

Bank Hapoalim B.M.

**Basel Pillar 3 Additional Disclosure
As at March 31, 2015**

Basel Pillar 3 Additional Disclosure as at March 31, 2015

Capital Adequacy

As of January 1, 2014, the Bank has applied the capital measurement and adequacy directives based on the Basel 3 directives (hereinafter: "Basel 3"), as published by the Supervisor of Banks and as integrated into Proper Conduct of Banking Business Directives 201-211. The Bank applied the Basel 2 directives until December 31, 2013.

Pursuant to these directives, in addition to the calculation of the minimum capital requirement in respect of credit risk, market risk, and operational risk, the Bank is required to carry out an Internal Capital Adequacy Assessment Process (ICAAP), submitted annually. The Board of Directors received a review of the ICAAP in late February 2015, and approved the ICAAP report of the Bank for 2014. The Board of Directors also approved the risk appetite policy of the Bank.

The Basel 3 Directives

The Basel 3 directives establish significant changes in the calculation of the supervisory capital requirements, including in the following areas:

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

The aforesaid directives took effect on January 1, 2014. Implementation is gradual, in accordance with the transitional directives established in Proper Conduct of Banking Business Directive 299, "Capital Measurement and Adequacy – Supervisory Capital – Transitional Directives," in order to make it possible to comply with the new requirements regarding supervisory capital within the process of implementation of Basel 3 and establish a transitional period until full implementation. Among other matters, the transitional directives concern supervisory adjustments and deductions from capital, as well as capital instruments ineligible for inclusion in supervisory capital according to the new criteria established in the Basel directives. Specifically, pursuant to the transitional directives, the supervisory adjustments and deductions from capital as well as non-controlling interests ineligible for inclusion in supervisory capital shall be deducted from capital gradually, at a rate of 20% per annum, from January 1, 2014 to January 1, 2018. Capital instruments that no longer qualify as supervisory capital were recognized as of January 1, 2014, up to a ceiling of 80% of their balance in the supervisory capital as at December 31, 2013; this ceiling is being lowered by an additional 10% in each subsequent year, until January 1, 2022. From January 1, 2015, to December 31, 2015, the rate of deductions from supervisory capital is 40%, and the ceiling for instruments eligible as supervisory capital is 70%.

Minimum Capital Ratios

On May 30, 2013, the Supervisor of Banks issued a circular to all banking corporations regarding minimum capital ratios, as part of the preparation for the implementation of the Basel 3 directives. Pursuant to the circular, all banking corporations are required to maintain a minimum common equity Tier I 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 I capital ratio of 10%, by January 1, 2017.

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

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

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

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

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

Implementation and Effect of New Regulatory Directives Regarding Measurement, Capital Adequacy, Liquidity, and Leverage

I. Reporting on the liquidity coverage ratio

On September 28, 2014, the Supervisor of Banks issued a circular adding Proper Conduct of Banking Business Directive 221, "Liquidity Coverage Ratio," which adopts the recommendations of the Basel Committee with regard to the liquidity coverage ratio in the banking system in Israel. The LCR refers to a horizon of thirty days, in a stress scenario, and is aimed at ensuring that banking corporations maintain a supply of high-quality liquid assets that covers the corporation's liquidity needs during that timeframe, in accordance with the scenario described in the directive. The directive establishes the method of calculation of the LCR, including a definition of characteristics and operational requirements for the "supply of high-quality liquid assets" (the numerator) and the applicable safety margins, and defines the net expected outgoing cash flow in the stress scenario defined in the directive for the coming thirty calendar days (the denominator). This flow includes some withdrawal of various types of deposits, in accordance with the coefficients in the scenario, some utilization of credit facilities provided by the Bank, and more, with the deduction of repayment during the month of credit granted by the Bank, at certain coefficients, etc. Classifications of bonds, types of deposits, types of credit facilities, etc., and the applicable coefficients are provided in the directive.

The liquidity coverage ratio has been applied beginning April 1, 2015. The transitional directives establish a minimum requirement of 60% beginning April 1, 2015, and an increase to 80% on January 1, 2016 and to 100% from January 1, 2017, forward. However, during times of financial stress, banking corporations will be permitted to fall below these minimum requirements.

In addition, the Supervisor of Banks issued a circular entitled, "Temporary Order – Implementation of Disclosure Requirements Based on Basel Pillar 3 – Disclosure of Liquidity Coverage Ratio" on September 28, 2014. The circular amends the Public Reporting Directives to incorporate the disclosure requirements that will apply to banks as part of the adoption of the LCR. Accordingly, among other matters, disclosure requirements regarding the LCR will be added in each financial statement to the note on "Capital and Capital Adequacy," the title of which will be changed to "Capital, Capital Adequacy, Liquidity, and Leverage," as of April 1, 2015.

The Bank has implemented this directive and complies with the applicable minimum LCR beginning April 1, 2015. For further information regarding liquidity risk management at the Bank, see the section "Risk Management" in the Board of Directors' Report.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

2. Housing loans

In July 2014, the Supervisor of Banks issued a circular concerning Proper Conduct of Banking Business Directive 329, "Limits on Housing Loans" (hereinafter: the "Directive"). The Directive consolidates the guidelines and limits concerning housing loans into a single binding document. The Directive redefines the term "payment as a percentage of income." In addition, the Directive limits the amount of loans for which a reduced risk weight may be assigned, pursuant to Section 72 of Proper Conduct of Banking Business Directive 203, to NIS 5 million. Loans in an amount greater than NIS 5 million shall be weighted at 100%. When the amount of a loan is lower than NIS 5 million, the risk weight may be reduced, in accordance with Section 72 of Directive 203, based on the LTV ratio as calculated when the loan was granted. The amendments have been implemented as of October 1, 2014. The effect of the implementation is immaterial.

The Supervisor of Banks issued an additional directive on September 28, 2014. Pursuant to this directive and the transitional directives for 2014, a capital requirement at a rate representing 1% of the balance of housing loans at the reporting date has been added to minimum capital ratios, beginning January 1, 2015, as detailed above.

