ANNUAL REPORT 2014

ISRAEL DISCOUNT BANK

80 YEARS

REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF THE SHAREHOLDERS

MANAGEMENT REVIEW

FINANCIAL STATEMENTS

Board Of Directors

DR. YOSSI BACHAR
Chairman of the Board
(Outside Director)

ARIE ORLEV

ILAN BIRAN
(Outside Director)

LINDA BENSHOSHAN

ELI ELIEZER GONEN

ILAN COHEN

BARUCH LEDERMAN
(Outside Director)

YEHUDA LEVI
(Outside Director)

DAVID LEVINSON

EDITH LUSKY
(Outside Director)

SHAUL KOBRINSKY

YALI SHEFFI

Details regarding members of the Board of Directors and Managment are brought in the Report of tne Board of Directors.

Management

LILACH ASHER-TOPILSKY
President & Chief Executive Officer

JOSEPH BERESSI
Senior Executive Vice President
Chief Accountant and Head of Accounting Group

YUVAL GAVISH
Senior Executive Vice President
Head of Banking Division

ESTHER DEUTSCH
Senior Executive Vice President
Chief Legal Adviser and Head of
Legal Advisory Group

URI LEVIN
Senior Executive Vice President
Head of Planing, strategy and Finance Division

RAN OZ
Senior Executive Vice President
Head of Financial Markets Division

YAIR AVIDAN
Executive Vice President
Chief Risk Officer and Head of
Risk Management Group

ORIT ALSTER
Executive Vice President
Head of Corporate Banking Division

YAFIT GARIANI
Executive Vice President
Head of Human Resource and Properties Division

LEVY HALEVY
Executive Vice President
Head of Technologies and Operations Division

Avraham (AVI) LEVY
Executive Vice President
Head of Customer Assets Division

NIR ABEL
Executive Vice President
Internal Auditor

RUTH MOSHKOVITZ
Corporate Secretary

REPORT OF THE BOARD OF DIRECTORS TO THE GENERAL MEETING OF THE SHAREHOLDERS

THE DISCOUNT GROUP - GENERAL OVERVIEW AND PRINCIPAL DATA

The meeting of the Board of Directors, held on March 9, 2015, resolved to approve and publish the Bank's 2014 Annual Report.

THE DISCOUNT GROUP - GENERAL OVERVIEW AND STRUCTURE OF THE GROUP

Israel Discount Bank Ltd. (hereinafter: "the Bank") was incorporated in Palestine in 1935, as a public company under the Companies Ordinance. The Bank was founded by the late Mr. Leon Recanati. The Bank is a banking corporation having a banking license under the provisions of the Banking Law (Licensing), 1981 (hereinafter: "the Banking Law (Licensing)").
During the eighty years of its operation the Bank has developed a chain of branches and a wide variety of commercial banking activities in all banking spheres.

DOMESTIC OPERATIONS

Discount Bank offers its customers comprehensive banking services, in all areas of financial activity, through 138 branches in Israel, direct banking services, on-line banking and Internet services.
The Bank has one banking subsidiary in Israel - Mercantile Discount Bank Ltd. ("MDB") - a commercial bank serving customers in all fields of financial activity through 80 branches.
The activities in Israel also include:

- Credit cards - The Bank controls Israel Credit Cards Ltd. ("ICC") and Diners Club Israel Ltd. ("Diners"), which issue and market "VISA", "Diners" and "MasterCard" credit cards, both for domestic and overseas use;
- Securities portfolio management - the subsidiary, Tafnit Discount Asset Management Ltd., ("Tafnit") which manages securities investment portfolios for private customers, corporations, not-for-profit organizations and institutional bodies;
- Non-financial investments and underwriting - the subsidiary "Israel Discount Capital Markets and Investments Ltd." ("DCMI") engages in investment banking, investments in private equity funds, in venture capital funds and in other non-financial investments. DCMI also engages in the field of securities distribution and underwriting and managing the issue of securities, by means of a subsidiary company.

For details regarding the Bank`s holdings in the First International Bank of Israel Ltd. (hereinafter: FIBI), which until March 13, 2014, was an affiliated company of the Bank, see Note 6 D to the financial statements.

INTERNATIONAL ACTIVITY

The international activity of the Discount Group is mostly conducted by subsidiary companies in the United States and in Europe by the subsidiary in Switzerland and the Bank's London Branch. The international activity is characterized as business-commercial and private banking activity.

In the United States, IDB New York is the largest of the Israeli banks operating abroad, and at the present time operates branches in the New York area, Florida, California and in the Cayman Islands. This bank has a banking subsidiary in Uruguay – Discount Bank (Latin America) ("DBLA") and representative offices in Latin America and in Israel. (For details regarding the sale of DBLA operations, see Note 8A to the financial statements).

In Switzerland, IDB (Swiss) Bank operates a branch in Geneva, as well as a representative office in Israel.

For details regarding decisions in respect of the Bank's European extensions, see below "International operations".

PRINCIPAL OPERATIONS AND CENTRAL EVENTS DURING THE REPORTED PERIOD

Ms. Lilach Asher-Topilsky started her office as the Bank's President & CEO on February 19, 2014.

On August 20, 2014, the strategic plan of the Discount Group for the years 2015-2019, was approved. The plan was drawn up by the Bank's Management during the year and it encompasses all the Group's spheres of activity. Following the approval of the strategic plan, preparations for its integration have begun (see below). Within the framework of the plan and as part of the efficiency measures, an early retirement plan for employees was introduced (see Note 16 L to the financial statements). The plan was successfully completed: 395 employees signed a retirement agreement, of whom 381 employees have actually retired until December 31, 2014. The Group's labor force as of December 31, 2014, declined by 664 employees (on an annual basis), a decrease of 10.8% as compared with the end of the preceding year.

The Basel III instructions are being applied by the Bank as from January 1, 2014.

An agreement for the sale of the operations of DBLA, a banking corporation owned by IDB New York operating in Uruguay (see Note 8A to the financial statements), was signed on December 18, 2014.

On February 19, 2015, the Bank completed a move for the sale of a parcel of shares of FIBI, following which, the Bank's rate of holdings in the shares of FIBI was reduced to below 10% (see Notes 6 D 7 to the financial statements). Completion of this move constitutes the Bank's attainment of a relevant milestone in the sale outline determined by the Antitrust Commissioner, prior to the final date that had been fixed for this sale.

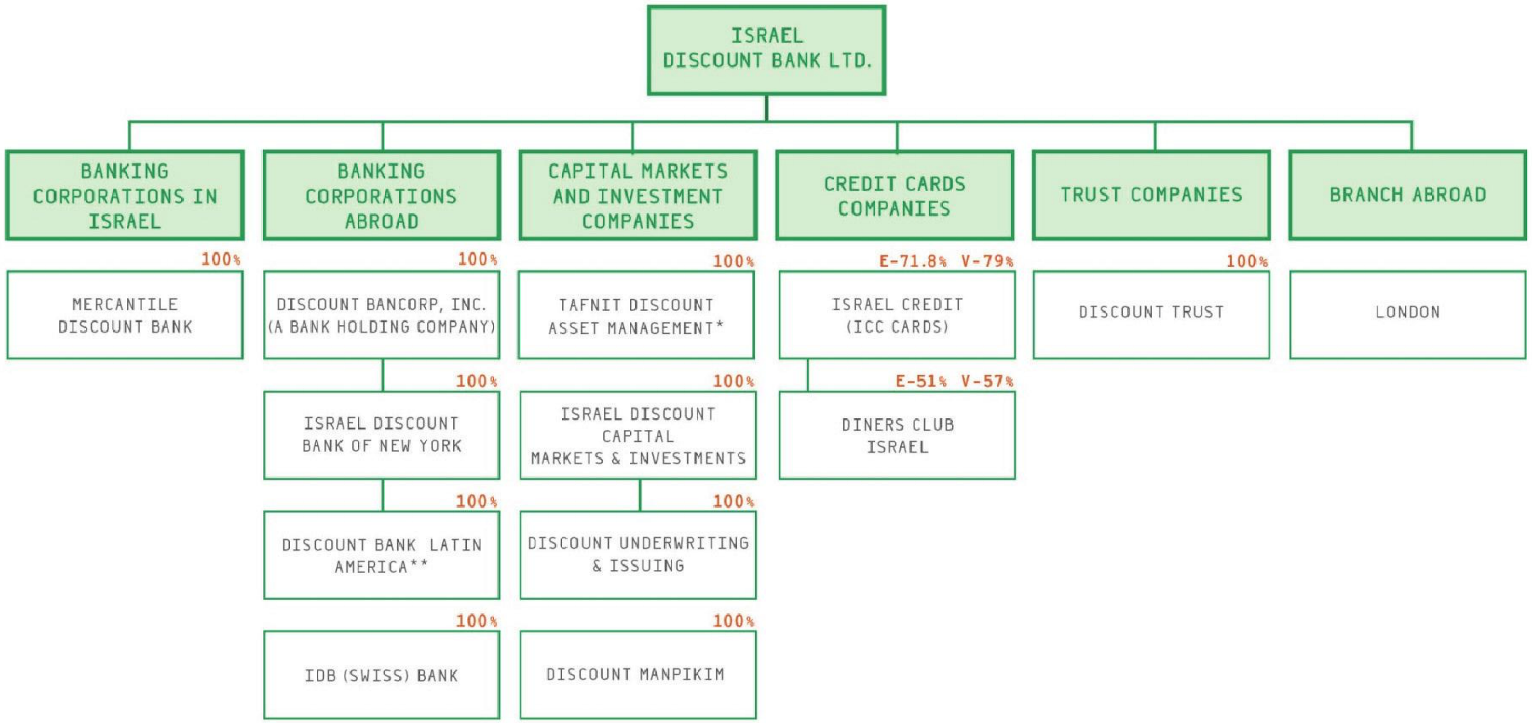
The publication of the Report marks the 80th anniversary of the establishment of the Bank.

MARKET SHARE

Based on data relating to the banking industry as of September 30, 2014, published by the Bank of Israel, the Discount Bank Group's share in the total of the five largest banking groups in Israel was as follows:

	September 30, 2014	December 31, 2013
	In %	
Total assets	15.6	16.1
Credit to the public, net	14.1	14.2
Deposits from the public	15.3	15.8
Interest income, net	17.0	16.9
Total non-interest income	18.2	19.6

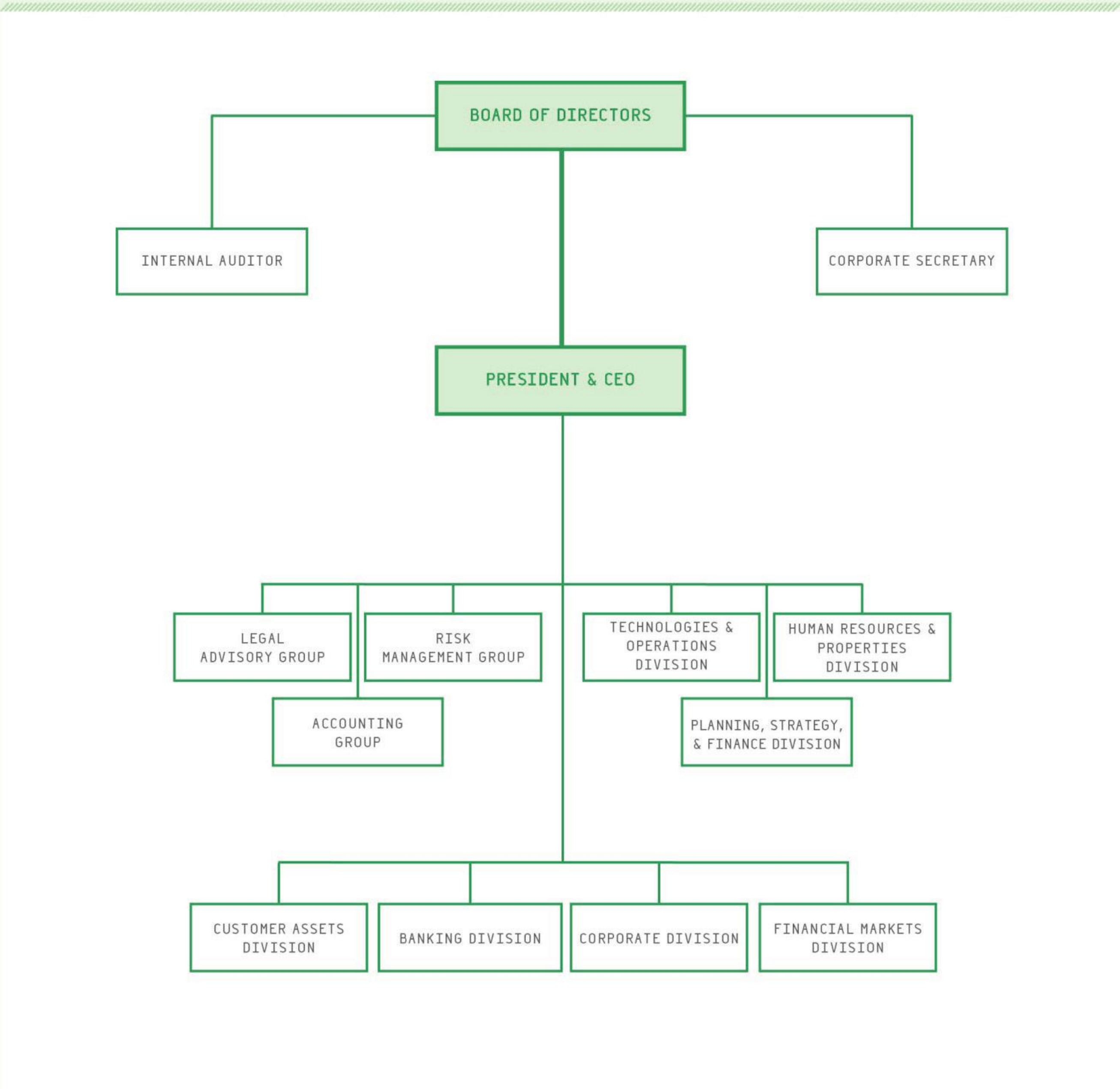
Discount Group Structure



* Directly and Indirectly

** For details regarding an agreement for the sale of the operations of the company, see note 8A to the financial statements

Organizational Structure Chart



DISCOUNT GROUP SEGMENT OF OPERATIONS - CONDENSED DESCRIPTION

The Bank reports its operations, in accordance with instructions of the Supervisor of Banks, under six operating segments, as follows:

- **Retail Banking - Household Segment:** within the framework of this segment are customers of the Bank's Banking Division (formerly: the Retail Banking Division) who are private customers, who are defined as customers who are either salaried employees, possess the potential for growth, or may be viewed as VIP customers (the definition excludes customers of the private banking centers). The segment also includes the customers of MDB in that bank's household segment - private customers of MDB, whose activities are typical of those of households, including credit of a volume not exceeding NIS 300 thousand and deposits of a volume not exceeding NIS 500 thousand.
- **Retail Banking - Small Business Segment:** within the framework of this segment customers of the Bank's Banking Division and customers of MDB which are defined as small companies and small businesses with annual turnovers up to NIS 15 million with borrowings of up to NIS 5 million are included.
- **Corporate banking:** within the framework of this segment customers of the Bank's corporate division are included, primarily companies with annual turnovers of over NIS 150 million or indebtedness exceeding NIS 50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's corporate banking segment.
- **Middle Market banking:** within the framework of this segment customers of the middle market department at the Bank's banking division are included, mainly companies with annual turnovers of NIS 15 to 150 million and indebtedness of NIS 5-50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's commercial banking segment.
- **Private banking:** This segment includes, as part of the Bank's domestic operations, customers of the Bank's Banking Division (individuals and corporations) who receive banking services at the private banking centers. These customers are generally Israeli customers with financial wealth held with the Bank of NIS 4 million and over, as well as foreign resident customers with financial wealth held at the Bank of US$1 million and above. The segment also includes customers of MDB and the London branch, of medium and high wealth, all the activity of IDB (Swiss) Bank and the private banking customer activity at IDB New York including all the operations of the subsidiary Discount Bank Latin America.
- **Financial Management Segment:** within the framework of this segment are included activities that are characterized as banking operations, but do not involve customers of the Group (except for activity with the dealing room, which is part of the segment). These activities are mainly comprised of their own account operations of the Bank, MDB and IDB New York involving securities and other banks, as well as management of market and liquidity risks and dealing room operations, including those involving derivatives. This segment also includes the Bank's share in the income of FIBI (until March 31, 2014) and its share in the income of its affiliated companies which operate in a supporting capacity. The segment also includes the non-financial corporations' sub-segment, which includes the Discount Group activity in non-financial investments.

These segments include also the related part of the operations of the product segments, and Discount Group's international operations.

The Bank reports its activity in four product segments, as follows:

- **Credit Card operations:** The Bank's activity in the credit card field is being conducted both through ICC, a credit card company in which the Bank holds 71.8% in share capital and 79% in voting rights and by the issue as co-issuers of ICC credit cards to the Bank's and to MDB's customers, as part of the services and products basket offered by the Bank and by MDB.

  The Bank's income from the credit card operations includes, primarily, various commissions related to the credit card activity of ICC (both as an issuer of credit cards and as a clearing agent for credit cards), as well as the financing income from credit granted to transactions effected through off-banking credit cards. In addition, the Bank and MDB derive income from payments transferred to them in respect of credit cards issued to their customers by ICC, at the Bank's and DMB's initiative.
- **Operations in the Capital Market:** The operations in the capital market includes securities activity (excluding nostro), portfolio management and pension products. The activity includes the Bank's operations in the securities field, pension layouts as well as the operations of a specialized subsidiary - Tafnit Discount Asset Management and the operations in the capital market of MDB.

- **Construction and Real Estate Activity:** This activity includes customers of the Bank's various divisions whose sectorial classification is construction and real estate. This activity also includes customers of the construction and real estate sector of MDB, IDB New York and the London Branch.
- **Mortgage Activity:** This activity includes the mortgage operations of the Discount Group in Israel. This segment includes the granting of loans for housing purposes (purchase, construction etc.) and the granting of loans for any purpose secured by a mortgage on a residential unit or other property.

For further details, see "Activities of the Group according to principal segments of operations", "Further details regarding activities in certain products" and "International activity" below, and Note 31 to the financial statements. For details regarding the instruction in the matter of regulatory segments of operation, which is to be implemented starting with the 2015 annual report, see Note 1 e 3 to the financial statements.

MAIN FIGURES FROM THE CONSOLIDATED FINANCIAL STATEMENTS

PROFITABILITY

	For the year ended December 31			Change in %	
	2014	2013	2012	2014 compared to 2013	2013 compared to 2012
	In NIS millions				
Interest income, net[1]	4,218	4,250	4,459	(0.8)	(4.7)
Credit loss expenses	164	580	726	(71.7)	(20.1)
Income before taxes	937	1,171	1,164	(20.0)	0.6
Provision for taxes on income	324	305	407	6.2	(25.1)
Income after taxes	613	866	757	(29.2)	14.4
Net income attributed to the Bank's shareholders	596	874	802	(31.8)	9.0
Comprehensive income, attributed to the Bank's shareholders	1,018	418	1,136		
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	0.57	0.83	0.76		
The ratio of income before taxes to total equity in %	7.45	11.06	11.70		
The ratio of income after taxes to total equity in %	4.88	8.18	7.60		
Net return on equity attributed to the Bank's shareholders, in %	4.7	7.3	7.1		

Footnotes:

(1) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (26) to the condensed financial statements.

PROFITABILITY - DISREGARDING CERTAIN COMPONENTS

		For the year ended December 31		
		2014	2013	
	Note	In NIS millions		Change in %
Net income attributed to the Bank's shareholders - as reported		596	874	(31.8)
Disregarding:		-	-	-
Changes in the provision for severance pay, net, primarily with respect to the retirement plan	16 L and M	272	-	
Loss on the sale of DBLA operations	8 A	50	-	
Net income attributed to the Bank's shareholders - disregarding certain components		**918**	**874**	**5.0**
Net return on equity attributed to the Bank's shareholders, in % - disregarding certain components		**7.2**	**7.3**	
Disregarding:				
Loss on the sale of TRUPS	3 M	65	-	
On an other than temporary impairment (OTTI) in respect of FIBI's shares	6 D (7)	47	-	
Provision for impairment of the value of the investment in shares of FIBI	6 D (3)	26	158	
Net income attributed to the Bank's shareholders - disregarding certain components		**1,056**	**1,032**	**2.3**
Net return on equity attributed to the Bank's shareholders, in % - disregarding certain components		**8.3**	**8.6**	

BALANCE SHEET

	December 31, 2014	December 31, 2013	Change in
	In NIS millions		%
Total assets	206,946	200,507	3.2
Credit to the public, net	120,123	115,859	3.7
Securities	37,353	41,325	(9.6)
Deposits from the public	152,903	148,928	2.7
Equity attributed to the Bank's shareholders	13,243	12,233	8.3
Total equity	13,641	12,538	8.8

FINANCIAL RATIOS

	December 31, 2014	December 31, 2013
	in %	
Ratio of total equity to total assets	6.6	6.3
Ratio of credit loss expenses to the average balance of credit to the public	0.14	0.49
Ratio of credit to the public, net to total assets	58.0	57.8
Ratio of credit to the public, net to deposits from the public	78.6	77.8
Ratio of deposits from the public to total assets	73.9	74.3
Ratio of total non-interest income to operating and other expenses	51.1	58.5
Ratio of total non-interest income to operating and other expenses - disregarding changes in the provision for severance pay, mostly the retirement plan and loss on the sale of DBLA operations	55.5	58.5
Ratio of operating and other expenses to total income	85.3	77.5
Ratio of operating and other expenses to total income - disregarding changes in the provision for severance pay, mostly the retirement plan and loss on the sale of DBLA operations	78.5	77.5
Risk assets adjusted return(1)	5.0	8.2
Risk assets adjusted return(1) - disregarding changes in the provision for severance pay, mostly the retirement plan and loss on the sale of DBLA operations	7.7	8.2

Footnotes:
(1) Return on core capital computed on the average balance of risk assets (December 31, 2014 - 8.5% and December 31, 2013 - 8.0%).

RATIO OF CAPITAL TO RISK ASSETS

	Basel III		Basel II
	December 31, 2014	January 1, 2014	December 31, 2013
	in %		
Ratio of common equity tier 1 to risk assets (2013: core capital ratio)	9.4	8.9	9.3
Ratio of tier 1 capital to risk assets	10.4	9.7	10.1
Ratio of total capital to risk assets	14.9	14.2	14.4

DEVELOPMENTS IN THE MARKET PRICE OF THE DISCOUNT SHARES

	Closing price at end of the trading day			Rate of change in 2014 in %
	December 31, 2013	December 31, 2014	March 2, 2015	
Discount share	663	625	633	(1.3)
The Banks index	1,323.36	1,249.51	1,282.61	(2.6)
The TA 25 index	1,329.39	1,464.99	1,535.60	(4.6)
Discount market value (in NIS billions)	6.98	6.59	6.67	(1.3)

THE DISCOUNT GROUP STRATEGIC PLAN

On August 20, 2014, the Board of Directors approved the Discount Group's strategic plan for the years 2015-2019.

The plan was drawn up by the Bank's Management during the year and it is based on in-depth analysis and detailed planning work carried out at the Bank, with the assistance of an international consultancy firm.

The plan encompasses all the Discount Group's spheres of activity, taking a view of the Group's strengths and challenges. The Discount Group is a diverse and stable financial group that has core material holdings in Israel and overseas. The Group has a longstanding and loyal customer base, an extensive network of branches, service that is based on personal relationships, and devoted and professional staff.

The plan has been constructed on three central pillars – far-reaching efficiency measures, growing the retail segment and inculcating an organizational culture supporting change.

The first pillar focuses on efficiency measures and stringent management of expenses, including:

- Reducing the size of the Discount Group's workforce by more than 1,000 employees, of which some 700 by the end of 2017. This reduction depends mainly on the natural retirement of approx. 600 employees during the period of the plan, and on an early retirement plan (see Note 16 L to the financial statements). The plan was successfully completed: 395 employees signed a retirement agreement, of whom 381 employees have actually retired until December 31, 2014. The Group's labor force as of December 31, 2014, declined by 664 employees (on an annual basis), a decrease of 10.8% as compared with the end of the preceding year;
- Adjustments to the organizational structure, with the aim of simplifying various processes and making them more efficient, as well as shortening the customer response time. In this framework, the Dan Region Administration was closed down and the branches that had been operating under it have been subjected to other regions. The Dan Business Center was closed down and responsibility for its customers has been transferred to other business centers, in congruence with the changes in attachment of the branches;
- Reducing the Group's real estate areas (in light of, inter alia, the downsizing of the workforce). A comprehensive examination will be carried out to ensure the most efficient and effective use of the Group's real estate assets.

- Adaptation will be made to the size of the branch network and its character to the new challenges facing the Group. In the first stage it has been decided to close 10 Bank branches, including the concept “Discount Your Way” branches that are located in central shopping malls (5 "Discount your way" branches have been closed down in 2014. Furthermore, the Quarter Seventeen branch in Ashdod was merged with the Ashdod City branch);
- Savings in procurement costs and other expenses.

The second pillar in the plan focuses on long-term growth and profitability:

- Growing the retail segment, placing emphasis on private customers and small businesses, at the Bank and at its subsidiaries – Mercantile and ICC.
- Alongside the focus on the retail segment, examination of activities that are outside the core operations (for details regarding decisions in respect of the Bank's European extensions, see below "International operations");
- Strengthening the connection with the Bank’s customers, by means of upgrading appropriate and useful “value” offers in a variety of distribution channels, and through implementing technological improvements and enhancing the customer experience. Emphasis will be placed on increasing the Bank’s share of consumer credit;
- Accelerating the process of transferring operational functions from the branches to the back-office, so as to allow bank tellers to focus on providing personal service to the customers.

The third pillar is the inculcation of an organizational culture that supports change, that is customer-orientated, that is performance and excellence based, and on developing the Group’s human capital and nurturing it.

