financial assets and liabilities of the Bank Hapoalim 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.

On January 1, 2014, in accordance with a decision of the Board of Management of the Guarantor, responsibility for the Guarantor'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

The Banking Portfolio – Management of Assets and Liabilities

The Financial Management Segment, through the Asset and Liability Division of the Guarantor, is responsible for managing the assets and liabilities of the Guarantor, 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 Guarantor's customers and also serve as a means for market and liquidity risk management.

The Guarantor has varied sources of financing, primarily fixed-term deposits from the public. The deposits are raised from a very large number of depositors, with no reliance on any single depositor or group of depositors. Most of the Guarantor'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 Guarantor and in bonds and secondary capital issued by the Bank Hapoalim Group. The Guarantor accords high importance to raising resources that are stable and high diversified. The balance in money-market funds has increased significantly over the last year. This increase has led to greater concentration of resources in Israeli banks.

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 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 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, which is paid to the Financial Management Segment. In certain cases the ALM Division sets a different wholesale rate for assets and liabilities with identical characteristics (duration and linkage segment) in order to price specific market risks and conditions for raising resources in the markets.

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 Division committees, a committee of the Board of Management receives a report each month and the Board of Management and Board of Directors of the Guarantor 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 Guarantor and of 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 Guarantor by dates of interest-rate changes and by maturity dates; interest-rate exposures of the Guarantor (sensitivity of value and sensitivity of income); overall VaR of the Guarantor; expected transactions; daily balances and performance; and more. The committees also discuss limits and the desired position, in line with the Guarantor’s policy.

The wholesale rate is set in a uniform manner according to duration and linkage segment for all transactions executed at the Guarantor. Accordingly, 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 portfolio.

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

Trading Activity-Foreign Currency Dealing Rooms (OTC)

The Guarantor provides comprehensive services to its customers through its dealing rooms, for hedging against risks involved in fluctuations in exchange rates and interest rates, on the 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

(spots, 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 Guarantor's customers are conducted in accordance with the credit limits allocated to them by the credit authorities at the Guarantor, and on the basis of the Guarantor'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 at a higher level of sophistication. In response to these needs, and in order to preserve the Guarantor's standing as a leader and innovator, complex products have been added to the product range in Israel, including derivatives (including 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 Guarantor 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 Guarantor 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 Guarantor. All three dealing rooms operate in coordination, providing the Guarantor's customers with a professional, advanced, efficient, centralized service package, under a single roof.

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

Further to a resolution of the Board of Management of the Guarantor, on January 1, 2014, overall responsibility for management companies of provident funds (with the exception of

insurance companies) and mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area.

The Guarantor's activity with foreign banks and financial institutions also includes 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 may affect work processes related to OTC derivatives. The Guarantor studies such regulation and monitors developments therein. At this stage, these regulations are not expected to have a material impact on the activity of the segment.

Technological changes that may have a material impact on the financial management 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.

Structure of competition in the financial management segment, and changes therein

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, foreign banks and other financial companies specializing in this area.

Customers

The segment provides diverse services to all customers of the other segments at the Guarantor, both through the Guarantor's branches and Customer Relations Managers, 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 Guarantor serves as a market maker).

Collaboration agreements

During the routine course of business, the Guarantor, and within it the Financial Management Segment, maintain extensive ties with the world's leading financial institutions. Business relations between the Guarantor 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 clearing 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 2014 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 Guarantor'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.

Additional Information Regarding Activities in Certain Products

Credit Cards

The Bank Hapoalim 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 MasterCard, Visa, and American Express cards under licensing agreements.

Credit Card Issuance

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

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

As part of its 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 payments in instalments 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.

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 fulfilment of the terms of the agreement, to settle the debits to the merchant incurred 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, advances (advances of payments in respect of executed transactions) advance payments, sales-slip discounting, and marketing and operational services, including options for payment in instalments, flexible crediting dates, targeted information, and sales promotion campaigns as well as marketing and operational services.

Customers of the Isracard Group in the area of credit cards 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 characterised by a very high level of competition, due to various 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 MasterCard and the Isracard Group began to clear Visa cards). In May 2012, the market for cross-clearing of Isracard private brand cards was opened; merchants can now switch clearers of these brands.

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 the competition is reflected in the development of financial and operational products and services for merchants, to increase the volume of transactions and/or the amounts of transactions executed with each merchant.

In addition to the Bank Hapoalim Group, Cal and Leumi Card also operate in the area of clearing in Israel.

Additional Activities of the Isracard Group

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; provision of consumer credit other than through credit cards; direct sales slip discounting; and factoring (receivables discounting).

Capital Market Activity

The Bank Hapoalim 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 Guarantor and a wholly-owned subsidiary are members of the Tel Aviv Stock Exchange and the TASE Clearing House); trading in foreign securities (the Guarantor 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 organisations, and institutions; and trust services (an equity-basis investee company of the Guarantor also operates in the area of underwriting).

Some of the aforesaid financial activities and services are performed directly by the Guarantor, while others are performed by subsidiaries, each of which specialize and engage in a specified field.

Pension Advising

The Guarantor holds a pension advisor's license and employs licensed pension advisors.

To date, the Guarantor has signed distribution agreements with 16 management companies of provident funds and pension funds (the number of agreements decreased relative to the preceding year due to mergers of management companies).

Two pension advising centers were established in 2013, at the Rehovot branch and the Beer Sheba branch. Gradual deployment of pension advising centers throughout Israel is planned to continue in 2014.

In December 2013, it became mandatory to use the pension clearing house (the "Clearing House") established for transfers of advance information regarding customers' holdings in pension products from institutional entities to pension advisors and marketers. Difficulties still exist in the provision of pension advisory services to customers, among other reasons, 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 types of insurance plans in the various years and the problems 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 Guarantor'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 Guarantor in its capacity as a pension advisor.

Distribution of Study Funds, Provident Funds and Pension Funds

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

Distribution of Mutual Funds

The Guarantor has reached agreements with a decisive majority of mutual-fund managers in Israel with regard to the distribution of mutual-fund units to its customers. The Guarantor 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”)

Poalim Sahar, a wholly-owned subsidiary of the Guarantor, is a member of the Tel Aviv Stock Exchange and the TASE Clearing House. The company specializes in services to institutional entities, such as established and new pension funds, bank provident funds, segmental provident funds, study funds, insurance companies, and public companies and institutions. The company provides brokerage services in Israel and abroad, as well as research services, custody services and other related services, including operational services.

Peilim Portfolio Management Company Ltd. (hereinafter, “Peilim”)

Peilim, a wholly-owned subsidiary of the Guarantor, manages investment portfolios for private customers, business organizations, institutions, and non-profit entities. Investments are managed for local and foreign customers in the Israeli capital market and in capital markets worldwide.

Services for Financial Asset Managers

The Financial Asset Managers Services Unit encompasses activities related to the provision of various services to financial-asset managers: managers of provident funds and study 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 Guarantor 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 Guarantor. In the area of mutual funds, service agreements have been signed with mutual-fund management companies.

Further to a decision by the Board of Management of the Guarantor, on January 1, 2014, responsibility for the Guarantor's business with management companies of provident funds (other than insurance companies) and with mutual funds was transferred from the Corporate Banking Area to the Financial Markets Area.

Within its activity with foreign banks and financial institutions, the Guarantor 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 Guarantor. All three dealing rooms operate in coordination, providing the Guarantor's customers with a professional, advanced, efficient, centralized service package.

PRINCIPAL SUBSIDIARY AND AFFILIATED COMPANIES

General

The Bank Hapoalim Group operates through banking and non-banking subsidiary companies in Israel and abroad.

The non-banking subsidiaries operate in the areas of finance, marketing and operation of credit-card systems, trust activity, issuance and financing, and investment banking services.

Subsidiaries in Israel

The principal companies are reviewed below.

The Isracard Group

The Isracard 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 Guarantor's credit-card business.

The core activity of the Isracard Group is issuing, 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).

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 stands 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 will stand 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 a bill amending the Banking (Licensing) Law submitted to Knesset in March 2014, banking corporations would be prohibited from holding or operating means of control in credit-card companies, among other matters. A draft published by the Israel Antitrust Authority for comments by the public on February 12, 2014, includes recommendations for expansion of the use of debit cards in Israel and for rapid crediting of businesses in charge-card transactions. On April 2, 2014, the Ministers' Committee on the Cost of Living passed a resolution to ask the Bank of Israel, the Antitrust Commissioner, and the Supervisor of Banks to consider a number of matters related to the introduction of immediate debit cards as a means of payment.

In April 2014, the Supervisor of Banks published a draft directive concerning benefits for customers, aimed at establishing clear, uniform rules to allow customers to compare banking services and products offered to them and differentiate the value of non-banking benefits from the value of banking services, and increasing competition over prices of banking services.

In April 2014, the Supervisor of Banks announced a reduction of the number of fees in the area of charge cards and clearing, and published a draft amendment of the Banking Rules on this matter. Pursuant to the draft, 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. In addition, rules concerning fees collected from cardholders will be amended; for example, the deferred payment fee will be cancelled, and the rules regarding the collection of conversion fees will be simplified.

The large number of regulatory procedures, if implemented, may in its own right have a material negative effect on the activity of the company; however, the extent of such an effect cannot be estimated at this stage.

For details regarding various regulatory issues, see Note 19C to the Annual Financial Statements for 2013.

For details regarding claims pending against Isracard, see Note 6D to the Condensed Financial Statements.

In December 2013, the Bank of Israel published criteria and general conditions for a controlling party and for a holder of means of control in an applicant for a clearing license, as well as the procedure for obtaining a clearing license.

Poalim Capital Markets – Investment House Ltd.

Poalim Capital Markets - Investment House 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 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 privatization processes and for public and private offerings 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 (19.97%) Poalim I.B.I., consulting, underwriting, and management services for public offerings in Israel and raising capital through private offerings.

In the area of investment in private equity funds and direct investments, Poalim Capital Markets invests in funds operating in various sectors, including venture capital and alternative energy. It also 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 from the Bank of Israel.

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

Poalim Sahar Ltd.

The company, a wholly-owned subsidiary of the Guarantor, is a member of the Tel Aviv Stock Exchange and the TASE Clearing House. The company specializes in services to institutional entities, such as established and new pension funds, provident funds, segmental provident funds, study funds, insurance companies, and public companies and institutions. The company provides brokerage services in Israel and abroad, as well as research services, safekeeping services and other related services, including operational services.

Activity of the Bank Hapoalim Group Abroad

General

The international activity of the Bank Hapoalim Group is conducted in approximately 40 locations through banking subsidiaries and financial companies and the Guarantor's overseas branches and representative offices. The Guarantor's activity overseas is focused on the private banking and corporate sectors. The Guarantor also has activities in the households and commercial sectors in Turkey and Kazakhstan.

As part of its international activity, the Guarantor 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 Guarantor 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 providing credit to local and foreign borrowers and investments in bonds. Activity in the households and commercial segments in emerging markets is focused on activity of Bank Pozitif in Turkey and Bank Pozitiv in Kazakhstan.

The Guarantor's strategy is primarily targeted to the development and expansion of its Global Private Banking activity and of its commercial banking activity in New York. The Guarantor aims to continue to expand its service offering and improve its capabilities in the areas of 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 Hapoalim 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 and holdings of liquid assets.