In addition, beginning January 1, 2015, banking corporations are permitted to reduce the risk weight for floating-rate leveraged loans granted between October 26, 2010 and December 31, 2012, from 100% to 75%. The effect is a decrease in risk-adjusted assets as at March 31, 2015, in the amount of approximately NIS 570 million, an increase in the common equity Tier 1 capital ratio of approximately 0.02%, and an increase in the total capital ratio of approximately 0.02%.

3. Leverage ratio

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

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

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

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Banking corporations are required to maintain these leverage ratios as of January 1, 2018. Banking corporations that comply with the applicable minimum leverage ratio requirement at the date of publication of the Directive shall not lower the ratio below the threshold established in the Directive. Banking corporations that do not comply with the applicable minimum leverage ratio requirement at the publication date of the Directive are required to increase their leverage ratio, at fixed quarterly rates, by January 1, 2018.

Disclosure requirements regarding the leverage ratio will be added in each financial statement, as of April 1, 2015, to the note on "Capital and Capital Adequacy." The title of this note will change to "Capital, Capital Adequacy, Liquidity, and Leverage."

The Bank has implemented the Directive, and complies with the applicable minimum leverage ratio.

Subject	Reference
Structure of supervisory capital and composition of capital	p. 8
Structure of supervisory capital	p. 8
Structure of supervisory balance sheet	p. 17
Capital adequacy	p. 20
Credit risk exposures	p. 21
Problematic loans and allowances for credit losses by economic sector	In the Financial Statements as at March 31, 2015, Appendix 3
Credit risk mitigation	p. 24
Credit risk in respect of derivative financial instruments	p. 27
Securitization exposures	p. 28
Capital requirements in respect of market risk and positions in shares in the banking book	p. 29
Interest risk in the banking book	Financial statements as at March 31, 2015, p. 114

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Capital Requirements Pursuant to the Basel 3 Directives

Set out below is the calculation of the capital ratio according to the Basel 3 directives:

	March 31, 2015	Dec. 31, 2014
	NIS millions	
1. Capital for the calculation of the capital ratio after supervisory adjustments and deductions		
Common equity Tier I capital	32,069	(1)31,482
Tier I capital	33,778	(1)33,436
Tier 2 capital	14,483	16,041
Total overall capital	48,261	(1)49,477
2. Weighted balances of risk-adjusted assets		
Credit risk	312,751	311,329
Market risks	5,194	5,269
Operational risk	22,273	22,275
Total weighted balances of risk-adjusted assets	340,218	(1)338,873
	%	
3. Ratio of capital to risk-adjusted assets		
Ratio of common equity Tier I capital to risk-adjusted assets	9.43%	(1)9.29%
Ratio of Tier I capital to risk-adjusted assets	9.93%	(1)9.87%
Ratio of total capital to risk-adjusted assets	14.19%	(1)14.60%
Minimum common equity Tier I capital ratio required by the Supervisor of Banks	(2)9.00%	(2)9.00%
Minimum total capital ratio required by the Supervisor of Banks	(2)12.50%	(2)12.50%

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

(2) The minimum required common equity Tier I capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier I capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively. With regard to the balance of housing loans, see Note 3A(2) to the Condensed Financial Statements.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the calculation of the capital ratio according to the Basel 3 directives (continued):

	March 31, 2015	Dec. 31, 2014
	%	
4. Significant subsidiaries		
Isracard		
Ratio of common equity Tier I capital to risk-adjusted assets	19.03%	19.04%
Ratio of Tier I capital to risk-adjusted assets	19.03%	19.04%
Ratio of total capital to risk-adjusted assets	20.05%	19.98%
Minimum common equity Tier I capital ratio required by the Supervisor of Banks	⁽¹⁾ 9.00%	⁽¹⁾ 9.00%
Minimum total capital ratio required by the Supervisor of Banks	⁽¹⁾ 12.50%	⁽¹⁾ 12.50%
Bank Hapoalim Switzerland		
Ratio of common equity Tier I capital to risk-adjusted assets	20.90%	21.09%
Ratio of Tier I capital to risk-adjusted assets	20.90%	21.09%
Ratio of total capital to risk-adjusted assets	20.98%	21.17%
Minimum common equity Tier I capital ratio required by local regulation	8.00%	8.00%
Minimum total capital ratio required by local regulation	11.20%	11.20%
	Basel 2 ⁽²⁾	
Bank Pozitif		
Ratio of Tier I capital to risk-adjusted assets	15.82%	17.51%
Ratio of total capital to risk-adjusted assets	16.46%	18.15%
Minimum total capital ratio required by local regulation	12.00%	12.00%

(1) Minimum capital ratio required according to the directives of the Supervisor of Banks as of January 1, 2015.

(2) Bank Pozitif has not implemented the Basel 3 directives; the data are therefore presented according to the Basel 2 directives.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Structure of Supervisory Capital and Composition of Capital

Set out below is the composition of capital for the purpose of calculating the capital ratio:

	March 31, 2015	Dec. 31, 2014
	NIS millions	
Tier 1 capital		
Paid-up common share capital and premium	8,041	8,004
Retained earnings	*22,945	22,243
Non-controlling interests in equity of consolidated subsidiaries	193	224
Unrealized profits from adjustments of securities available for sale to fair value	1,266	961
Other capital instruments	*(76)	153
Amounts deducted from Tier 1 capital	(300)	(103)
Total common equity Tier 1 capital	32,069	31,482
Innovative hybrid instruments	1,709	1,954
Total Tier 1 capital	33,778	33,436
Tier 2 capital		
Hybrid capital instruments and subordinated notes	1,207	1,331
Collective allowances for credit losses before the effect of related tax	3,805	3,837
Minority interests in subsidiaries	9,471	10,873
Amounts deducted from Tier 2 capital	-	-
Total Tier 2 capital	14,483	16,041
Total eligible capital	48,261	49,477

* Including the effect of the adoption of US GAAP regarding employee benefits.