In the opinion of the Bank’s Management, implementation of the plan will lead to growth in the Group’s profits, at an average annual double-digit rate, thereby placing the Discount Group at the forefront of the banking system in Israel by the end of the plan period.

Integration of the strategic plan. Implementation of the plan includes the start-up and execution of twenty-nine strategic projects. In this respect, an administration for the management of the change has been established responsible for the operation and implementation of assignments leading the change, the main duties of which are the coordination of the change plans, assistance in their implementation, monitoring and control of the progress made and reporting to the Management and the Board of Directors.

Forward-looking information. The main points of the strategic plan presented above include assessments that fall into the category of forward-looking information, such as the estimate of profitability, the efficiency and growth targets that have been set, and so forth. These assessments are based on the latest information and estimates available to the Bank at date of publishing the reports.

The strategic plan is based on assumptions regarding developments in the Israeli economy in the coming years, and also legislative and regulatory initiatives that are currently known, whose enactment is expected with a high degree of probability. Material changes in the state of the economy and the situation of the customer public, legislative and regulatory changes having a material effect, material changes in the competitive landscape and material changes in the security situation could have an impact on the degree to which the targets of the strategic plan are achieved. A further cause of uncertainty arises from the limited ability to accurately forecast the implications of some of the future processes and their impact on profitability.

FORWARD LOOKING INFORMATION

Some of the information detailed in the directors’ report, which does not relate to historical facts, comprises forward-looking information, as defined in the Securities Law, 1968.

The Bank's actual results might differ materially from those indicated in the forward-looking information due to a large number of factors, including, among other things, global and local capital market changes, macro-economic changes, changes in the geo-political situation, regulatory changes and other changes, not under the Bank's control, and which may result in the non-realization of the estimates and/or in changes in the Bank's business plans.

Forward-looking information is typified by terms and words like: "believe", "anticipate", "estimate", "intends", "prepares to...", "might" and similar expressions, in addition to nouns such as: "desire", "anticipation", "intention", "expectation", "assessment", "forecast", etc. Such forward-looking expressions involve risks and uncertainties as they are based on evaluations by the management as to future events, which include, among other things, evaluations as to the state of the economy, public preferences, domestic and foreign interest rates, inflation rates, etc. as well as regarding the effects of new legislative and regulatory provisions, relating to the banking industry and the capital market and to other fields that have an impact on the Bank's activity and on the environment in which it operates, and that by the nature of things, their realization is uncertain.

The information presented below relies, among other things, on information in the hands of the Bank, inter-alia, publications by other 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 assessments as to the Israeli and global financial and capital markets.

The above reflects the point of view of the Bank and its subsidiaries at the time of preparation of the financial statements as to future events, based on evaluations that are uncertain. The evaluations and business plans of the Bank and its subsidiaries are derived from such data and assessments. As stated above, actual results might differ materially and impact the realization of the business plans or bring about changes in these plans.

EXPLANATIONS REGARDING THE BUSINESS CONDITION OF THE GROUP

INCOME AND PROFITABILITY

The Discount Group’s net income in 2014 amounted to NIS 596 million, compared with NIS 874 million in 2013, a decrease of 31.8%. With the elimination of changes in the provision for severance pay, net, primarily with respect to the retirement plan and a loss on sale of the activity in DBLA, see table above, the income for 2014 would have amounted to NIS 918 million, compared with NIS 874 million in 2013, and the increase would have reached a rate of 5.0%.

Return on equity, net, attributed to the Bank's shareholders for 2014 was 4.7%, compared with 7.3% in 2013. With the elimination of changes in the provision for severance pay, net, primarily with respect to the retirement plan and a loss on sale of the activity in DBLA, see table above, the return on equity in 2014 would have reached a rate of 7.2%, compared with 7.3% in 2013.

Net earnings per one share of NIS 0.1 par value amounted in 2014 to NIS 0.57, compared with NIS 0.83 in 2013.

The main factors that had an effect on the business results of the Group in 2014, compared with 2013:

(a) A decrease in interest income, net of NIS 32 million (0.8%).

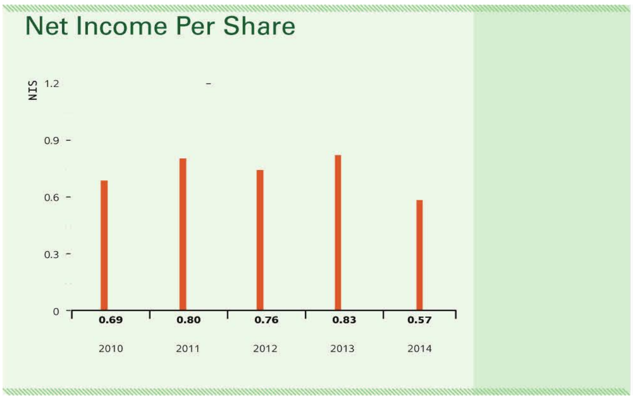
(b) A decrease in credit loss expenses, an amount of NIS 416 million (71.7%), mainly, of collections (cancellation of accounting writeoffs) and the reduction in allowances relating to a number of credit portfolios, which was partly offset by the increase in expense on a group basis, deriving, mostly, from the implementation of the instruction of the Supervisor of Banks regarding group allowance in respect of credit to private individuals.

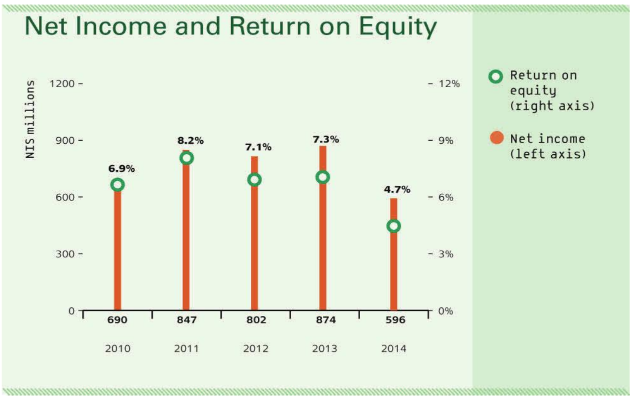
(c) A decrease in the total non-interest income of NIS 265 million (7.5%), affected mostly by a decrease of NIS 83 million in non-interest financing income (13.1%), of which a loss in the amount of NIS 105 million, resulting from the decision of IDB New York to sell bonds of the TRUPS type (as part of the preparations for the implementation of the Basel III instructions in the U.S.) and a provision of NIS 47 million, for impairment of shares of FIBI, sold subsequent to balance sheet date, from a decrease of NIS 118 million in commissions (4.4%) of which, a decline in an amount of NIS 189 million, deriving from the implementation of the new instruction regarding interest income, and by a decrease in an amount of NIS 64 million in other income (35.0%), which was mainly affected by the decline in profits of the severance pay fund.

(d) An increase of NIS 353 million in operating and other expenses (5.9%), affected, mainly, by an increase of NIS 369 million in payroll and related expenses (10.2%), of which NIS 437 million, the effect of changes in the provision for severance pay due to retirement in the Bank and in MDB, and an increase of NIS 19 million in other expenses (1.6%), which was partly offset by a decline of NIS 35 million in the expenses for maintenance and depreciation of buildings and equipment (2.8%).

(e) Tax provision of NIS 324 million on earnings in 2014, compared with NIS 305 million in 2013. The provision for the tax expense in 2013 was effected, mainly, by an increase in the balance of deferred tax assets, due to the increase in tax rates (see Note 29 B to the financial statements).

(f) A decrease of NIS 18 million in the Bank's share in the profits of affiliated companies after tax effect, which derived mostly from the fact that since March 13, 2014, the Bank no longer records the share in earnings of FIBI (see Note 6 D to the financial statements).





Following is the condensed statement of comprehensive income:

	For the year ended December 31		
	2014	2013	
	in NIS millions		Change in %
Net income attributed to the Bank's shareholders	596	874	(31.8)
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive income (loss), before taxes[(1)]	531	(623)	
Effect of attributed taxes	(109)	167	
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	422	(456)	
Comprehensive income, attributed to the Bank's shareholders	**1,018**	**418**	**143.5**

Footnote:

(1) The change in the other comprehensive income before taxes item is due mainly to the increase in the value of securities in the available-for-sale portfolio (December 31, 2013: from the realization of securities from the available-for-sale portfolio, the gains on which were classified to net income). For additional details, see Note 33 to the financial statements.

Net income attributed to the Bank's shareholders in the fourth quarter of 2014 amounted to NIS 5 million, compared with NIS 234 million in the third quarter of the year, a decrease of 97.9%, and compared with NIS 72 million in the fourth quarter of 2013, a decrease of 93.1%. With the elimination of changes in the provision for severance pay, net, primarily with respect to the retirement plan and a loss on sale of the activity in DBLA, see table above, the income in the fourth quarter of 2014 would have amounted to NIS 186 million compared to NIS 254 million in the third quarter of the year, and the decrease would have reached a rate of 26.8%, and compared to NIS 72 million in the fourth quarter of 2013, an increase of 158.3%.

The major factors affecting the business results of the Group in the fourth quarter of 2014, compared with the previous quarter, were:

A. A decrease in interest income, net, in an amount of NIS 22 million (2.1%).

B. A decrease in credit loss expenses, in an amount of NIS 44 million (110.0%), which was effected by an increase in the expense on a group basis, deriving, mostly, from the implementation of the instruction of the Supervisor of Banks regarding the group allowance in respect of credit to private individuals.

C. An increase in the non-interest income, in an amount of NIS 23 million (2.7%).

D. An increase in operating and other expenses, in an amount of NIS 297 million (20.1%), of which NIS 209 million effect of the changes in the provision for severance pay, net, primarily with respect to the retirement plan.

E. In the fourth quarter of 2014, a tax saving was recorded, in the amount of NIS 5 million, compared with a provision of NIS 149 million in the previous quarter.

DEVELOPMENTS IN INCOME AND EXPENSES

General. Beginning with January 1, 2014, the Bank implements the instruction regarding interest income. The initial implementation of the instruction was by way of "from now onwards", with no restatement of the comparative data. Accordingly, the comparison between the data of 2014 and the data of 2013, and between the data of the fourth and the third quarters of 2014 and between the data of the fourth quarter of 2013, have been somewhat affected as regards the items "interest income" and "commissions". For details regarding the instruction and the effect of its initial implementation, see Note 1 D 25 to the financial statements.

Following are the developments in certain income statement items in 2014, compared with 2013:

	for the year ended December 31		
	2014	2013	Change
	In NIS millions		in %
Interest income[3]	5,736	6,822	(15.9)
Interest expenses	1,518	2,572	(41.0)
Interest income, net	4,218	4,250	(0.8)
Credit loss expenses	164	580	(71.7)
Net interest income after credit loss expenses	**4,054**	**3,670**	**10.5**
Non-interest Income			
Non-interest financing income	549	632	(13.1)
Commissions[3]	2,586	2,704	(4.4)
Other income	119	183	(35.0)
Total non-interest income	**3,254**	**3,519**	**(7.5)**
Operating and other Expenses			
Salaries and related expenses	3,988	3,619	10.2
Maintenance and depreciation of buildings and equipment	1,212	1,247	(2.8)
Other expenses	1,171	1,152	1.6
Total operating and other expenses	**6,371**	**6,018**	**5.9**
Income before taxes	937	1,171	(20.0)
Provision for taxes on income	324	305	6.2
Income after taxes	613	866	(29.2)
Bank's share in income of affiliated companies, net of tax effect	[1][2]27	[1]45	(40.0)
Net income attributed to the non-controlling rights holders in consolidated companies	(44)	(37)	18.9
Net income attributed to Bank's shareholders	**596**	**874**	**(31.8)**
Net return on equity attributed to the Bank's shareholders, in %	4.7	7.3	
Net income attributed to Bank's shareholders - disregarding changes in the provision for severance pay, mostly the retirement plan and loss on the sale of DBLA operations, see certain components table above	**918**	**874**	**5.0**
Net return on equity attributed to the Bank's shareholders, in % - disregarding changes in the provision for severance pay, mostly the retirement plan and loss on the sale of DBLA operations, see certain components table above	7.2	7.3	

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 D (3) to the financial statements.

(2) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, and its classification to the statement of income, see Note 6 D (4) to the financial statements.

(3) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the condensed financial statements.

Following are the developments in certain income statement items in the fourth quarter of 2014, compared with the third quarter of 2014 and the fourth quarter of 2013:

	2014		2013	Rate of Change Q4 2014 compared to	
	Q4	Q3	Q4	Q3 2014	Q4 2013
	In NIS millions			in %	
Interest income[2]	1,352	1,479	1,531	(8.6)	(11.7)
Interest expenses	313	418	460	(25.1)	(32.0)
Interest income, net	1,039	1,061	1,071	(2.1)	(3.0)
Credit loss expenses	84	40	123	110.0	(31.7)
Net interest income after credit loss expenses	**955**	**1,021**	**948**	**(6.5)**	**0.7**
Non-interest Income					
Non-interest financing income	163	148	116	10.1	40.5
Commissions[2]	668	650	684	2.8	(2.3)
Other income	(8)	48	61	-	-
Total non-interest income	**823**	**846**	**861**	**(2.7)**	**(4.4)**
Operating and other Expenses					
Salaries and related expenses	1,066	914	921	16.6	15.7
Maintenance and depreciation of buildings and equipment	309	306	316	1.0	(2.2)
Other expenses	396	254	320	55.9	23.8
Total operating and other expenses	**1,771**	**1,474**	**1,557**	**20.1**	**13.7**
Income before taxes	7	393	252	(98.2)	(97.2)
Provision for taxes on income	(5)	149	51	-	-
Income after taxes	12	244	201	(95.1)	(94.0)
Bank's share in income (loss) of affiliated companies, net of tax effect	4	3	[3](121)	33.3	-
Net income attributed to the non-controlling rights holders in consolidated companies	(11)	(13)	(8)	(15.4)	37.5
Net income attributed to Bank's shareholders	**5**	**234**	**72**	**(97.9)**	**(93.1)**
Net return on equity attributed to the Bank's shareholders, in %[1]	0.2	7.5	2.4		
Net income attributed to Bank's shareholders - disregarding certain components, see table above	**186**	**254**	**72**	**(26.8)**	**158.3**
Net return on equity attributed to the Bank's shareholders, %[1] - disregarding certain components, see table above	5.7	8.2	2.4		

Footnotes:

(1) On an annual basis.

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the financial statements.

(3) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 D (3) to the financial statements.

Following are details regarding material changes in statement of income items:

Interest income, net. In 2014, interest income, net, amounted to NIS 4,218 million compared with NIS 4,250 million in 2013, a decrease of 0.8%. The decline in the interest income, net, in the amount of NIS 32 million, is explained by a negative price impact of approx. NIS 109 million, and from a negative quantitative effect in the amount of approx. NIS 77 million (see Schedule "C" to the Management Review, below).

The decrease in interest income, net, is mainly due to the effect of the declining interest rates on the return on assets.

Had it not been for the implementation of the new instruction regarding interest income, the net interest income would have amounted to NIS 4,027 million for 2014, a decrease of 5.2% as compared with 2013 and the negative effect of the price would have increased to NIS 300 million.

The interest spread, excluding derivatives, reached a rate of 2.22% in 2014, compared with 2.15% in 2013.

The average balance of interest bearing assets has declined by a rate of approx. 1.6%, from an amount of NIS 178,129 million to NIS 175,230 million, and the average balance of interest bearing liabilities has declined by a rate of approx. 5.6%, from an amount of NIS 152,950 million to NIS 144,445 million.

Net interest income according to linkage segments

Following are details regarding the distribution of volume of operations according to interest bearing assets, net interest income and interest margin by linkage segments:

	2014			2013		
	Volume of activity* in %	Interest income, net in NIS millions	Interest margin in %	Volume of activity* in %	Interest income, net in NIS millions	Interest margin in %
Unlinked shekels	56.6	2,966	2.85	55.5	2,972	2.79
CPI-linked shekels	13.2	116	(0.18)	13.9	253	0.01
Foreign Currency	30.2	1,136	2.06	30.6	1,025	1.81
Interest income, net and the interest margin	**100.0**	**4,218**	**2.22**	**100.0**	**4,250**	**2.15**

* According to the average balance of the interest bearing assets.

In the non-linked shekel segment, net interest income amounted to NIS 2,966 million in 2014, compared with NIS 2,972 million in 2013, a decrease of 0.2%. Income from this segment constituted 70.3% of total net interest income in 2014, compared with 69.9% in 2013.

The average balance of assets in this segment increased in 2014 by 0.3% compared with 2013, and the volume of assets comprised on an average 56.6% out of the total interest bearing assets in 2014, as compared with 55.5% in 2013.

The interest margin of the segment decreased from a rate of 2.79% in 2013 to a rate of 2.85% in 2014.

The decline in income of this segment derived from the partial impact of the decrease in the market interest rate payable on deposits of the public, which was offset by the implementation of the guidelines of FAS 91 and by the growth in the net volume of interest bearing assets.

The CPI-linked Shekel segment recorded in 2014 net interest income of NIS 116 million, compared with NIS 253 million in 2013, a decrease of 54.2% and its proportion of total net interest income in 2014 was 2.8%, compared with 6.0% in 2013.

The average asset balance in this segment in 2014 declined by a rate of 6.8% compared with 2013, and the volume of assets comprised on an average 13.2% out of the total interest bearing assets in 2014, as compared with 13.9% in 2013.

The interest margin in the segment decreased from a positive rate of 0.01% in 2013, to a negative rate of 0.18% in 2014.

The decline in income of this segment derived mostly from the effect of the reduction in the CPI linkage increments on the net asset surplus and from the decrease in the interest spread on the return on assets, mainly credit to the public, compared with the cost of resources.

In the foreign currency segment, which includes activities in the foreign currency-linked shekel segment, net interest income amounted to NIS 1,136 million in 2014, compared with NIS 1,025 million in 2013, an increase of 10.8%. Its proportion of all net income was 26.9% in 2014, compared with 24.1% in 2013.

In 2014 the average balance of assets in this segment decreased at a rate of 2.8% compared to 2013, and the volume of assets comprised on an average 30.2% out of the total interest bearing assets in 2014, as compared with 30.6% last year.

The interest margin of the segment decreased from a rate of 1.81% in 2013 to a rate of 2.06% in 2014.

The increase in profits of the segment resulted from an increase in the interest margin on the return on assets, principally bonds, compared to the cost of resources, and by the growth in the net volume of interest bearing assets.

Non-interest financing income. In 2014, non-interest financing income amounted to NIS 549 million, compared to NIS 632 million in 2013, an increase of 13.1%.

The decrease in non-interest financing income derives mostly from the decline in gains on investment in bonds and shares, which was offset by the increase in net profit from exchange rate differences (see Note 24 to the financial statements). Included in that stated above, a loss of NIS 105 million from the sale of bonds of the TRUPS class (see Note 3 M) and a loss of NIS 47 million, on impairment of shares FIBI sold subsequent to balance sheet date (see Note 6 D 7).

Non-interest financing income includes the effect of activity in derivative financial instruments, which constitute an integral part of the management of the Bank's interest exposure and base exposure. Accordingly, for the purpose of analyzing the financing income from current activity, the net interest income and the non-interest financing income need to be aggregated.

Rates of interest income and expenses:

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2014		
Interest income[1]	5,736	1,352	1,479	1,581	1,324
Interest expenses	1,518	313	418	481	306
Interest income, net	4,218	1,039	1,061	1,100	1,018
Non-interest financing income	549	163	148	114	124
Total net financing income	**4,767**	**1,202**	**1,209**	**1,214**	**1,142**
			2013		
Interest income[1]	6,822	1,531	1,865	1,758	1,668
Interest expenses	2,572	460	771	717	624
Interest income, net	4,250	1,071	1,094	1,041	1,044
Non-interest financing income	632	116	90	236	190
Total net financing profit	**4,882**	**1,187**	**1,184**	**1,277**	**1,234**

Footnote:
(1) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the financial statements.

Following is an analysis of the total net financing income:

	Annual	Q4	Q3	Q2	Q1
			in NIS millions		
			2014		
Profit from current operations[1]	4,195	1,059	1,047	1,072	1,017
Net profit from realization and adjustment to fair value of bonds	307	78	72	52	105
Profit (loss) from investments in shares	63	(29)	11	63	18
Adjustment to fair value of derivative instruments	(2)	20	11	(1)	(32)
Exchange rate differences, options and other derivatives	204	75	67	28	34
Net income (loss) on the sale of loans	-	(1)	1	-	-
Total net financing income	**4,767**	**1,202**	**1,209**	**1,214**	**1,142**
			2013		
Profit from current operations[1]	4,026	1,059	1,011	971	985
Net profit from realization and adjustment to fair value of bonds	400	20	66	197	117
Profit from investments in shares	137	39	15	24	59
Adjustment to fair value of derivative instruments	195	18	59	54	64
Exchange rate differences, options and other derivatives	94	33	32	30	(1)
Net income on the sale of loans	30	18	1	1	10
Total net financing profit	**4,882**	**1,187**	**1,184**	**1,277**	**1,234**

Footnote:
(1) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the financial statements.

Financing income, net, amounted to NIS 4,767 million in 2014, compared to NIS 4,882 million in 2013, a 2.4% decrease. The decline in financing income derived mostly from a decrease of NIS 93 million in gains on investment in bonds, from a decrease of NIS 74 million in gains on investment in shares and from a decrease of NIS 197 million in adjustment to fair value of derivative instruments, which was offset by the increase in profits from exchange rate differences in the amount of NIS 99 million, and by the increase of NIS 169 million in income from current operations, which was affected by the implementation of the guidelines of FAS 91.

Rates of income and expenses. Interest income, net, is presented in Schedule "C" to the Management Review. In explaining the Bank's interest rate gap from current operations, one should add the effect of operations in ALM derivatives (not including adjustments to fair value exchange differences and operation in options), as detailed in the following Table.

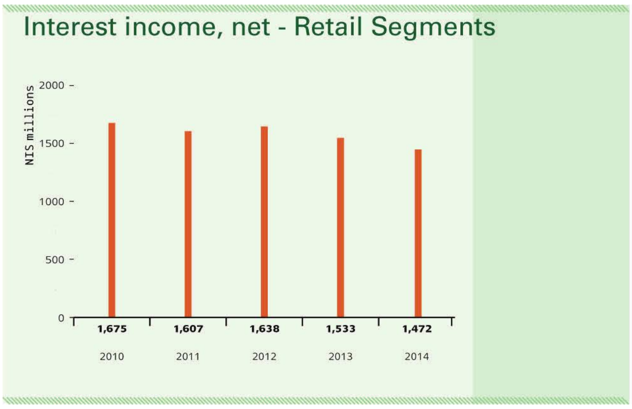
Interest margin from current operations, including ALM derivatives reached in 2014 a rate of 1.09%, compared to 1.07% in 2013.

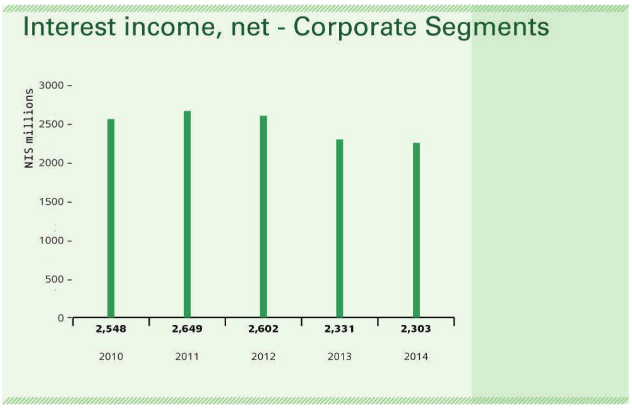
The net financing income amounted to NIS 1,209 million in the fourth quarter of 2014, compared to NIS 1,187 million in the corresponding quarter last year, a 1.9% increase, and compared to NIS 1,209 million in the third quarter of 2014.

The interest margin on current operations, including ALM derivatives, reached 1.10% in the fourth quarter of 2014, compared to 1.13% in the corresponding quarter last year and compared to 1.09% in the third quarter of 2014.

Following are details of the development of interest income, net, by segments of operations:

	For the year ended December 31		
	2014	2013	
	In NIS millions		Change in %
Retail - household segment	1,178	1,268	(7.1)
Retail- small business segment	797	743	7.3
Corporate banking segment	893	983	(9.2)
Middle market banking segment	579	550	5.3
Private banking segment	328	320	2.5
Financial management segment	443	386	14.8
Total	**4,218**	**4,250**	**(0.8)**





Credit loss expenses amounted to NIS 164 million in 2014, compared with NIS 580 million in 2013, a decrease of 71.7%. In 2014, the credit loss expenses constituted 3.9% of the interest income, net, compared with 13.6% in 2013. Expenses in respect of credit losses in 2014, compared with 2013, include a decrease in the expense on a specific basis, mainly the result of collections (cancellation of accounting writeoffs) and the reduction in allowances relating to a number of credit portfolios and on the other hand, also from an increase in expenses on a group basis derived mainly from the implementation of the instruction of the Supervisor of Banks regarding the group allowance in respect to credit to private individuals (see Note 1D 4.3 to the financial statements).
For details as to the components of the credit loss expenses, see Note 4 to the financial statements.

Following are details of the quarterly development in the credit loss expenses:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
On a specific basis	20	(34)	(75)	104	170	102	77	101
On a group basis	64	74	40	(29)	(47)	69	64	44
Total	**84**	**40**	**(35)**	**75**	**123**	**171**	**141**	**145**
Rate of credit loss expenses to the average balance of credit to the public[1]:								
The rate in the quarter	0.28%	0.13%	(0.12%)	0.25%	0.41%	0.58%	0.48%	0.49%
Cumulative rate since the beginning of the year	0.14%	0.09%	0.07%	0.25%	0.49%	0.51%	0.48%	0.49%

Footnote:
(1) On an annual basis.