Regulatory Supervision – Miami Branch

An agreement (the “Written Agreement”) went into effect on July 8, 2009 between the Federal Reserve of Bank of New York, the Federal Reserve Bank of Atlanta and the Office of Financial Regulation of the State of Florida and the Guarantor and its Miami branch.

In brief, the Written Agreement addressed the need for improvement of the compliance, risk management, and control functions of the Guarantor at its Miami branch, with the aim of correcting flaws that were discovered.

The Written Agreement did not create or impose any limitations on the Guarantor’s activity, in the US or in general.

On October 4, 2013, the Federal Reserve of Atlanta gave notice of the termination of the Written Agreement. In its notification, the Federal Reserve stated that the agreement had been terminated due to improvements observed at the most recent regulatory audit at the Miami branch and due to the Guarantor’s compliance with the terms of the agreement.

Global Private Banking Activity of the Bank Hapoalim Group

Within the Global Private Banking framework, the Guarantor provides its private banking customers with accounts at the Bank Hapoalim 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 banking subsidiaries, branches, asset-management subsidiaries and representative offices engaged solely in public relations.

Set out below are details of the Guarantor's branches and principal subsidiaries overseas operating in the area of private banking:

Bank Hapoalim (Switzerland) Ltd. – (hereinafter, “**Hapoalim Switzerland**”) – A wholly-owned banking subsidiary mainly engaged in the provision of private-banking services through three branches – two in Switzerland (Zurich and Geneva) and one in Luxembourg. The Guarantor also operates through an investment consulting firm in Hong Kong.

During the second half of 2011, Hapoalim Switzerland was notified that talks were underway between government agencies in Switzerland and in the United States in connection with the Double Taxation Treaty between these countries. The Swiss authorities informed Hapoalim Switzerland that several Swiss banks, including Hapoalim Switzerland, were under investigation by U.S. authorities. No details or circumstances concerning 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 business with American clients to the Swiss authorities, which they were to convey to the U.S. authorities.

As part of this process, in the second half of 2011, Bank Hapoalim Switzerland submitted statistical information to the Swiss authorities, without submitting identifying information regarding the clients, such as client names. 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 “Proposed Arrangement”), pursuant to which Swiss banks that choose to join the Proposed Arrangement and that meet its conditions (including the payment of a fine, and submission of extensive information regarding the accounts of their American customers, funds received from other banks, and more) will not be indicted in the United States in connection with matters covered by the Proposed Arrangement. The US Department of Justice stated that the Proposed Arrangement would not apply to 14 Swiss banks whose activity was under investigation. Therefore, Hapoalim Switzerland is not included in the Arrangement and on August 29, 2013, the US Department of Justice gave notice of this non-inclusion in a letter to the representative of Hapoalim Switzerland, because it was under investigation. Other than this letter, there has been no additional communication directed to Hapoalim Switzerland. Under these circumstances, Hapoalim Switzerland cannot estimate the extent to which it may be affected by this investigation.

Banque Hapoalim (Luxembourg) S.A. (hereinafter, “**Hapoalim Luxembourg**”) – A wholly-owned banking subsidiary engaged in financial and banking activity in and outside of Luxembourg. Hapoalim Luxembourg grants loans to private and institutional customers. During 2013, the necessary infrastructure was created at Hapoalim Luxembourg in order to grant commercial credit to Israeli clients operating in Europe. As of the fourth quarter of 2013, Hapoalim Luxembourg is absorbing clients which were previously in the London branch.

Global Private Banking Center in Tel Aviv – A center providing private-banking services 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 Guarantor, 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 PAM Companies are a key element in the implementation of the Guarantor's growth strategy abroad.

PAM Companies also develop, plan, and provide professional support for other 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 Guarantor's branches and subsidiaries abroad.

Bank Hapoalim (Cayman) Ltd. (hereinafter, "**Cayman**") – A commercial bank wholly owned by the Guarantor, which under the terms of its license is permitted to operate in all types of banking activity except for activity with local residents in the Cayman Islands. Cayman's assets include an investment in a wholly-owned subsidiary in Uruguay, Hapoalim (Latin America) S.A.

Hapoalim (Latin America) S.A. (hereinafter: "**Hapoalim Latin America**") – A bank wholly owned by Bank Hapoalim Cayman, provides private-banking services to the Guarantor's customers in South America. Hapoalim Latin America operates in Uruguay through three branches - Montevideo, Punta del Este and Colonia.

U.S. Branches

The New York Branch - Activity in the Corporate Segment

Most of the Bank Hapoalim Group's international corporate 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 Guarantor allows Israeli companies as well as American companies with assets in Israel to use collateral held in Israel in order to open credit lines at the New York branch. The New York branch also offers its customers FDIC deposit insurance, similar to American banks.
- Granting corporate credit to large companies in the US economy by participating in syndicated credit lines organized by leading banks (approximately 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 Guarantor'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 Guarantor will continue its activity in the syndications market, as a

complementary activity, as well as its activity with Israeli clients conducting business in the United States.

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.

Hapoalim Securities U.S.A. Inc. (hereinafter: “**Hapoalim Securities**”) – A broker-dealer (wholly owned by the Guarantor) registered and operating in the United States. Hapoalim Securities 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 scope of the Guarantor’s activity in securities trading on behalf of its customers.

The London Branch

Within the work plan approved for 2013-2015, the Guarantor decided to downsize the activity of its London branch, and to gradually terminate the provision of credit and private-banking services.

At the end of April 2014, all remaining loans and deposits were transferred from the London branch.

Activity in Emerging Markets

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

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 Guarantor'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.

RISK MANAGEMENT

General

The Guarantor's activity is accompanied by financial risks: credit risk, which represents the risk that a borrower or debtor will default on scheduled payments to the Guarantor as defined in a 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 are under their responsibility.

The member of the Board of Management responsible for managing credit risks is Mr. Shimon Gal. The member of the Board of Management responsible for managing market and liquidity risks is Mr. Dan Koller. The member of the Board of Management responsible for the Risk Management Area is Mr. Tzahi Cohen, Chief Risk Officer.

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, Ilan 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 Guarantor 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 and security-related risk.

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 various 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 Guarantor operates in accordance with the guidelines of the Supervisor of Banks concerning the chief risk officer and the risk management function. In addition, the Guarantor has established methodologies and working procedures for the implementation of the directives of the Supervisor of Banks concerning exposure to environmental risks and to 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," and Directive 342, "Liquidity 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 functions. 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 written opinion of the risk-management function under advisement. These directives took effect on January 1, 2014.

The Guarantor 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.

Risk management is performed based on a global view of the Guarantor's activity in Israel and of activity at the Guarantor's branches abroad, with due attention to the activity of banking subsidiaries. Risks are managed separately by each banking subsidiary in the Bank Hapoalim Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Guarantor. The Guarantor 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 Guarantor. The committee's mission is to formulate the Guarantor's risk-management policy, including establishing risk limits in the various areas of activity, examining the Guarantor's risk profile, monitoring the implementation of the established risk-management policy, and examining the processes and actions to be implemented by the Guarantor 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 Guarantor, is responsible for planning the Guarantor's risk-management policy, risk limits, and reporting and control procedures, and for examining the Guarantor'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 Guarantor and addressing matters requiring special attention.

The Risk Management Area – The member of the Board of Management responsible for the Risk Management Area is Mr. T. Cohen, Chief Risk Officer. The Area's primary objective is to instil an advanced culture of risk management and monitoring at the Bank Hapoalim Group,

while formulating risk-management policies and methodologies in line with the goals of the Group and with the Basel directives and 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 Risk Analysis and 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 Guarantor involves identification and assessment of the risks, and control of compliance with the limits stipulated in the various regulations, through three levels of control: the first level 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 level of control consists of the control units at the Risk Management Area, which is considered entirely independent of the business Areas. This level is also responsible for presenting an overview of risks. The second level of control contains additional independent control functions, such as accountancy, legal counsel, and human resources. The third level of control consists of the Internal Audit system.

Credit Risks

General

Credit risk is the risk that a borrower or debtor may default on obligations to the Guarantor under a credit agreement. The credit portfolio is a major component of the asset portfolio of the Guarantor; therefore, deterioration in the stability of the various borrowers can have an adverse effect on the Guarantor'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 Bank Hapoalim Group.

The Guarantor 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 Bank Hapoalim group to operate and to ensure that the Guarantor operate and to 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 Guarantor'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 diversification of the Guarantor'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 diversifying risks among economic sectors is based on an estimate of anticipated developments in the different sectors. For this purpose, the Guarantor conducts industry-level surveys and economic feasibility studies to evaluate the risk and business potential related to activity in the various economic sectors. The Guarantor's business objectives are determined in accordance with these surveys and studies. The credit management system monitors credit exposure of customers on a daily basis, and credit-control systems identify, monitor, and report to the responsible function and managers on negative signs regarding borrowers.

As part of its credit risk management policy, the Guarantor applies various 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 managers, 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 Guarantor has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of the 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 the customer manager and his or her staff with a comprehensive view of the activity of the borrower/group, including the level of credit risk.

4. Credit policies and procedures

The Guarantor's credit policies and procedures are binding for everyone involved in the area of credit at the Guarantor. The policies and procedures specify all of the principles and considerations related to credit granting, the authority to grant credit, and the prohibitions and limitations applied to credit granting. The procedures are a key means of managing credit risks, as they define the Guarantor'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 Guarantor's policies and principles in the area of credit. Credit risk management policy at the Guarantor'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 Guarantor 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 Guarantor's overseas subsidiaries and offices is approved by the local Board of Directors following consultation with credit-risk management officials at the Guarantor, and presented to the Board of Directors of the Guarantor.

Identification and Control of Credit Risks

The process of controlling and identifying credit risks is conducted by the three levels 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 level of control). This unit reports to the Board of Management and the Board of Directors of the Guarantor on trends and changes in the credit portfolio, including the levels 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 procedure for new products, which specifies the policies and procedures to be followed for each new product at the Guarantor 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) on the financial robustness of the Guarantor. 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 Guarantor 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 Guarantor customers' transactions involving derivative financial instruments, the Guarantor 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 Guarantor 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 Guarantor'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 in respect to transactions and to customers. Limits on exposure to counterparties are set by the appropriate credit authorities at the Guarantor.

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 concentration 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 Guarantor establishes credit policies, which are routinely examined and updated according to the changes in the financial markets and in the economy. This policy includes 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 Guarantor. 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 Guarantor to secure credit includes financial assets, real-estate assets, and other assets. Against credit granted to companies, the Guarantor also receives collateral in the form of general floating liens on the companies' assets.

Credit Exposure to Foreign Financial Institutions

In the course of its routine business operations, the Bank Hapoalim 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 Guarantor'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, mainly pension funds.

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 Guarantor's assets or impair the foreign institutions' ability to meet their obligations, including obligations to the Bank Hapoalim 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 the majority of the Bank Hapoalim 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.

Due to the financial crisis which peaked in 2008-2009, the Guarantor took steps to minimize risk by channeling activity in derivative financial instruments to institutions with which it has signed Credit Support Annex (CSA) agreements (offsetting agreements that limit and minimize the credit risks in this activity through daily account settlement usually performed between the Guarantor and the counterparty pursuant to the terms of the CSA). Settlement risks were also neutralized by conducting currency settlement 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 Guarantor 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.