For further details, see Note 4 to the Condensed Financial Statements.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet:

	March 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
NIS millions					
Common equity Tier I capital					
Common equity Tier I capital – instruments and retained earnings					
Ordinary share capital issued by the banking corporation and premium on ordinary shares included in common equity Tier I capital	8,041		8,004		I+2
Retained earnings, including dividends proposed or declared after the balance sheet date	22,945	(4)	22,243		3
Cumulative other comprehensive income and disclosed retained earnings	1,190	335	1,114		4A+4B
Common equity Tier I capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	-		-		
Existing flows of capital from the public sector to be recognized until January 1, 2018	-	-	-	-	
Ordinary shares issued by subsidiaries of the banking corporation which were consolidated and are held by a third party (non-controlling interests)	193	72	224	103	5
Common equity Tier I capital before supervisory adjustments and deductions	32,369		31,585		
Common equity Tier I capital – supervisory adjustments and deductions					
Stabilization adjustments of valuations	-	-	-	-	
Goodwill, net of deferred taxes payable	-	-	-	-	
Other intangible assets, excluding mortgage service rights, net of deferred taxes payable	4	-	7	-	6-7
Deferred taxes receivable, realization of which depends on future profitability of the banking corporation, excluding deferred taxes receivable arising from timing differences	23	35	11	45	8
Total cumulative other comprehensive income in respect of cash flow hedges of items not presented in the balance sheet at fair value	(2)	(4)	(1)	(5)	9
Negative difference between provisions and expected losses	-	-	-	-	

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet (continued):

	March 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
NIS millions					
Increase in equity capital due to securitization transactions	-	-	-	-	
Unrealized profits and losses resulting from changes in the fair value of liabilities due to changes in the own credit risk of the banking corporation	10	14	-	-	10
Surplus of amount funded over provision, net of deferred taxes payable to be extinguished if the asset becomes impaired or is deducted, in accordance with the Public Reporting Directives	-	-	-	-	
Investment in own ordinary shares held directly or indirectly (including commitments to purchase shares under contractual agreements)	16	25	9	37	
Mutual cross-holdings in ordinary shares of financial corporations	-	-	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation (in an amount greater than 10% of common equity Tier I capital)	-	-	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
Mortgage service rights in amounts exceeding 10% of common equity Tier I capital	-	-	-	-	
Deferred taxes receivable arising from timing differences in amounts exceeding 10% of common equity Tier I capital	249	373	77	310	13
Amounts of mortgage service rights, deferred taxes receivable arising from timing differences, and investments at a rate greater than 10% of the ordinary share capital issued by financial corporations, exceeding 15% of the common equity Tier I capital of the banking corporation	-	-	-	-	

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet (continued):

	March 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
NIS millions					
Of which: in respect of investments at a rate greater than 10% of the ordinary share capital issued by financial corporations	-	-	-	-	
Of which: in respect of mortgage service rights	-	-	-	-	
Of which: deferred taxes receivable arising from timing differences	-	-	-	-	
Additional supervisory adjustments and deductions established by the Supervisor of Banks	-	-	-	-	
Of which: in respect of investments in the capital of financial corporations	-	-	-	-	
Of which: in respect of mortgage service rights	-	-	-	-	
Of which: additional supervisory adjustments to common equity Tier 1 capital	-	-	-	-	
Supervisory adjustments to common equity Tier 1 capital subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	-	-	-	-	
Deductions applicable to common equity Tier 1 capital because the additional Tier 1 capital and Tier 2 capital are insufficient to cover the deductions	-	-	-	-	
Total supervisory adjustments and deductions in common equity Tier 1 capital	300	443	103	387	
Common equity Tier 1 capital	32,069		31,482		

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet (continued):

	March 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
NIS millions					
Additional Tier I capital					
Additional Tier I capital – instruments					
Additional Tier I share capital instruments issued by the banking corporation, and premium on such instruments	-		-		
Of which: classified as equity in accordance with the Public Reporting Directives	-		-		
Of which: classified as a liability in accordance with the Public Reporting Directives	-		-		
Additional Tier I capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	1,709		1,954		11B
Additional Tier I capital instruments issued by subsidiaries of the banking corporation and held by third-party investors	-		-		
Of which: additional Tier I capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from additional Tier I capital	-		-		
Additional Tier I capital before deductions	1,709		1,954		
Additional Tier I capital – deductions					
Own investment in capital instruments included in additional Tier I capital, held directly or indirectly (including commitments to purchase instruments under contractual agreements)	-	-	-	-	
Mutual cross-holdings in capital instruments included in additional Tier I capital	-	-	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	
Additional deductions established by the Supervisor of Banks	-	-	-	-	

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet (continued):

	March 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
NIS millions					
Of which: in respect of investments in the capital of financial corporations	-	-	-	-	
Of which: additional deductions from Tier 1 capital	-	-	-	-	
Deductions from additional Tier 1 capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	-	-	-	-	
Deductions applicable to additional Tier 1 capital because Tier 2 capital is insufficient to cover the deductions	-	-	-	-	
Total deductions from additional Tier 1 capital	-	-	-	-	
Additional Tier 1 capital	1,709		1,954		
Tier 1 capital	33,778		33,436		
Tier 2 capital					
Tier 2 capital – instruments and provisions					
Instruments issued by the banking corporation (not included in Tier 1 capital) and premium on such instruments	-		-		I 1A
Tier 2 capital instruments issued by the corporation, which are eligible for inclusion in supervisory capital during the transitional period	1,207		1,331		I 1B
Tier 2 capital instruments issued by subsidiaries of the banking corporation to third-party investors	9,471		10,873		
Of which: Tier 2 capital instruments issued by subsidiaries of the banking corporation and held by third-party investors, which are gradually deducted from Tier 2 capital	9,471		10,873		I 1B
Collective allowances for credit losses before the effect of related tax	3,805		3,837		I 2
Tier 2 capital before deductions	14,483		16,041		

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet (continued):