Commissions amounted to NIS 2,586 million in 2014, compared with NIS 2,704 million in 2013, an increase of 4.4%. The commissions were affected, primarily, from a decline in commissions on handling of credit, ledger fees and commissions of financing businesses, which was partly offset by an increase in commissions on credit cards, exchange differences, operations in securities and in certain derivative instruments and commissions on the distribution of financial products.
Had it not been for the implementation of the new instruction regarding interest income, total commissions for 2014, would have amounted to NIS 2,775 million, an increase of 2.6% as compared with 2013.
For details regarding changes in the field of commissions, see Note 35 to the financial statements.

Following is the distribution of commissions:

	For the year ended December 31		
	2014	2013	Change
	in NIS millions		in %
Ledger fees	571	591	(3.4)
Credit cards	935	917	2.0
Operations in securities and in certain derivative instruments	338	305	10.8
Commissions from the distribution of financial products	138	116	19.0
Management, operational and trusteeship services for institutional bodies	15	17	(11.8)
Handling credit[1]	123	288	(57.3)
Conversion differences	139	129	7.8
Foreign trade services[1]	51	53	(3.8)
Net income from credit portfolio services	16	17	(5.9)
Commissions on financing activities[1]	163	180	(9.4)
Other commissions	97	91	6.6
Total commissions	**2,586**	**2,704**	**(4.4)**

Footnote:
(1) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the financial statements.

Were it not for the implementation of the said instruction, commissions on the handling of credit would have amounted in 2014 to NIS 300 million, an increase of 4.2%.

Salaries and related expenses amounted to NIS 3,988 million in 2014, compared with NIS 3,619 million in 2013, an increase of 10.2% (for details as to the components of this item, see Note 27 to the financial statements). The increase stems, primarily, from changes in the provision for severance pay, principally in respect of the retirement plan (see Note 16 L and M to the financial statements) and from changes in awards.

Following are details of the effects of certain components on salaries and related expenses:

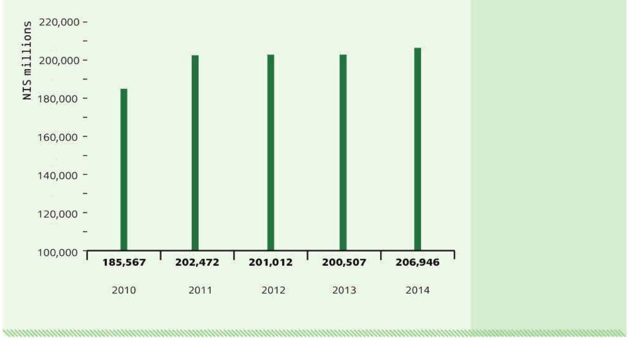
	For the year ended December 31			Change in %	
	2014	2013	2012	2014 compared to 2013	2013 compared to 2012
	In NIS millions				
Salaries and Related Expenses - as reported	3,988	3,619	3,444	10.2	5.1
Awards	(79)	(229)	(71)	-	
Changes in the provision for severance pay	(437)	-	-	-	
Salaries and Related Expenses - Disregarding certain components	**3,472**	**3,390**	**3,373**	**2.4**	**0.5**

Salaries expenses, excluding related expenses, amounted to NIS 2,309 million in 2014, compared with NIS 2,410 million in 2013, a decrease of 4.2%.

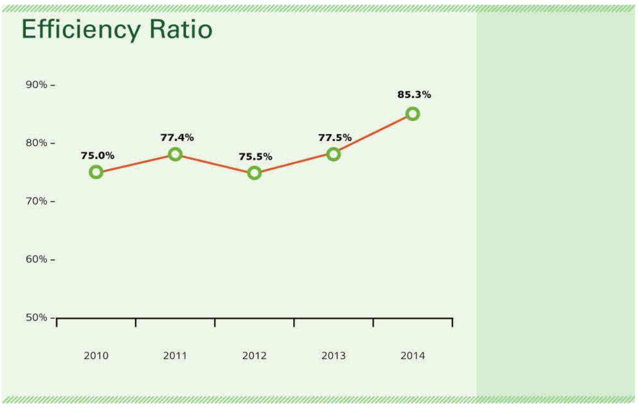
Following are the quarterly developments in salaries and related expenses, detailing the effect of certain components:

	2014				2013			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions							
Salaries and Related Expenses - as reported	1,066	914	1,072	936	921	889	933	876
Awards	(23)	(22)	(16)	(18)	(68)	(57)	(81)	(23)
Changes in the provision for severance pay	(209)	(33)	(195)	-	-	-	-	-
Salaries and Related Expenses - Disregarding certain components	**834**	**859**	**861**	**918.0**	**853**	**832**	**852**	**853**

Development of Total Assets - Consolidated



Development of Credit to the Public and Deposits from the Public - Consolidated



DEVELOPMENT OF ASSETS AND LIABILITIES

Total assets as at December 31, 2014 amounted to NIS 206,946 million, compared with NIS 200,507 million at the end of 2013, an increase of 3.2%.

Following are the developments in the principal balance sheet items:

	December 31, 2014	December 31, 2013	Rate of change in %
	in NIS millions		
Assets			
Cash and deposits with banks	31,694	25,319	25.2
Securities	37,353	41,325	(9.6)
Credit to the public, net	120,123	115,859	3.7
Investments in affiliated companies[1]	142	1,668	(91.5)
Liabilities			
Deposits from the public	152,903	148,928	2.7
Deposits from banks	5,547	4,213	31.7
Securities loaned or sold under repurchase arrangements	3,984	3,644	9.3
Subordinated debt notes	10,638	11,664	(8.8)
Equity attributed to the Bank's shareholders	13,243	12,233	8.3
Total equity	13,641	12,538	8.8

Footnote:
(1) Starting with the financial statements as of March 31, 2014, the shares of FIBI are presented as "available-for-sale securities".

Following are details regarding credit to the public, securities and deposits from the public.

CREDIT TO THE PUBLIC

General. Credit to the public, net, as at December 31, 2014, amounted to NIS 120,113 million, compared with NIS 115,859 million on December 31, 2013, an increase of 3.7%. The ratio of credit to the public, net, to total assets reached 58.0% at the end of 2014, compared with 57.8% at the end of 2013.

For details regarding credit risk management, see "Credit risk management" under "Exposure to risks and risk management" hereunder. For details regarding the quality of credit, see Note 4 to the financial statements. For details regarding the housing credit portfolio at the Discount Group, see "Mortgage Activity" under "Further details as to activity in certain products".

COMPOSITION OF CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

Following are data on the composition of net credit to the public by linkage segments:

	December 31, 2014		December 31, 2013		
	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	Rate of change in %
Non-linked shekels	74,762	62.2	69,874	60.3	7.0
CPI-linked shekels	15,314	12.7	17,388	15.0	(11.9)
Foreign currency and foreign currency-linked shekels	30,047	25.1	28,597	24.7	5.1
Total	**120,123**	**100.0**	**115,859**	**100.0**	**3.7**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 5.1% compared with December 31, 2013. In U.S. Dollar terms, credit to the public in foreign currency and foreign currency linked Shekels decreased by US$513 million as compared to December 31, 2013, a decrease of 6.2%. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in dollar terms, increased by 0.9% as compared to December 31, 2013.

COMPOSITION OF CREDIT TO THE PUBLIC BY SEGMENTS OF OPERATIONS

The following is a review of developments in the balance of net credit to the public, by segments of operations:

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
	In NIS millions							
Retail - household segment	40,889	40,577	(2)39,445	(2)38,902	(1)(2)39,191	(1)(2)38,249	(1)(2)37,850	(1)(2)37,358
Of which - housing loans	20,138	20,035	19,835	(3)19,686	19,753	19,739	19,540	19,393
Retail - small business segment	14,255	13,857	(2)13,555	(2)13,423	(2)13,372	(2)13,180	(2)12,854	(2)12,611
Corporate banking segment	39,105	39,409	(2)38,440	(2)40,421	(1)(2)41,196	(1)(2)42,694	(1)(2)42,178	(1)(2)44,447
Middle market banking segment	21,953	21,415	(2)20,136	(2)19,582	(1)(2)18,716	(1)(2)18,808	(1)(2)18,708	(1)(2)18,307
Private banking segment	3,921	3,716	3,585	3,543	3,384	3,567	3,530	3,432
Total	**120,123**	**118,974**	**115,161**	**115,871**	**115,859**	**116,498**	**115,120**	**116,155**

Footnotes:
(1) Reclassified, see Note 31 B (1) to the financial statements.
(2) Reclassified, see Note 31 B (3) to the financial statements.
(3) Amendment of the data reported in the report of the Board of Directors in respect of this quarter.

The increase in credit to the public in 2014 derives from the growth in the Retail Segment and the Middle Market banking Segment, in accordance with the Bank's policy. The decline in the credit granted to the corporate banking segment derives from the Bank's plan for the reduction of exposure to vulnerable credit areas with a focus on reduction in exposure to holding companies and the financing of acquisition of means of control, and from the decline in the demand for credit on the part of customers belonging to this segment.

COMPOSITION OF CREDIT TO THE PUBLIC BY ECONOMIC SECTORS

Following are the developments of credit exposure, by major economic sectors:

	December 31, 2014		December 31, 2013		
Economic Sectors	Total credit to the public risk	Rate from total	Total credit to the public risk	Rate from total	Rate of change
	in NIS millions	%	in NIS millions	%	in %
Agriculture	1,218	0.6	1,179	0.6	3.3
Industrial	23,128	12.0	(1)22,880	12.4	1.1
Construction and real estate - construction	15,137	7.8	14,743	8.0	2.7
Construction and real estate - real estate activity	19,484	10.0	17,121	9.2	13.8
Electricity and water	3,517	1.8	3,392	1.8	3.7
Commerce	21,684	11.2	19,838	10.7	9.3
Hotels, hotel services and food	2,778	1.4	2,898	1.6	(4.1)
Transportation and storage	4,458	2.3	4,189	2.3	6.4
Communications and computer services	2,616	1.3	2,507	1.4	4.3
Financial services	20,419	10.5	21,504	11.6	(5.0)
Other business services	8,548	4.4	8,369	4.5	2.1
Public and community services	5,724	2.9	4,876	2.6	17.4
Private individuals - housing loans	21,966	11.3	21,124	11.4	4.0
Private individuals - other	43,458	22.4	40,610	21.9	7.0
Total overall credit to the public risk	**194,135**	**100.0**	**185,230**	**100.0**	**4.8**
Banks	12,114		(1)12,423		
Governments	23,225		28,486		
Total	**229,474**		**226,139**		

Footnote:
(1) Reclassified - improving classification in different sectors.

The above data indicates that, compared with the year 2013, the total credit to the public risk increased by 4.8%, among other things, as a result of the growth in activity of the construction and real estate, commercial and credit to private individuals sectors. In the meanwhile, activity declined in the hotels, hotel services and food sector, as well as in the financial services sector.

DEVELOPMENT OF PROBLEMATIC CREDIT RISK

Problematic credit risk[1] and non performing assets:

	December 31, 2014			December 31, 2013		
	Credit Risk					
	Balance Sheet	Off-Balance Sheet	Total	Balance Sheet	Off-Balance Sheet	Total
	In NIS millions					
Problematic Credit Risk:						
Impaired credit risk	(3)2,796	42	2,838	(3)(4)3,873	295	4,168
Substandard credit risk	922	6	928	999	16	1,015
Special mention credit risk[2]	2,370	667	3,037	(5)(6)2,085	475	2,560
Total Problematic Credit Risk	**6,088**	**715**	**6,803**	**6,957**	**786**	**7,743**
Of which: Non impaired debts, in arrears for 90 days or more[2]	506			531		
Non-performing assets:						
Impaired debts - non accruing interest income	2,487			3,327		
Assets received in respect of credit settlement	2			2		
Total Non-Performing Assets	**2,489**			**3,329**		

Footnotes:

(1) Impaired credit, substandard credit and credit under special mention risks.

(2) Including in respect of housing loans for which an allowance based on the extent of arrears exists and in respect of housing loans that are in arrears for 90 days or more for which an allowance based on the extent of arrears does not exist.

(3) Including non accruing corporate bonds in an amount of NIS 20 million (December 31, 2013- NIS 8 million).

(4) Including problematic balance sheet credit risk with respect to certain bonds of bank holding companies (TRUPS), which were held by a subsidiary, in an amount of NIS 13 million.

(5) Including cumulative bank bonds in the amount of NIS 122 million, and cumulative foreign governments bonds in the amount of NIS 30 million (December 31, 2013 – including cumulative corporate bonds in the amount of NIS 7 million).

(6) Including problematic balance sheet credit risk with respect to certain bonds of bank holding companies (TRUPS), which were held by a subsidiary, in an amount of NIS 163 million.

Following are details on credit to the public, as specified in Note 4 to the financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (interest accruing an non-accruing) amounted at December 31, 2014 to NIS 2,776 million, compared to NIS 3,852 million at December 31, 2013, a 27.9% decrease. The decline stems, among other things, from collections, the realizations of collateral and accounting write-offs.

Non-accruing interest impaired credit to the public. The non-accruing interest impaired credit to the public amounted at December 31, 2014 to NIS 2,467 million, compared to NIS 3,306 million at December 31, 2013, a decrease at a rate of 25.4%.

Hereunder is the ratio of problematic debts to total debt in principal economic sectors:

	December 31, 2014			December 31, 2013		
Economic Sectors	Total credit to the public risk	Of which: Problematic credit risk	Rate of problematic risk	Total credit to the public risk	Of which: Problematic credit risk	Rate of problematic risk
	in NIS millions		%	in NIS millions		%
Industrial	23,128	1,270	5.5	(1)22,880	1,623	7.1
Construction and real estate - construction	15,137	724	4.8	14,743	979	6.6
Construction and real estate - real estate activity	19,484	896	4.6	17,121	1,478	8.6
Commerce	21,684	1,101	5.1	19,838	1,043	5.3
Financial services	20,419	443	2.2	21,504	600	2.8
Private individuals - housing loans	21,966	464	2.1	21,124	477	2.3
Private individuals - other	43,458	345	0.8	40,610	357	0.9
Other Sectors	28,859	1,408	4.9	27,410	1,186	4.3
Total Public	**194,135**	**6,651**	**3.4**	**185,230**	**7,743**	**4.2**
Banks	12,114	122	1.0	(1)12,423	-	-
Governments	23,225	30	0.1	28,486	-	-
Total	**229,474**	**6,803**	**3.0**	**226,139**	**7,743**	**3.4**

Footnote:
(1) Reclassified - improving classification in different sectors.

A decline in the rate of problematic credit risk was recorded in 2014, deriving, mostly, from the industrial, construction and real estate sectors.

THE BALANCES OF THE ALLOWANCE FOR CREDIT LOSSES

The balance of the allowance for credit losses. The balance of the allowance for credit loss, including the allowance on a specific basis and the allowance on a group basis, but not including allowance for off-balance sheet credit risk, totalled NIS 2,049 million as of December 31, 2014. The balance of this allowance constitutes 1.67% of the credit to the public, compared with a balance of the allowance in the amount of NIS 2,134 million, constituting 1.81% of the credit to the public as of December 31, 2013.

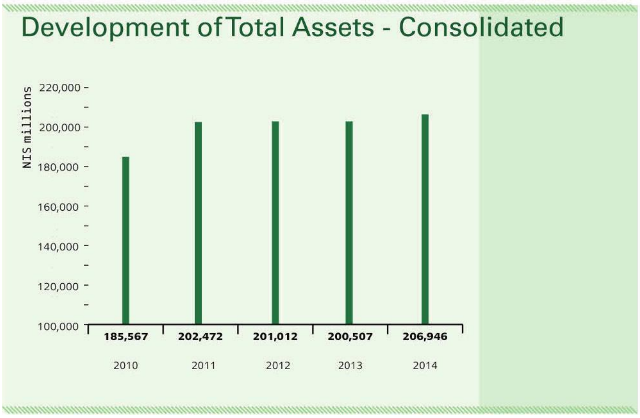
The balance of the specific allowance for credit losses. The outstanding balance of the allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 307 million on December 31, 2014, compared to NIS 459 million on December 31, 2013.

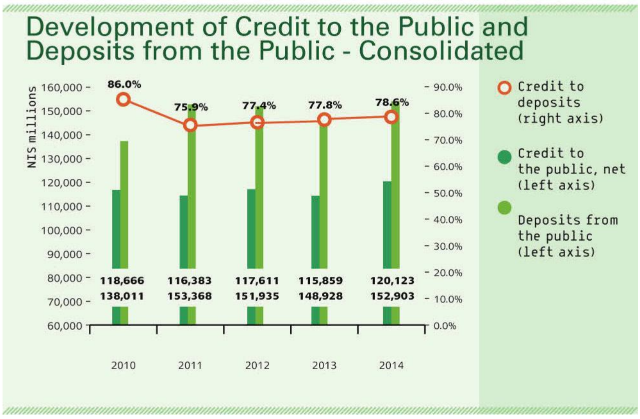
The balance of the group allowance for credit losses. The balance of the group allowance for credit losses excluding housing loans for which the allowance for credit loss was calculated according to the extent of arrears, amounted on December 31, 2014 to NIS 1,481 million, compared to NIS 1,417 million as of December 31, 2013, comprising an increase in the current allowance in the amount of NIS 64 million, a rate of 4.5%.

Following are several financial ratios used to evaluate the quality of the credit portfolio:

	December 31, 2014	December 31, 2013
Ratio of balance of impaired credit to the public to balance of credit to the public	2.3%	3.3%
Ratio of balance of non-impaired credit to the public, in arrears for 90 days or more, to balance of credit to the public	0.4%	0.5%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.7%	1.8%
Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public	73.8%	55.4%
Ratio of problematic credit risk in respect of the public to the total credit risk in respect of the public[1]	3.4%	4.2%
Ratio of credit loss expenses to the average balance of credit to the public	0.14%	0.49%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public	0.2%	0.4%
Ratio of net accounting write-offs in respect of credit to the public to the balance of allowance for credit losses in respect of credit to the public	14.1%	23.2%
The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over	62.5%	48.7%

It is noted that the steep rise in the "Ratio of balance of allowance for credit losses in respect of credit to the public to balance of impaired credit to the public" and in "The ratio of the balance of allowance for credit losses in respect of credit to the public, to the balance of impaired credit to the public together with the balance of credit to the public in arrears for 90 days and over", derives from the steep decline in the balance of impaired credit to the public (see above).





THE RISK CHARACTERIZATION OF THE CREDIT TO THE PUBLIC PORTFOLIO

Following are the rates of the credit loss expenses in certain sectors, in relation to the balance of debts, regarding credit to the public in these sectors:

sectors	2014	2013
	in %	
Construction and real estate - real estate activity	0.1	0.4
Commerce	[1](0.5)	1.4
Industry	[1](0.1)	1.3
Communications and computer services	6.5	0.9
Other business services	[1](0.2)	0.2
Private Individuals - Other	0.5	0.1
Total overall credit to the public risk	**0.1**	**0.5**

Footnote:
(1) Decrease in allowance

Following are the proportionate share of certain economic sectors in the total credit loss expenses:

	Year ended December 31			
	2014		2013	
Sectors	Credit loss expenses (expenses reversal)	Rate from total annual expenses	Credit loss expenses (expenses reversal)	Rate from total annual expenses
	In NIS millions	%	In NIS millions	%
Industrial	(17)	-	194	33.4
Construction and real estate - construction	(2)	-	1	0.2
Construction and real estate - real estate activity	12	7.3	55	9.5
Commerce	(77)	-	216	37.2
Transportation and storage	25	15.2	42	7.2
Communications and computer services	113	68.9	16	2.8
Financial services	(11)	-	(5)	-
Other business services	(10)	-	10	1.7
Private Individuals - Housing Loans	19	11.6	31	5.3
Private Individuals - Other	113	68.9	13	2.2

The data shown above indicates that the reduction in the credit loss expense was focused mostly on the commercial, industrial, financial services and other business sectors. The growth in the non-housing credit loss expense in respect of private individuals resulted mostly from the increase in the group allowance, as part of the implementation of the instructions of the Supervisor of Banks.

DEVELOPMENTS IN CREDIT TO THE PUBLIC, INCLUDING OFF-BALANCE SHEET CREDIT RISK BY BORROWER SIZE (CONSOLIDATED)

Approx. 99.5% of borrowers were granted credit of no more than NIS 1.2 million. Credit to this group constituted 35.0% of total credit to the public as at December 31, 2014, compared with 34.7% as at December 31, 2013. The credit bracket between NIS 1.2 million and NIS 200 million constitutes about 48.6% of all credit as at December 31, 2014, compared with 48.3% as at December 31, 2013.

The 58 largest borrowers, in the credit brackets between NIS 200 million and NIS 3,976 million, were granted credit constituting 16.4% of total credit to the public as at December 31, 2014, compared with 58 borrowers that were granted credit constituting 17.0% of the total credit as at December 31, 2013.

For details regarding credit levels in excess of NIS 800 million, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part C, item 3).

SECURITIES

General. Securities in the nostro portfolio amounted to NIS 37,353 million as at December 31, 2014, compared with NIS 41,325 million at the end of 2013, a decrease of 9.6%. It is clarified that the "nostro" portfolio to the Discount Group as of December 31, 2014, did not include any security the investment in which comprised 5% or more of the value of the total portfolio, except for security of the "government variable 520" type, and security of the "government variable 1121" type, which amounted to 8.1% and 6.3% of the total portfolio, respectively.

As of December 31, 2014, some 56% of the portfolio is invested in Government bonds, and 13% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE). For details regarding the breakup of the investment in government bonds according to principal governments, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "C", Item 5).

Nostro portfolios management policy. The Bank's "nostro" investment portfolios and of its subsidiaries are used as a central tool in the management of linkage base and interest rate risks, as well as in the management of excess liquid funds. The portfolios are managed with a general overview of the Bank's balance sheet, aiming at maximizing interest income, under risk limitations determined by the Board of Directors and the Boards of Directors of the subsidiaries.

The assets and liabilities management committee is the function approving the interest rate and linkage base exposures in the Bank's balance sheet. Investments having a component of credit risk are managed by the Nostro unit, subject to the decisions of the Nostro investments committee.

The investment activities of the subsidiary companies, mainly in IDB New York and Mercantile Discount Bank are being performed independently, subject to risk limitations specified by the Bank.

The First International Bank of Israel Ltd. ("FIBI"). See Note 6 D to the financial statements for details regarding the following matters: the agreement with FIBI Holdings Ltd., regarding the Bank's ownership of shares in FIBI, which, as a result of its instructions, as from March 13, 2014, FIBI is no longer an affiliated company of the Bank; the timeline determined by the Antitrust commissioner for the reduction in the interest held by Discount Bank in FIBI; the provision for impairment in respect of the Bank's holdings in shares of FIBI; dividend distributed in April 2014 and December 2014, and recognized as income; sale of shares in June 2014, in September 2014 and in December 2014, loss on impairment of a nature other than temporary (OTTI) in respect of a part of the shares, which were sold subsequent to balance sheet date.

COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

Following is the composition of the securities portfolio by linkage segments:

	December 31, 2014	December 31, 2013	Rate of change in %
	In NIS millions		
Non-linked shekels	14,782	20,804	(28.9)
CPI-linked shekels	4,817	5,474	(12.0)
Foreign currency and foreign currency-linked shekels	16,062	14,182	13.3
Shares - non-monetary items	1,692	865	95.6
Total	**37,353**	**41,325**	**(9.6)**

Securities in foreign currency and in Israeli currency linked foreign currency increased by 13.3% compared with December 31, 2013. In U.S. Dollar terms, the securities in Israeli currency and in foreign currency linked Israeli currency increased by US$44 million, an increase of 1.1% as compared with December 31, 2013. Total securities, including securities in foreign currency and in Israeli currency linked to foreign currency expressed in U.S. Dollar terms, decreased by 13.8% as compared with December 31, 2013.

COMPOSITION OF THE SECURITIES PORTFOLIO ACCORDING TO PORTFOLIO CLASSIFICATION

In accordance with directives of the Supervisor of Banks, securities have been classified into three categories: held-to-maturity bonds portfolio, available-for-sale securities portfolio, and trading securities portfolio.

Following is the composition of investments in securities to the above categories:

	December 31 ,2014			December 31 ,2013		
	Amortized Cost (in shares-cost)	Fair value	Book value	Amortized Cost (in shares-cost)	Fair value	Book value
	in NIS millions					
Bonds						
Held to maturity	6,981	7,452	6,981	7,174	7,424	7,174
Available for sale	26,849	27,282	27,282	30,940	31,108	31,108
Trading	1,382	1,398	1,398	2,181	2,178	2,178
Shares						
Available for sale	1,737	1,681	1,681	838	852	852
Trading	13	11	11	14	13	13
Total Securities	**36,962**	**37,824**	**37,353**	**41,147**	**41,575**	**41,325**

The net difference between the fair value of the available-for-sale portfolio and its net-adjusted cost in the amount of NIS 377 million as of December 31, 2014, presented in other comprehensive income, in the item “adjustments, net, for presentation of available-for-sale securities at fair value" (December 31, 2013: NIS 182 million).

Corporate bonds. Discount Group’s available for sale securities portfolio as of December 31, 2014, includes investments in corporate bonds in the amount of NIS 3,333 million (an amount of NIS 452 million is held by IDB New York, an amount of NIS 892 million held by MDB, and an amount of NIS 1,989 million, directly by the Bank), compared with NIS 4,121 million as of December 31, 2013 (an amount of NIS 1,314 million was held at IDB New York, an amount of NIS 869 million held by MDB, and an amount of NIS 1,938 million is held directly by the Bank). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 3 to the financial statements.

Data by market segments. For details of the data relating to available-for-sale bonds, bonds held to maturity and trading bonds according to economic sectors, see Annex "A" to the Report of the board of Directors, forming an integral part thereof, Sections 1, 2 and 3, respectively.

Impairment of held to maturity bonds. For details regarding unrealized losses on held to maturity bonds that are in a loss position, by period of time and rate of impairment, see Note 3 C to the financial statements.

INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES

General. Discount Group’s securities portfolio as of December 31, 2014 includes investment in mortgage backed securities in the amount of US$2,330 million (NIS 9,060 million), which are held by IDB New York, compared to an amount of US$2,326 million as at December 31, 2013 (NIS 8,072 million), an increase of 0.2%. Most of the mortgage backed securities portfolio are comprised of debentures of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac) with an AA+ rating in the U.S. (the lowering of the rating of the said bonds from "AAA", stems from the lowering of the credit rating of the United States). The investment in the said bonds does not include exposure to the subprime market.

As of December 31, 2014, the portfolio of mortgage backed securities (MBS) included unrealized net losses of US$10 million (NIS 37 million), compared with US$57 million (NIS 199 million) as of December 31, 2013.

U.S. Government Sponsored Enterprises. Fannie Mae and Freddie Mac are Government Sponsored Enterprises (GSE) chartered by the U.S. Congress with mission to provide liquidity and stability to the U.S. housing and mortgage markets. To accomplish their mission, the GSE operate in the secondary mortgage market. Rather than granting home loans directly to the consumers, the GSE work with mortgage banks, brokers, and other primary mortgage market partnerships ensuring they have the funds to lend to home buyers at affordable rates. The GSE fund their mortgage investments primarily by issuing debt securities in the domestic and international markets.

The market for GSE Mortgage Backed Securities (MBS) has always operated under the assumption that these securities had the implicit guarantee of the U.S. Government, as such the actions taken by the Federal Government, placing the GSE into conservatorship were welcomed by the market.

These measures adds to market stability by providing additional security to GSE debt holders - senior and subordinated and adds to mortgages affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership.

All of the GSE-MBS held by IDB New York are performing up to their conditions.

In addition to Fannie Mae and Freddie Mac, a third GSE is the Federal Home Loan banks whose mission is to provide liquidity and stability to its U.S. member banks.

Direct investments in Federal Agencies' bonds. The securities portfolio of the Discount Group as at December 31, 2014, includes a direct investment in Federal Home Loan Bank (FHLB), Fannie Mae and Freddie Mac bonds (hereinafter: "the Federal Agencies"), that are held by IDB New York, in an amount of US$25 million (NIS 97 million), compared to US$25 million (NIS 87 million) on December 31, 2013.

CMBS. For details regarding exposure to commercial mortgage backed securities (CMBS) in immaterial amounts, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", item 4).

CLO. In the fourth quarter of 2013, IDB New York sold all the securities of the CLO type, as part of the preparations for the implementation of the Volker Rule (see below "U.S. Legislation" under "Legislation and Supervision"). As a result of the said sale a loss of US$1.7 million was recorded (NIS 5.9 million).

In view of changes in the CLO terms, designed to adjust them to the new instructions, IDB New York purchased once again in 2014 secured bonds of the CLO class in a total amount of US$100 million. The said securities are rated AA-AAA by at least one rating agency. For details, see Note 3 to the financial statements.

DETAILS REGARDING IMPAIRMENT IN VALUE OF AVAILABLE FOR SALE SECURITIES

General. The point in time for determining the length of the period in which the investment was in a continuous unrealized loss position, is the date of the financial statements for the reporting period during which a continuous impairment first occurred. The rate of the decline in the fair value below cost is computed as of the reporting date. This is so even if during the period in which the investment was in a continuous unrealized loss position, the rate of decline in fair value below cost was significantly different from the rate applying on the reporting date.

For details regarding the review of impairment of securities, see below "Critical accounting policies and critical accounting estimates" and Note 1 D 5 to the financial statements.

Based on a review of the impairment of the said securities as of December 31, 2014, and where relevant, basing itself also on the review made by the relevant subsidiary's Management, the Bank's Management believes that that the impairment is of a temporary nature.

As at December 31, 2014, unrealized accumulated losses in respect of available-for sale shares amounted to NIS 64 million, compared with NIS 1 million as at December 31, 2013.

As of December 31, 2014, and December 31, 2013, unrealized accumulated losses on available-for-sale mortgage backed securities amounted to total amounts of NIS 82 million and NIS 200 million, respectively. For details regarding unrealized losses on available-for-sale securities that are in a loss position, by period of time and rate of impairment, see Note 3D to the financial statements.

Loss on impairment of the investment in shares of FIBI. For details regarding a loss on impairment other than temporary (OTTI) in respect of the part of the shares in FIBI which were sold in February 2015, in the amount of NIS 47 million, see Note 6D (7) to the financial statements (it is noted that the said loss, equal to the difference between the stated cost of the shares and their market value at balance sheet date, has been in any case included in "other comprehensive income" due to the shares being available for sale shares. Recognition of the said loss comprises in fact, "reclassification" from other comprehensive income to the statement of income).

Provision for impairment of TRUPS. The Basel III rules apply to IDB New York as from January 1, 2015, within the framework of which, the investment in TRUPS bonds is considered as "non-significant investment in the capital of financial institutions". Accordingly, that part of the investment exceeding 10% of the Common equity tier 1, shall be gradually deducted from capital, in accordance with the transitional instructions. In view of the anticipated effect on capital adequacy, IDB New York has decided to sell the said securities. In 2014 the full investments in TRUPS have been sold. In the financial statements a loss was recorded on the sale of bonds, as stated in an amount of approx. US$30 million (NIS 105 million).

DEPOSITS FROM THE PUBLIC

Deposits from the public as at December 31, 2014, amounted to NIS 152,903 million, compared with NIS 148,928 million at the end of the preceding year, an increase of 2.7%.

Following is data on the composition of deposits from the public by linkage segments:

	December 31, 2014		December 31, 2013		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Non-linked shekels	85,546	56.0	85,467	57.4	0.1
CPI-linked shekels	8,314	5.4	10,797	7.2	(23.0)
Foreign currency and foreign currency-linked shekels	59,043	38.6	52,664	35.4	12.1
Total	**152,903**	**100.0**	**148,928**	**100.0**	**2.7**

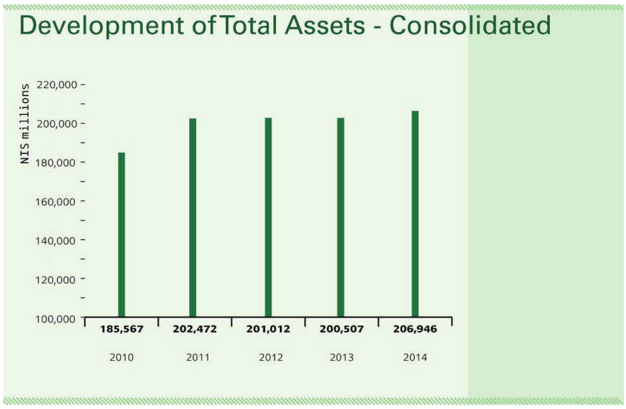
Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 12.1%, compared with December 31, 2013. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased by US$9 million, an increase of 0.1% compared with December 31, 2013. Total deposits from the public, including deposits in foreign currency and in Israeli currency linked to foreign currency, expressed in U.S. Dollar terms, decreased by 1.6%, as compared with December 31, 2013.

The following is a review of developments in the balance of deposits from the public, by segments of operations:

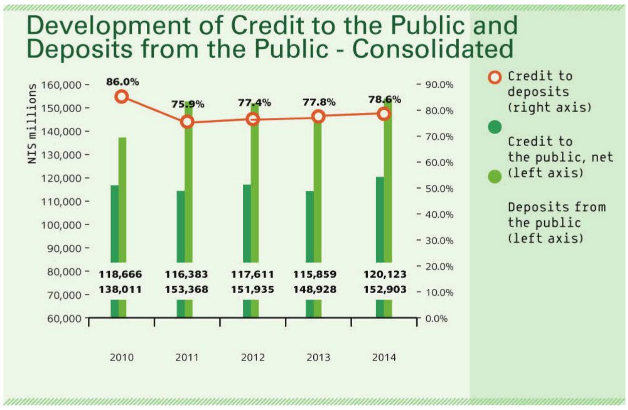
	December 31, 2014		December 31, 2013		
	In NIS millions	% of total Deposits from the public	In NIS millions	% of total Deposits from the public	Rate of change in %
Retail - household segment	65,683	43.0	(1)64,794	43.5	1.4
Retail - small business segment	16,517	10.8	(1)16,371	11.0	0.9
Corporate banking segment	21,975	14.3	23,503	15.8	(6.5)
Middle market banking segment	11,604	7.6	10,678	7.2	8.7
Private banking segment	37,124	24.3	(1)33,582	22.5	10.5
Total	**152,903**	**100.0**	**148,928**	**100.0**	**2.7**

Footnote:
(1) Reclassified, see Note 31 B (1) to the financial statements.

The ratio of total credit to the public, net, to deposits from the public was 78.6% at the end of 2014, compared with 77.8% at the end of the previous year.



Development of Total Assets - Consolidated



Development of Credit to the Public and Deposits from the Public - Consolidated

CAPITAL RESOURCES

IMPLEMENTATION EFFECTS OF THE INSTRUCTIONS REGARDING EMPLOYEE RIGHTS

Starting with January 1, 2015, the Bank implements the new instruction regarding employee rights. The instruction is implemented by way of retroactive implementation of the comparative data for periods beginning January 1, 2013 and thereafter. For additional details regarding the instruction and the effect of its implementation, see below and Note 1 E 1 to the financial statements.

It should be noted that Proper Conduct of Banking Business Directive No. 299, regarding "The regulatory capital – Transitional instructions", states that for the purpose of computing capital adequacy, to the extent that the shareholders' equity reflected in the financial statements includes the balance of accumulated other comprehensive income or loss in respect of the remeasurement of net liabilities or net assets relating to defined employee benefit, the transitional instructions will apply to the said balance as regards regulatory adjustments and deductions from capital, according to which it will be gradually deducted from capital over a period of four years. Respectively, an amount comprising 40% was deducted on January 1, 2015, and the balance will be deducted in equal parts in the years 2016-2018.

IMPLEMENTATION OF BASEL III IN ISRAEL

The instructions. On June 3, 2013, the Supervisor of Banks issued an amendment of Proper Conduct of Banking Business Directives Nos. 201-205, 208 and 211, which includes amendments to the existing measurement rules in the matter of capital adequacy ("Basel II guidelines"), and new guidelines intended to integrate the principles included in the Basel Committee document published in December 2010 ("Basel III guidelines"). The instructions were applied as from January 1, 2014, and include a requirement for maintaining a minimal core capital ratio of 9%, and a total capital ratio of 12.5% (from January 1, 2015), as well as detailed reference with respect to transitional instructions.

Future issues of capital instruments. The capital instruments that would be issued as from January 1, 2014, will include "loss absorption" mechanisms, whether by conversion into shares or by elimination (in full or in part) of the capital instrument. The Bank estimates that it would not be possible to issue such capital instruments to the public, in the immediate time range, in view of the required agreement between the supervisory bodies regarding the characteristics of the securities that may be offered to the public, and which, to the best of the Bank's knowledge, has not yet been formed at this stage.

Effect of the transitional instruction included in Proper Conduct of Banking Business Directive No. 202 ("the Instruction"). Among other things, the Instruction included transitional instruction, which allow, in certain of the matters, a gradual implementation over a number of years. Below are presented the short-term (one year) and the long-term (termination of the transitional instructions) effects of the adoption of the Instruction.

The effect of adoption of the Directive on ratio of common equity tier 1 - short-term effect. The transitional instructions stated in the Directive determine a gradual adoption of the more stringent requirements included therein. The Bank estimates that had the guidelines of the Directive been implemented as of December 31, 2014, on the basis of the data for that date and the transitional instructions as would apply on December 31, 2015, including the impact of the implementation of the instruction regarding employee rights (see Note 1 E 1), and taking into account the sale of the shares in FIBI (on February 19, 2015) and the decrease in the holdings of these shares to a rate lower than 10% (see Note 6 D (7)), but without the consideration of income accumulated during the period, the ratio of common equity tier 1 would have been reduced by 0.2%.

The effect of adoption of the Directive on ratio of common equity tier 1 - long-term effect. The Bank estimates that had the guidelines included in the Directive been implemented in full as of December 31, 2014, on the basis of the data for this date, and without taking into account the provisional instructions(excluding the discount regarding the sale of all the shares of FIBI held by the Bank) (a situation equal to the situation that will prevail in 2022, at the end of nine years since the date of initial implementation of the directive, including the effect of the directive regarding employee rights, though without taking into consideration earnings that will accumulate during the period), the ratio of common equity tier 1 would have declined by 0.7%.

It should be emphasized that the data presented above, as an estimate of the short and long-term effect, reflect only an assessment. Moreover, the said estimates assume a situation of static existence of the data as of December 31, 2014, throughout the period of implementation, while in practice changes will occur during the period of implementation in the capital adequacy of the Bank, both as a result of the accumulation of current earnings and of preparation measures adopted by Management of the Bank, if at all. In view of the above, the actual result for a short and long-term will inevitably be different than from the estimates stated above.

Restrictions on the granting of housing loans. For details regarding the amendment to Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on housing loans", in the framework of which, a banking corporation is required to increase their Common equity tier 1 target, see Note 14 to the financial statements.

Preparations made by the Bank. The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the policy of the Supervisor of Banks and according to the time schedules published by him, and it is acting towards its implementation.

For further details, see "Basel III" under "Exposure to risks and risk management".

CAPITAL MANAGEMENT

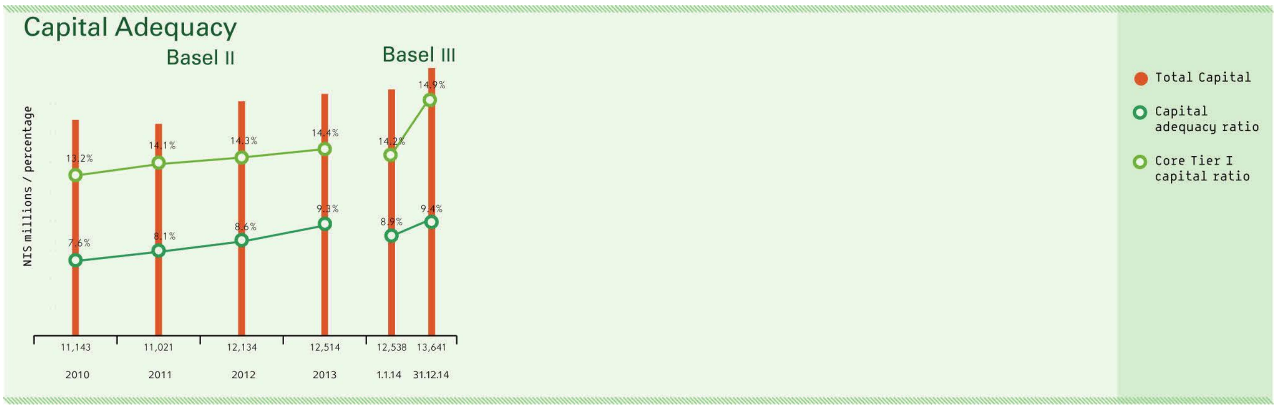
The capital management process is composed of the following stages:

- **Determination of the capital goals in the work plan.** The capital goals in the work plan are determined by the Bank's Board of Directors, taking into consideration the competitive environment in which the Bank operates, the capital adequacy review performed by the Chief Risk Manager, an evaluation of the implications on the computed capital ratios of the implementation of the Basel III instructions and regulatory requirements.

- **Formation of the risk appetite and determining a capital buffer.** The risk appetite is reflected in determining the size of the capital buffer held by the Bank, in order to assure the attainment of the capital goals under changing market and profitability conditions. The Bank determined a capital buffer based on a varied analysis of profitability tests, volatility of the capital reserve and the exchange rate.
- **Deriving the maximum growth in the volume of risk assets.** Following the determination of the capital goals and the required capital buffer, and in view of the risk appetite and the assumptions made in the preliminary work plan, the overall growth limitation of risk assets was computed.
- **Allocation of risk assets among the business units and the subsidiary companies.** The process of allocating risk assets among the business units and the subsidiaries in the Group is an outcome of the determination of the capital goal and formation of the strategic planning. At the end of 2014, a mix was determined regarding the application of risk assets, at the Bank and at its subsidiaries, and in line with the strategic focuses for the maximization of the Group's return on equity. Within the framework of this process, a mapping had been performed of the capital needs of each company in the Group, and decisions had been taken regarding the allocation of risk asset facilities on the basis of business considerations of maximization of profits and additional strategic considerations.
- **Capital management and monitoring.** In order to assure attainment of the determined capital adequacy goal, the Bank performs ongoing monitoring operations as part of the capital management process. Monitoring includes monthly reporting to the Board of Directors and Management, within the framework of which the principal changes in the capital components and in risk assets are being analyzed.

Capital management at the subsidiary companies. The capital goals determined in the process of the Group capital management serve as guiding principles and have been adopted by the subsidiary companies. These goals serve as a basis for planning the individual capital of each company, with required adjustments. The capital planning by the subsidiary companies is performed using similar methodology to that used in the planning of the group capital.

Capital maneuverability. During the years 2013-2014, the Bank withdrew excess capital from the subsidiary companies by way of dividend distribution. Mercantile Discount Bank distributed NIS 120 million and NIS 45 million, respectively. ICC distributed NIS 100 million (the Bank's share approx. NIS 72 million) and NIS 60 million (the Bank's share approx. NIS 43 million), respectively. Bancorp distributed amounts of US$25 million and US$75 million, respectively. The aim of the transfer of capital to the Bank is to avoid the creation of excess capital and to maintain in each of the subsidiaries of the Group a level of capital that matches the risk level managed by it.



COMPONENTS OF CAPITAL

Total capital as at December 31, 2014, amounted to NIS 13,641 million, compared with NIS 12,538 million at December 31, 2013, an increase of 8.8%.

Equity attributed to the Bank's shareholders as at December 31, 2014, amounted to NIS 13,243 million, compared with NIS 12,233 million at December 31, 2013, an increase of 8.3%.

The change in equity attributed to the Bank's shareholders in 2014 was affected, among other things, by earnings in 2014, by an increase of NIS 77 million in the "net adjustments for the presentation of available for sale securities at fair value, net of tax" item and from an increase of NIS 337 million in financial statements transactions adjustments.

The ratio of total capital, to total assets as at December 31, 2014, stood at 6.6%, compared with 6.3% as of December 31, 2013.

COMPONENTS OF THE REGULATORY CAPITAL AS OF DECEMBER 31, 2014

General. As stated, starting with January 1, 2014, the new instructions in accordance with the Basel III guidelines gradually came into effect. The data presented below reflects deductions, in accordance with the transitional instructions. For details regarding the effect of the implementation of the Basel III instructions as of January 1, 2014, see the 2013 annual report (pp.36-38).

It is noted that in computing the data as of January 1, 2014, and in the financial statements as of March 31, 2014, a part of the amortizations has been computed in a quarterly linear amortization format of one quarter of the required annual amortization. In the light of clarifications issued by the Supervisor of Banks, starting with the financial statements as of June 30, 2014, the annual amortization is computed in full, also during that year, and the format for the treatment of certain financial investments has also been changed.

The data presented hereunder is in Basel III terms – data as of January 1, 2014, date of initial implementation of the new instructions, and as of December 31, 2014. Note 14 to the financial statements also include data in Basel II terms as of December 31, 2013.

Ratio of common equity tier 1 (core capital ratio in Basel II terms) on December 31, 2014, amounted to 9.4%, as compared with 8.9% on January 1, 2014.

Total capital ratio as of December 31, 2014, amounted to 14.9%, as compared with 14.2% on January 1, 2014.

	December 31 2014	1 January 2014
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	13,393	12,364
Additional tier 1 capital after deductions	1,425	1,136
Tier 1 capital	14,818	13,500
Tier 2 capital	6,288	6,124
Total capital	**21,106**	**19,624**
2. Weighted risk assets balance		
Credit risk	125,643	122,592
Market risk	2,629	2,588
CVA risk	1,200	1,144
Operational risk	12,345	12,217
Total weighted risk assets balance	**141,817**	**138,541**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	9.4	8.9
Ratio of tier 1 capital to risk assets	10.4	9.7
Ratio of total capital to risk assets	14.9	14.2
Ratio of minimum capital required by the Supervisor of Banks		
Ratio of common equity tier 1	(1)9.0	(1)9.0
Total capital ratio	(1)12.5	(1)12.5

Footnote:
(1) As of January 1, 2015. For details of the requirement to increase the common equity tier 1 target at a rate reflecting 1% of the outstanding balance of housing loans, see Note 14 C to the financial statements.

ADDITIONAL DISCLOSURE ACCORDING TO THE THIRD PILLAR OF BASEL

Within the framework of the "Additional disclosure according the third pillar of Basel" document, a description is given of the principal characteristics of the issued regulatory capital instruments (part "A" of the document) and a disclosure of the composition of the regulatory capital (part "B" of the document). The document is available for perusal on the Magna Site of the Israel Securities Authority, on the Maya Site of the Tel Aviv Stock Exchange Ltd. and on the Bank`s website together with the Bank's 2014 annual report (the present report). The information included in parts "A" and "B" of the document is presented here by way of reference.

LIQUIDITY AND THE RAISING OF RESOURCES IN THE BANK

GENERAL

A steep rise of 36% was recorded during 2014 in the M1 money supply (cash in the hands of the public and current account Shekel deposits), of which current account deposits recorded a growth of 48%. It should be noted that most of the increase in the M1 money supply was recorded in the second half of the year. The rise in the M2 money supply (M1 plus non-linked deposits of up to one year) was more moderate (about 8%) and reflected (over and above the rise in the M1) a growth of 10% in current credit deposits and on the other hand a decrease of 5% in deposits of up to one year.
These trends occurred concurrently with the lowering of the interest rate and rising prices on the capital markets. These led to the shifting from bank deposits, on the background of the low interest rate, to liquid assets and to the capital market.
It is noted that in the corresponding period last year the M1 and M2 money supply rose by 15% and 6.6%, respectively.

In 2014, the monetary base increased by an amount of NIS 11.7 billion, compared to NIS 6.4 billion in 2013. The growth in the reviewed period reflected the supply of money, mainly, by the Bank of Israel. The Bank of Israel supplied liquidity by conversion of foreign currency, the liquidity surplus being absorbed by tenders for Shekel deposits and activity on the open market (issue of "MAKAM" short-term loans).

Following are the sources for the change in the monetary base:

	2014	2013	change
	In NIS billion		in %
Operations on the Capital Market	(3.2)	(6.3)	(49.2)
The Shekel deposits tender	(12.3)	2.0	-
Foreign currency conversion	24.6	19.0	29.6
Government activity	1.2	(10.5)	-

THE BANK

Liquidity risk management policy at the Discount Group. See "Management of the Liquidity Risk" hereunder.

The Bank's liquidity risk management policy defines the Bank's risk appetite in terms of survival prospects, liquidity ratio and liquidity difference in different scenarios as well as the centralization of resources.

Transferability of liquidity within the Group. The transfer of liquidity between the Group companies and the Bank is based on the money price mechanism established at the Bank. As stated, the subsidiary companies may not rely upon the transfer of liquidity where no liquidity framework had been defined which is taken into account in the liquidity model at the counterparty. For additional details, see "Management and measurement of the liquidity risk" under "Exposure to risks and risk management".

During 2014, the Bank maintained liquid assets in a volume larger than that of its liquid liabilities and its internal liquidity model indicated a significant liquidity surplus. The following trends were observed during the year:

- A decline of NIS 1.8 billion in the volume of non-linked and CPI linked shekel deposits, comprising a rate of 3.1%. Of which, a decrease of NIS 700 million, arising from the redemption of debt notes issued by Discount Manpikim and deposited with the Bank, a decrease of NIS 1.5 billion in deposits of corporations and, on the other hand, an increase of NIS 400 million in retail deposits;
- Transition of liquidity from deposits to current accounts in an amount of NIS 5.5 billion in the shekel segment, arising from the low interest environment;
- Eliminating the effect of the exchange rate, foreign currency deposits declined by US$220 million, reflecting a decrease of US$500 in retail deposits and on the other hand an increase of US$300 in deposits by corporations. Foreign currency deposits, including the effect of the rate of exchange increased by NIS 2.6 billion.

Deposits from the public:

	December 31, 2014	December 31, 2013	Change compared December 31, 2013	
	In NIS millions		In NIS millions	in %
Non-linked shekels	70,618	70,442	176	0.3
CPI-linked shekels	9,415	12,128	(2,713)	(22.4)
Foreign currency and foreign currency linked shekels	30,947	28,608	2,339	8.2
Total	**110,980**	**111,178**	**(198)**	**(0.2)**
Foreign currency and foreign currency linked shekels - In US$ millions	**7,958**	**8,242**	**(284)**	**(3.5)**

Deposits from Banks:

	December 31, 2014	December 31, 2013	Change compared December 31, 2013	
	In NIS millions		In NIS millions	in %
Non-linked shekels	2,334	1,000	1,334	133.4
CPI-linked shekels	290	468	(178)	(38.1)
Foreign currency and foreign currency linked shekels	849	869	(20)	(2.3)
Total	**3,473**	**2,337**	**1,136**	**48.6**

RAISING OF RESOURCES

Issuances of tier 2 capital. No Tier 2 capital was raised during 2013-2014.

Subtraction of regulatory capital instruments in 2015. Subordinate capital notes, which under the Basel II instructions had been recognized as hybrid Tier 1 capital or as upper Tier 2 capital, are no longer qualified according to the Basel III instructions, though according to the transitional provisions they would be recognized as additional Tier 1 capital and would be gradually eliminated in the years 2014-2021. Furthermore, subordinate debt notes, which under the Basel II instructions had been recognized as Tier 2 capital, are no longer qualified under the Basel III instructions, though according to the transitional provisions they would be recognized as Tier 2 capital and would be gradually eliminated in the years 2014-2021. Regulatory capital instruments, which are to be subtracted in the course of 2015, in accordance with the transitional provisions, amount to NIS 848 million (the whole amount would have been deducted also in accordance with the Basel II instructions).