Derivative Financial Instruments

The Guarantor executes transactions in derivative financial instruments as part of its 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. Activity in derivative financial instruments involves several risks, as detailed below:

- Credit risk – The maximum amount of loss to the Guarantor 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 Guarantor. 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 amount 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 by the Guarantor, 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 Guarantor.

Operational aspects arising from this activity are examined and controlled routinely by a specialised unit.

Exposure to Securitization

The Guarantor's exposure to securitization mainly includes liquidity lines to securitization entities. The current exposure to securitization is not substantial with respect to the Guarantor's portfolio.

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 Hapoalim Group or negatively affect the ability of debtors in that country to meet their obligations to the Guarantor.

The risk of exposure to foreign countries includes cross-border balance-sheet exposure (total balance-sheet exposure of the Guarantor in Israel to residents of foreign countries, plus total balance-sheet exposures of the Guarantor's overseas offices to non-residents of the country in which the office is located) as well as balance-sheet exposure of the Guarantor'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 Guarantor 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.

Identification and Treatment of Borrowers in Distress

The Guarantor has established procedures for the identification and handling of borrowers who, according to the Guarantor's evaluation, may default on their obligations to the Guarantor. These borrowers are supervised and monitored more closely, and the Guarantor 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 Guarantor 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 provision for credit losses in respect of the total credit risk at the Guarantor.

During the first half of 2013, the Supervisor of Banks issued substantial updates to several of the Proper Conduct of Banking Business Directives concerning risk management (Directives 310, 311, 314, and others). As part of the implementation of these directives, the Guarantor is preparing to update and enhance its procedures, methods, controls, and computerized systems in areas including the identification and treatment of borrowers in distress.

With regard to credit classified as "impaired," the provision 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 realization dates. Debts not expected to be collected within a reasonable period are written off, in accordance with the rules established in the Bank of Israel's directive. 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 estimate established, due to changes for the worse in economic parameters or for any other reason.

The suitability of the classification of the debt and of the collectible amount is approved by an officer one authorisation level above the level of the authorisation to grant the credit to the customer, with the necessary adjustments. For this purpose, a process is in place in which a discussion regarding the suitability of the classification and of the collectible amount for each such customer is held each quarter.

With regard to sound credit or problematic credit that is not impaired (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 Guarantor sets two provision rates for each economic sector, for problematic and sound credit risk, on a quarterly basis. The rates are set based on an analysis of historical credit losses, net charge-offs, the quality of the credit portfolio in the sector, and on an analysis of market trends, in accordance with the instructions of the Bank of Israel. In light of the draft of the new guidelines of the Supervisor of Banks concerning the collective allowance, as published in April 2013, the Guarantor plans to update its method for evaluation, control, and documentation of collective allowance rates and balances.

With regard to borrowers in the housing finance sector, a provision is also 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 provision 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. Guarantor 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 Guarantor 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; the method has replaced the previous calculation performed in respect of the portfolio of housing loans with a high leverage rate

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 Hapoalim Group; the execution of transactions that do not exceed the limits and at a price congruent with the risk; and to apply controls to ensure the Guarantor'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 Hapoalim Group.

The unit received responsibility for overseeing classifications and allowances of the Guarantor, 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, the Credit Control Department and the Credit Analysis Department.*

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; the implementation of the directive on impaired debts; monitoring credit exposures, the level of credit risk, and compliance with credit limits within the Bank Hapoalim Group, and reporting the results to the Board of Management and Board of Directors; applying extreme scenarios at the level of the Guarantor and of the Bank Hapoalim Group; and monitoring, measuring, and managing credit concentration risk.

In accordance with Directive 311, a team has been established to coordinate the process of writing and approving the Guarantor's credit policy.

The Credit Control Department performs independent assessments of the level of credit risk of all of the Guarantor'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 of the credit ratings of the examined borrowers. The department is responsible for credit control activities at the branches of the Guarantor 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 will examine the suitability of classifications and of individual allowances at the Guarantor, and will present its recommendations for the establishment of classifications and individual debt allowances in accordance with the hierarchy of authorizations.

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

Market and Liquidity Risks

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 Guarantor due to changes in prices, rates, spreads, and other parameters, such as interest rate risk, inflation risk and/or exchange rate risk, share price risk or spread risk.

Liquidity Risk — Defined as risk to the profit and stability of a banking corporation arising from an inability to supply its liquidity needs. The Guarantor takes a broad view of liquidity management, encompassing the Guarantor's ability to meet all of its current liabilities (including off-balance sheet liabilities), as well as its ability to do so without damage to its routine operations (i.e. to the Guarantor's ability to continue to finance new business according to its wishes and needs) and to its existing capabilities, and without sustaining exceptional losses.

Management of Market and Liquidity Risks

Market and liquidity risks are managed based on a global view of the Guarantor'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 on an economic basis, while maintaining approved controlled risk levels.

Risk limits reflect the Guarantor'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 regulations, including, among other things, limits on the sensitivity of the Guarantor's economic value to changes in the principal risk factors and specific limits for each of the various trading activities.

ALM and market and liquidity risk management policy are guided and controlled by the Global Asset and Liability Management Committee and the Board of Management Investment

Committee, which consist of members of the Guarantor's Board of Management, and are headed by the Guarantor's Chief Executive Officer. 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 Guarantor; 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 Hapoalim 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. Subsidiaries' exposures to market and liquidity risks 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 Guarantor at an appropriate frequency based on the risk level.

Market Risks

Market risk management at the Guarantor differentiates between exposures that arise in the course of the Guarantor's routine asset and liability management (ALM – the banking book, “non-trade”) and exposures in the trading book (“trade”).

Liquidity Risk

Liquidity risk at the Guarantor, in foreign currency and in NIS, is managed and controlled routinely, in accordance with Bank Hapoalim Group policy, with the aim of ensuring the Guarantor's 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 No. 342, “Liquidity Risk Management,” the Guarantor operates an internal model for the assessment of liquidity risk.

The Guarantor 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.

In January 2013, the Bank of Israel issued an amendment of Proper Conduct of Banking Business Directive No. 342. According to the circular accompanying this directive, the Bank of

Israel intends to adopt the Basel 3 directives on liquidity risk, with the necessary changes, at a date to be determined following study of the Basel 3 recommendations and their implications for the banking system.

In February 2014, the Bank of Israel issued 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 Guarantor submitted the data as required.

In March 2014, the Bank of Israel issued a draft reporting directive addressing liquidity risk among other matters. The Guarantor will prepare to implement these directives.

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 Hapoalim Group, and for independent control over market and liquidity risks in the Group.

The Guarantor's risk level is measured and controlled according to procedures that include, among other things, limits on the sensitivity of the Guarantor'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 materialisation of market risks within a given period of time and at a level of statistical significance predefined by the Guarantor and approved by the Board of Directors. Risk assessments as well as limit control of trading positions are performed at least once daily.

Market Risk Assessment Methodology

The risk assessment methodology, is congruent with the strategic objectives of the Bank Hapoalim Group and with the requirements of the Basel Committee, and complies with international standards.

Control of Procedures for Exposure to Market and Liquidity Risks

A policy document on exposures to market and liquidity risks in the Bank Hapoalim Group is presented to the Board of Directors for approval each year, for the coming year of activity.

Operational and Legal Risk

Operational Risk

Operational risk is defined as the risk of loss that may be caused by failed or faulty internal processes, human actions, system malfunctions, or external events. 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 Guarantor 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.

The responsibility for routine management of operating risk and for activities aimed at mitigating the risk lies with the Area managers and the managers of subsidiaries in the Bank Hapoalim Group. These activities are overseen by the Operational Risk Management Department in the Risk Management Area.

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 Guarantor. 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 Basel 2 standards on Sound Practices.

The Guarantor's activity in this area is conducted according to the rules of the 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.

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 frequency and severity of cyber incidents to which the Guarantor is exposed has increased in recent years. There is a possibility that the Guarantor may incur costs and suffer negative consequences as a result of cyber attacks. The Guarantor invests extensive human and technological resources to minimize and prevent this risk, but absolute protection cannot be ensured.

Emergency preparedness – In order to preserve business continuity, survivability, and the continuous activity of the Guarantor in an emergency The Guarantor has continuous preparedness based on detailed action plans, working procedures, and periodic drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Guarantor 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. Several emergency drills are held by the Guarantor each year, 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 Guarantor.

Insurance – The Guarantor 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 Guarantor and to its customers as a result of malicious penetration of the Guarantor'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 Guarantor 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 Guarantor 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.

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 Guarantor, and is rated on a scale of low, medium, and high.

In order to quantify the various risk factors that may affect the Guarantor, different possible risk scenarios were examined for most of the risk factors and the extent of the potential effect of each scenario on the Guarantor'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		x	

1.1.	Risk in respect of the quality of borrowers and/or collateral	x
1.2.	Risk in respect of sectoral concentration	x
1.3.	Risk in respect of concentration of borrowers/borrower groups	x
2.	Market risk	x
2.1.	Interest-rate risk	x
2.2.	Inflation risk / exchange-rate risk	x
2.3.	Share price risk	x
3.	Liquidity risk	x
Operational and legal risks		
4.	Operational risk	x
5.	Legal risk	x
Other risks		
6.	Reputation risk	x
7.	Competition risk	x
8.	Regulation and legislation risk	x
9.	Economic risk – condition of the Israeli economy	x
10.	Economic risk – condition of the global economy	x
11.	Political/security risk	x
12.	General risk – dissolution of the Eurozone	x

Board of Directors of the Guarantor

The table below sets out the members of the Board of Directors of the Guarantor at the date hereof:

Name	Activities in Last Five Years
Yair Seroussi	Chairman of the Administrative Committee —

Name

Beginning of Service: 4 June 2009

Chairman of the Board of Directors since 1 August 2009

Served as Deputy Chairman of the Board of Directors 4 June 2009 until 31 July 2009

Chairman of the following Board Committees: the Credit Committee; the Remuneration Committee in expanded format; 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, and the Risk Management and Control Committee.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Mali Baron

Beginning of Service: 10 September

Activities in Last Five Years

Poalim Bekehila Foundation & of the Peretz Naphtali Foundation

Member of the Board of Trustees of the Hebrew University.

Member of the Board of Directors of the following companies: DSP Group Ltd., Amdeal Y.S. Ltd., Amdeal Holdings (1999) Ltd.

Served as chairman of the board at the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Eyal Microgal Ltd., Diur B.P. Ltd., Diur B.P. Investments (1992) Ltd., and Diur B.P. Assets (1993) Ltd.; and as a director at the following companies: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., 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., and Europort 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.

Served as Chairman of the fund Mustang Mezzanine Investments Ltd., as a member of the investment committee of the Sky 1 private equity fund, and as a member of the Advisory Board of the Caesarea Center; however, he no longer serves in these positions.

Director of companies.