	March 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
NIS millions					
Tier 2 capital – deductions					
Own investment in Tier 2 capital instruments, held directly or indirectly (including commitments to purchase instruments under contractual agreements)	-	-	-	-	-
Mutual cross-holdings in Tier 2 capital instruments of financial corporations	-	-	-	-	-
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding does not exceed 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-
Investments in capital of financial corporations not consolidated in the banking corporation's reports to the public, where the banking corporation's holding exceeds 10% of the ordinary share capital issued by the financial corporation	-	-	-	-	-
Additional deductions established by the Supervisor of Banks	-	-	-	-	-
Of which: investments in the capital of financial corporations	-	-	-	-	-
Of which: additional deductions from Tier 2 capital	-	-	-	-	-
Supervisory adjustments to Tier 2 capital subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	-	-	-	-	-
Total supervisory adjustments to Tier 2 capital	-	-	-	-	-
Tier 2 capital	14,483		16,041		
Total capital	48,261		49,477		
Weighted risk-adjusted assets					
Total weighted risk-adjusted assets according to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	339,134		337,705		
Of which: credit risk assets	311,667		310,161		
Of which: market risk assets	5,194		5,269		
Of which: operational risk assets	22,273		22,275		
Total weighted risk-adjusted assets	340,218		338,873		

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet (continued):

	March 31, 2015		December 31, 2014		References
	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance/ percent	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
	NIS millions/ percent	NIS millions	NIS millions/ percent	NIS millions	
Capital ratios and capital preservation cushions					
Common equity Tier I capital	9.43%		9.29%		
Tier I capital	9.93%		9.87%		
Total capital	14.19%		14.60%		
Minimum requirements established by the Supervisor of Banks					
The minimum required common equity Tier I capital ratio is 9% from January 1, 2015, to December 31, 2016, and 10% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier I capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2%.	9.00%		9.00%		
The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 13.7%.	12.50%		12.50%		
Amounts below the deduction threshold (before risk weighting)					
Investments in the capital of financial corporations which do not exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	1,498		1,417		

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of supervisory capital, by components, with references to the supervisory balance sheet (continued):

	March 31, 2015		December 31, 2014		References
	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	Balance	Amounts not deducted from capital which are subject to the requirements prior to the adoption of Directive 202, in accordance with Basel 3	
NIS millions					
Investments in the capital of financial corporations which exceed 10% of the ordinary share capital issued by the financial corporation and which are below the deduction threshold	134		130		
Mortgage service rights (net of deferred taxes payable)	-		-		
Deferred taxes receivable arising from timing differences, below the deduction threshold	3,232		3,156		
Ceiling for inclusion of provisions in Tier 2					
Provision eligible for inclusion in Tier 2, with reference to exposures under the standardized approach, before application of the ceiling	3,805		3,837		
Ceiling for inclusion of provision in Tier 2 under the standardized approach	3,909		3,892		
Provision eligible for inclusion in Tier 2, with reference to exposures based on the internal ratings approach, before application of the ceiling	-		-		
Ceiling for inclusion of provision in Tier 2 based on the internal ratings approach	-		-		
Capital instruments not eligible as supervisory capital, which are subject to the transitional directives					
Current ceiling amount for instruments included in common equity Tier 1 capital subject to the transitional directives	-		-		
Amount deducted from common equity Tier 1 capital due to the ceiling	-		-		
Current ceiling amount for instruments included in additional Tier 1 capital subject to the transitional directives	1,709		1,954		
Amount deducted from additional Tier 1 capital due to the ceiling	691		485		
Current ceiling amount for instruments included in Tier 2 capital subject to the transitional directives	10,678		12,204		
Amount deducted from Tier 2 capital due to the ceiling	1,323		1,021		

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of the supervisory balance sheet, with references to the components of supervisory capital:

	March 31, 2015	December 31, 2014	References to components of supervisory capital
	Consolidated supervisory balance sheet		
	NIS millions		
Assets			
Cash on hand and deposits with banks*	70,443	54,974	
* Of which: collective allowance for credit losses included in Tier 2 capital	(5)	(4)	12
Securities*	54,328	58,778	
* Of which: investments in capital of financial corporations that do not exceed 10% of the share capital of the financial corporation	1,498	1,417	
* Of which: other securities	52,830	57,361	
Securities borrowed or purchased under agreements to resell	523	476	
Credit to the public	272,987	268,160	
Allowance for credit losses*	(4,066)	(4,180)	
* Of which: collective allowance for credit losses included in Tier 2 capital	(3,196)	(3,247)	12
* Of which: allowance for credit losses not included in supervisory capital	(870)	(933)	
Net credit to the public	268,921	263,980	
Credit to governments	2,243	1,861	
Investment in equity-basis investees*	139	135	
* Of which: investments in capital of financial corporations that exceed 10% of the share capital of the financial corporation, and do not exceed the deduction threshold	134	130	
Buildings and equipment	3,435	3,475	
Intangible assets and goodwill*	4	7	
* Of which: goodwill	-	-	
* Of which: other intangible assets	4	7	6
Assets in respect of derivative instruments	18,312	16,244	
Other assets*	8,078	7,864	
* Of which: deferred tax assets**	3,912	3,599	
** Of which: deferred tax assets attributed to timing differences, over 10% of common equity Tier 1 capital	622	387	13
** Of which: deferred tax assets excluding those attributed to timing differences	58	56	8
** Of which: other deferred tax assets	3,232	3,156	
* Of which: surplus of amount funded over provision	-	-	
* Of which: additional other assets	4,166	4,265	
Total assets	426,426	407,794	

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of the supervisory balance sheet, with references to the components of supervisory capital (continued):

	March 31, 2015	December 31, 2014	References to components of supervisory capital
	Consolidated supervisory balance sheet		
	NIS millions		
Liabilities and Capital			
Deposits from the public	307,895	297,230	
Deposits from banks	5,421	4,322	
Deposits from the government	560	455	
Securities lent or sold under agreements to repurchase	43	42	
Bonds and subordinated notes*	34,808	33,671	
* Of which: subordinated notes not recognized as supervisory capital	7,853	7,719	
* Of which: subordinated notes recognized as supervisory capital**	12,387	14,158	
** Of which: eligible as supervisory capital components	-	-	11A
** Of which: ineligible as supervisory capital components and subject to transitional directives	12,387	14,158	11B
Liabilities in respect of derivative instruments*	19,715	16,777	
* Of which: in respect of own credit risk	24	-	10
Other liabilities	25,898	23,686	
* Of which: collective allowance for credit losses included in Tier 2 capital	604	586	12
* Of which: liability in respect of deferred tax attributed to pensions	-	-	
* Of which: liability in respect of deferred tax on intangible assets	-	-	7
Total liabilities	394,340	376,183	