Despite the subtraction of supervisory capital instruments (tier 2 capital) as stated, according to the Bank's work plan for the year 2015, the raising of tier 2 capital in order to reach the overall capital goals for 2015, is not required.

DISCLOSURE REGARDING DEPOSITS

Deposits from the public of the three largest depositor groups amounted as of December 31, 2014, to NIS 4,886 million (December 31, 2013: NIS 6,191 million).

DESCRIPTION OF THE ACTIVITY OF THE GROUP ACCORDING TO SEGMENTS OF OPERATIONS

ACTIVITY OF THE GROUP ACCORDING TO PRINCIPAL SEGMENTS OF OPERATION

GENERAL

Concise data regarding operations in the various segments is presented in Note 31 to the financial statements, pp. 517 below.

A summary description of segments of operation, including the criteria for assigning customers to segments of operation, in general was included above in "Discount Group Segment of operations - condensed description" under "The Discount Group - general overview and structure of the Group".

Details regarding the distribution of human resources in the Group according to segments of operation are included under "Human resources" below. For details regarding the assumptions, assessments and reporting principles used in the preparations of the data, see Note 31 to the financial statements. For details regarding the main differences between the managerial reporting and the public reporting format, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part C, item 4).

Regulatory operating segments. For details regarding an amendment to the reporting to the public instructions and a FQA file in the matter of regulatory operating segments, see Note 1 E 3 to the financial statements. According to the amendment, the disclosure requirements in the directors' report and in the provisional instruction regarding "description of the business of the banking corporation and forward-looking information in the directors' report" shall relate to disclosure of regulatory operating segments.

ADMINISTRATIVE STRUCTURE

The Discount Group operates in Israel and overseas by way of the Bank, subsidiaries, branches and representative offices, in all areas of banking and financial services.

The Bank's business operations in 2014 were conducted by four divisions: Banking Division, Corporate Division, Financial Markets Division and the Customer Assets Division.

The Banking Division conducts business with households, VIP customers, small companies and businesses, medium corporations (middle market) and customers of direct banking. The Division is responsible for the operation of the investment consultants operating in branches and investment centers, and direct channels.

The Corporate Division is responsible for operations with the large corporations through business managers, the Tel Aviv main branch and its extensions, the foreign trade department, Diamond Exchange Branch and the London branch. Likewise, the Division is responsible for operations with segments of specific customers, such as: construction (real estate project financing) and infrastructure companies and large capital market operators.

The Financial Markets Division is responsible for the financial management of the Bank and of the Group, which includes asset and liability management, dealing rooms management, market risks management, transfer prices management, capital management, "Nostro" portfolio management and management of relations with foreign financial institutions. The Division's operation is divided between several units: assets and liabilities management, dealing room, investment unit, control and operating services regarding securities and derivatives, and the Chief Economist and foreign financial institutions. In addition, the Division is responsible for the subsidiaries BLD Ltd., Discount Manpikim Ltd. and Israel Discount Capital Market and Investments Ltd..

The Customer Asset Division is responsible for the Bank service to private banking customers, both Israelis and foreign residents. The Division is also responsible for the advisory services at the Bank – pension and securities advisory services – and for the initiating, developing and managing of the financial products offered to all customer segments. In addition, the Division is responsible for investment portfolio management (through "Tafnit Discount Asset Management"), for trusteeship services (through "Discount Trust") and for the subsidiary IDB (Swiss) Bank.

RETAIL SEGMENT - GENERAL

The Bank presents two retail segments: the "household segment" and the "small business segment". This general section includes several subjects that relate jointly to the two said segments.

DISCOUNT, THE BANK FOR THE FAMILY

In February 2013, the Bank launched a program, first of its kind in Israel, which is designed for existing and new customers who are related to one another. A "family program" turns the existing family cell into a financial group, enjoying the variety of services and exclusive benefits.

The program is enjoyed by the Bank's customers who join as a group to the "family program" at Discount Bank. Joining the program is simple and easy and is made possible by registering at the branch, at the TeleBank center and through the Bank's Internet site.

The connection to the family group grants the family members participating in the program, benefits of a personal value in accordance with the status of the accounts and in accordance with the type of benefits elected by the participants, and everything, of course, while strictly maintaining bank confidentiality so that none of the parties joining the program share or are involved in the accounts of the other family members. At the present stage, the principal products of the program are:

- **Exemption from commission on money transfers** in Israeli currency between accounts of the family members participating in the program.
- **"Family plus"** – offsetting interest on overdrawn accounts against the accounts of the other family members. An exclusive benefit for new customers and for existing customers adding another family member as a new customer. "Family plus" allows the customer to enjoy the setting off of interest charged on their overdraft so long as one or more family members participating in this benefit has at that time a credit balance on their current account. The interest amount being offset relates to a maximum debit balance of NIS 5,000 in each account participating in the program. It is emphasized, that the family member having a credit balance on their account, who assists another family member with a debit balance on their account, does so without forfeiting the interest due to them on their credit balance.
- "**2go key" card** – a rechargeable card, which family members may order for a customer who is not the account owner, including also children from the age of 14. The card may be recharged through the customer's account at the branch, by TeleBank or by the Internet. The 2go key card allows a daily cash withdrawal of up to NIS 400, and daily purchase transactions of up to NIS 400. The card provides security and control over expenditure.
- **Higher education savings** – a fifteen year savings account, with an additional full year of savings provided by the Bank. Family members may make saving deposits of NIS 150 to NIS 10,000 per month, and at the end of the period enjoy the accumulated principal amount and interest as well as an additional award by the Bank in the value of the annual principal amount linked to the CPI, a total amount of up to NIS 120,000 together with CPI linkage increments.
- **Family loan** – loans at preferential terms to existing members and new members of the family program.
- **Family outing** – family members Discount are invited to enjoy together family benefits, by means of "Discount key". Various benefits are being offered from time to time to customers.

THE BRANCHES AS THE CENTER OF RETAIL OPERATIONS

The branches are the central link in the relations between the Bank and the retail customer, the retail experience taking place at the meeting point of the retail customer with the Bank - in the branch. A customer visiting a branch should undergo a retail experience as a result of a combination of four major components: A pleasant appearance of the branch and its staff, quality service throughout his stay at the branch, clarity and simplicity of the products offered and messages given to him and the availability and timeliness of consumption - simple processes and efficient performance. The branches were modified to a customer focused structure, where against each group of customers the Bank provides a separate and different arrangement.
With a view of providing customers with a pleasant service environment, the Bank continues to install at the branches a line management system.

BANK BRANCHES

At the end of 2014, the Bank operated a country wide layout of 138 branches and extensions, being organized within the framework of 5 regions (following the closing down of the Dan Regional Administration in October 2014). This, following the Bank's closing down of 8 branches one region administration and a business center during the year. Mercantile Discount Bank ("MDB") operated 80 additional branches. The conversion of all the "Discount Home" branches into ordinary branches was completed in the first quarter of the year. The "Household Discount" branches were initially designed to provide services to private customers only. Customer needs and the changing demographical environment led to an expansion of services provided by these branches, including services to business customers. Five "Discount your way" branches were closed down during the year, and as of December 31, 2014, only two branches of this type remained.

For details regarding the modification of the branch network, complementary services and the consultation layout, see "The household segment" hereunder.

THE SEGMENT STRATEGY

A strategy that outlines a way according to which a distinct differentiation is to be made between customers in order to succeed in maintaining the customers and exhaust the potential inherent in them.
In the course of 2014, the Bank continued to improve the segmentation of customers of this sector in order to provide appropriate service to each segment. In addition to the distribution to service teams at the branches, based mainly on financial parameters, customers were classified into sub-segments enabling improvement of the level of service provided to the customer, including the range of products, services and lanes required by him.

CUSTOMER SEGMENTATION

In the household segment, which has been in focus in recent years, various strategic emphases were determined for operation with each segment, in accordance with its characteristics and needs. In recent years the Bank has focused on the private sector including all its segments. Based on a segmental study of this sector, strategic emphases have been put on the activity with each segment, according to its characteristics, needs and order of priorities of the Bank. Based on the segmentation of the private sector, account lanes have been established allowing, among other things, the granting of structured credit facilities in which the interest rate decreases as the facility is utilized, loans etc., while offering unique lanes to customers having financial wealth and/or salaried customers.
Modifying the credit products to the said population segments is achieved by initiating approach to the customer and accordingly adjusting the credit facility to the needs of the customer, their repayment ability, and the acquaintance with them over the years. The customer is offered loans modified to his needs and to life events, credit cards and structured credit facilities. This activity supports the development of the consumer credit field at the Bank and allows full compatibility with the needs of the customer.
In the small business sector three principal kinds of customers were identified: business, business plus and extended business. The segments are defined in relation to parameters of volume of operations vis-à-vis the Bank, as measured mainly in the credit field.

SERVICE CONCEPT

In 2014, the Bank focused on differentiating service according to customer segments, focused on the needs of the customer, including the modification of a variety of segment adjusted products.
Conduct of the service is based on the following principles:
- Focus on the customer - specialization according to segments (customer arenas) instead of products - providing appropriate services and products in accordance with the characteristics and unique requirements of each segment;
- One stop shop - A comprehensive service to the customer at one service point;
- Team service - provides a response for a more comprehensive service at one address at the branch;
- Multi-lane - enabling the customer to perform banking operations everywhere, at any time, in every lane and individually customized;
- Expert banking - provision of various professional services in the credit and investment sectors, including customizing the product to customers' needs and requirements;
- Familiarity and warm relations on the part of the service providers;
- Service initiative - anticipating the customer's needs and customizing products or services to such needs;
- The integration of standards for handling customer approaches and the continued reduction in complaints;
- The allocation of resources based on the requirements of the customer and the Bank's priorities;

- With a view of providing easy and handy communication with customers, the Bank has started the process of disposition of "mail to the banker".

A customer focused support system was integrated at the Bank's service layouts. This system places the customer at the center and customizes the products according to his needs and preferences.

"DISCOUNT KEY"

In 2014, the Bank continued the unique marketing effort in the area of financial consumption – "Discount key". This campaign reflects a new approach which combines consumption culture with savings culture, with the aim of bolstering customer loyalty to the Bank. In this framework, Bank customers holding Discount’s credit cards (VISA CAL, Diners and MasterCard) enjoy discounts at over 120 marketing chains and from unique benefits, such as free parking in the afternoons and at week-ends.

Customers have the possibility of joining a unique savings plan, accumulating amount through credit card transactions. Bank customers may save in one of the following lanes: the rounding off of credit card transaction amounts to NIS 5 or NIS 10; accumulation to the savings scheme of discounts granted by trading houses participating in the plan; and complementing the monthly fixed amount deposit.

In April 2013, the Bank launched the first private refueling card in Israel. This benefit enables private account holders, who own a credit card of the Bank, to order a private refueling card, free of charge, for use in SONOL gas stations.

OPERATIONAL EFFICIENCY IN THE BRANCHES

The process of removal from the branches of the operational activity concurrently with measures for improving efficiency and changes in performance concepts continued.

The activity was designed to achieve the following targets:

a. The customer may choose between teller assisted banking services and self service banking;
b. Removal of all operations not essential for customer service from the branch;
c. Simplifying and shortening the remaining processes at the branch;
d. Focusing on the customer and his needs in order to improve the service experience;
e. Reducing the amount of paperwork and filing at the branch;
f. Efficiency in manpower and costs;
g. Reduction in office space at the branches (in 2015).

All the Bank's branches have a self service banking area, where the customer is able to conduct most of their daily banking transactions, including check deposits, cash deposits and drawing services, foreign currency drawing services and effecting payments. Approx. 100 automatic machines provide foreign currency drawing services, deposit of cash in ATM services, and the depositing of checks in Information Desks service exist in all of the Bank's branches. A new service to customers was launched in 2014, allowing the deposit of checks also at an ATM.

The back-office continued to absorb in 2014 new operations, which contributed to the simplifying and shortening of the processes at the branch.

Furthermore, a process was implemented in 2014, for the distant control of checks, which is planned to be completed at the beginning of 2015. The deposit of checks by means of the information desk, are transmitted on-line and are dealt with in real time by the back-office. This operation comprises an important layer of operational efficiency and in the saving of resources at the Bank level.

The activity continued for taking over from the branches the filing and maintenance of basic documents and their integration in a manner that enables the business factor to view the documents of origin. The removal of basic documents has been carried out at about 106 branches until now (of which about thirty that have been closed down or merged). The continuation of this process in some 10 additional branches is planned for 2015. Removal of the daily paperwork has been carried out in all of the branches.

In 2014 the Bank installed at all its branches a system reducing printing with no customer presence, which reduces the daily quantity of printings by 10%. These activities saved office space at branches, reduced the use of paper, shortened the time required for locating documents and reduces risks.

RETAIL BANKING - HOUSEHOLD SEGMENT

GENERAL

The household segment provides services and diverse financial products to the Group's private individual customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 200 branches located all over the country, in addition to a variety of direct channels. The customers are classified into a number of customer populations according to their age, financial wealth and additional parameters.

GOALS AND BUSINESS STRATEGY

The Bank approved in 2014 a new comprehensive Group strategic plan, which had defined the household segment as one of the segments in focus, on which the Group would focus in the coming years, as the central growth engine. The new strategy relies on three principal layers: focus on the intensification of relations with existing customers of the Group; focus on growth products – private credit, and growth sectors – wealthy customers (at Discount Bank), customers of the Arab and Jewish Orthodox sectors (at MDB); and improvement of the retail infrastructure, which among other things includes the improvement of the service model and customer experience.
Implementation of the new strategy will be carried out over a number of years, though already in 2014, several preliminary moves were performed towards attaining the multi-annual goals:

- **Increasing the scope of initiative and sales** vis-à-vis the customers, based on a comprehensive training move for bankers and improvement of the sales systems based on customer needs;
- **Positioning “Telebank” as a nationwide service and sales center** – initiating general banking calls and integrating “value” offers and sales into incoming calls, along with providing a voice response service to subscribers and customers, the referral of personal and general calls and the activation of retention centers for VIP customers and students;
- **Fulfilling customer potential** – by means of establishing an approach strategy adjusted to customer segment, and the offering of value within the framework of "Discount for the family", by means of forming a designated product package to customers attached to the family;
- Focusing on private credit, while enlarging the volume of sales, and developing models for the granting of private credit approved in advance in accordance with characteristics of the customer.

POINTS OF EMPHASIS FOR THE COMING YEAR

In 2015, the Bank will continue to implement the new retail strategy, while focusing on a number of fields:

- Improvement of customer service through the improvement of work processes at the branches and at the TeleBank, the launching of an electronic mail service to the banker, removal of operational activities from the branches, and implementation of initiatives for improvement in the service experience at the branches, all this alongside the expanding of the variety of services provided by the direct channels;
- Continuing the strengthening of personal relations between the banker and customer;
- Upgrading the marketing effectiveness of value offers tailored to the customer's needs in all the channels;;
- The continued positioning of the Bank as a leader in the pension consulting field;

- The continued development and use of analytical models as a tool supporting decision making in the granting of credit;
- Focusing on multi-channel service – use of all distribution channels of the Bank in providing service to customers, while diverting operations to the direct banking channels.

SERVICE

General. The trend of modifying the value offers to customers forming a cluster in a family plan account, continued in 2014, while developing products and increasing the advantage of the family cluster.
A contact strategy has been absorbed, in accordance with the customer's life events, while focusing on custom and designated products for the household segment.
Banking products. The principal banking products available to customers of this segment include current account management, credit, deposits, capital market activity and credit card services, as well as loans for the purchase, lease, enlargement, renovation or construction of a residential unit, and the granting of loans for any purpose, secured by a mortgage on a residential unit.
Telebank - personal service. Customer telephone answering service - automatic direction to direct banking for customers calling the branch switchboard. The service enables to improve the quality of telephonic response and to afford the staff of the branch more time to create for the customer added value from the aspects of initiative and sales. A telephonic sales center on the TeleBank was established in 2014, which is principally focused on the private credit market. This center will continue to expand during 2015, upon combining it as an integral part of the personal service center.
Internet activity. Encouraging customers to use this lane that results in significantly lower costs as compared with the cost of identical services provided at the branches.
Internet loans. Private customers who comply with determined criteria, may apply for loans via the Internet.
Discount by cellular. A service based on cellular application enabling Internet access to the account, obtaining information and executing bank transactions by means of SMS/application at any place and at any time. Various services are provided to the customer, including obtaining support while surfing on the web.
Providing services to State employees and to teaching staff. In 2014, another bank was successful in the tender published by the Accountant General for providing service to teaching staff. Furthermore, the Bank has chosen not to participate in the tender for providing services to State employees. Notwithstanding, the Bank will continue to provide unique terms and services to teaching staff and to State employees who are customers of the Bank (see Note 19 C items 17 and 18, respectively).

ADJUSTMENT OF BRANCH LAYOUT

A change in format of rapid banking services. In 2014, rapid banking services at the branches were provided on a "self-service" basis. In 2015, the space of entry halls to the branches will be reduced and rapid banking services will be provided outside the branch premises.
Conversion of branches to business branches. The conversion of two branches (the industry branch in Holon and the Kiriyat Arieh branch) is planned for 2015.
"Discount Your Way". As part of the Bank's efficiency plan, it was decided in 2014 to shutdown the "Discount your way" branches at the shopping malls. The process of shutting down all the "Discount your way" branches will be completed in 2015.
"Household Discount". The "Household Discount" branches were initially designed to provide services to private customers only. Customer needs and the changing demographical environment led to an expansion of services provided by these branches, including services to business customers. The conversion of all branches to conventional branches was completed in 2014.

CONSULTING LAYOUT

Investment centers. Customers having deposits of over NIS 750 thousand or customers active in the capital market are entitled to consultancy services regarding their funds in the investment centers. The account of the customer is managed at the branch, however the service is provided at the investment centers by expert investment consultants.

9 investment centers and 4 investment centers extensions were in operation at the end of 2014.

The services provided by some of the investment centers were enlarged in the course of 2014, from providing investment advisory services only, to providing banking services that include: credit, mortgage consulting and pension consulting.

(only for VIP customers attended to by the investment centers of the Household Segment).

Consulting services in Bank branches. Customers with deposits in the range of NIS 120-750 thousand are entitled to advisory services provided at the branches by authorized investment consultants that specialize in the capital market.

The services provided by the investment centers are to be enlarged in the course of 2014, from providing investment advisory services only, to providing banking services that include: credit, mortgage consulting and pension consulting.

Pension advisory services. The Bank provides pension advisory services at the Bank's branches and investment centers. The Bank has elected a unique model of providing pension advisory services by differentiated consultants specializing in pension advisory services to all types of customer. The Bank provides pension consulting services to self employed and salaried employees all over the country. (For further details see hereunder "Capital market activities" in the Chapter "Further details regarding the activity in certain products").

Portfolio management. Directing customers to outside and inhouse portfolio managers.

MARKETING AND DISTRIBUTION

Marketing and distribution are conducted by way of advertising campaigns on the printed media, television, radio and billboards. In addition, this activity is conducted through the following lanes:

- At the branches - frontal activity through screens located in areas where customers await service;
- Through the telephone either by way of an initiated approach to the customer or in response to an approach by the customer;
- By Discount TeleBank - either by way of an initiated approach to the customer or in response to an approach by the customer;
- At the Discount website on the Internet and the Discount application on cellular phones, which provide marketing messages and marketing offers;
- Through the Discount automatic teller machine, by which marketing messages and marketing suggestions are being communicated;
- In the interactive voice response (IVR) system in the "Telebank", by means of marketing messages and marketing suggestions while the customer is waiting for service;
- Direct mailing to customers (to which is attached a statement of account) and through the automatic service machines (ATM and Information Desk).

COMPETITION

Competitors. The number of competitors in the household segment is the same as the number of banks operating in the market. The Bank’s principal competitors are the four other major banks in Israel - Bank Hapoalim, Bank Leumi, the First International Bank ("FIBI") and Mizrahi-Tefahot Bank. Furthermore, competition has arisen in recent year from "off banking" financial entities, e.g. credit card companies, have entered the competitive market in recent years with respect to consumer credit, investment and insurance companies - inter alia with respect to capital market transactions.

Means of handling the competition. Handling the competition is conducted while making an effort to differentiate the Bank from its competitors on several levels:

- Growth in the retail market share through the attraction of new customers focusing on differentiation and attracting customers by means of "Discount Family", by means of the branch layout;
- Utilizing to the maximum the potential of customers by intensifying operations, improving service and providing Bank customers with differentiated proposals of value;
- As part of the overall proposal of value adapted to customer needs, the Bank operates service systems specializing in investment consulting, pension consulting and credit.

DEVELOPMENT IN THE SEGMENT'S MARKETS AND CHANGES IN CUSTOMER CHARACTERISTICS

No material changes occurred in 2014 in the characteristics of customers in this segment.

CRITICAL SUCCESS FACTORS IN THE SEGMENT

- Matching the disposition of service points and hours of operation to the area and type of population;
- Expansion of exposure and access to direct technological lanes;
- Providing service and professional response to the customer compatible with his needs and preferences;
- The structuring of customer adapted products in the various banking lanes;
- Flexibility and sensitivity to market changes, including regulatory requirements.

PRINCIPAL SEGMENT ENTRY AND EXIT BARRIERS

- Investment in branches layout all over the country;
- Investment in the establishment of advanced technological means, and in their maintenance and upgrading;
- Training of skilled service personnel engaged in providing a variety of banking products and activity;
- Maintaining the reputable service level, leadership, professionalism and reliability established over many years.
- Inputs and efforts for the preserving of existing customers and attracting new customers.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

General. Most of the income from credit card issue operations is related to the household segment.

The segment's loss in 2014 amounted to NIS 178 million, compared to a loss in an amount of NIS 20 million in 2013. The loss was among other things affected by the lowering of the interest rate in 2014. The loss was also affected by changes in the provision for severance pay, mostly due to the retirement plan, in the net amount of NIS 110 million.

The credit loss expenses in this segment amounted to NIS 128 million in 2014, compared to NIS 48 million in 2013, an increase of 166.7%. The increase in expenses in 2014, derives, mostly from an increase in the group allowance in this segment, in accordance with the instruction of the Supervisor of Banks regarding "group allowance in respect of private individuals" (see Note 1D 4.3 to the financial statements).

Following are the principal data relating to the operations of the household segment:

	For the year ended December 31, 2014						
	Domestic operations					International operations	
	Banking and finance	Credit cards	Capital market	Housing loans	Total	Banking and finance	Total
	in NIS millions						
Interest income, net							
- From external sources	319	259	-	584	1,162	(1)-	1,162
- Intersegmental	516	(26)	-	(474)	16	(1)-	16
Total Interest income, net	835	233	-	110	1,178	(1)-	1,178
Non-interest financing income	-	8	7	-	15	(1)-	15
Commissions and Other income	408	827	259	29	1,523	(1)-	1,523
Total Income	**1,243**	**1,068**	**266**	**139**	**2,716**	**(1)-**	**2,716**
Credit loss expenses (expenses reversal)	81	29	-	19	129	(1)	128
Operating and other expenses	1,630	852	215	147	2,844	3	2,847
Profit (loss) before taxes	(468)	187	51	(27)	(257)	(2)	(259)
Provision for taxes (tax savings) on profit	(182)	65	19	(11)	(109)	(1)-	(109)
Net Income (loss) Attributed to the Bank's shareholders	**(286)**	**94**	**32**	**(16)**	**(176)**	**(2)**	**(178)**
Return on equity (percentage)	(32.0)	12.4	86.4	(2.0)	(7.0)	(94.3)	(7.1)
Average Assets	10,843	8,664	-	20,290	39,797	26	39,823
Of which - Average credit to the public	10,843	8,664	-	20,290	39,797	26	39,823
Average Liabilities	65,152	2,821	-	44	68,017	41	68,058
Of which - Average deposits from the public	65,152	13	-	44	65,209	41	65,250
Average Risk-assets	10,488	8,879	433	9,940	29,740	21	29,761
Average securities	-	-	44,557	-	44,557	(1)-	44,557
Average other assets under management	1,277	-	3,259	871	5,407	(1)-	5,407
Components of Interest income, net:							
Margin from credit activity	529	233	-	110	872	(1)-	872
Margin from deposits activity	306	-	-	-	306	(1)-	306
Total Interest income, net	**835**	**233**	**-**	**110**	**1,178**	**(1)-**	**1,178**

Footnote:

(1) Amounts lower than NIS 1 million.

Following are the principal data relating to the operations of the household segment (continued):

	For the year ended December 31, 2013						
	Domestic operations					International operations	
	Banking and finance	Credit cards	Capital market	Housing loans	Total	Banking and finance	Total
	in NIS millions						
Interest income, net							
- From external sources	(41)	259	-	887	1,105	(1)-	1,105
- Intersegmental	952	(30)	-	(759)	163	(1)-	163
Total Interest income, net	911	229	-	128	1,268	(1)-	1,268
Non-interest financing income	2	8	5	-	15	(1)-	15
Commissions and Other income	454	804	225	37	1,520	(1)-	1,520
Total Income	**1,367**	**1,041**	**230**	**165**	**2,803**	**(1)-**	**2,803**
Credit loss expenses (expenses reversal)	(4)	21	-	31	48	(1)-	48
Operating and other expenses	1,616	813	205	130	2,764	(1)-	2,764
Profit (loss) before taxes	(245)	207	25	4	(9)	(1)-	(9)
Provision for taxes (tax savings) on profit	(87)	70	9	1	(7)	(1)-	(7)
Net Income (loss) attributed to the Bank's shareholders	**(158)**	**119**	**16**	**3**	**(20)**	**(1)-**	**(20)**
Return on equity (percentage)	(22.2)	18.0	54.1	0.4	(0.9)	-	(0.9)
Average Assets	(2)9,897	8,235	-	20,015	38,147	26	38,173
Of which - Average credit to the public	(2)9,897	8,235	-	20,015	38,147	26	38,173
Average Liabilities	66,162	2,422	-	27	68,611	50	68,661
Of which - Average deposits from the public	66,162	-	-	27	66,189	50	66,239
Average Risk-assets	8,936	8,261	376	9,907	27,480	20	27,500
Average securities	-	-	(3)37,889	-	37,889	(1)-	37,889
Average other assets under management	1,302	-	(3)(4)2,457	1,045	4,804	(1)-	4,804
Components of Interest income, net:							
Margin from credit activity	467	229	-	127	823	(1)-	823
Margin from deposits activity	444	-	-	1	445	(1)-	445
Total Interest income, net	**911**	**229**	**-**	**128**	**1,268**	**(1)-**	**1,268**

Footnotes:
(1) Amounts lower than NIS 1 million.
(2) Reclassified, see Note 31 B (2) to the financial statements.
(3) Reclassified, see Note 31 B (4) to the financial statements.
(4) Reclassified, see Note 31 B (6) to the financial statements.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

The Economic Committee of the Knesset held on July 8, 2014, a preparatory discussion towards the first reading of private Bills, within the framework of which it is proposed to obligate the banks to pay interest on credit balances on current accounts of customers.
For details regarding the recommendations of the team examining the strengthening of competition in the banking industry and measures taken by the Supervisor of Banks for their implementation and additional measures taken by the Supervisor of Banks for improving competition and increasing transparency in current account management, see Note 35 to the financial statements.