Member of the Board of Directors of the

Name	Activities in Last Five Years
<p>2007</p> <p>Serves as external director under directive 301 of the proper conduct of banking business directives of the supervisor of banks.</p> <p>Chairman of the Transactions with Related Parties Committee.</p> <p>Member of the following Board Committees: the Corporate Governance Committee, the Credit Committee, the Risk Management and Control Committee and the Audit Committee.</p> <p>The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on her declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.</p>	<p>following companies: Maliba Ltd. (external director).</p> <p>Serves as member of the Investments Committee of Tel-Aviv University.</p> <p>Served as Member (internal) of the Profit-Participatory Investment Committee at The Phoenix Investment and Finance Ltd., and as a member of the Board of Directors of ECTel Ltd. (external director) but as of today does not serve at these companies.</p> <p>The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.</p>
<p>Amnon Dick</p> <p>Beginning of Service: 24 March 2010.</p> <p>Serves as external director under directive 301 of the proper conduct of banking business directives of the supervisor of banks.</p> <p>Member of the following Board Committees: the Investment Approval Committee, the Overseas Banking and International Activity Committee, the Information Technology Committee, the Remuneration Committee in its expanded format and the New Products Committee.</p> <p>The Board of Directors has determined that the director has “accounting and financial expertise” and “professional</p>	<p>Businessman, partner in communications companies, consultant, and director.</p> <p>.</p> <p>CEO of Adsensory Ltd.</p> <p>Member of the board of directors of the following companies: Non Stop Radio Ltd.; Northern Radio Holdings Ltd.; Radio 99 ECO Ltd; and Habimah National Theatre (a public benefit company).</p> <p>President of the Association of Friends of Tel Aviv University.</p> <p>Served as director in the board of directors of the companies: MIRS Communication Ltd and East West Innovations, but as of today does not serve in any of them.</p> <p>In the past served as CEO of the Bezeq Group,</p>

Name

qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Nir Zichlinsky

Beginning of Service: 10 September 2007

Member of the following Board Committees: the Audit Committee and the Information Technology Committee.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Activities in Last Five Years

Chairman and CEO of Elite International, and in other senior management positions.

The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.

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. & Zichlinsky Ltd.

Chairman of the board of the following companies: SRI Global Finance Group Ltd. & SRI Master.

Member of the board of directors at the following companies: Shikun & Binui Ltd., Shikun & Binui - SBI Infrastructure Ltd., Shikun & Binui Real Estate Ventures Ltd., Shikun & Binui – Renewable Energy Ltd., Shikun & Binui -Solel Boneh (Building and Infrastructure) Ltd., Shikun & Binui - Solel Boneh - Infrastructure Ltd., Shikun & Binui – Water Ltd., SRI Consulting Ltd., Migdalor Investments (SRI) 2009 Ltd., Central Company for Social Finance Services (SRI) Ltd., Jerusalem Technology Investments (J.T.I) Ltd., and Paz Training Ltd.

Member of the Management Committee of the Friends of Rabin Medical Center; Presidium member of The Charitable Association "Yad Be Yad"; Member of the Board of Trustees and the

Name**Activities in Last Five Years**

Finance Committee of Rishon Letzion College of Management; Partnership in the matter of Social Businesses at Matan – Investing in the Community; and a Trustee at WIZO – Women's International Zionist Organization.

Founder and President of the Israeli Director Union Ltd.; President of Project Nova – Management Community Service; Member of the Leading Team of the Social Entrepreneurship Center of Savyon.

Chairman of the Pioneer Students for Israel Association.

Served as Deputy General Manager and Head of Business Development at companies in the group of the controlling shareholders: 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 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.

For eighteen years, lecturer at the business administration and accounting departments for undergraduate and graduate studies at Tel Aviv, Hebrew, and Bar Ilan Universities, the Interdisciplinary Center Herzliya, the College of Management, the Academic College, and the Lander Institute.

Served as director in the following companies: Stone and Limestone Industries Ltd., Gaon Holdings Ltd. and Israel Salt Industries Ltd. but as of today does not serve in any of them.

The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.

Name**Irit Izakson**

Beginning of Service: 27 December 1999

Chairman of the following Board Committee: the Finance and Prospectus Committee and the Risk Management and Control Committee.

Member of the following Board Committees: Credit Committee, and New Products Committee.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Moshe Koren

Beginning of Service: 3 August 1992

Member of the following Board Committees: Credit Committee, Transactions with Related Parties Committee, the Risk Management and Control Committee, the New Products Committee, the Remuneration Committee in expanded format and the Finance and Prospectus Committee.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with

Activities in Last Five Years

Chairperson of the board of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.

Serves as a director in the following companies: Arison Holdings (1998) Ltd., Arison Investments Ltd., and Shikun & Binui Ltd.

Member of the Board of Trustees of Ben Gurion University Member of the Executive Board of the Association of Public Companies.

Served as director in the companies: Israel Corp Ltd., Israel Chemicals Ltd., Dead Sea Bromine Ltd., Bromine Compounds Ltd., and I.D.B. Development Company Ltd., but as of today does not serve in any of them.

Also served as chairperson of the board of directors of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Aminit Ltd., and Poalim Express Ltd.; however, she no longer serves at these companies.

Served as a member of the board of trustees of the Van Leer Jerusalem Institute.

Banking and financial advisor

Served as director of the following companies: Psagot Investment House Ltd., Psagot Securities Ltd., but as of today does not serve in any of them.

The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.

Name**Activities in Last Five Years**

accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Efrat Peled

Beginning of Service: 24 January 2007

Member of the following Board Committees: the Remuneration Committee in expanded format, the Finance and Prospectus Committee, the Overseas Banking and International Activity Committee, and the Risk Management and Control Committee and the Corporate Governance Committee.

Serves as Chairperson of the board of directors and CEO of companies in the group of the controlling shareholders: Arison Holdings (1998) Ltd., Arison Investments Ltd., Arison Sustainability Ltd., Arzaf Ltd., Arzaf B (97) Ltd., and Arzaf C Ltd.; and as CEO of SAFO LLC.

Member of the board of directors of the following companies: Shikun & Binui Ltd., Av-Ar Capital Investments 1997 Ltd., Arshav Holdings Ltd., Salt of the Earth Ltd., Arison Investments USA LLC, Miya S.a.r.L., and Miya Luxembourg S.a.r.L.

Member of the Board of Directors and the Investment Committee of the Weizmann Institute of Science.

Served as a director at Biomedical Investments (1997) Ltd.; however, she no longer serves there.

Nechama Ronen

Beginning of Service: 3 February 2010

Member of the following Board Committees: Corporate Governance Committee, the Remuneration Committee and the Remuneration Committee in expanded format.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with

Chairperson of the board of directors of the following companies: Maman – Cargo Terminals Ltd. and the Recycling Corporation (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 director in the following companies: Israel Salt Industries Ltd., Kaman Holdings Ltd. Kamur Ltd, and Oil Refineries Ltd. (director and chairperson of the Quality of the Environment Committee); but as of today does not serve in any

Name

accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Imri Tov

Beginning of Service: February 5, 2009

Serves as external director as defined in Section 240 of the Companies Law.

Member of the following Board Committees: the Credit Committee, the Transactions with Related Parties Committee, the Audit Committee, Remuneration Committee and the Remuneration Committee in expanded format, the Investment Approval Committee, the Finance and Prospectus Committee, the Risk Management and Control Committee, the Overseas Banking and International Activity Committee and the Corporate Governance Committee.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Meir Wietchner

Beginning of Service: 24 November 2009

Chairman of the Information

Activities in Last Five Years

of them.

The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.

Director of companies; business consultant. consultant and researcher in defense economics.

Serves as a Director of MTA Holdings Ltd., IC Green Energy (ICG) 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.

Served as director in the following companies: Elisra Electronic Systems Ltd., Opterisity Ltd., Shufersal Ltd. (external director), Granit Hacarmel Investments Ltd. (external director); as an external director of the Provident Fund of State Employee Physicians (Aram); 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 there. The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.

Serves as Head of Global Strategy for the Arison Group and as Chairman of the Miya Group.

Member of the board of directors of the following companies: Miya S.a.r.L., Miya Bahamas Ltd., Miya Water Projects Ltd., Miya Water Holdings

Name

Technology Committee; member of the Overseas Banking and International Activity Committee.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Yosef Yarom

Beginning of Service: 21 March 2011

Member of the following Board Committees: the Audit Committee and the New Products Committee.

Serves as external director under directive 301 of the proper conduct of banking business directives of the Supervisor of banks.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Activities in Last Five Years

Ltd., Dorot Management Ltd., Control Valves Ltd., Miya Water (Proprietary) SA, Miya Water Mexico, V.DEC. S.A., Miya NL Holdings BV, Miya NL Projects BV, Miya Manila Water Projects Inc., WRP Consulting Engineers (Proprietary) Ltd., Miya Lux Holdings S.a.r.L., Swiss IP Branch, Miya Australia Holdings PTY LTD, Miya Voda D.O.O., 4Water Supplies (Pty) Ltd., Romiya (Subsidiary of Miya Water S.R.L), Miya Colombia S.A.S, Miya Puerto Rico LLC.

Served as director of Eyal Microwave Ltd., however, he no longer serves there.

Also served as a director at Storwize Ltd., Storwize Inc. (Delaware-US), Veritec Consulting Inc., Miya Brasil Soluções em Engenharia Hidráulica Ltda, and Four Integrity Group Ltd., however, he no longer serves there.

Lecturer on Auditing in the business sector at Haifa University

Serves as member of the Board of Directors of the Ort Hermelin Netanya Academic College of Engineering and Technology Ltd.

Served as director in the following companies: Bank Massad Ltd., Ubank Ltd., and Clarity Family Office. Also served as a member of the Audit Committee of the Movement for Quality Government of Israel, and as a member of the credit committee of Dash Provident Funds Management Ltd.

The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.

Name**Activities in Last Five Years****Yacov Peer**

Beginning of Service: 6 October 2010

Member of the following Board Committees: the Finance and Prospectus Committee and the Audit Committee.

Serves as external director under directive 301 of the proper conduct of banking business directives of the supervisor of banks.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Financial and management consultant for small businesses.

The director is not an employee of the Guarantor, of a subsidiary or a related company thereof or of an interested party therein.

Yair Tauman

Beginning of Service: December 1, 2011

Serves as external director under directive 301 of the proper conduct of banking business directives of the supervisor of banks.

Member of the Investment Approval Committee

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999,

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.

Director of the Center for Game Theory in Economics, State University of New York at Stony Brook.

Member of the board of directors of the following companies: Radware, ADVFN (London), Bidorbuy, Expobee (chairman), Digiblock, Bizzabo Ltd., Lemon Grass Global Ltd., A.T. Kerem inr Hanegev Ltd. and the Nissan Nativ Acting Studio – Performing Arts Organization.

From 1984 to 2008 served as a professor at the Faculty of Management, Tel Aviv University.

Name

and its regulations.

Activities in Last Five Years

From 2010 to 2011 served as dean of the Arison School of Business at the Interdisciplinary Center Herzliya.

The director is not an employee of the Guarantor, or of a subsidiary, related company, or interested party of the Guarantor.

Dafna Schwartz

Beginning of Service: April 6, 2012

Serves as external director under directive 301 of the proper conduct of banking business directives of the supervisor of banks.

Chairman of the Audit Committee and a member of the Transactions with Related Parties Committee, the Remuneration Committee and the Remuneration Committee in expanded format.

The Board of Directors has determined that the director has “accounting and financial expertise” and “professional qualification” based on his declaration for the purposes of attaining the “minimum number” of directors with accounting and financial expertise stipulated by the Board of Directors, as required by the Companies Law, 1999, and its regulations.

Serves as professor, 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 section 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. Acts as an economics-business consultant in Israel and abroad (Prof. Dafna Schwartz Economic Business Development Ltd.).

Member of the National Council for Research and Development; and of the Board of Trustees of Achva Academic College for Education.