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the composition of the supervisory balance sheet, with references to the components of supervisory capital (continued):

	March 31, 2015	December 31, 2014	References to components of supervisory capital
	Consolidated supervisory balance sheet		
	NIS millions		
Shareholders' equity*	31,845	31,361	
* Of which: ordinary share capital and premium, retained earnings, other comprehensive income, and capital reserves**	31,845	31,361	
** Of which: ordinary share capital	1,326	1,323	1
** Of which: premium on ordinary shares	6,715	6,681	2
** Of which: retained earnings	22,949	22,243	3
** Of which: cumulative other comprehensive income***	717	945	4A
*** Of which: adjustments for presentation of securities available for sale at fair value	1,266	961	
*** Of which: net losses in respect of cash-flow hedges	(6)	(6)	9
*** Of which: net adjustments from translation, after hedge effects	16	(10)	
** Of which: capital reserves from a benefit due to share-based payment transactions	138	169	4B
* Of which: senior share capital	-	-	
** Of which: eligible as supervisory capital components	-	-	
** Of which: ineligible as supervisory capital components and subject to transitional directives	-	-	
* Of which: other capital instruments	-	-	
** Of which: eligible as supervisory capital components	-	-	
** Of which: ineligible as supervisory capital components and subject to transitional directives	-	-	
Non-controlling interests*	241	250	
* Of which: non-controlling interests attributable to common equity Tier 1 capital	193	224	5
* Of which: non-controlling interests attributable to additional Tier 1 capital	-	-	
* Of which: non-controlling interests attributable to Tier 2 capital	-	-	
* Of which: non-controlling interests not attributable to supervisory capital	48	26	
Total capital	32,086	31,611	
Total liabilities and capital	426,426	407,794	

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Capital Adequacy

Set out below are data regarding risk-adjusted assets and capital requirements in respect of credit risk, market risk, and operational risk:

	March 31, 2015		December 31, 2014	
	Risk-adjusted assets	Capital requirements ⁽¹⁾	Risk-adjusted assets	Capital requirements ⁽¹⁾
NIS millions				
Credit risk				
Sovereign debt	2,601	325	2,593	324
Debts of public-sector entities	3,120	390	3,105	388
Debts of banking corporations	7,397	925	7,341	918
Debts of corporations	135,316	16,915	137,059	17,132
Debts secured by commercial real estate	58,426	7,303	56,300	7,038
Retail exposures to individuals	41,611	5,201	40,665	5,083
Loans to small businesses	6,320	790	6,387	798
Housing loans	32,773	4,097	33,092	4,137
Securitization	100	13	97	12
Other assets	20,115	2,514	19,715	2,464
CVA risk	4,972	622	4,975	622
Total in respect of credit risk	312,751	39,095	311,329	38,916
Market risks	5,194	649	5,269	659
Operational risk	22,273	2,784	22,275	2,784
Total risk-adjusted assets in respect of the various risks	340,218	42,528	338,873	42,359
Common equity Tier I capital	32,069		31,482	
Tier I capital	33,778		33,436	
Total capital	48,261		49,477	
%				
Ratio of common equity Tier I capital to risk-adjusted assets	9.43%		9.29%	
Ratio of Tier I capital to risk-adjusted assets	9.93%		9.87%	
Ratio of total capital to risk-adjusted assets	14.19%		14.60%	
Minimum common equity Tier I capital ratio required by the Supervisor of Banks	⁽³⁾ (2)9.00%		⁽²⁾ 9.00%	
Minimum total capital ratio required by the Supervisor of Banks	⁽²⁾ 12.50%		⁽²⁾ 12.50%	

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

(2) The minimum required common equity Tier I capital ratio and the minimum required total capital ratio are 9% and 12.5%, respectively, from January 1, 2015, to December 31, 2016; and 10% and 13.5%, respectively, beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to these ratios at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum common equity Tier I capital ratio and the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 10.2% and 13.7%, respectively. With regard to the balance of housing loans, see Note 3A(2) to the Condensed Financial Statements.

(3) Minimum capital ratio required by the Supervisor of Banks from January 1, 2015.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Credit Risk Exposures

Set out below is the segmentation of credit risk exposures by counterparty and by main types of credit exposures, before allowance for credit losses⁽¹⁾:

March 31, 2015												
Sovereign	Public sector corporations	Banking Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure ⁽²⁾	Average gross credit exposure		
NIS millions												
Loans ⁽³⁾	61,178	4,673	9,413	103,233	36,960	55,743	8,648	61,696	-	-	341,544	330,843
Bonds ⁽⁴⁾	31,715	1,278	5,352	5,371	509	-	-	-	-	-	44,225	48,206
Derivatives ⁽⁵⁾	30	894	3,682	7,148	325	42	26	9	-	-	12,156	12,121
Other off-balance sheet exposures	1,821	2,473	2,442	73,871	47,575	49,102	3,337	2,509	199	-	183,329	185,715
Other assets ⁽⁶⁾	-	-	-	-	-	-	-	-	-	17,470	17,470	17,266
Total	94,744	9,318	20,889	189,623	85,369	104,887	12,011	64,214	199	17,470	598,724	594,151

December 31, 2014												
Sovereign	Public sector corporations	Banking Corporations	Secured by commercial real estate	Retail to individuals	Small businesses	Housing loans	Securitization	Others	Gross credit exposure ⁽²⁾	Average gross credit exposure		
NIS millions												
Loans ⁽³⁾	45,789	4,460	8,132	102,045	35,487	54,541	8,448	61,240	-	-	320,142	302,307
Bonds ⁽⁴⁾	39,637	1,316	5,396	5,196	642	-	-	-	-	-	52,187	55,960
Derivatives ⁽⁵⁾	32	1,019	3,212	7,188	352	39	233	11	-	-	12,086	9,634
Other off-balance sheet exposures	1,999	3,468	2,457	78,958	46,901	48,507	3,289	2,327	194	-	188,100	179,031
Other assets ⁽⁶⁾	-	-	-	-	-	-	-	-	-	17,062	17,062	15,682
Total	87,457	10,263	19,197	193,387	83,382	103,087	11,970	63,578	194	17,062	589,577	562,614

(1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.