For details regarding the draft instruction in the matter of "Customer benefits", see "Legislation and Supervision" below.

THE RETAIL SEGMENT AT THE MERCANTILE DISCOUNT BANK ("MDB")

Most of the customers of MDB belonging to the household segment of this bank, receive banking services by means of the MDB branches organizationally belonging to the Acco and Nazareth regions (31 branches). Such branches are located in areas where the population has an absolute "non-Jewish" majority. MDB management believes that most of the customers belonging to such populations receive services from Bank Leumi and Bank Hapoalim, while the balance of the activity is divided among the remaining banks.

MDB views the retail segment as a central target of its business development and is diligently working on broadening the branch layout in the segment as well as improving the service to its customers. During the year 2013, Mercantile Discount Bank opened one branch in an area having potential for providing banking services to customers belonging to this segment.

RETAIL BANKING - SMALL BUSINESSES SEGMENT

GENERAL

The small business segment provides services and diverse financial products to small business customers, both at Discount Bank and at MDB. These are provided by means of a chain of some 200 branches located all over the country, in addition to a variety of direct channels.

GOALS AND BUSINESS STRATEGY

The Bank approved in 2014 a new comprehensive Group strategic plan, which had defined the small business segment as one of the segments in focus, on which the Group would focus in the coming years, as the central growth engine. The new strategy relies on the focusing on the intensification of relations with existing customers of the Group, alongside a growth in the market share of this segment.

SCALE OF OPERATIONS AND NET INCOME OF SEGMENT

Net income of the segment in 2014 amounted to NIS 192 million, compared with NIS 202 million in 2013, a decrease of 5.0%. The decline in income was, among other things, affected by changes in the provision for severance pay, mostly due to the retirement plan, in the net amount of NIS 24 million.

The credit loss expenses in this segment amounted to NIS 39 million in 2014, compared to NIS 94 million in 2013, a decrease of 58.5%.

Commissions and other income amounted in 2014 to NIS 390 million, as compared with NIS 482 million in 2013, a decline of 19.1%. The said decline stemmed mainly from the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), as detailed in Note 1 D 25 to the financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in 2014 to NIS 481 million.

Following are the principal data relating to the operations of the small business segment:

	For the year ended December 31, 2014					
	Domestic operations					
	Banking and finance	Credit cards	Capital market	Construction and real estate	Housing loans	Total
	in NIS millions					
Interest income, net						
- From external sources	691	23	-	6	114	834
- Intersegmental	13	(7)	-	55	(98)	(37)
Total Interest income, net	704	16	-	61	16	797
Non-interest financing income	4	1	1	-	-	6
Commissions and Other income	292	33	45	19	1	390
Total Income	**1,000**	**50**	**46**	**80**	**17**	**1,193**
Credit loss expenses (expenses reversal)	53	-	-	18	(32)	39
Operating and other expenses	748	20	35	21	14	838
Profit before taxes	199	30	11	41	35	316
Provision for taxes on profit	75	11	4	16	13	119
Net Income attributed to the Bank's shareholders	**124**	**14**	**7**	**25**	**22**	**192**
Return on equity (percentage)	15.4	20.8	105.6	26.8	33.1	18.4
Average Assets	11,121	281	-	1,329	893	13,624
Of which - Average credit to the public	11,121	281	-	1,329	893	13,624
Average Liabilities	14,584	550	-	951	3	16,088
Of which - Average deposits from the public	14,584	-	-	951	3	15,538
Average Risk-assets	9,572	763	75	1,146	779	12,335
Average securities	-	-	8,449	-	-	8,449
Average other assets under management	-	-	611	-	-	611
Components of Interest income, net:						
Margin from credit activity	640	16	-	57	16	729
Margin from deposits activity	64	-	-	4	-	68
Total Interest income, net	**704**	**16**	**-**	**61**	**16**	**797**

Following are the principal data relating to the operations of the small business segment (continued):

	For the year ended December 31, 2013					
	Domestic operations					
	Banking and finance	Credit cards	Capital market	Construction and real estate	Housing loans	Total
	in NIS millions					
Interest income, net						
- From external sources	626	27	-	50	43	746
- Intersegmental	33	(8)	-	(4)	(24)	(3)
Total Interest income, net	659	19	-	46	19	743
Non-interest financing income	-	-	3	-	-	3
Commissions and Other income	376	42	41	22	1	482
Total Income	**1,035**	**61**	**44**	**68**	**20**	**1,228**
Credit loss expenses (expenses reversal)	98	2	-	4	(10)	94
Operating and other expenses	707	45	42	10	11	815
Profit before taxes	230	14	2	54	19	319
Provision for taxes on profit	81	3	-	20	7	111
Net Income attributed to the Bank's shareholders	**149**	**5**	**2**	**34**	**12**	**202**
Return on equity (percentage)	20.0	6.9	28.4	48.7	19.4	21.4
Average Assets	(1)10,464	358	-	935	738	12,495
Of which - Average credit to the public	(1)10,464	358	-	935	738	12,495
Average Liabilities	15,464	754	-	740	3	16,961
Of which - Average deposits from the public	15,464	-	-	740	3	16,207
Average Risk-assets	9,216	836	74	880	795	11,801
Average securities	-	-	(2)8,529	-	-	8,529
Average other assets under management	-	-	(2)(3)489	-	-	489
Components of Interest income, net:						
Margin from credit activity	565	19	-	40	19	643
Margin from deposits activity	94	-	-	6	-	100
Total Interest income, net	**659**	**19**	**-**	**46**	**19**	**743**

Footnote:
(1) Reclassified, see Note 31 B (2) to the financial statements.
(2) Reclassified, see Note 31 B (4) to the financial statements.
(3) Reclassified, see Note 31 B (6) to the financial statements.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

The Economic Committee of the Knesset held on July 8, 2014, a preparatory discussion towards the first reading of private Bills, within the framework of which it is proposed to obligate the banks to pay interest on credit balances on current accounts of customers.
For details regarding the recommendations of the team examining the increase in competition in the banking industry, measures taken by the Supervisor of Banks to implement these recommendations and additional action taken by the Supervisor to improve competition and increase transparency in the management of current accounts, including the change in the "small business" definition as regards charging commissions, see Note 35 to the financial statements.

POINTS OF EMPHASIS FOR THE COMING YEAR

- Intensifying activity in the Small Business Segment - an increase in the number of customers, while focusing on reducing the number of customers whishing to leave the Bank, increasing the number of customers having banking products and increasing the number of customers seeking credit;
- Customizing the sale of unique products to the segment's customers and addressing selected customer categories within the segment;
- Continuous focusing on improvement of the customer service level by improvement of staff proficiency, measurement and control;
- Development of a rating model for business customers and the use thereof as a tool supporting credit granting decisions;
- Expansion of the use of direct channels, with a focus on the designated website for customers of this segment – "Business +";
- Increasing the use of models analyzing the activity of the segment's customers (the "red lights" system);
- Increasing the advertising in the small businesses field, both on the Bank`s website and facebook page and in the media and in customer conferences.

COMPETITION

The existing competition in this segment is mainly in the banking sector. Nevertheless, financing services for small business customers are also provided by credit card companies as well as by designated private companies financing specific operations, such as: the purchase of vehicles, equipment or import activity. The Bank's principal methods to cope with competition include timely response to customers' requests, development of personal relationships with customers and proposal of viable comprehensive professional solutions for financial requirements.

SERVICE TO SEGMENT CUSTOMERS

The small business segment provides the full variety of services to the segments' customers. Service is provided at the Bank branches, except for foreign trade services. Customers also have the option of receiving service through a designated Internet site as well as by telephone.
Customers transacting international trade business are being serviced by the foreign trade department in accordance with their particular economic sector (see below under "Corporate Banking Segment").
Service to small and medium businesses. The Bank's small and middle market customers obtain services commensurate to their volume of operations, this in order to provide professional service appropriate to the customer's characteristics. Customers having a volume of operations of up to NIS 15 million and indebtedness of up to NIS 4-5 million, obtain services from the business banking teams at the Bank branches. Customers having higher volumes of operations and indebtedness than those stated above, obtain services from the Bank's business centers.
Financing of small businesses. As part of the Bank's policy of focusing on operations in this segment, existing customers of the Bank are being offered two financing lanes, while two additional lanes are being offered to new customers. This, in the framework of four funds for the financing of small businesses. The total financing per customer offered by the fund, may reach NIS 1 million, including reduced collateral requirements. Operations in this field were enlarged during 2013-2014, and the Bank granted finance of this type to hundreds of small businesses in geographical and sectorial distribution.
Business dealing room. This dealing room provides services for the purchase and conversion of foreign currency as well as for hedge transactions. The Bank conducts a focused activity for connecting business customers, both small and medium, to the commercial dealing room.
Business credit card. The Bank offers a "business key" credit card to its customers. This card is intended to provide business owners with a unique service through the use of a credit card of a key type, which enables the customer to obtain discounts at trading houses that are suppliers.

"Business +" website. A designated website for business customers. The website presents comprehensive data regarding the accounts of the business and allows customers to transact business independently from their place of business.
SMS business packages. A package that allows extension of current account services. Receiving messages regarding the following matters are available: notice in advance as to the termination of a guarantee, outstanding balance of guaranties relating to the account, collection of post-dated checks (balance and payments), checks serving as collateral (balance, payments and shortage vis-à-vis the defined amount), order of check books, dishonored checks, etc.
For details regarding the new Internet website for business customers, see "Corporate banking segment" below.

THE SMALL BUSINESS SEGMENT AT THE MERCANTILE DISCOUNT BANK ("MDB")

The small business segment at the MDB is one of the outstanding segments of this bank and accordingly is a central target in its business development.
Around one half of the customers of MDB who belong to this segment live in areas where the population has an absolute "non-Jewish" majority and receive banking services by means of 31 branches of this bank belonging organizationally to the Acre and Nazareth regions. MDB management believes that most of the customers belonging to such populations receive their services from Bank Leumi and Bank Hapoalim, while the balance of the activity is divided among the remaining banks.
During the year 2013, Mercantile Discount Bank opened one branch in an area having potential for providing banking services to customers belonging to this segment.

CORPORATE BANKING SEGMENT

REVIEW OF DEVELOPMENTS IN THE CORPORATE BANKING SEGMENT IN 2014

The local economy expanded in 2014 by a rate of 2.9%, compared to a growth of 3.2% in 2013. Concurrently, the growth rate of the business product slowed down from a rate of 3.4% in 2013 to 2.9% in 2014. The said slowdown reflected, mostly, the negative impact of the "Protective Edge" Operation on the product in the third quarter. In particular, the business product regressed in the third quarter at a rate of 0.1%, however, a significant recovery was recorded in the fourth quarter with a growth of 8.8%.
The factors which affected the development in the business product in 2014, are as follows:

- Accelerated exports (excluding startup companies) from a rate of 0.4% in 2013 to 3.8% in 2014. The said acceleration reflected acceleration in the export of services (6.7%) and a growth of 2.4% in the export of goods. It is worth noting in this respect, that a decline in the export of tourist services was recorded in 2014, on the background of the "Protective Edge" Operation;
- Private consumption continued to grow at a fast rate, accelerating from a rate of 3.3% in 2013 to 3.9% in 2014. The said acceleration reflected, among other things, a steep growth in the import of durable goods, in particular in the import of motor vehicles;
- Regression in investments in fixed assets (excluding ships and airplanes) (-1.5%). The said regression applied both to investments in the economic sectors and to investments in housing construction;
- Public consumption (excluding defense imports) grew in 2014 at a rate of 4.2% (3.3% in 2013). It is noted that the civil consumption recorded a slowdown in 2014, while defense consumption recorded a significant growth (10.4%) on the background of the "Protective Edge" Operation. In particular, a growth of 16.1% was recorded in purchases from the local defense industries.

The import of goods and services (excluding defense imports) recorded a moderate growth of 1.6% (following a contraction in 2013). Import data indicated a fast growth (7.2%) in the import of services, and on the other hand, a standstill in the import of goods.

DEVELOPMENTS IN THE DEBT OF THE CORPORATE BANKING SEGMENT

In the course of the fourth quarter of 2014, stability was recorded in the debt of the business sector (excluding banks and insurance companies), in the wake of an increase of 2% during the first three quarters of the year (the rates of change are in nominal terms, and are impacted by changes in the exchange rate and in the CPI). The balance of the debt at the end of 2014 stood at NIS 816 billion, compared with NIS 799 billion at the end of 2013.

The said growth in the debt reflected an increase of 11% in the debt to foreign residents, which was partly offset by a decrease (-1%) in the debt to banks. It is noted that the debt to Banks at the end of December 2014 totaled NIS 385 billion, a decrease of 1% compared with the end of 2013 and a decrease of 2% compared with September 2014. It is further noted, that during 2014 the debt to households remained unchanged at a level of NIS 90 billion, and so did the debt to institutional bodies – NIS 150 billion. The debt to institutional bodies showed an accelerated growth in private loans, alongside a decline in bond holdings. As a result thereof, at the end of December 2014, the weight of the debt to banks in the total debt of the business sector was 47.2%, compared with 48.7% at the end of 2013.

According to the Bank of Israel estimates in quantitative terms (after elimination of the effect of inflation and the change in exchange rates), a decrease of 1.4% was recorded during 2014 in the total debt of the business sector, with a decline of 2.5% in the debt to banks.

Funds raised by the issue of corporate bonds in 2014 (both marketable and nonmarketable, excluding the financial sector) amounted to NIS 29.5 billion, similarly to 2013.

The margin between corporate bonds (included in the Tel-Bond 60) and government bonds at the end of December 2014 was 2.01%, compared to 1.18% at the end of 2013 and at the end of the third quarter of 2014.

DEVELOPMENTS IN SEGMENT MARKETS

A slowdown in the local economy was recorded in 2014, on the background of the "Protective Edge" Operation conducted in the summer, which had an effect, mostly on the tourism and agricultural sectors and the private consumption. Nevertheless, this slowdown has been moderated in view of the high growth data for the last quarter of the year.

Following are development directions in the principal economic sectors:

- Industrial sector – an export inclined economic sector affected by foreign demand. The year 2014 was characterized by a certain weakness in industrial production and exports, though improvement was noticed in the last quarter of the year. Furthermore, the significant devaluation of the Shekel against the US dollar, which took place in the second half of the year, is expected to improve the situation of exporters;
- Diamonds – A stable activity of this sector in Israel was recorded in 2014 with the supply of increasing demand from the U.S., also on account of a decline in demand in the East Asian markets. Weakness was noticed in the fourth quarter in the activity of this sector, deriving from the slowdown in demand on the Far-Eastern markets alongside a stable market in the U.S., which continues to act as the large marketing center for diamonds from Israel;
- The tourism sector – 2014 was a difficult year for this sector, in particular due to the "Protective Edge" Operation, following which, tourism data has recorded a steep decline. Furthermore, the Ruble crisis in Russia (being the country of origin of some 17% of the total number of tourists visiting Israel), also added to the economic difficulties of this sector;
- Commercial sector – This sector is being affected mostly, by domestic demand, in respect of which, positive indications exist: private consumption continued to improve (inter alia, in view of the low inflation rates), the employment market continues to be in a good situation (with declining unemployment rates), turnover amounts also improved (the trading turnover and the turnover of the marketing chains) in relation to the middle of the year;
- Real estate sector – for details, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

ANTICIPATED DEVELOPMENTS IN THE SEGMENT'S MARKETS

According to forecasts of the Bank of Israel, the Israeli economy will grow in 2015 by a rate of 3.2%, following a growth of 2.9% in 2014. The anticipated improvement in the rate of economic growth is based on the anticipated improvement in investments in fixed assets and in exports.

The anticipated growth in exports is supported by the growth in international trade (according to the IMF, world trade is expected to grow in 2015 by 3.8%, following a growth of 3.1% in 2014), by the devaluation in the Shekel (during the second half of 2014) and by the expected recovery of the tourism services after the "Protective Edge" Operation.

The steep decline in the price of oil is also expected to support the industry and private consumption, which will have its effect on the commerce sector.

The lack of an approved budget for the year 2015, and the bringing of the elections forward, are not expected to have a material impact on economic growth in 2015.

For details regarding expected developments in real estate and infrastructure, see below "Construction and real estate activities" under "Further details as to activity in certain products".

REACHING TARGETS AND BUSINESS STRATEGY - 2014

In the course of 2014 the Bank operated in accordance with the work plan for the corporate banking segment, while focusing on the raising of returns on risk assets and a customer focused view. Among other things, the Bank acted towards modifying the credit spreads to risk levels, reducing exposure to foreign operations and reducing the concentration risk (to borrower groups and large borrowers), with the aim of improving the credit portfolio. In addition, measures required to attain the desired portfolio structure and the business targets, were taken. As a result of the above, and in view of the decline in the demand for credit on the part of large corporations, the volume of the credit portfolio to the corporate banking segment has declined.

The Bank strictly monitors large customers and borrower groups at a high level of risk. For further details, see "Credit risk management" in "Exposure to risks and risk management".

TARGETS AND BUSINESS STRATEGY

In 2015, the Bank will operate in a wide variety of segments and economic sectors, whilst spreading out its credit portfolio and reducing exposure to segments in which the risk involved has been identified as higher than average. This, whilst allocating risk assets according to risk adjusted return. In addition, the Bank will focus on small and medium size businesses, whilst continuing project financing operations for large corporations.

Within the framework of the focusing by the Bank on value maximization with respect to the risk asset portfolio in the corporate banking segment and attainment of the capital adequacy goals, the following principal development directions have been defined with respect to the year 2014:

- Activity in a wide range of segments, economic sectors and credit products, in order to create the most beneficial distribution within the portfolio;
- Leading syndication transactions in conjunction with institutional bodies and the upgrading of syndication abilities;
- Widening the array of services to customers while increasing the risk adjusted return;
- Increasing the income derived from a risk asset while setting a risk adjusted price;
- Examination of the focusing on specific sub-sectors in the infrastructure sector;
- A decline in the existing risk profile by means of defining the credit appetite levels to the various economic sectors;
- Utilizing the Group synergy and the existing relative advantage of each of the subsidiaries in the field of credit (populations, targets, products, geography);

- Focusing on operations having an administrative infrastructure, a proper automation infrastructure, manpower, monitoring and control;
- The Bank will refrain from credit operations that involve fear of damage to the goodwill of the Group or the Bank, among other things, areas related to money laundering or the finance of terror;
- Participation in the financing of large merger and acquisition transactions.

The above said is considered a forward looking statement. The above reflects the evaluation of the Bank's management keeping in mind the information available to it at date of preparation of the financial statements, with respect to the state of the economy and of the global economy, as discussed above in this Section and in "Main developments in Israel and around the world in 2014". The foregoing may not materialize in case of a significant decrease in demand from overseas due to a noticeable decrease in the recovery and growth rates in certain overseas markets, a significant decrease in local demand due to deterioration of the security-political situation, a decrease in available financing resources on overseas and domestic financial markets, significant volatility in interest rates and exchange rates around the world and in the global economy, and other changes in macro-economic conditions, which are not under the Bank's control.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

The Bank operates within the framework of laws, regulations and regulatory directives applicable to the banking sector in Israel as promulgated by various supervisory bodies, viz., the Supervisor of Banks, the Commissioner of the Capital Market, Insurance and Savings of the Ministry of Finance, the Antitrust Commissioner, the Israel Securities Authority etc. The principal restrictions applicable to this segment are briefly described hereunder.

Proper Conduct of Banking Business Directive No. 313. As of December 31, 2014 no deviations existed to the limitations as set in the directive.

The limitation on "related parties". Proper Conduct of Banking Business Directive No. 312 imposes a restriction on the granting of credit to all "persons related to the bank", as defined in the Directive, so that it would not exceed 10% of the bank's equity. The indebtedness of each component of the controlling interest shall not exceed the product of multiplying his proportionate share in the controlling interest by 10% of the bank's equity.

In September 2006, the Bank received the Supervisor of Banks' guideline of in this matter, according to which for the purpose of the said Directive, the credit restriction relating to the individuals making up the group will be as follows: Mr. Edgar M. Bronfman - 3.86% of the Bank's equity, Mr. Matthew Bronfman - 0.78% of the Bank's equity, Mr. Adam R. Bronfman - 0.39% of the Bank's equity, Ms. Holly B. Lev - 0.39% of the Bank's equity, Mr. Michael Rubinoff - 0.2% of the Bank's equity, Mr. Philip Milstein - 0.39% of the Bank's equity and Mr. Rubin Schron - 4.0% of the Bank's equity. Following the passing away of the late Mr. Edgar M. Bronfman, the Supervisor of Banks has clarified that the share in the credit limitation of the late Mr. Bronfman will be divided among the heirs mentioned in Appendix 3 to the Addendum to the amended holding permit (see under "Control of the Bank" below).

As of December 31, 2014, there were no deviations from the said limitations. It should be noted that the holding permit states that during the cooling-off period the members of the Bronfman Group and Mr. Schron shall be deemed related parties and controlling shareholders for the purpose of Directive No. 312 (see below "Control of the Bank").

Starting with the 2012 annual report, the Bank classifies its investments in securities issued by U.S. federal agencies as part of credit to the public. The Bank studied the question as to whether classification of such investment is required also for examining the compliance with the limitations determined in Proper Conduct of Banking Business Directives. This, in view of the essence of the said agencies and the special characteristics of the securities in which the Bank is invested, as stated. Up to the 2013 Annual Report, the calculations regarding the Bank's compliance with the limitations did not include the Bank's investments in the said securities. A clarification issued by the Supervisor of Banks was received on May 1, 2014, according to which, for the purpose of computing the indebtedness according to Directive No. 313, it is required to weight the amount by 50%.

Amendment to Proper Conduct of Banking Business Directive No. 312 in the matter of "A banking corporation business with related persons". On July 15, 2014, the Supervisor of Banks issued an amendment to the instruction, which introduces stricter limitations on a banking corporation in its transactions with related persons.

Among other things, the amended instruction enlarged the list of related persons, adding to it also shareholders owning over 5% of the shares of the banking corporation, including whoever controls these shareholders, corporations controlled by them, as well as officers of such corporations. Notwithstanding, it has been determined that a temporary deviation of 5% from the rate of holdings for a period of up to sixty days, which at first sight is not intentional, shall not require the classification as a "related person" under the instruction. As regards a banking corporation having no core controlling interest, added to the list of related persons was also a shareholder who proposed a candidate for office as director. Added to the list of related persons are also descendants of officers and their dependents, who had previously not been included in the list of related persons.

Furthermore, the definition of the capital used in the restriction regarding the volume of transactions with related persons was changed to common equity Tier 1 instead of the regulatory capital applying in the existing Directive, and as a result of which, stricter limitations have been determined on the volume of transactions with related persons. Furthermore, a new restriction was also determined, according to which, the total indebtedness of an officer of a banking corporation, his relatives and corporations under their control shall not exceed NIS 1 million this, with the exception of housing loans.

In addition, in the framework of the amendment the thresholds set in the directive for the approval of transactions with “related persons” by the audit committee were updated.

The changes took effect in January 2015. It should be noted that the change in the definition of the capital will be applied in stages.

The Bank is making preparations for the implementation of the directive.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in 2014 amounted to NIS 370 million, compared with NIS 278 million in 2013, an increase of 33.1%. The rise in net income derives principally from the change in credit loss expenses. On the other hand, the net income was affected, among other things, by changes in the provision for severance pay, mostly due to the retirement plan, in the net amount of NIS 47 million.

The credit loss expenses in this segment amounted to a reduction in expense of NIS 60 million in 2014, compared to an expense of NIS 322 million in 2013. The decline in credit loss expenses in 2014, as compared with 2013, derives mainly from the decline in expenses on a specific basis, resulting mostly from collections (reversal of accounting write offs) and from the reduction in allowances in respect of a number of credit portfolios, as well as from the reduction in expenses on a group basis, deriving mostly from changes in the outstanding balance of credit.

Commissions and other income amounted in 2014 to NIS 357 million, as compared with NIS 418 million in 2013, a decline of 14.6%. The said decline stemmed mainly from the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), as detailed in Note 1 D 25 to the financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in 2014 to NIS 370 million, a decrease of 11.5%.