Member of the Expert Group:” Policy, relevant research on entrepreneurship and SME’s”, European Commission, Enterprise and Industry, Director General.

Serves as a member of the boards of directors of the following companies: Teva Pharmaceutical Industries Ltd. (external director) and Strauss Group Ltd. (external director).

Over the last five years or part of them officiated as a member of the boards of directors of the following companies: ORL - Oil Refineries Ltd. (external director); Rotem Industries Ltd.; Albaad Massuot Itzhak Ltd.; Discount Bank; Giron Development and Building Ltd. (external director); The Phoenix Insurance Company Ltd. and The Phoenix Holdings Ltd.; Orda Print Industries Ltd. (external director); Leumi Securities and Investments (formerly Psagot Ofek

Name**Activities in Last Five Years**

Investment House Ltd.), however, she no longer serves at these companies.

The director is not an employee of the Guarantor, or of a subsidiary, related company, or interested party of the Guarantor.

Ido Stern

Attorney

Beginning of Service: September 24, 2012

Deputy General Manager and Legal Advisor of Arison Holdings (1998) Ltd. and Arison Investments Ltd.

Member of the following board committees: the Investment Approval Committee, the Corporate Governance Committee and the Overseas Banking and International Activity Committee.

Serves as member of the boards of directors of the companies: Shikun & Binui Ltd., Salt of the Earth Ltd.

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 deep understanding of the key areas of activity of the Guarantor, based on his declaration.

The business address of each of the above is c/o Bank Hapoalim B.M., 50 Rothschild Boulevard, Tel Aviv 66883, Israel.

No potential conflicts of interest exist between any duties to the Guarantor of the persons on the Board of Directors and their private interests or other duties.

The Board of Management of the Guarantor

The Board of Management is the chief executive body of the Guarantor and is responsible for its day-to-day management. Its members are elected by the Chief Executive Officer of the Guarantor, subject to the approval of the Board of Directors.

All members of the Board of Management are active officers of the Guarantor, each member being responsible for one or more fields of activity. The Chief Executive Officer of the Guarantor presides over the Board of Management and is responsible for the implementation of the resolutions and policy guidelines set by the Board of Directors. There is no required number

of members of the Board of Management. The Board of Directors may remove any member of the Board of Management.

The table below sets forth the members of the Board of Management of the Guarantor at the date hereof:

Name and personal information	Activities in the last five years
<p>Zion Kenan</p> <p>President and CEO as of 27 August 2009.</p> <p>Member of the Board of Management since September 2001</p>	<p>From June 10, 2009 to August 27, 2009, Acting Deputy CEO and Head of Corporate Banking.</p> <p>From January 2008 to June 10, 2009, Deputy CEO and Head of Corporate Banking.</p> <p>Served as a director of the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., and Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi; however, he no longer serves at these companies.</p>
<p>Amir Aviv</p> <p>Head of International Banking.</p> <p>Member of the Board of Management as of December 1, 2013.</p>	<p>From November 2009 to November 2013 President and CEO of Poalim Capital Markets Ltd.</p> <p>President and CEO of Poalim Capital Markets Ltd.</p> <p>Chairman of the Board of Directors of the following companies: Hapoalim Securities USA, Inc., PAM Holdings Ltd., Poalim Asset Management (UK) Ltd.</p> <p>Member of the following Board of Directors: Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Capital Markets - Investment House Ltd., Poalim I.B.I. Managing & Underwriting Ltd.; Poalim Ventures Ltd., Poalim Ventures – Fund Management Ltd., Poalim Capital Markets (Euro) Ltd., Poalim Capital Markets - Financial Applications & Research Ltd., Diur B.P. Ltd., PCM–HSU Holdings Inc., Bank Hapoalim (Switzerland) Ltd., Bank Pozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, and the Center for Education Technology (Public Benefit Company).</p> <p>Served as chairman of the board of directors of the following companies: Poalim Capital Markets</p>

Name and personal information**Activities in the last five years**

and Investment Holdings Ltd., Poalim Capital Markets Ltd., and Poalim Capital Markets - Investment House Ltd.; however, he no longer serves as chairman at these companies.

Jacob Orbach

Head of Corporate Banking.

Member of the Board of Management as of July 6, 2009.

Served as Chief Internal Auditor of the Guarantor from January 2010 until January 5, 2014

Ron Weksler

Head of Corporate Strategy.

Member of the Board of Management as of November 1, 2013.

From September 2007 to September 2011, Head of Southern Region – Bank Hapoalim Ltd.

From October 2011 to October 2013, Vice President Commerce Development & Sales – Isracard Group.

Director at Global Factoring Ltd.; however, he no longer serves there.

Served as a director and member of the Audit Committee of Isracard, however, he no longer serves there.

Efrat Yavetz

Head of Human Capital, Advising and Resources

Member of the Board of Management as of October 1, 2009.

Until September 2009, Head of securities and financial assets division.

Chairperson of the board of directors of the following companies: Avuka Hevra le Hashkaot Ltd., Otsar Bavel Ltd., Nichsei Bavel Ltd., Mivnim Vetsiud Ltd., Alzur Property Development Company Ltd., Tzadit Ltd., Revadim (Nechasim) Ltd., Ramchal Poalim Ltd., Bami Nechasim Ltd., and Bitan Investments and Mortgages Ltd.

Member of the Administrative Committee of the Poalim for the Community Foundation.

Served as a director at the following companies: the Tel Aviv Stock Exchange Ltd., Bank

Name and personal information	Activities in the last five years
Tsahi Cohen	Hapoalim Nominee Company Ltd., PAM Holdings Ltd., Poalim Asset Management (UK) Ltd., and Maritime Nechasim Ltd.; however, she no longer serves at these companies.
Chief Risk Officer	Head of Credit Analysis and Project Finance - Bank Hapoalim from 2004 to June 2012.
Member of the Board of Management as of July 2012	
Ofer Levy	Member of the board of directors of the following companies: Poalim Express Ltd., AMI Trustees Ltd., and Yefet Nominees Ltd.
Chief Accountant	
Member of the Board of Management since May 2006	
Ilan Mazur	Serves as director in the Board of Directors at Bank Hapoalim (Switzerland) Ltd.
Chief Legal Adviser of the Guarantor.	
Serves as a Member of the Board of Management since August 2003	
Zvi Naggan	Member of the IT committee of the TASE.
Head of Information Technology	
Serves as a Member of the Board of Management since April 2011	From 2005 until the beginning of 2011 served in a number of senior positions at Amdocs, last position President of Product Business Group and Member of Senior Management
Yadin Antebi	From 2005 to December 2009, Commissioner of Capital Markets, Insurance & Savings – Ministry of Finance, Capital Markets, Insurance & Savings Division.
Head of Finance, CFO.	
Member of the Board of Management as of July 23, 2013	From February 2011 to July 2012, CEO – DS Investment House.
	Serves as director in the board of directors of Sure-Ha International Ltd. and as chairman of the

Name and personal information

Activities in the last five years

Ari Pinto

Head of Retail Banking

Member of the Board of Management since September 2009

board of directors of the following companies: Yadin Antebi Consulting Ltd., Poalim Mortgages Insurance Agency (2005) Ltd. and Poalim Ofakim Ltd.

Served as director in the board of directors of the following companies: DS Pension Fund Ltd., Tachlit Exchange Traded Funds Ltd. and Nechasim M.I. Ltd.; however, he no longer serves at these companies

From September 2009 to October 2013, Head of Corporate Strategy.

From November 2007 to September 2009, Head of Retail Credit and Mortgages Division.

From December 2002 to August 2007, Head of Human Resources Division.

Dan Alexander Koller

Head of Financial Markets

Member of the Board of Management since January 2008

From July 2012 to November 2013, Head of International Banking.

From January 2008 to June 2012 Senior Deputy Managing Director, Head of Risk Management

Serves as Chairman of the Board of Directors at the following companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., Bank Hapoalim (Switzerland) Ltd., Poalim Asset Management (UK) Ltd. PAM Holdings Ltd., Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets - Investment House Ltd., Poalim Capital Markets Ltd., Hapoalim Hanpakot Ltd., Tarshish – Hapoalim Holdings and Investments Ltd., Hapoalim Nechasim (Menayot) Ltd., Opaz Ltd., Continental Poalim Ltd., Hapoalim Americai Israeli Ltd., Pekaot Poalim Ltd., Bank Hapoalim Nominees Co. Ltd., Poalim Financial Holdings Ltd., and Hapoalim International N.V.

Served as a director of the following companies: Hapoalim Nechasim (Menayot) Ltd., Pekaot Poalim Ltd., Continental Poalim Ltd., Hapoalim USA Holding Company Inc., Igarot Hevra

Name and personal information**Activities in the last five years**

Lehanpakot shel Bank Hapoalim Ltd., Bitzur Ltd., Hapoalim American Israeli Ltd., Tmura Hevra Finansit Ltd., Teuda Hevra Finansit Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Agam Hevra Finansit Ltd, Opaz Ltd., Atad Hevra Lehashkaot Ltd., Zohar Hashemesh Lehashkaot Ltd., Einat (Nechasim) Ltd., Poalim Betevuona Ltd., Poalim Venture Services Israel Ltd., Investment Company of Continental Ltd., Maritime Investments Ltd., Maritime Poalim Nihul Ltd., Kadima Poalim Hevra Finansit Ltd., Bannad Hevra LeHashkaot Ltd., Tuval Hevra LeHashkaot Ltd., Maritime Hevra Finansit Ltd., Maritime Nyarot Erech Ltd., Bank Otsar Hahayal Ltd.; however, he no longer serves at these companies.

Served as Deputy Chairman of the Board of Directors of BankPozitif Kredi Ve Kalkinma Bankasi Anonim Sirketi, however, he no longer serves at this company.

Also served as CEO at Mitar Hevra Lehanpakot Ltd.; however, he no longer serves here.

The business address of each of the above is c/o Bank Hapoalim B.M., 50 Rothschild Boulevard, Tel Aviv 66883, Israel.

No potential conflicts of interest exist between any duties to the Guarantor of the persons on the Board of Management and their private interests or other duties.

Other Senior Officers of the Guarantor**Zeey Chayu**

Chief Internal Auditor, Head of Internal Audit in Israel and Abroad.

Serves as Chief Internal Auditor as of July 14, 2014.

From February 2006 to December 2009, Head of Corporate Division.

From August 2006 to January 2012, Head of Financial Market Operational Services Division.

From January 2012 to July 2014, Head of Financial Asset Manager Services Division.

Serves as chief internal auditor of the following

Name and personal information**Activities in the last five years****Yoram Weissbrem**

Secretary of the Guarantor as of April 4, 1995.

companies: Isracard Ltd., Europay (Eurocard) Israel Ltd., Poalim Express Ltd., Peilim - Portfolio Management Company Ltd., Poalim Sahar Ltd., Poalim Capital Markets and Investment Holdings Ltd., Poalim Capital Markets Ltd., Poalim Ventures – Fund Management Ltd., and Poalim Capital Markets – Investment House Ltd.

Serves as director on the board of directors of the following companies: Bitzur Ltd., Opaz Ltd., Hapoalim Nechasim (Menayot) Ltd., Tarshish Hapoalim Holdings and Investments Ltd., Tmura Hevra Finansit Ltd., Teuda Hevra Finansit Ltd., Igarot Hevra Lehanpakot of Bank Hapoalim Ltd., Poalim Betevouna Ltd., Zohar Hashemesh Lehashkaot Ltd., Bannad Hevra Lehashkaot Ltd.