(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).

(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.

(4) Not including bonds in the trading portfolio.

(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting).

(6) Including cash, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

The main gross credit exposures derive from loans extended by the Bank to its customers and from off-balance sheet exposures, which mainly include credit facilities, guarantees, and commitments to extend credit.

Gross credit exposures as at March 31, 2015 totaled approximately NIS 598.7 billion, compared with NIS 589.6 billion as at December 31, 2014, an increase of approximately NIS 9.1 billion. The increase mainly resulted from an increase in deposits with central banks and credit to governments, in the amount of approximately NIS 15.4 billion; an increase in exposure to debts secured by commercial real estate, in the amount of approximately NIS 2 billion; an increase in retail exposure to individuals (including small businesses), in the amount of approximately NIS 1.8 billion; an increase in exposure to banking corporations, in the amount of approximately NIS 1.7 billion; and an increase in credit exposures in respect of housing loans, in the amount of approximately NIS 0.6 billion. This increase was mainly offset by a decrease in exposure to government bonds, in the amount of approximately NIS 7.9 billion; a decrease in exposure to corporations, in the amount of approximately NIS 3.8 billion; and a decrease in exposure to debts of public-sector entities, in the amount of approximately NIS 0.9 billion.

Approximately 32% of the gross credit exposure of the Bank derives from exposure to corporations handled by the Corporate Banking Area, or other clients each of whose total balance of credit, calculated in accordance with the directive, exceeds NIS 5 million. Risk-adjusted assets in respect of such customers are weighted according to ratings by international rating agencies, or at 100% in the absence of such ratings.

Approximately 20% of the gross credit exposure of the Bank derives from retail exposure to customers each of whose total balance of credit, calculated in accordance with the directive, does not exceed NIS 5 million (including small businesses). Subject to compliance with certain conditions, the directive permits weighting of risk-adjusted assets in respect of such exposures at 75%.

Sovereign credit exposures, constituting approximately 16% of the gross credit exposure of the Bank, primarily include deposits with central banks in Israel and in the United States, and investments in bonds issued by the Israeli government and the United States government.

Credit exposure in respect of housing loans, constituting approximately 11% of the gross credit exposure of the Bank, includes credit granted for the purchase of homes. Subject to compliance with certain conditions, the directive permits weighting of risk-adjusted assets in respect of such exposures, where the ratio of the loan to the value of the asset at the date of granting of the loan (LTV) does not exceed 60%, at 35%-50%. Housing loans with a financing rate of more than 60% are weighted at 75%, the risk weight applied to the supervisory retail portfolio, subject to compliance with the terms for eligibility for this portfolio.

Approximately 14% of the gross credit exposure of the Bank derives from exposure to debts secured by commercial real estate, including credit granted for the purchase of income-bearing commercial real estate.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Set out below is the segmentation of gross credit exposure, before deducting the allowance for credit losses⁽¹⁾, by contractual term to maturity (the last period), according to the principal types of financial instruments:

	March 31, 2015					
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure ⁽²⁾
	NIS millions					
Loans ⁽³⁾	161,150	82,666	97,728	-	-	341,544
Bonds ⁽⁴⁾	1,420	22,310	20,495	-	-	44,225
Derivatives ⁽⁵⁾	10,075	7,939	9,825	-	(15,683)	12,156
Other off-balance sheet exposures	32,750	146,339	4,240	-	-	183,329
Other assets ⁽⁶⁾	2,488	-	-	14,982	-	17,470
Total	207,883	259,254	132,288	14,982	(15,683)	598,724

	December 31, 2014					
	Up to 1 year	1 year to 5 years	Over 5 years	Other	Effect of netting agreements	Gross credit exposure ⁽²⁾
	NIS millions					
Loans ⁽³⁾	144,504	78,164	97,474	-	-	320,142
Bonds ⁽⁴⁾	8,460	23,116	20,611	-	-	52,187
Derivatives ⁽⁵⁾	9,639	6,919	8,791	-	(13,263)	12,086
Other off-balance sheet exposures	32,773	151,153	4,174	-	-	188,100
Other assets ⁽⁶⁾	2,364	-	-	14,698	-	17,062
Total	197,740	259,352	131,050	14,698	(13,263)	589,577

- (1) After deduction of charge-offs, and before deduction of the allowance for credit losses on an individual and collective basis.
(2) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).
(3) Including credit to the public, credit to the government, and deposits with central banks; after deduction of liabilities in respect of transactions in derivative instruments subject to CSA agreements.
(4) Not including bonds in the trading portfolio.
(5) Positive fair value of derivatives, including the add-on reflecting the amount of the future potential exposure to credit in respect of the balance of the face value of derivative instruments, after offsetting of transactions in derivatives (netting).
(6) Including cash, advance payments to tax authorities, shares, and other assets with no counterparty, such as buildings and equipment.

For the distribution of the balance of problematic debts and the balance of the allowance for credit losses by economic sector, see Appendix 3 to the Management Review regarding credit risk by economic sector.

For the distribution of credit exposures by geographical region, see Appendix 4 to the Management Review regarding exposure to foreign countries.

For further information regarding problematic loans and the allowance for credit losses, see Note 3 to the Condensed Financial Statements.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Credit Risk Mitigation

The Bank applies the comprehensive standardized approach in order to determine risk weightings to apply to the counterparty. The standardized approach requires the use of independent ratings prepared by international rating agencies.