Following are the principal data relating to the operations of the corporate banking segment:

	For the year ended December 31, 2014								
	Domestic operations					International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions								
Interest income, net									
- From external sources	597	15	-	290	902	195	42	237	1,139
- Intersegmental	(75)	-	-	(96)	(171)	(60)	(15)	(75)	(246)
Total Interest income, net	522	15	-	194	731	135	27	162	893
Non-interest financing income	34	1	2	1	38	-	-	-	38
Commissions and Other income	130	29	60	89	308	41	8	49	357
Total Income	**686**	**45**	**62**	**284**	**1,077**	**176**	**35**	**211**	**1,288**
Credit loss expenses (expenses reversal)	(145)	-	-	13	(132)	14	58	72	(60)
Operating and other expenses	455	14	43	81	593	102	27	129	722
Profit (loss) before taxes	376	31	19	190	616	60	(50)	10	626
Provision for taxes (tax savings) on profit	139	12	5	73	229	28	(7)	21	250
Net Income (loss) attributed to the Bank's shareholders	**237**	**13**	**14**	**117**	**381**	**32**	**(43)**	**(11)**	**370**
Return on equity (percentage)	11.4	35.9	142.2	9.5	11.4	5.9	(30.6)	(1.7)	9.1
Average Assets	22,400	350	28	8,415	31,193	6,494	1,841	8,335	39,528
Of which - Average credit to the public	22,400	350	28	8,415	31,193	6,494	1,841	8,335	39,528
Average Liabilities	15,896	676	6	1,821	18,399	1,884	509	2,393	20,792
Of which - Average deposits from the public	15,896	-	-	1,821	17,717	1,884	509	2,393	20,110
Average Risk-assets	24,128	434	113	14,708	39,383	6,524	1,709	8,233	47,616
Average securities	-	-	79,061	-	79,061	-	-	-	79,061
Average other assets under management	-	-	648	-	648	-	-	-	648
Components of Interest income, net:									
Margin from credit activity	487	15	-	190	692	99	18	117	809
Margin from deposits activity	35	-	-	4	39	36	9	45	84
Total Interest income, net	**522**	**15**	**-**	**194**	**731**	**135**	**27**	**162**	**893**

Following are the principal data relating to the operations of the corporate banking segment (continued):

	For the year ended December 31, 2013								
	Domestic operations					International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions								
Interest income, net									
- From external sources	589	15	-	520	1,124	184	22	206	1,330
- Intersegmental	(42)	-	-	(251)	(293)	(50)	(4)	(54)	(347)
Total Interest income, net	547	15	-	269	831	134	18	152	983
Non-interest financing income	70	-	3	1	74	-	-	-	74
Commissions and Other income	173	34	57	102	366	46	6	52	418
Total Income	**790**	**49**	**60**	**372**	**1,271**	**180**	**24**	**204**	**1,475**
Credit loss expenses	246	3	-	23	272	12	38	50	322
Operating and other expenses	472	24	47	61	604	93	23	116	720
Profit (loss) before taxes	72	22	13	288	395	75	(37)	38	433
Provision for taxes (tax savings) on profit	28	7	4	105	144	14	(8)	6	150
Net Income (loss) attributed to the Bank's shareholders	**44**	**10**	**9**	**183**	**246**	**61**	**(29)**	**32**	**278**
Return on equity (percentage)	2.1	27.3	95.3	13.7	7.0	11.6	(24.2)	4.9	6.7
Average Assets	(1)22,948	380	27	11,464	34,819	6,012	1,935	7,947	42,766
Of which - Average credit to the public	(1)22,948	380	27	11,464	34,819	6,012	1,935	7,947	42,766
Average Liabilities	18,311	789	3	1,989	21,092	1,860	313	2,173	23,265
Of which - Average deposits from the public	18,311	-	-	1,989	20,300	1,860	313	2,173	22,473
Average Risk-assets	26,665	462	117	16,667	43,911	6,487	1,505	7,992	51,903
Average securities	-	-	(2)(4)73,412	-	73,412	-	-	-	73,412
Average other assets under management	-	-	(2)(3)689	-	689	-	-	-	689
Components of Interest income, net:									
Margin from credit activity	513	15	-	262	790	99	12	111	901
Margin from deposits activity	34	-	-	7	41	35	6	41	82
Total Interest income, net	**547**	**15**	**-**	**269**	**831**	**134**	**18**	**152**	**983**

Note:

(1) Reclassified, see Note 31 B (2) to the financial statements.

(2) Reclassified, see Note 31 B (4) to the financial statements.

(3) Reclassified, see Note 31 B (6) to the financial statements.

(4) Reclassified, see Note 31 B (5) to the financial statements.

SERVICE TO SEGMENT CUSTOMERS

The Corporate banking segment enjoys a professional banking service, specializing in a "one stop shop", including an in depth examination of the requirements of the company and adaptation of creative financial solutions. Customers enjoy a personal, professional and quality service relating to all their financial needs by adapting various banking products in the credit, currency hedge, international trade, clearing of credit card transactions, financing, specialized investments in the capital market and additional fields.

The financing operations of the large corporations are performed by business managers in the large corporations department of the Corporate Division. The teams are divided according to the business activity fields of the corporations. The teams include a business manager, a business banker, economists and credit coordinators. Such teams serve as the banking address for all the financial needs of the corporate customer.

The services of the Tel Aviv Main Branch are at the disposal of the customers. This branch specializes in serving the Bank's large corporate customers, as well as in providing services to financial and institutional bodies, including custodian services to foreign entities. In addition, available to the customers is the extension of the Jerusalem Main Branch, located at the premises of the Jerusalem Main Branch, as well as an additional extension in Haifa.

DCMI offers to customers of the corporate segment underwriting services and investment banking services.

A new marketing website for business enterprises. In October 2014, the Bank launched a new marketing website for business enterprises. The new design is in the form of accepted practice in leading Internet websites: clean and easy orientation design compatible with mobile instruments.

The Capital Market Department. The aim of the department is to expand the services provided by the Bank with respect to capital market activity, to the large corporations, institutional bodies and capital market operators. The department engages in the allotment of credit to capital market operators, including the rendering of related services (brokerage, investment consultancy and administration), providing initiated consulting services to corporations, and the comprehensive handling of institutional bodies.

Customers engaged in international trade are being served by the foreign trade department (for additional details, see below).

The Diamond Exchange Branch serves diamond industry customers. The branch specializes in accounts of diamond merchants as well as in all the special services required by the diamond industry.

Some of the segment’s customers utilize the services of the Bank’s trading desk (see below, "Finance management segment") and the Bank's overseas offices (see below, "International operations segment").

FOREIGN TRADE OPERATIONS

General. The foreign trade department operates within the framework of the Bank’s Corporate Division, and offers a range of services to customers from the various business segments engaged in international trade.

Scale of operations. According to data issued by the Central Bureau of Statistics, the import of goods in 2014, amounted to US$71.5 billion, an increase of 0.5% compared with 2013. Export of goods amounted to US$57.7 billion, an increase of 1.4% compared with 2013. (These data include aircraft, ships, diamonds and energy materials). The downward trend in the import of energy materials continued by a rate of approx. 12.3% in 2014. This, following a decrease of 15% in this area in 2013.

According to the trend data in the last quarter of 2014, the export and import of goods shows a moderate increase of approx. 2% and 1% (excluding aircraft, ships, diamonds and energy materials), respectively.

The business activity of the foreign trade department coordinates in each department all the services in the foreign trade field that the customer requires (import, export, finance, financial instruments, etc.). The foreign trade department continued in 2014 its intensive activity in the preservation and development of relations with existing customers as well as in attracting new customers, while initiating business meetings and the visiting of customers together with the business unit managers of the Bank's various divisions. Furthermore, the foreign trade department, in conjunction with the dealing room, was active in convincing foreign trade customers of the Banking Division to transact their business in the commercial transactions dealing room, which allows improvement of the level of service afforded to the customer and also the marketing of new financial products.

The marketing activity for increasing the customer base using foreign trade services through the Internet was successfully carried out in 2014. The Internet system allows customers to make direct payments for imports, to open letters of credit for imports and to settle import documents for collection.

Technological improvements. The computerization of work procedures in the department dealing with complex foreign trade transactions and foreign guarantees was introduced in 2014. The department has also expanded its activity, and today provides solutions in the matter of foreign guarantees to all Bank customers.

CHANGES IN CUSTOMER CHARACTERIZATION

The large customers and the large borrower groups in the economy form a substantial part of the Bank's corporate customer portfolio.

The commercial credit portfolio includes exposure to holding companies, the credit that had been granted to serve to finance domestic or foreign operations. The risk profile of these companies at market level, increased in the recent year, when several of the major holding companies were unable to honor their liabilities and were forced to reach a debt arrangement with the holders of bonds issued by them (the same doubt exists with respect to other companies, which is reflected in the level of return on their bonds).

Following the growth in the risk profile of holding companies active on the domestic and or overseas markets, the Bank reduced the credit granted to them by way of transferring the credit to their operational subsidiaries, transfer to credit in amortization backing-up the loan by reasonable local collateral, and avoiding the granting of credit to companies mostly operating abroad.

TECHNOLOGICAL CHANGES THAT MAY HAVE A MATERIAL IMPACT ON THE SEGMENT

The corporate banking segment is engaged currently in updating and upgrading its information systems that are utilized to analyze and to measure various risks (mainly credit risks) to monitor and to control customer activity in "real time".

CRITICAL SUCCESS FACTORS IN THE SEGMENT

- Committed and long-term customer relationships, quality service, prompt response to credit requests and to the overall related services (foreign trade operations, security investment, derivative financial instruments, banking services to corporate executives and owners, etc.);
- An ability to support and stand by the customer also in periods of slowdown and economic crisis;
- Efficient management of the credit portfolio from the aspects of measurement, costing and sophisticated risk management "in real time", while maintaining proper credit control systems for identifying and minimizing risks while taking into account the overall indebtedness of the customer, including in the off-banking market;
- The professional training of quality and proficient human resource;
- Improvement of the technical ability to provide services;
- Relations with large banks in Israel and abroad.

ENTRY AND EXIT BARRIERS OF THE SEGMENT

Customers of the segment transact business concurrently with several other banks, so that the relative advantage of the segment is based upon long-term relationships with the customers, including continued satisfaction with the quality of service and providing prompt and suitable solutions to complex financing needs and support to customers during deterioration in the economic condition. A large number of large corporations have adopted a leverage policy which includes the use of bank financing resources together with use of off-banking means of finance.

Entry and exit barriers may arise as a result of the need for the appropriate allocation of capital and compliance with regulatory limitations of the Bank of Israel, which impact the manner and volume of activity vis-à-vis borrowers and groups of borrowers.

The long-term resources available to the Bank for credit financing are limited in relation to the short and mid term resources. Accordingly, cooperation with institutional investors is required for financing long-term projects in the income generating real-estate and infrastructure fields and/or by way of the sale of a part of the long-term bank credit.

SUBSTITUTES FOR PRODUCTS AND SERVICES OF THE SEGMENT AND CHANGES THEREIN

As a substitute for bank credit to customers of the business segment, alternative financing products offered by off-banking financial institutions in general and institutional entities in particular have been developed. These bank credit substitutes include the raising of finance by way of the issue of shares, bonds and other securities on the capital markets in Israel and abroad, including direct credit offered by such entities.

In situations of expanding business activity and improvement in business performance of companies operating in the local and foreign markets, the availability of off-banking financing sources has increased with respect to certain of the large and financially stable customers.

Wherever the possibility to raise funds on the capital market exists, off-banking finance serves as an alternative financing resource, primarily for the long and medium term credit products, thus contributing to the reduction in the volume of this kind of credit in the credit portfolio reflecting the activity of this segment.

COMPETITION IN THE SEGMENT AND CHANGES THEREIN

The business segment is exposed to competition from the other four large banking groups as well as from foreign banks that operate in Israel (HSBC, Citigroup).

A decline in the demand for business credit was felt during the past year, as well as a decline is being noticed in the offer of credit to groups of borrowers and to holding companies.

MARKETING AND DISTRIBUTION

Activity of the corporate banking segment in marketing credit and related services to existing and new customers is implemented principally by business managers engaged in the adaptation of financing solutions to the various transactions, and analysis of comprehensive banking needs of customers and in appropriate adaptation of the Bank's products to these customers' needs and requirements, as well as in the "real-time" provision of such services.

The Bank's products are also marketed and distributed relative to owners, executives and employees of the corporations.

The activity of the segment with capital market customers is performed by the capital market department, engaged in the marketing of credit and related services to existing and new customers, which include operations, investment consulting and brokerage.

DEALING WITH COMPETITION

The high level of competition in the segment is reflected in the quality and sophistication of the service, prompt reaction and the cost of credit and commissions, which are proximately similar to the mix offered by the competitors. The segment's main tools in facing competition include the provision of personal, professional and quality service and the establishment of a long-term relationship with customers, while acquiring an overall understanding of their financial needs.

The recent crisis increased the awareness of the corporate customer to the fact that it is beneficial for him to transact business with more than one bank, in view of the desire and necessity not to be dependent on financing facilities of only one bank. This increased awareness is advantageous to the Bank when attracting new customers.

PRODUCTS AND SERVICES

The services offered include current financing according to customer needs, including among other things, foreign trade activity and the trading desk, financing of investments for maintaining and expanding activity, the financing of acquisitions and mergers, granting credit to capital market operators, participating in credit and/or risk offered by the large local banks or foreign financial institutions extending credit to Israeli corporations operating abroad.

In addition, these include related services such as deposit accepting and investment activities, derivative financial instrument activities, granting financial guarantees, execution and so forth.

MIDDLE MARKET BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in 2014 amounted to NIS 153 million, compared with NIS 170 million in 2013, a decrease of 10.0%. The decline in income was, among other things, affected by changes in the provision for severance pay, mostly due to the retirement plan, in the net amount of NIS 8 million.

The credit loss expenses amounted to NIS 63 million in 2014, compared to NIS 123 million in 2013, a decrease of 48.8%.

Commissions and other income amounted in 2014 to NIS 155 million, as compared with NIS 190 million in 2013, a decrease of 18.4%. The said decrease is mainly as a result of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), as detailed in Note 1 D 25 to the financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in 2014 to NIS 185 million, a decrease of 2.6%.

Following are the principal data relating to the operations of the middle market banking segment:

	For the year ended December 31, 2014									
	Domestic operations						International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Housing loans	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions									
Interest income, net										
- From external sources	297	8	-	123	12	440	154	133	287	727
- Intersegmental	(46)	-	-	(17)	(2)	(65)	(49)	(34)	(83)	(148)
Total Interest income, net	251	8	-	106	10	375	105	99	204	579
Non-interest financing income	8	-	-	-	-	8	-	-	-	8
Commissions and Other income	63	14	10	28	-	115	20	20	40	155
Total Income	**322**	**22**	**10**	**134**	**10**	**498**	**125**	**119**	**244**	**742**
Credit loss expenses (expenses reversal)	42	-	-	27	-	69	4	(10)	(6)	63
Operating and other expenses	237	7	9	42	3	298	74	61	135	433
Profit before taxes	43	15	1	65	7	131	47	68	115	246
Provision for taxes on profit	20	6	-	25	3	54	15	21	36	90
Net Income attributed to the Bank's shareholders	**23**	**6**	**1**	**40**	**4**	**74**	**32**	**47**	**79**	**153**
Return on equity (percentage)	4.0	24.8	115.5	10.0	7.8	7.0	7.0	10.1	8.7	7.7
Average Assets	7,410	176	-	3,797	373	11,756	4,439	4,019	8,458	20,214
Of which - Average credit to the public	7,410	176	-	3,797	373	11,756	4,439	4,019	8,458	20,214
Average Liabilities	7,656	346	-	960	1	8,963	1,391	927	2,318	11,281
Of which - Average deposits from the public	7,656	-	-	960	1	8,617	1,391	927	2,318	10,935
Average Risk-assets	7,617	315	16	4,858	492	13,298	4,629	5,534	10,163	23,461
Average securities	-	-	7,308	-	-	7,308	-	-	-	7,308
Average other assets under management	493	-	350	-	-	843	-	-	-	843
Components of Interest income, net:										
Margin from credit activity	236	8	-	102	10	356	76	79	155	511
Margin from deposits activity	15	-	-	4	-	19	29	20	49	68
Total Interest income, net	**251**	**8**	**-**	**106**	**10**	**375**	**105**	**99**	**204**	**579**

Following are the principal data relating to the operations of the middle market banking segment (continued):

	For the year ended December 31, 2013									
	Domestic operations						International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Housing loans	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions									
Interest income, net										
- From external sources	324	4	-	129	10	467	146	121	267	734
- Intersegmental	(85)	-	-	(29)	(2)	(116)	(41)	(27)	(68)	(184)
Total Interest income, net	239	4	-	100	8	351	105	94	199	550
Non-interest financing income	15	-	-	-	-	15	-	-	-	15
Commissions and Other income	92	9	10	32	-	143	23	24	47	190
Total Income	**346**	**13**	**10**	**132**	**8**	**509**	**128**	**118**	**246**	**755**
Credit loss expenses (expenses reversal)	101	1	-	(9)	(3)	90	19	14	33	123
Operating and other expenses	213	7	9	30	2	261	71	56	127	388
Profit before taxes	32	5	1	111	9	158	38	48	86	244
Provision for taxes on profit	11	1	1	40	3	56	6	11	17	73
Net Income Attributed to the Bank's shareholders	**21**	**3**	**-**	**71**	**6**	**101**	**32**	**37**	**69**	**170**
Return on equity (percentage)	3.4	15.0	-	20.6	16.5	10.0	9.6	9.1	9.3	9.7
Average Assets	[1]7,330	100	-	3,444	347	11,221	4,182	3,883	8,065	19,286
Of which - Average credit to the public	[1]7,330	100	-	3,444	347	11,221	4,182	3,883	8,065	19,286
Average Liabilities	6,752	210	-	877	1	7,840	1,357	921	2,278	10,118
Of which - Average deposits from the public	6,752	210	-	877	1	7,840	1,357	921	2,278	10,118
Average Risk-assets	7,496	222	17	4,232	454	12,421	4,330	5,136	9,466	21,887
Average securities	-	-	[2]8,891	-	-	8,891	-	-	-	8,891
Average other assets under management	932	-	[2][3]288	-	-	1,220	-	-	-	1,220
Components of Interest income, net:										
Margin from credit activity	221	4	-	94	8	327	77	75	152	479
Margin from deposits activity	18	-	-	6	-	24	28	19	47	71
Total Interest income, net	**239**	**4**	**-**	**100**	**8**	**351**	**105**	**94**	**199**	**550**

Footnote:

(1) Reclassified, see Note 31 B (2) to the financial statements.

(2) Reclassified, see Note 31 B (4) to the financial statements.

(3) Reclassified, see Note 31 B (6) to the financial statements.

SERVICE TO SEGMENT CUSTOMERS

The service to the Bank's customers is provided by five business centers countrywide, covering geographically the five regions operated by the Bank: Tel Aviv, Sharon, Lowlands, Jerusalem and Southern Region and Northern Region. This, following the merger of the Dan business center into the Tel Aviv business center towards the end of 2014, as part of the efficiency measures adopted by the Bank. For additional details regarding service to small and medium businesses, see above "Small businesses segment".

The middle market banking segment enjoys professional banking services. Customers are provided with personal, professional and quality service that relates to all their financial needs by offering customized various banking products in credit, exchange-rate hedging, international trade, settlement through the use of credit cards, financing, specialist capital market investments, etc. Concurrently, solutions are also provided for meeting the financial needs of the owners of companies, and their executives and staff, who thus benefit from arrangements that afford them the status of preferred customers.

The service provided by the business centers is integrative, provided by teams that include business bankers, economists and credit officers, with the assistance of the team handling loans and guarantees. In order to adapt the service to the business customer, which are located at the business centers, while assisted by the branch layout.

The foreign trade department serves customers engaged in international trade. The new Internet website "Business +" stands at the disposal of the segment's customers. (For further information, see above, "Corporate Banking Segment").

Business dealing room. Since the opening of a commercial dealing room providing dealing room activity services to customers of the small business segment and of the middle market banking segment at the Bank, a focused activity is being conducted introducing suitable customers to this dealing room. This dealing room provide purchase and conversion of foreign currency services and performing hedge transactions.

DEVELOPMENTS IN THE SEGMENT'S MARKETS

Customers of this segment are in general companies with an average scale of operations, mostly in the domestic market. A part of the segment's customers conduct also import and export business.

Economic growth slowed down in the third quarter of 2014, due to the impact of the "Protective Edge" Operation, though following the end of the Operation, tourism, purchases by credit cards and turnover in the commerce and services sectors have recovered with even an improvement in exports, so that income and profitability of most of the segment's customers have not been materially affected.

TARGETS AND POINTS OF EMPHASIS FOR 2015

- In view of the strengths and uniqueness of the business centers at Discount Bank, this segment constitutes one of the Bank's strategic focuses. Therefore, a challenging target of growth in the volume of credit has been determined for this segment, with an emphasis on quality customers, both existing and new, who operate in economic sectors having a reasonable level of risk and appropriate profitability to the Bank;
- Expanding the activity with customers operating in economic sectors preferred for growth based on the Bank's credit policy, among other: focusing on business with local authorities and related corporations, Kibbutz settlements and Kibbutz industries, food industry and small housing project financing, while reducing the activity in economic sectors having a high risk level;
- Utilization of the business line in the commercial credit field – focusing on intensification of activity and increasing the profitability of the segment, while endeavoring to increase the activity of segment customers by way of intensifying foreign trade operations, securities operations, transfers and increasing the off-balance sheet activity which requires lesser capital allocation;

- The continued improvement of professionalism, availability and credit risk management processes and increasing control and monitoring processes, by means of improving the quality of analysis of the monitoring of customer condition at discussions of the credit committees, early identification of customers facing financial difficulties, through a monitoring committee designated for the monitoring of such customers, adding guidelines regarding the granting of credit to the segment and monitoring deviations from established rules, as well as monitoring the development of the credit portfolio and the drawing of conclusions;
- The implementation of advanced models for credit risk management, with the aim of improving pricing as regards the customer or the marginal transaction and modifying the financing spread to the characteristics of the transaction and the risk to the Bank, while improving the ability to compete in attracting quality customers;
- Focused activity with customers who do not utilize their credit facilities in order to free risk assets for the growth in credit.

ANTICIPATED DEVELOPMENTS IN THE COMING YEAR

The Bank estimates that only a minor growth is expected compared to 2014, with the continued recovery in tourism, in the wake of the "Protective Edge" Operation, as well as recovery in the export of goods, a growth in investments in fixed assets and the continued growth in private consumption.

In view of that stated above, an increase is expected in bank credit to the commercial sector, financing both working capital and investments, and financing export transactions.

CRITICAL SUCCESS FACTORS IN THE SEGMENT

- Ability to identify the needs of the customer and to adjust the banking products to his needs, providing a timely response;
- Ability to provide an overall and comprehensive service to the customer while showing professionalism and using advanced technological means;
- Maintaining an ongoing control layout reducing credit risk at the Bank and their "real time" identification, stressing the compliance issue;
- Determining a credit policy that matches the Bank’s risk concept.

THE SEGMENT'S ENTRY AND EXIT BARRIERS

- Establishment of a branch layout spread out in line with the business potential;
- Training of professional and skilled staff familiar with the variety of products and operations;
- Investment in the development and maintenance of technological means servicing customers and the staff;
- The need to retain capital of a significant volume in granting credit where the risk assets comprise a material component;
- The need for a variety number of products adjusted to customer needs.

PRIVATE BANKING SEGMENT

GENERAL

The private banking service layout focuses on a comprehensive banking service, initiating and specializing, to wealthy customers, with a commitment to prompt service regarding all customer needs and particularly in the investment field.

Customers of private banking, both Israelis and foreign residents, are classified as private customers holding financial assets at the Bank in a minimum amount exceeding NIS 4 million in the case of Israeli customers and US$1 million, in the case of foreign residents (hereinafter : "private banking customers").

Customers of the local private banking in Israel, manage their accounts at the Bank's branches, and obtain service at four private

banking centers at their disposal: in Herzliyah Pituach, in Tel Aviv, in Jerusalem and in Haifa. Private banking customers who are foreign resident obtain service at the international private banking center in Tel Aviv.
For details regarding the overseas activities of this segment, see below "International activity".

STRATEGIC EMPHASES

In accordance with emphasized strategic items at the basis of the Bank's work plans, private banking operates in two departments: the international private banking department, serving foreign resident private banking customers; and the Israeli private banking department, serving Israeli resident private banking customers.
The international banking serves two segments of customers, a private international banking segment and a retail international banking segment, which is to serve foreign residents with financial assets deposited with the Bank, but of a volume lower than the minimum level required by private banking.
The private banking services, provided to Israelis and foreign residents, offers customers a comprehensive individual banking service, granted by a customer relations manager responsible for their account, and allows them accessibility to investment consulting and financial products, including in the global area.
The private banking centers offer customers comprehensive banking services with a focus on financial investments and custom products management, and with the possibility of obtaining credit to finance customer investments.
The private banking layouts will continue to focus on expanding the customer base and in intensifying activities with them, while focusing on nurturing the continuing generation and maintaining a thorough risk management in the process of attracting new customers and servicing the existing ones.
As an integral part of the private banking business plan, emphasis is placed on the ongoing review and upgrading of the risk management processes. At the beginning of the year, the Bank adopted a risk based policy regarding foreign resident and new immigrant customers, which relates to the tax payment on the funds deposited in their accounts, and has immediately started the implementation of this policy with respect to the relevant group of customers. In addition, the risk management unit at the customer assets division will continue to intensify its operations in the fields of prohibition of money laundering, compliance and operational risks management. The compliance trustees at the branches and at the private banking centers, are responsible for the current risk management at the unit, though they report directly to the manager of the risk management unit. The staff of the units continued to participate in training sessions for widening and intensifying the knowledge in the fields of money laundering prohibition and compliance according to the work plan. At the end of the training sessions, employees undergo knowledge tests.

DEVELOPMENTS IN THE SEGMENT

In 2014, the Bank continued to intensify the activity among private banking customers.
The Israeli private banking field focused on attracting new customers, by means of four service centers in Herzliyah, Haifa, Jerusalem and Tel Aviv, as well as on intensifying the activity with existing customers and continuing the attachment of existing Bank customers, who fall within the private banking customer profile. Concurrently, current processes continued to be conducted by the department, concerning the transfer of customers not having a private banking profile to more appropriate other service functions at the Bank.
As part of the defined strategy, the centers operate under the concept of a designated service to private banking customers and under a wider service coverage modified to customers of this segment. As part of the service concept, focused meetings were held also in this year with customers of the centers, on general subjects and current events, and cultural meetings with the participation of the Bank's senior Management were conducted.
Activity in the international private banking operations was focused on intensifying the operations with existing customers, and in continuation, implementing transfer of customers who do not fall within the private banking profile, to the responsibility of the international banking branches.