Member of the Executive Committee of the Poalim Bekehila, the IUPA Foundation for Stage Performers – Klatshkin, the Tovah and Eliyahu Margalit Scholarship Foundation (Registered Non-Profit Association); the Y. Apter, Y. Bareli, S. Goren, A. Zabersky, Y. Horin, R. Shenkar Founders Foundation (Registered Non-Profit Association).

Served as a director of the following companies: Shirion Hevra Lehashkaot Ltd. and Tuval Hevra Lehashkaot Ltd.; however, he no longer serves at these companies.

Eli Cohen

Head of Marketing Strategy, Service, and Corporate Social Responsibility as of January 15, 2011.

Member of the Or Yarok Council, the Foundation for Changing the Driving Culture in Israel.

Director and representative of the city of Tel Aviv on behalf of the public at the Hacameri Building 1961 Ltd. corporation (manager of Global City), Member of the governing board and representative of the city of Tel Aviv on behalf of the public at the Tourism Foundation (manager of Global and Tourism City), Member of the marketing and business development committee

Name and personal information

Activities in the last five years

at the Tel Aviv Stock Exchange.

From 2009 to 2010 served as VP of Commercial and Industry Affairs at El-Al Israel Airlines.

The business address of each of the above is c/o Bank Hapoalim B.M., 50 Rothschild Boulevard, Tel Aviv 66883, Israel. No potential conflicts of interest exist between any duties to the Guarantor of the persons listed above as “Other Senior Officers of the Guarantor” and their private interests or other duties.

TAXATION

The following is a general description of certain Curaçao and Israeli tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.

Curaçao Taxation

The Issuer and the Guarantor have been advised that, under present Curaçao law, Curaçao does not impose any withholding taxes, other than a savings tax under the National Ordinance on Savings Tax (*Landsverordening spaarvermogensheffing*) in respect of payments of interest or deemed interest to natural persons, residents of EU Member States who do not wish details of payments of interest to them to be provided to the tax authorities of such EU Member State if these interest payments are made by a paying agent (*uitbetalende instantie*) seated in Curaçao. Accordingly, no withholding on account of any Curaçao taxes is required with respect to any payments of principal of, and interest on, the Notes or gains realised on the sale or redemption thereof if such payments are actually made by Bank Hapoalim (Luxembourg) Ltd., located in Luxembourg or Bank Hapoalim (Switzerland) Ltd. located in Switzerland, as Paying Agents under the Programme.

The Issuer and the Guarantor have further been advised that, under present Curaçao law, payments of principal of, and interest on, the Notes held by persons not resident in, and not engaged in trade or business through a permanent establishment in Curaçao and gains realised on the sale or redemption thereof by such persons will not be subject to any Curaçao income or gift taxes solely by reason of their ownership of Notes and that no inheritance tax arises in Curaçao on the death of a Noteholder not domiciled in Curaçao at the time of death.

Israeli Taxation

The following general summary is based upon the tax laws of Israel and practice statements of the Israeli Tax Authority as in effect at the date of this Offering Circular and is subject to any change that may come into effect after that date. This summary does not contain a comprehensive discussion of all relevant tax matters and is not intended to be, and should not be construed as, legal or tax advice to any prospective investor. Each prospective investor is advised to consult its own tax advisors with respect to the Israel tax consequences arising from the holding, disposal or redemption of a Note.

Payments of Principal, Interest and Redemption Premium Under the Notes

All payments of interest, principal and redemption premium under the Notes by the Issuer to a holder thereof who is not an Israel resident and has not been an Israel resident while holding the Notes may be made free of withholding taxes withheld or assessed by Israel or any tax authority thereof. A holder of a Note who derives income from a Note including redemption premium will be subject to Israeli taxation on income if the holder is, or is deemed to be, resident in Israel

for the purposes of the relevant provisions in the tax laws of Israel. A holder of a Note who realises a gain on the disposal of a Note will be subject to Israeli taxation on capital gains if the holder is, or is deemed to be at any time during which he held the Note, resident in Israel for the purposes of the relevant provisions in the tax laws of Israel. In such cases payments will be subject to withholding tax by the Israeli bank receiving the income or the disposal or redemption proceeds, as the case may be.

Payment of Principal, Interest and Redemption Premium Under the Guarantee to Holders of the Notes

As from 1 January 2014, an Israeli withholding tax of 25 per cent. in the case of Noteholders who are individuals and 26.5 per cent. in the case of Noteholders that are corporate entities, may apply to payments of interest and the redemption premium under the Guarantee in respect of the Notes, in each case paid by the Guarantor under the Guarantee to persons who are not resident in Israel. Withholding tax may, however, be reduced by (i) an appropriate double taxation treaty to which Israel is a party and the “interest” article of which provides for a full or partial exemption from withholding tax on interest payments; or (ii) by a ruling which the Israeli Minister of Finance may in his discretion make and which provides for a full or partial exemption from withholding tax on interest payments. Pursuant to the Terms and Conditions of the Notes, all payments made by the Guarantor under the Guarantee in respect of the Notes will be made without withholding or deduction for or on account of Israeli taxes unless such withholding or deduction is required by law. In such event, the Guarantor will, subject to certain exceptions, pay such additional amounts as shall be necessary in order that the net amounts received by the Noteholders, Receiptholders or Couponholders after such withholding or deduction, shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction.

As from 1 January 2014, payments of interest and the redemption premium under the Guarantee in respect of a Note which the Guarantor pays to persons who are, or are deemed to be, resident in Israel will be subject to an Israeli withholding tax of 25 per cent. in the case of individuals and 26.5 per cent. in the case of corporate entities.

An individual who is, or is deemed to be, resident in Israel is subject to additional income tax of 2 per cent. on any income exceeding NIS 811,560, as of 1 January 2013.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or

transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. The Issuer's understanding is that Switzerland has agreed to adopt similar measures to those contained in the EU Savings Tax Directive. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

Curaçao

Curaçao as an associated territory of the EU has adopted the National Ordinance on Savings Tax (*Landsverordening spaarvermogensheffing*) implementing the EU Savings Tax Directive.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to Bank Hapoalim (Switzerland) Ltd. and Bank Hapoalim BM (each a “Dealer” and collectively, the “**Dealers**”). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, a Dealer are set out in a Dealer Agreement dated 3 June 2014 (the “**Dealer Agreement**”) and made between the Issuer, the Guarantor and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by a Dealer and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of the existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America: *Regulation S Category 2; TEFRA D or TEFRA C as specified in the relevant Pricing Supplement or neither if TEFRA is specified as not applicable in the relevant Pricing Supplement.*

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Fiscal Agent or the Issuer by the Dealers (or, in the case of a sale of a Tranche of Notes to or through more than one Dealers, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Fiscal Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and the Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent

and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (c) *Approved prospectus*: if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the pricing supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or pricing supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (d) *Authorised institutions*: at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (e) *Significant enterprises*: at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, all as shown in its last annual or consolidated accounts;
- (f) *Fewer than 100 offerees*: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (g) *Other exempt offers*: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

provided that no such offer of Notes referred to in (ii) to (iv) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member

State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed that:

- (h) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:
- (iii) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and:
- (iv) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (C) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (i) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (i) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or, in the case of the Guarantor would not, if it was not an authorised person, apply to the Guarantor; and
- (j) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Curaçao

The Notes may not be offered or sold, directly or indirectly, in Curaçao or to any citizen or inhabitant thereof (including any corporation or partnership or other entity created by, organised in, or under the laws of Curaçao) who is treated as a “resident”, as defined in Article 1 of the Foreign Exchange Regulation Curaçao and Sint Maarten (2010), and who has not obtained a licence or exemption to purchase the Notes or who does not have “non-resident” status under the Foreign Exchange Regulation Curaçao and Sint Maarten (2010).

In addition, pursuant to Article 45 of the Supervision of Banking and Credit Institutions Ordinance of 1994, the Issuer is required to obtain the approval of the Central Bank of Curaçao and Sint Maarten prior to the issue of the Notes. The Issuer obtained such approval from the predecessor Central Bank of Curaçao and Sint Maarten on 23 September 1997 and for the

increase of the Programme limit to U.S.\$1,500,000,000 on 12 May 1998 and for the further increase of the Programme limit to U.S.\$2,500,000,000 on 21 May 2001 and 19 June 2001.

Israel

No action has been or will be taken in Israel that would permit an offering of the Notes to the public in Israel and, accordingly, each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will not offer or sell any Notes, directly or indirectly, in Israel or to others for re-offering or resale, directly or indirectly, in Israel except as may be allowed under Israel's Securities Law, 5728-1968.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “**Japanese Person**” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Uruguay

The offering of the Notes pursuant to this Offering Circular constitutes a private placement (“*oferta privada*”) pursuant to section 2 of law 18.627. Each Dealer has represented and agreed that it has not offered or sold, and will not offer or sell, the Notes to the public in Uruguay, except in circumstances which do not constitute a public offering under Uruguayan laws and regulations. The Notes are not and will not be registered with the Central Bank of Uruguay pursuant to section 2 of the Collection of Regulations of the Securities Exchange of the Central Bank of Uruguay.

Brazil

The Notes have not been registered for public distribution in Brazil and, accordingly, each Dealer has represented that it will not offer or sell the Notes in Brazil, except in circumstances that do not constitute a public offer.

Canada

Each Dealer has acknowledged and each further Dealer appointed under the Programme will be required to acknowledge that the Notes have not been and will not be qualified for sale under the securities laws of Canada or any province or territory thereof and has represented and agreed that it has not offered, sold or distributed, and that it will not offer, sell or distribute, any Notes, directly or indirectly, in Canada or to, or for the benefit of, any resident thereof in contravention of the securities laws of Canada or any province or territory thereof. Each Dealer has also agreed and each further Dealer appointed under the Programme will be required to agree not to distribute or deliver this Offering Circular, or any other offering material relating to the Notes in Canada in contravention of the securities laws of Canada or any province or territory thereof.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Offering Circular or any Pricing Supplement or any related offering material, in all cases at its own expense. Other persons into whose hands this Offering Circular or any Pricing Supplement comes are required by the Issuer, the Guarantor and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Offering Circular or any Pricing Supplement or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “General” above.

Selling Restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Pricing Supplement (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Offering Circular.

GENERAL INFORMATION

Authorisation

1. The establishment of the Programme was authorised by a resolution of the Board of Managing Directors of the Issuer dated 23 September 1997. The Issuer has obtained all necessary authorisations from its Board of Managing Directors in connection with subsequent increases in the Programme size and updates of the Programme. The current update has been authorised by a resolution of the Board of Managing Directors of the Issuer dated September 26, 2012. The giving of the guarantee contained in the Deed of Guarantee and the current update has been duly authorised by a resolution of the Board of Management of the Guarantor adopted on 7 May 2014 and by a resolution of the Board of Directors of the Guarantor dated 29 May 2014. Each of the Issuer and the Guarantor has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the giving of the guarantee relating to them.

Legal and Arbitration Proceedings

2. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened of which the Issuer is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of the Issuer.
3. Save as disclosed in Annex A (*Legal Proceedings*) to this Offering Circular on pages 273 to 282, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened of which the Guarantor is aware), during a period covering at least the previous 12 months which may have, or have had in the recent past, significant effects on the financial position or profitability of the Bank Hapoalim Group.