The following tables present details of gross credit exposure (after deducting the allowance for credit losses on an individual basis) by risk weightings, with segmentation of the exposure by counterparty (segments), before and after credit risk mitigation in respect of recognized collateral.

Before credit risk mitigation

	March 31, 2015								
	0%	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure ⁽¹⁾
	NIS millions								
Sovereign	84,658	7,313	-	466	-	2,307	-	-	94,744
Public sector	-	2,739	-	6,573	-	6	-	-	9,318
Banking corporations	-	15,534	-	4,822	-	533	-	-	20,889
Corporations	-	1,980	-	4,325	-	179,621	3,087	-	189,013
Secured by commercial real estate	-	-	-	-	-	84,436	755	-	85,191
Retail to individuals	-	-	-	-	104,028	173	557	-	104,758
Small businesses	-	-	-	-	11,843	49	74	-	11,966
Housing loans	-	-	31,734	8,600	17,692	5,970	217	-	64,213
Securitization	-	-	-	-	-	199	-	-	199
Others	2,524	-	-	-	-	10,828	752	3,366	17,470
Total	87,182	27,566	31,734	24,786	133,563	284,122	5,442	3,366	597,761

	December 31, 2014								
	0%	20%	35%	50%	75%	100%	150%	250%	Gross credit exposure ⁽¹⁾
	NIS millions								
Sovereign	77,540	7,232	-	325	-	2,360	-	-	87,457
Public sector	-	3,789	-	6,468	-	6	-	-	10,263
Banking corporations	-	13,366	-	5,071	-	760	-	-	19,197
Corporations	-	1,803	-	3,348	-	184,375	3,165	-	192,691
Secured by commercial real estate	-	-	-	-	-	82,714	514	-	83,228
Retail to individuals	-	-	-	-	102,223	173	564	-	102,960
Small businesses	-	-	-	-	11,599	255	75	-	11,929
Housing loans	-	-	32,569	7,441	14,762	8,563	242	-	63,577
Securitization	-	-	-	-	-	194	-	-	194
Others	2,416	-	-	-	-	10,720	640	3,286	17,062
Total	79,956	26,190	32,569	22,653	128,584	290,120	5,200	3,286	588,558

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation as a result of the execution of certain actions (e.g. use of guarantees), and after offsetting of transactions in derivatives (netting).

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

After credit risk mitigation

	March 31, 2015								
	0%	20%	35%	50%	75%	100%	150%	250%	Net credit exposure ⁽¹⁾
	NIS millions								
Sovereign	85,408	7,313	-	466	-	1,414	-	-	94,601
Public sector	1,440	2,739	-	5,823	-	6	-	-	10,008
Banking corporations	-	17,226	-	17,981	-	429	-	-	35,636
Corporations	-	1,980	-	4,278	-	171,716	2,964	-	180,938
Secured by commercial real estate	-	-	-	-	-	83,790	750	-	84,540
Retail to individuals	-	-	-	-	87,303	172	556	-	88,031
Small businesses	-	-	-	-	10,496	48	71	-	10,615
Housing loans	-	-	31,734	8,600	17,692	5,970	217	-	64,213
Securitization	-	-	-	-	-	199	-	-	199
Others	2,524	-	-	-	-	10,828	752	3,366	17,470
Total	89,372	29,258	31,734	37,148	115,491	274,572	5,310	3,366	586,251

	December 31, 2014								
	0%	20%	35%	50%	75%	100%	150%	250%	Net credit exposure ⁽¹⁾
	NIS millions								
Sovereign	78,289	7,232	-	227	-	1,642	-	-	87,390
Public sector	1,258	3,789	-	5,718	-	6	-	-	10,771
Banking corporations	-	15,272	-	17,964	-	660	-	-	33,896
Corporations	-	1,803	-	3,348	-	177,412	3,084	-	185,647
Secured by commercial real estate	-	-	-	-	-	81,967	511	-	82,478
Retail to individuals	-	-	-	-	85,907	172	563	-	86,642
Small businesses	-	-	-	-	10,271	255	74	-	10,600
Housing loans	-	-	32,461	7,549	14,762	8,563	242	-	63,577
Securitization	-	-	-	-	-	194	-	-	194
Others	2,416	-	-	-	-	10,720	640	3,286	17,062
Total	81,963	28,096	32,461	34,806	110,940	281,591	5,114	3,286	578,257

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Use of Eligible Collateral for Credit Risk Mitigation

The following table lists the types of collateral used, and presents the exposures covered by guarantees, exposures covered by credit derivatives, and exposures covered by eligible financial collateral, by counterparty:

	March 31, 2015						
	Gross credit exposure ⁽¹⁾	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added ⁽²⁾	Exposure covered by financial collateral ⁽³⁾	Net credit exposure ⁽⁴⁾
NIS millions							
Sovereign	94,744	(893)	-	(893)	750	-	94,601
Public sector	9,318	(750)	-	(750)	1,440	-	10,008
Banking corporations	20,889	(547)	-	(547)	16,020	(726)	35,636
Corporations	189,013	(1,110)	-	(1,110)	50	(7,015)	180,938
Secured by commercial real estate	85,191	(40)	-	(40)	-	(611)	84,540
Retail to individuals	104,758	(14,641)	-	(14,641)	-	(2,086)	88,031
Small businesses	11,966	(229)	-	(229)	-	(1,122)	10,615
Housing loans	64,213	-	-	-	-	-	64,213
Securitization	199	-	-	-	-	-	199
Others	17,470	-	-	-	-	-	17,470
Total	597,761	(18,210)	-	(18,210)	18,260	(11,560)	586,251

	December 31, 2014						
	Gross credit exposure ⁽¹⁾	Exposure covered by guarantees	Exposure covered by derivatives	Total amounts subtracted	Total amounts added ⁽²⁾	Exposure covered by financial collateral ⁽³⁾	Net credit exposure ⁽⁴⁾
NIS millions							
Sovereign	87,457	(817)	-	(817)	750	-	87,390
Public sector	10,263	(750)	-	(750)	1,258	-	10,771
Banking corporations	19,197	(442)	-	(442)	15,672	(531)	33,896
Corporations	192,691	(1,133)	-	(1,133)	86	(5,997)	185,647
Secured by commercial real estate	83,228	(40)	-	(40)	-	(710)	82,478
Retail to individuals	102,960	(14,280)	-	(14,280)	-	(2,038)	86,642
Small businesses	11,929	(218)	-	(218)	-	(1,111)	10,600
Housing loans	63,577	-	-	-	-	-	63,577
Securitization	194	-	-	-	-	-	194
Others	17,062	-	-	-	-	-	17,062
Total	588,558	(17,680)	-	(17,680)	17,766	(10,387)	578,257

(1) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), before credit risk mitigation, and after offsetting of transactions in derivatives (netting).