Auditors

4. The financial statements of the Issuer have been audited without qualification for the years ended 31 December 2012 and 31 December 2013 by KPMG Accountants, B.V., Independent Accountants. No other information in relation to the Issuer and referred to in this Offering Circular has been audited.
5. The financial statements of the Guarantor have been audited without qualification for the years ended 31 December 2012 and 31 December 2013 by Ziv Haft, Certified Public Accountants (Isr.) and by Somekh Chaikin Certified Public Accountants (Isr.). No other information in relation to the Guarantor and referred to in this Offering Circular has been audited.

Documents on Display

6. Copies of the following documents may be inspected during normal business hours at the registered office of the Issuer and at the specified office of the Paying Agent for the time being in London for 12 months from the date of this Offering Circular:

- (a) the Articles of Incorporation of the Issuer;
- (b) the Articles of Association of the Guarantor;
- (c) the annual reports, including the audited financial statements of the Issuer for the years ended 31 December 2012 and 31 December 2013 and the unaudited financial statements of the Issuer for the three month period ended 31 March 2014 and.
- (d) the annual reports, including the audited financial statements of the Guarantor for the years ended 31 December 2012 and 31 December 2013 and the unaudited financial statements of the Guarantor for the three month period ended 31 March 2014;
- (e) the Agency Agreement;
- (f) the Deed of Guarantee;
- (g) the Deed of Covenant;
- (h) the Dealer Agreement; and
- (i) the Programme Manual (which contains the forms of the Notes in global and definitive form).

Bloomberg Information

7. The Issuer will procure that the Bloomberg screen, or any equivalent screen, in respect of any Partly Paid Notes shall include the necessary information to make it evident that a specified amount is partly paid.

Material Adverse Change

8. Since 31 December 2013, the date to which the latest audited financial statements of the Bank Hapoalim Group were prepared, there has been no material adverse change in the prospects of the Guarantor.
9. Since 31 December 2013, the date to which the latest audited financial statements of the Issuer were prepared, there has been no material adverse change in the prospects of the Issuer.

Significant Change

10. Since 31 March 2014, the date to which the latest interim unaudited financial statements of the Bank Hapoalim Group were prepared, there has been no significant change in the financial or trading position of the Bank Hapoalim Group.
11. Since 31 March 2014, the date to which the latest interim unaudited financial statements of the Issuer were prepared, there has been no significant change in the financial or trading position of the Issuer.

Clearing of the Notes

12. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The Notes may not be a suitable investment for all investors

13. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:
 - (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
 - (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
 - (iii) have sufficient financial resources and liquidity to bear all risks of investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
 - (iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and
 - (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

ANNEX A

Extracted and modified from Note 19 to the Consolidated Financial Statements of Bank Hapoalim B.M. as at 31 December 2013 and Note 6 to the Condensed Financial Statements of Bank Hapoalim B.M. as at 31 March 2014.

This Annex forms part of the Offering Circular.

The Bank Hapoalim Group (the Guarantor 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 Hapoalim Group's operations during the normal course of its business. The causes of the claims against the Bank Hapoalim Group are various and wide-ranging.

The additional exposure in respect of claims filed against the Bank Hapoalim Group on various matters that have a "reasonably possible" probability of materialization amounts to approximately NIS 89 million as of March 31, 2014. This figure does not take into account those pending legal proceedings whose chances of success cannot be ascertained at this stage. In this regard, please see Paragraph B of this Annex A.

A Set out below are details of the claims, including petitions to certify claims as class actions in material amounts, as at the date of filing. (Claim amounts listed below are the original amounts, as they appear in the claim statements.)

In the opinion of the Guarantor, based on the likely outcome of pending claims, including petitions to certify class actions, the financial statements include sufficient provisions, in accordance with generally accepted accounting principles, to cover possible damages resulting from all claims, where such provisions are necessary.

1. On November 26, 2012, a claim and a petition to certify the claim as a class action against the Guarantor and others were filed with the District Court of Tel-Aviv-Jaffa. The amount of the claim stated in the claim statement is approximately NIS 2.284 billion. The claim and the petition concern cash withdrawals from automated teller machines operated by Automated Banking Services Ltd. and by Casponet Ltd. According to the claimant, the Guarantor and others cause overcharging of a fee allegedly caused by the splitting of cash withdrawals from automated teller machines into several withdrawals, due to the limit on the withdrawal amounts at these automated teller machines, and by charging a fee for each withdrawal.

The claimant petitioned to withdraw from the claim; the court approved this request on January 29, 2014, and the petition to certify the claim as a class action was dismissed, as well as the personal claim, with no expenses ordered.

2. On July 16, 2012, a claim statement and a petition to certify the claim as a class action were filed against the Guarantor with the District Court of Tel-Aviv-Jaffa. The amount of the class-action suit noted in the claim statement is NIS 18 billion. The claim and the petition concern the allegation that the Guarantor conceals the existence of a "transaction permit" from its customers who take out

loans, and charges such customers arrears interest not in accordance with this permit.

Near the date on which the claim and the petition were filed, the petitioners filed several petitions for certification, against other banks, concerning similar or identical allegations to those of the proceeding described herein. Petitions to consolidate the discussion, pursuant to the provisions of Section 7(A) of the Class Actions Law, were filed with the various courts. Pursuant to a ruling of the District Court of Beer Sheba, the proceedings in all of the petitions were transferred to the District Court of Tel-Aviv-Jaffa, under this claim.

The claimants petitioned to withdraw from all of the claims with no expenses ordered; the court approved this request on January 15, 2014.

3. On September 21, 2011, a claim statement and a petition to certify and administer the claim as a class action were filed with the District Court of the Central District against the Guarantor and against two additional banks (hereinafter: the “Respondent Banks”). The claim against all of the Respondent Banks is in a total amount of NIS 927 million, while the share of the Guarantor 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.

4. On August 16, 2010, a claim was filed with the US Bankruptcy Court of the Southern District of New York against Bank Hapoalim (Switzerland) Ltd., a wholly owned subsidiary of the Guarantor (hereinafter: “BHS”), and against others. The claimant, Fairfield Sentry Limited, through its liquidators (hereinafter: the “Fund”), was a feeder fund in which customers of BHS invested. This claim has been amended and expanded. The amount of the claim stands at approximately US\$ 27 million.

The claim against BHS is one of many similar claims that the Fund filed in which the defendants are required to return to the Fund all the redemptions that they have made from the Fund in the years preceding its liquidation (hereinafter the “Fairfield Claims”).

A ruling of the court in the British Virgin Islands (where the Fairfield Fund is incorporated) in September 2011 determined that the Fairfield 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 Fairfield Fund with the Privy Council in England, is pending. Until this matter is clarified, the discussion of the Fairfield Claims before the Bankruptcy Court has been delayed. In addition, in September 2011, the Federal Court of New York ruled that the Bankruptcy Court does not have material jurisdiction to discuss the Fairfield Claims. However, in a discussion of a similar recovery claim related to the Madoff affair, the Federal Court of New York ruled in January 2013 that the Bankruptcy Court has the authority to recommend proposed factual findings and juridical conclusions.

In addition to the aforesaid, on March 29, 2012, Attorney Irving Pickard, liquidator of Bernard L. Madoff Investment Securities LLC (hereinafter: "Madoff") filed a claim with the US Bankruptcy Court of the Southern District of New York against the Guarantor and against BHS. The claim is in the amount of approximately US\$ 27.5 million, of which approximately US\$ 26 million is claimed against BHS. The claim demands that the defendants reimburse the Madoff liquidation fund for redemptions withdrawn from the Fairfield Sentry and Kingate funds during the period preceding Madoff's bankruptcy. This refers to funds in which customers of the Guarantor and of BHS 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.

5. 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 the Guarantor and against four additional banks (hereinafter: the "Respondent Banks"), in the amount of NIS 1 billion.

The claimants, who claim to be customers of the Respondent Banks, are attempting to attribute to the Respondents Banks a restrictive arrangement concerning fee rates. According to the claimants, due to the coordinated policies of the Respondent Banks, which they allege were characterized by prohibited cooperation between them 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 determination 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 Guarantor has filed an appeal of the Declaration.

According to the claimants, the amount of the claim was determined according to an estimated calculation only, and for the purpose of placing it within the material jurisdiction of the District Court.

The Guarantor has filed a petition to expunge the claim in limine due to material overlap between it and the claim described in Section 6 below.

In a ruling dated November 29, 2009, the District Court postponed the discussion of this claim for two years, in order to examine the outcome of the appeal mentioned above. In March 2012, a ruling was given to suspend the proceedings until after the aforesaid appeal is concluded.

6. 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 the Guarantor, and against two other banks (hereinafter: the “Respondent Banks”), in the amount of NIS 3 billion. The cause of the claim, according to the claimants, is binding 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 5 above.

In a ruling dated November 29, 2009, the court postponed the discussion of this claim by two years, in order to examine the outcome of the appeal mentioned in Section 5 above. On January 25, 2012, a ruling was given to suspend the proceedings until after the aforesaid appeal is concluded.

7. On April 1, 2007, a claim and a petition to certify and administer the claim as a class action were filed with the District Court of Tel Aviv-Jaffa against the Guarantor and Bank Leumi LeIsrael B.M. The amount stated in the claim statement is approximately NIS 386 million.

The claimants allege that the defendants, who are TASE members, charged fees in the past and charge fees in the present from mutual-fund managers for securities and/or foreign-currency buying and selling transactions which are higher than the fees charged from other entities at the same time, in contravention of the provisions of Section 69 of the Joint Trust Investment Law, 5754-1994. 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 unlawfully charged mutual-fund managers brokerage fees at a higher rate than should have been charged, thereby increasing economic costs, reducing the value of the fund's assets, reducing the value of each participatory unit, and, as a consequence of all of the above, reducing the profit (or increasing the loss) of each investor.

8. On December 13, 2006, a claim and a petition to certify and administer the claim as a class action against the Guarantor and against Bank Leumi LeIsrael B.M. and Israel Discount Bank Ltd. (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 NIS 5.6 billion. The claimants note in their claim that according to a different method of calculation, the amount claimed is at least NIS 5.2 billion.

The claimants, who present themselves as citizens who maintain households and who received credit from the Respondent Banks, allege in the claim that they were charged excessive interest payments without economic or commercial justification. The claimants further allege that the interest rate was determined while exploiting the Respondent Banks' standing in the households banking market, while reducing competition and causing damage to the public and/or while creating an illegal binding 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 household sector, in violation of the Consumer Protection Law, 5741-1981. The claimants allege that this resulted in damage to the claimants and to the other customers of the Respondent Banks who comprise the households sector.

In May 2008, the District Court ruled to delay proceedings in this claim until a ruling is given in relation to the claim described in 9 below.

9. On September 12, 2006, a claim statement and a petition to certify the claim as a class action were filed with the District Court of Tel-Aviv-Jaffa against the Guarantor and against Bank Leumi LeIsrael B.M. and Israel Discount Bank Ltd. (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 noted that she reserved the right to amend the claim statement.

The claimant alleged that while she maintained an account with the Guarantor, she was charged excessive and unreasonable interest payments by the Guarantor, 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 Respondents Banks. According to the claimant, the Guarantor 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 profits for the Respondent Banks while causing damage to the public and to the economy.

On 21 January, 2008, the court approved the hearing of the claim as a class action. The Guarantor 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 position of the Attorney General was submitted to the Supreme Court, according to which the ruling of the District Court confirming the claim as a class-action suit 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 believed that the petition should be heard as a class-action suit, given the existence of the Declaration mentioned in Section 5 above, which according to the Attorney General's later notification he considers judicially relevant to this claim

On July 28, 2013, a Supreme Court panel of seven justices ruled to accept the banks' appeal, overturning the district court ruling that certified the claim as a class action, and returned the petition for certification to the district court for further deliberation.

B Also pending against the Bank Hapoalim Group are claims, including petitions to certify class actions, as detailed below. In the opinion of the Guarantor, at this stage it is not possible to assess the chances of these legal proceedings; accordingly, no provision has been made in respect thereof.

1. A claim and a petition to certify and administer the claim as a class action against Isracard Ltd., a subsidiary of the Guarantor (hereinafter: "Isracard"), and against Leumi Card Ltd. and Cartisei Ashrai Leisrael Ltd., was filed with the Central District Court on April 28, 2014. The amount of the class-action suit 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, in which they compel merchants to pay them high interchange fees of credit cards for debit and prepaid transactions, and in which they unlawfully delay funds owed to the merchants for an average period of about 20 days after the funds have already been drawn from the cardholder's account, and that sections of the merchant agreement constitute depriving conditions in a uniform contract. The requested remedies are compensation in the amount noted above, issuance of an order prohibiting the credit-card companies from continuing to be parties to the restrictive arrangement, and declaratory remedies.
2. A claim and a petition to certify and administer the claim as a class action against Isracard and Poalim Express Ltd., both subsidiaries of the Guarantor, and against Leumi Card Ltd. was filed with the Tel Aviv District Court on July 7, 2014. The amount of the class-action suit has been set at a total of 200 Million NIS. The claimants allege that with respect to transactions paid in foreign currency, the manner of conversion of such foreign currency to NIS is not appropriate, and constitutes an additional commission which is not properly disclosed to clients

and that such actions constitute infringement of various applicable legal provisions.

3. A claim and a petition to certify and administer the claim as a class action were filed against the Guarantor 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 Guarantor 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 card fees paid by customers of the Guarantor to the Isracard Group to be higher than the fees paid by customers of other banks that have contracted with the Isracard Group for the issuance of bank credit cards. The claimants allege that the Guarantor is operating in a conflict of interests and giving precedence to the interests of the Guarantor and the Isracard Group over the interests of the customers of the Guarantor.

4. A claim and a petition to certify and administer the claim as a class action were filed against the Guarantor with the Central District Court on January 9, 2014. The amount of the class-action suit noted in the claim statement is approximately NIS 230 million.

The claim and the petition concern the collection of fees for transfers of foreign currency from a customer's account with the Guarantor in Israel to the account of a beneficiary overseas. The claimants allege that the Guarantor failed to disclose to its customers all of the information pertaining to available alternatives for the distribution of fees between the transferor and the beneficiary, as well as the fact that the manner of selection of the distribution of fees determines whether they are charged with an underwriting fee.

According to the claimants, the alleged misinformation by the Guarantor caused customers who transferred foreign currency overseas to pay an underwriting fee even when this fee could have been avoided.

On May 2014, an agreed petition to consolidate the claim and motion with a claim and motion filed by the same claimants and in the same matter against the First International Bank was submitted. A decision for such petition was not yet rendered.

5. . A claim and a petition to certify and administer the claim as a class action against the Guarantor and four other banks 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.

6. . On August 28, 2013, a claim and a petition to certify and administer the claim as a class action were filed with the District Court of Tel Aviv- Jaffa against the Guarantor, the CEO of the Guarantor, four other banks and their CEO's and against additional respondents.

As alleged in the application, the respondent banks charge a fee in connection with their activity of the conversion and sending of foreign currency which fee is unlawful and without proper disclosure to customers. The claimants further allege that in performing this activity, the respondent banks maintain a mutual restrictive arrangement.

The applicants allege that a customer who wishes to execute a transaction of conversion of foreign currency pays for the conversion services an additional fee over and above the fee specified in the scale of charges, which is, so they claim, the difference between the rate at which the banks buy foreign currency on the interbank market and the rate at which they sell the foreign currency to the customer and this without proper disclosure. The applicants have set the amount of their claim on behalf of members of the group as a whole at the sum of about NIS 10.5 billion.

On October 1, 2013, the claimants filed a petition to withdraw from the suit against the CEOs of the five banks. The court approved this petition on January 26, 2014. After obtaining court approval, the claimants filed an amended petition for certification of the claim as a class action, in which the amount of the class-action suit was set at approximately NIS 11.15 billion.

- C. The Guarantor has received two letters of demand pursuant to Section 194 of the Companies Law, 1999 (hereinafter: the "Demands"), in connection with the contractual engagement of Tarshish Holdings and Investments Hapoalim Ltd. (hereinafter: "Tarshish"), a wholly owned subsidiary of the Guarantor, in 2005, in an agreement (hereinafter: the "Acquisition Agreement") to acquire control of the Turkish bank currently known as Bank Pozitif Kredi Ve Kalkinma Bankasi A.S. (hereinafter: "Bank Pozitif"). Pursuant to the Acquisition Agreement, the foreign investment fund RP Explorer Master Fund (hereinafter: "RP") was also entitled to invest in the capital of Bank Pozitif, at a price identical to the price of the investment by Tarshish, and to receive an allocation of 7.45% of its allocated share capital. Under an additional agreement between the Guarantor and RP, RP received an option from the Guarantor to purchase additional shares of Bank Pozitif from the Guarantor, at agreed terms and dates, up to a ceiling of approximately an additional 7.45% of the capital of Bank Pozitif, provided that the holdings of Tarshish in Bank Pozitif would not fall below 50.1% of its issued capital.

The RP fund did not execute any investment in Bank Pozitif, also taking into account later understandings reached with RP. Further to these understandings, in 2008 the Board of Directors approved a payment in the amount of US\$D 25 million to RP to settle all of its claims.

According to the parties filing the Demands, the aforesaid payment to RP was inappropriate and tainted with personal interests of Mr. Dan Dankner, who served on all of the relevant dates as a director of the Guarantor, was part of the controlling group of the Guarantor in 2005, and served as Chairman of the Board of Directors of the Guarantor in 2008. According to the first contention, the personal interest of Mr. Dankner fundamentally invalidates the Acquisition Agreement; according to the second contention, the personal interest of Mr. Dankner invalidates the payment decided upon in 2008.

In the Demands, the Guarantor is required to claim reimbursement of the aforesaid sum of US\$ 25 million, plus interest, from RP, Mr. Dan Dankner, and additional directors of the Guarantor (some of whom have resigned from the Board of Directors in the interim).

The Board of Directors of the Guarantor held discussions regarding the two Demands and resolved to deny them, after determining, among other matters, that conceding to each of the Demands would not be in the best interests of the Guarantor, also taking into account that it is doubtful whether there is a strong probability of winning such a claim.

After the first Demand was denied, the shareholder who had filed the Demand filed with the court a request for permission to file a derivative claim on behalf of the Guarantor against Mr. Dan Dankner, against those serving as members of the Board of Directors of the Guarantor in December 2005, and against RP (hereinafter, jointly, the "Defendants").

In the petition to approve the derivative claim, the applicant claims that the Defendants, jointly and separately, caused the Guarantor to incur damage in the amount of NIS 88 million, and that they should compensate the Guarantor for this amount. Against Mr. Dan Dankner, the claimant claims that the amount of the acquisition and the aforesaid payment to RP were tainted by his personal interest and were not approved lawfully. Against RP, the claimant claims that it knew of the personal interest of Mr. Dankner and the lack of approval. Against the other directors, the claim is that they failed to fulfill their duty of care towards the Guarantor.

On July 11, 2010, a derived claim was filed with the District Court of the Central District, with a petition to certify the claim as an additional derivative claim against Mr. Dan Dankner; members of the Board of Directors of the Guarantor who served as directors in February 2008; Tarshish; and RP (hereinafter, jointly, the "Respondents"), and against the Guarantor as a formal respondent, in which the claimant petitions the court for permission to file a derivative claim on behalf of the Guarantor against the Respondents, and to obligate them, jointly and separately, to pay the Guarantor the sum of approximately NIS 72 million. This claim and the petition to certify it as a derivative claim concern the aforesaid Acquisition Agreement and the compensation granted to RP, which according to the claimant was higher by US\$ 20 million than the compensation agreed upon in the Acquisition Agreement. The claimant claims that the payment to RP was performed by the Guarantor in violation of the duty of loyalty of some of the Respondents, and in violation of the duty of care of the other Respondents.

On October 19, 2010, the President of the Supreme Court ruled to unify the proceedings in the two Demands.

On February 10, 2011, a hearing was held at the District Court which ordered an amended claim to be filed, unifying the two claims (hereinafter, jointly: the “Unified Claims”).

On September 15, 2011, the Guarantor received an additional letter of demand, pursuant to Section 194 of the Companies Law, 1999, in connection with the contractual engagement of Tarshish in the Acquisition Agreement. The demand alleges that Mr. Shlomo Nehama, who served as Chairman of the Board of the Guarantor and was one of the controlling parties of the Guarantor at the date of the acquisition of control of Bank Pozitif and during the negotiations with RP, invested a total of approximately US\$ 1 million in the RP fund at that time, and was therefore tainted with personal interest in the Acquisition Agreement and in the aforesaid negotiations.

On October 31, 2011, prior to the discussion of this demand by the Board of Directors of the Guarantor, a claim was filed with the Economic Department of the District Court of Tel Aviv, with a petition to certify the claim as a derivative claim against Shlomo Nehama, regarding this matter (hereinafter: the “Third Claim”). The Third Claim alleges that the conduct of Mr. Nehama caused damage to the Guarantor in the amount of NIS 88 million.

In a pretrial proceeding held for the Unified Claims on November 16, 2011, the parties reached a procedural arrangement pursuant to which, among other matters: (a) the Unified Claims will be amended such that the matters described in the Third Claim are added to them; (b) the members of the Board of Directors of the Guarantor who served in 2005, with the exception of Mr. Shlomo Nehama, will be expunged from the claims; and (c) the Third Claim will be consensually expunged.

In October 2012, the State’s Attorney indicted Mr. Dan Dankner, who served as Chairman of the Board of Directors until August 1, 2009, for actions carried out during his term of service on the Board of Directors. The offenses attributed to Mr. Dankner in the indictment concern damage to property, the prohibition of money laundering, and damage to the proper management of a banking corporation.

On October 17, 2013, the State’s Attorney and Mr. Dankner announced that they had reached an agreement regarding a plea arrangement, under which the aforesaid indictment would be amended, and Mr. Dankner would confess to the facts in the amended indictment and would be convicted of the offenses attributed to him therein. Accordingly, Mr. Dankner was convicted of the offenses of breach of trust harmful to a corporation, fraud in receiving a loan from a Dutch bank, and fraud in receiving credit from the Guarantor. Following this conviction, on December 19, 2013, the court sentenced Mr. Dankner to one year in prison and a fine of NIS 1 million.

Mr. Dankner is appealing the prison term.

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