(2) Including an additional safety coefficient appropriate for exposure to borrowed securities.

(3) After taking safety coefficients into account.

(4) Before conversion to credit of off-balance sheet components (e.g. weighting of unutilized credit facilities as credit), after credit risk mitigation, and after offsetting of transactions in derivatives (netting).

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

The use of eligible collateral led to a decrease in credit exposures assigned risk weightings of 75% and 100%. Credit exposures in the amount of approximately NIS 18.2 billion were assigned reduced risk weightings, mainly due to the use of guarantees of banking corporations. In addition, the use of eligible financial collateral, mainly including pledged deposits and government bonds, led to a reduction of the overall credit exposure by a total of approximately NIS 11.6 billion.

Credit Risk in Respect of Derivative Financial Instruments

As of December 31, 2012, the Bank offsets transactions in derivatives, for capital-adequacy purposes, under bilateral netting arrangements that fulfill the conditions of the directive. The offsets are performed in accordance with the procedures and policies established at the Bank.

	March 31, 2015					Total
	Interest rate derivatives	Foreign currency and gold derivatives	Share derivatives	Precious metals	Commodity derivatives	
	NIS millions					
Positive gross fair value	10,486	6,630	1,732	19	78	18,945
Add-on values	2,949	5,059	851	4	31	8,894
Effect of netting agreements	-	-	-	-	-	(15,683)
Eligible collateral	-	-	-	-	-	(2,136)
Net credit exposure	13,435	11,689	2,583	23	109	10,020

	December 31, 2014					Total
	Interest rate derivatives	Foreign currency and gold derivatives	Share derivatives	Precious metals	Commodity derivatives	
	NIS millions					
Positive gross fair value	8,766	6,235	1,314	15	152	16,482
Add-on values	3,037	4,876	898	7	49	8,867
Effect of netting agreements	-	-	-	-	-	(13,263)
Eligible collateral	-	-	-	-	-	(1,352)
Net credit exposure	11,803	11,111	2,212	22	201	10,734

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

The following table details the face value of the Bank's credit-derivative portfolio, used for risk management in the Bank's credit portfolio (the Bank is not a party to CDS transactions originating in mediation activities):

	March 31, 2015		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
Protection acquired	Protection sold		
Credit derivatives	50	139	189

	December 31, 2014		
	Face value in NIS millions		
	Banking book		Total face value of credit derivatives
Protection acquired	Protection sold		
Credit derivatives	50	136	186

Securitization Exposures

Securitization exposures of the Bank arise from liquidity lines provided by the Bank to various securitization entities. The Bank uses the lower of the ratings assigned by two international credit rating agencies, Standard and Poor's Rating Group and Moody's Investor Service, to assign the relevant risk weights to these exposures.

The following table details securitization exposures acquired by the Bank and the relevant capital requirements:

	Risk weight	March 31, 2015		December 31, 2014	
		Amount of exposure ⁽¹⁾	Capital requirements ⁽²⁾	Amount of exposure ⁽¹⁾	Capital requirements ⁽²⁾
		NIS millions			
AAA to AA-	20%	-	-	-	-
A+ to A-	50%	-	-	-	-
BBB+ to BBB-	100%	100	13	97	12
BB+ to BB-	350%	-	-	-	-
B+ or lower or unrated	1,250%	-	-	-	-
Total		100	13	97	12

(1) After conversion to credit in respect of off-balance sheet components.

(2) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks. The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 13.7%.

Basel Pillar 3 Additional Disclosure as at March 31, 2015 (continued)

Capital Requirements in Respect of Market Risks

	March 31, 2015 ⁽¹⁾			December 31, 2014 ⁽¹⁾		
	Specific risk	General risk	Total	Specific risk	General risk	Total
	NIS millions					
Interest rate risk	108	366	474	75	414	489
Share risk	7	7	14	6	6	12
Foreign currency exchange rate risk	-	86	86	-	86	86
Option risk	-	75	75	-	72	72
Total	115	534	649	81	578	659

(1) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks. The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 13.7%.

Positions in Shares in the Banking Book

The following are details of the Bank's investments in shares in the banking book:

	March 31, 2015		December 31, 2014	
	Balance sheet value and fair value	Capital requirements ⁽¹⁾	Balance sheet value and fair value	Capital requirements ⁽¹⁾
	NIS millions			
Investments classified into the trading portfolio	52	⁽²⁾ 14	50	⁽²⁾ 12
Investments classified into the available-for-sale portfolio	2,845	381	2,563	345
Total investments in shares	2,897	395	2,613	357
Of which: traded on the stock exchange	2,288		2,001	
Privately held	609		612	
Unrealized gains included in supervisory capital	414		313	

(1) The capital requirements were calculated in accordance with the minimum total capital ratio of 12.5% required by the Supervisor of Banks. The minimum required total capital ratio is 12.5% from January 1, 2015, to December 31, 2016, and 13.5% beginning January 1, 2017. Beginning January 1, 2015, a capital requirement is added to this ratio at a rate representing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually, over the course of eight quarters, up to January 1, 2017. Accordingly, the minimum total capital ratio required by the Supervisor of Banks as of January 1, 2017, on a consolidated basis, according to data at the reporting date, will be 13.7%.

(2) Including capital allocation with respect to specific market risk and general market risk.