As part of a plan for upgrading risk management processes in private banking the new policy adopted by the Bank regarding foreign residents, has been implemented. In addition, a comprehensive project of improving accounts of foreign residents continued, including the closing of accounts and improvement of documents.

The closing of the international private banking center in Jerusalem. As part of the efficiency measures taken by the Bank, it has been decided to closedown the international private banking center in Jerusalem. Foreign resident customers, who had been serviced by the center, are being serviced now by the international private banking center in Tel Aviv, where they will continue to receive personal and professional service adapted to their needs.

For details regarding foreign resident customer acceptance policy, see "Taxation" hereunder.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's net loss in 2014 amounted to NIS 25 million, compared with a loss in the amount of NIS 13 million in 2013. The growth in losses of the segment have been, among other things, impacted by the loss on the sale of the operations of DBLA, in the amount of NIS 50 million, net.

The credit loss expenses amounted to NIS 16 million in 2014, compared to an expense in the amount of NIS 4 million in 2013.

Following are the principal data relating to the operations of the private banking segment:

	For the year ended December 31, 2014						
	Domestic operations			International operations			
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total	Total
	in NIS millions						
Interest income, net							
- From external sources	(74)	-	(74)	105	1	106	32
- Intersegmental	154	-	154	142	-	142	296
Total Interest income, net	80	-	80	247	1	248	328
Non-interest financing income	4	-	4	5	-	5	9
Commissions and Other income	34	56	90	131	60	191	281
Total Income	**118**	**56**	**174**	**383**	**61**	**444**	**618**
Credit loss expenses	13	-	13	3	-	3	16
Operating and other expenses	157	54	211	390	40	430	641
Profit (loss) before taxes	(52)	2	(50)	(10)	21	11	(39)
Provision for taxes (tax savings) on profit	(19)	-	(19)	4	1	5	(14)
Net Income (loss) attributed to the bank's shareholders	**(33)**	**2**	**(31)**	**(14)**	**20**	**6**	**(25)**
Return on equity (percentage)	(20.4)	7.4	(17.7)	(4.8)	-	1.5	(5.0)
Average Assets	1,195	-	1,195	3,824	-	3,824	5,019
Of which - Average credit to the public	1,195	-	1,195	2,520	-	2,520	3,715
Average Liabilities	16,280	-	16,280	18,931	-	18,931	35,211
Of which - Average deposits from the public	16,280	-	16,280	18,931	-	18,931	35,211
Average Risk-assets	1,873	190	2,063	3,617	-	3,617	5,680
Average securities	-	19,735	19,735	-	14,115	14,115	33,850
Average other assets under management	-	663	663	391	2,150	2,541	3,204
Components of Interest income, net:							
Margin from credit activity	22	-	22	53	1	54	76
Margin from deposits activity	58	-	58	194	-	194	252
Total Interest income, net	**80**	**-**	**80**	**247**	**1**	**248**	**328**

Following are the principal data relating to the operations of the private banking segment (continued):

	For the year ended December 31, 2013						
	Domestic operations			International operations			
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total	Total
	in NIS millions						
Interest income, net							
- From external sources	(133)	-	(133)	91	-	91	(42)
- Intersegmental	221	-	221	141	-	141	362
Total Interest income, net	88	-	88	232	-	232	320
Non-interest financing income	-	1	1	16	-	16	17
Commissions and Other income	41	44	85	104	57	161	246
Total Income	**129**	**45**	**174**	**352**	**57**	**409**	**583**
Credit loss expenses	1	-	1	3	-	3	4
Operating and other expenses	163	51	214	283	51	334	548
Profit (loss) before taxes	(35)	(6)	(41)	66	6	72	31
Provision for taxes (tax savings) on profit	1	(1)	-	42	2	44	44
Net Income (loss) attributed to the bank's shareholders	**(36)**	**(5)**	**(41)**	**24**	**4**	**28**	**(13)**
Return on equity (percentage)	(26.5)	(23.3)	(26.4)	8.3	316.7	9.3	(3.0)
Average Assets	(1)1,322	-	1,322	2,869	-	2,869	4,191
Of which - Average credit to the public	(1)1,322	-	1,322	2,136	-	2,136	3,458
Average Liabilities	15,489	-	15,489	17,661	-	17,661	33,150
Of which - Average deposits from the public	15,489	-	15,489	17,661	-	17,661	33,150
Average Risk-assets	2,017	176	2,193	3,169	12	3,181	5,374
Average securities	-	(2)15,488	15,488	-	12,006	12,006	27,494
Average other assets under management	-	(2)368	368	220	(3)1,509	1,729	2,097
Components of Interest income, net:							
Margin from credit activity	27	-	27	39	-	39	66
Margin from deposits activity	61	-	61	193	-	193	254
Total Interest income, net	**88**	**-**	**88**	**232**	**-**	**232**	**320**

Footnote:
(1) Reclassified, see Note 31 B (2) to the financial statements.
(2) Reclassified, see Note 31 B (4) to the financial statements.
(3) Reclassified, see Note 31 B (6) to the financial statements.

SERVICE TO CUSTOMERS

A "service envelope" is being offered to private banking customers, customized to the segment's customers' needs, and which harnesses the Bank's and the Group's resources in providing an optimal response to their needs and for an initiated activity with them.

Customers of this sector enjoy an array of banking services at the highest professional level in the private banking centers. Consultants, experienced in the field of financial investments in Israel and abroad, pension consultants as well as experienced bankers in the fields of credit and general banking are at the disposal of the customers.

The Israeli private banking provides service to customers six days per week. Office hours at the private banking centers in Herzliyah and Haifa have been extended, and the centers now operate from 8 AM to 8 PM, in order to provide service at hours convenient to customers.

The staff of international banking have a command of foreign languages, in accordance with the language of the customer they serve.

In addition to the general banking services, additional services are at the disposal of customers, such as: direct access to dealing rooms, and complementary services by the Bank's subsidiaries: trusteeship and investment portfolios management, compatible with the needs of this segment's customers.

A planning and business development unit acts to provide private banking customers with offers of value, particularly within the all-round marketing.

A product initiation unit acts to create unique products suitable for this segment of customers.

The advisory services department acts to create an infrastructure of research and local and international market surveys and in structuring investment models suitable for the needs of this segment of customers.

DEVELOPMENT IN THE SEGMENT'S MARKETS AND COMPETITION

The year 2014 was also typified by continued competition in the private banking field, in the field of prices and commissions and in the level of service to customers. Foreign banks continued, also in this year, their marketing efforts to Israeli customers considered customers of high financial wealth, whether by a direct approach from abroad or through their local extensions.

MARKETING AND DISTRIBUTION

The marketing efforts in private banking rely on the referral of customers by the Bank`s other service layouts or by existing customers of private banking. The marketing of products and of the all-round services are being conducted mainly through personal meetings and through small and focused conferences for private banking customers. Furthermore, as preferred customers, private banking customers enjoy the Bank's cultural and artistic activities in cooperation with the Bank's art Curator and the Discount Museum.

FINANCIAL MANAGEMENT SEGMENT

DEALING ROOM

The dealing room is available to customers and to the Bank's branches and provides personal and professional service in the global money and capital markets and in the implementation of special transactions in foreign exchange, interest rates and securities. Dealing room customers include local and foreign banks, corporations, Private customers having a large volume of activity active on the capital market and institutional entities. Dealers and professional traders, advanced technology and computer systems, enable the dealing room to provide customers with timely, professional and competitive service. Combining the said areas of operation, allows customers to obtain all commercial services under one station providing a standard of service and of professional level.

The dealing room is engaged in two principal areas of activity:

OVER THE COUNTER (OTC) TRADING - FOREIGN CURRENCY AND INTEREST RATE TRADING

The OTC unit develops and modifies various transactions to customer needs, in particular with respect to hedge and market risk requirements. The unit is a central "market maker" in the dollar/shekel trading; when the dealing room enters into a transaction with a customer, the dealing room becomes the counterparty to the transaction and in respect thereof bears market, credit and operating risks.

The principal transactions which the unit offers customers are: purchase or conversion of foreign currency, non-marketable future contracts, options on currencies, interest rates and the CPI, interest swap transactions and other derivatives as required by the customer.

TRADING IN SECURITIES

The securities unit is composed of two desks: a foreign securities desk and a local securities desk. The two desks offer customers of the Bank access to the market by a wide range of investment instruments. Following are details regarding the lines of trading operations in securities at the two desks:

Foreign securities. The foreign securities desk is active in a large variety of equity and financial markets worldwide, utilizing complex financial instruments and offering a wide range of instruments: trading in shares on foreign markets, trading in options, in Government bonds and in corporate bonds, mutual funds and hedge funds, and in arbitration activity.

Brokerage regarding Israeli securities: The brokerage desk for Israeli securities engages in the brokerage of transactions involving bonds, shares, synthetic contracts, options and convertible traded on the Tel Aviv Stock Exchange. The desk provides brokerage services involving both marketable and non-marketable securities through brokering deals for customers (matching transactions), carries out transactions on behalf of customers (on and off the stock market) and participates in issuance. The desk develops business, markets and attracts customers transacting a considerable amount of business, both at and outside the Bank, and maintains direct communication with institutional customers, large corporations and hedge operators active in the day-trading field.

ASSETS AND LIABILITY MANAGEMENT (ALM)

The main areas of activity in the management of assets and liabilities are the management of capital, liquidity, exposure to base and interest risks inherent in the balance sheet, management of the available-for-sale securities portfolio, determination of transfer prices and management of the financial spread.

Capital management. The capital management process includes the determination of capital ratio targets, formation of a framework for growth in business activity that will enable reaching the Bank’s capital targets, the allocation of the risk asset budget to companies in the Group and to the business units and the monitoring of current operations. Several factors in the Bank and in the Group participate in this process. In addition, the asset and liability management group is responsible for the raising of funds on the capital market to the extent required.

Liquidity risk management. The liquidity risk management is done by means of an internal model, from which the volume of liquid assets required to withstand stress scenarios is derived, and by means of ongoing analysis of trends in the mix and the volume of the Bank's credit and assets and liabilities. The Bank's Assets and Liabilities Management reviews the liquidity risk at the subsidiary companies, as it is reflected in their internal models.

Short-term liquidity and deposits. The asset and liability management unit operates a liquidity desk dealing with the short-term liquidity of the Bank (up to one month) in Shekel and in foreign currency, through Bank of Israel tenders, deposits and swap transactions. The desk provides interest quotations for deposits of large customers (super jumbo) in foreign and Israeli currency. The desk endeavors to invest the liquidity surplus in every currency and at each point of time.

Linkage base and interest rate exposure management. Evaluating market risk exposure in the Bank's balance sheet is done by means of a designated computer system, which downloads information from all operational systems at the Bank. The asset and liability management committee, headed by the President & CEO, determines the levels of exposure to interest rate risk at the various linkage segments within the framework of limits determined by the Board of Directors regarding the risk appetite.

Transfer prices and management of the marginal financial spread. The Assets and Liabilities Management computes on a daily basis the Bank's internal transfer prices for credit and for deposits. The transfer prices serve as a basis for computing the profitability of all credit and deposit transactions made at the Bank. The prices are updated in accordance with developments in the money and capital markets. The asset and liability management group determines the targets of the marginal spread for deposits and credit and monitors them on an ongoing basis.

Interest tables. The asset and liability management unit is responsible for the production and publication of deposit interest tables.

Development of financial models. The Assets and Liabilities Management is responsible for the maintenance of the models for the pricing and hedge of complex financial transactions, including deposits with optional linkage, exit points, early repayment forecasts for mortgages and more.

"NOSTRO" MANAGEMENT

"Nostro" portfolio management policy. The "Nostro" portfolios of the Bank and of subsidiary companies are being managed with an overall view, with the aim of maximizing interest income, subject to limitations determined by the Bank`s Board of Directors and the Boards of the subsidiary companies.

The Bank`s "Nostro" Unit is subject to the decisions of its investment committee and to frameworks determined by the Bank`s Board of Directors.

The surplus liquidity balances related to the investment portfolio of the Group, are being managed through the management of the investment portfolio by the "Nostro" Unit. The investment activity of the subsidiary companies, in particular, IDB New York, DCMI and MDB, is conducted independently, subject to the risk limitations as determined by the Bank.

GROUP MANAGEMENT

In the capital management field the Bank conducts a well ordered process of capital planning on a Group basis, as well as the formation of a risk asset budget at the subsidiary and Bank segment of operations levels.

In the liquidity risk management field each subsidiary is individually responsible for its own liquidity risk management, on the basis of the internal model. The Bank allocates liquidity to the subsidiary companies, to the extent required, in accordance with the internal models. The Bank's Assets and Liabilities Management is responsible for establishing liquidity transactions between the Group's companies.

In the market risk management field, the principal subsidiaries (Mercantile Discount Bank and IDB New York) independently manage their market risks, subject to limitations set by the Bank.

In the additional investments field, the principal subsidiaries (Mercantile Discount Bank, DCMI and IDB New York) independently conduct their investments policy, subject to limitations set by the Bank.

MAIN DEVELOPMENTS IN THE SEGMENT

Sale of operations of Automatic Banking Services Ltd. ("ABS"). The Bank holds 20% in ABS. On February 9, 2014, ABS entered into an agreement for the sale of its ATM operations, in consideration for NIS 46.8 million.

"Nostro" portfolio. For details regarding the Bank's "Nostro" portfolio and developments therein, see above "Securities" under "Development of assets and liabilities", Part "A" of the Annex to the Report of the Board of Directors and Note 3 to the financial statements.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment’s income, net in 2014, excluding the activity of the non-financial companies sub-segment, amounted to NIS 6 million, compared to NIS 161 million in 2013. The decline in income of the segment was, among other things, affected by changes in the provision for severance pay, mostly due to the retirement plan, amounting to NIS 77 million, net; and by a loss in the net amount of NIS 47 million, on an other than temporary impairment (OTTI) in respect of FIBI's shares sold in February 2015.

Total revenues, excluding non-financial companies segment, amounted in 2014 to NIS 830 million, of which NIS 709 million from domestic activity, compared with NIS 808 million in 2013, of which NIS 713 million from domestic activity, and they include three major components:

1. Profits from the Bank's "Nostro" operations (primarily from financial derivatives) in the amount of NIS 352 million, of which NIS 313 million from earnings on the sale of securities and from adjustments to fair value of trading securities, compared with NIS 577 million "Nostro" earnings in 2013, of which NIS 424 million from gains on sale of securities and from adjustments to the fair value of trading securities.
2. Net gain, from asset and liability management (management of positions and trading and brokerage in currencies and financial derivatives) in the amount of NIS 357 million in 2014, compared with an income of NIS 136 million in 2013.
3. Income from international operations in the amount of NIS 121 million, compared to NIS 95 million in 2013.

Following are the principal data relating to the financial management segment:

	For the year ended December 31					
	2014			2013		
	Domestic Operations	International Operations	Total	Domestic Operations	International Operations	Total
	in NIS millions					
Interest income, net	272	170	442	295	89	384
Non-interest financing income	410	(19)	391	369	26	395
Commissions and Other income	27	(30)	(3)	49	(20)	29
Total Income	**709**	**121**	**830**	**713**	**95**	**808**
Credit loss expenses reversal	(13)	(9)	(22)	-	(11)	(11)
Operating and other expenses	725	158	883	707	69	776
Net Income (loss) attributed to the Bank's shareholders	**(4)**	**10**	**6**	**125**	**36**	**161**
Return on equity (percentage)	(0.2)	3.8	0.2	5.7	13.5	6.6
Average Assets	62,518	15,663	78,181	(1)61,142	20,087	81,229
Average Liabilities	23,767	8,830	32,597	21,691	12,495	34,186
Average Risk-assets	15,857	3,136	18,993	9,747	3,330	13,077

Footnotes:
(1) Reclassified, see Note 31 B (2) to the financial statements.

COMPETITION

The financial management segment includes, as stated, the Group's activity in the dealing rooms. This area is typified by a high level of competition. The principal competitors in are the four large local banking groups. Additional competitive entities in this market are foreign banks, which have opened dealing rooms in Israel (Citibank, Deutsche Bank, HSBC, Barclays), and other financial corporations engaged in foreign currency and the Shekel interest markets, the involvement of which in these markets have grown significantly in recent years.

BUSINESS STRATEGY AND TARGETS

The targets set for the segment for the year 2014, comprise mostly the maintenance of an adequate level of profitability, while maintaining a risk level in accordance with the risk appetite of the Bank, despite a low interest environment and a challenging macro-economic environment. The goal of the dealing room is to widen the distribution between income from customers and income from position management, while extending the controls circles.

NON-FINANCIAL COMPANIES SUB-SEGMENT

POLICY REGARDING NON-FINANCIAL INVESTMENTS

The activity is conducted within the framework of the strategic plan, which is being updated from time to time in accordance with the Group's risk appetite and various limitations set at the level of the portfolio and the product.

Investments exceeding the determined limit are brought for approval of the Bank`s Board of Directors prior to their execution.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SUB SEGMENT

The Bank operates within the framework of laws, regulations and regulatory directives applicable to the banking sector in Israel as promulgated by various supervisory bodies, viz., the Supervisor of Banks, the Commissioner of the Capital Market, Insurance and Savings at the Finance Ministry, The Commissioner of the Antitrust Authority, the Securities Authority etc. The principal restrictions applicable to this sub segment are briefly described hereunder.

Section 23 A (a) of the Banking (Licensing) Law, specifies that the amount of any means of control held by a banking corporation in non-financial corporations shall not exceed the following proportions of the capital of the banking corporation, as shall be determined for this purpose in rules prescribed by the Governor, after consultation with the Advisory Committee and with the approval of the Minister of Finance -

(1) Up to fifteen per cent of its capital - in any non-financial corporation;

(2) Up to a further five per cent of its capital - provided that it does not hold in corporation more than five per cent of a certain class of means of control and it is not entitled to appoint a director;

(3) Up to a further five per cent of its capital - in non-financial corporations which are foreign corporations that do not conduct any material and continuing business operations in Israel.

As of December 31, 2014, the Bank was far from reaching the limitation.

SCALE OF OPERATIONS AND NET INCOME OF THE SUB SEGMENT

The sub-segment's net income in 2014 amounted to NIS 78 million, compared with NIS 96 million in 2013, a decrease of 18.8%.

Following are the principal data relating to the non-financial companies sub-segment:

	For the year ended December 31	
	2014	2013
	in NIS millions	
Interest income, net	1	2
Non-interest financing income	82	113
Commissions and Other income	2	2
Total Income	**85**	**117**
Operating and other expenses	7	7
Profit before taxes	78	110
Provision for taxes on profit	2	8
Bank's share in operating income (loss) of affiliated companies	2	(6)
Net Income Attributed to the Bank's shareholders	**78**	**96**
Return on equity (percentage)	63.4	80.1
Average Assets	1,023	1,027
Average Liabilities	729	756
Average Risk-assets	1,446	1,507

PRINCIPAL AREAS OF OPERATION IN SEGMENT

The investments of the Discount Group in non-financial companies are divided into two principal categories, as under:

- **Investment in private equity funds and in venture capital funds.** The activity in this field is made primarily through the subsidiary DCMI, directly by the Bank itself and through the subsidiary of MDB;
- **Investments in companies** (see hereunder).

INVESTMENTS OF THE GROUP IN PRIVATE EQUITY FUNDS AND IN VENTURE CAPITAL FUNDS

In the field of venture capital funds and private equity funds, the subsidiary DCMI participates in several funds, including:

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		Until December 31, 2014*		
Vertex Israel II Fund	160	15	15	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vertex Israel III Fund	174	13.5	13.1	0.4	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Vitalife Fund	50.3	10	10	-	Israel Discount Capital Markets and Investments has initiated the establishment of the fund, which specialized in investments in the bio-science field. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Fimi Opportunity II	293	50	44.3	-	According to a letter from the management of the Fund, no further "calls" will be made.
FITE - First Israel Turnaround Enterprise	129	12.5	3.1	-	The outstanding commitment for investment in the Fund has been transferred to FIMI Opportunity IV Fund, which began operations at the beginning of 2008 (see below). The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Fimi Opportunity IV	509	50	41.3	8.7	The commitment for investment in the fund includes the balance of the commitment transferred from the FITE Fund.
Golden Gate Bridge Fund	6	2	1.7	-	The fund engages in providing bridge financing for hi-tech start-up companies. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
Plenus Venture Lending II Fund	55	5	4.9	0.1	Venture lending of the Dovrat Group, which engages in the granting of loans and credit facilities to technology companies.
Stage One Venture Capital Fund	49.3	18.8	18.8	-	The fund was established together with Bezeq and others and is engaged in investments in the field of communications and information technology. The Fund has completed its investments and realized the balance of its investment portfolio. The Fund has begun liquidation proceedings.
Alon Fund	30	2	2	-	Of the Gaon Financial Management Group. Invests in late stage technology companies. The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.

In the field of venture capital funds and private equity funds, the subsidiary DCMI participates in several funds, including (continued):

Name of fund	Size of fund	Investment commitment	Invested	Balance of commitment	Additional information and remarks
	(In US$ millions)*		Until December 31, 2013*		
Fortissimo Capital Fund	78	5	4.3	0.7	Turn around fund to technology based mature companies.
Edmond de Rothschild Europportunities	Euro 100 million	Euro 11.3 million	Euro 10.6 million	Euro 0.7 million	Private equity fund of the Rothschild Group.
Apax Europe VII	Euro 11 billion	Euro 7.4 million	Euro 7.3 million	Euro 0.1 million	A European private equity fund in the Apax Group, and is expected to operate mainly in Europe.
Plenus Venture Lending III Fund	120	15	15	-	A venture lending fund of the Dovrat Group, and is engaged in granting loans and credit facilities to technology companies.
Brack Capital Group real estate fund	109	5	4.5	0.5	At inception directed its investments towards real estate projects in India and China. Following the global crisis, the fund has changed its investment policy and now focuses on investments in the USA and Canada.
European realestate fund	Euro 416 million	Euro 10 million	Euro 9.6 million	Euro 0.4 million	Managed by the French AXA group.
Fortissimo II Fund	110	20	18.2	1.8	"Turn around" fund for technology based developed companies.
Carmel Software Fund	171	0.5	0.5	-	The Fund has completed its investments and is now acting towards the realization of the balance of its investment portfolio.
FIMI Opportunity V	822	70	24	46	Private equity fund.
Fortissimo III Fund	265	10	4.9	5.1	A private equity fund for technology and industrial companies with a growth potential which are at an "inflection point".
Stage One Ventures Capital Fund II	20	4	0.4	3.6	A venture capital fund to be engaged in investments in the communications and IT fields.
Investor club "Israel Growth Partners" (IGP).	223	6	3.8[(1)]	4.9	Investor club which focuses on investments in technology companies being in a growth stage. The investment in the club will be composed of a commitment to invest and of a co-investment option.
AMI Opportunities	217	10	-	10	Private Equity Fund of the APAX Group expected to operate principally in Israel.

* The amounts are presented in U.S. dollars, unless otherwise stated.

(1) Of which an amount of US$2.7 million was invested following the exercise of the option to join the investment and not as part of the settlement of the liability

The outstanding balance of DCMI's investments in venture capital funds and in private equity funds amounted on December 31, 2014 to US$154 million. As of that date, the balance of DCMI's investment commitments amounted to US$83 million.

Additional investment in funds. MDB is committed to investments in four active venture capital funds. As of December 31, 2014, the investment of MDB in these funds amounted to US$2.9 million. As of December 31, 2014, the maximum commitment for the future investments in these funds amended to US$0.9 million.

Realizations. In 2014, realizations were recorded in 2 of the significant funds in the investment portfolio of DCMI: Fimi Opportunity II and Fimi Opportunity IV. Regarding the realizations (principally, in respect of the said funds), DCMI has recognized gains in the total amount of NIS 55 million, compared with NIS 102 million in 2013.

INVESTMENTS IN CORPORATIONS

As part of investments in corporations several investments in several companies were made. The outstanding balance of the investments of DCMI in corporations amounted as of December 31, 2014, to NIS 257 million. Following is a summary description of the principal investments:

Investment in Super-Pharm. In April 2013, DCMI signed an agreement for the purchase of 10.4% of the share capital of Super-Pharm Israel Ltd. ("Super-Pharm") from the CEO of the company and from Leumi Partners, in the amount of approx. NIS 150 million. Super-Pharm owns a chain of stores marketing pharmaceutical and pharma products, cosmetics and toiletries in Israel, Poland and China. In total Super-Pharm operates 188 stores in Israel and over 40 stores in Poland and China.

Investment in "dividend paying shares". The Bank's Board of Directors and the Board of DCMI have approved a plan for investment in dividend paying shares, within the framework of a total investment up to a maximum amount of NIS 150 million, in shares of public companies that distribute a significant part of their current profits by way of dividends to shareholders. As of December 31, 2014, DCMI holds the shares of four companies, purchased in off-market transaction, the total value of which in DCMI's books amounts to NIS 41.6 million. Investments in two companies were realized in the course of 2014. In respect of the investment in "dividend paying shares", DCMI recorded in 2014 dividend and realization income of approx. NIS 14 million (2013: NIS 10 million). Following the balance sheet date, DCMI had realized its investment in two additional companies.

Investment in affiliated companies. DCMI invested in two companies in the second quarter of 2013, a total amount of approx. NIS 45 million.

Additional investments. DCMI is studying additional investments with a view of diversifying its sources of income.

Investment in "Menif" - Financial Services Ltd. Menif engages in complementing equity capital of building contractors as required by banks financing building projects in a closed project format. Complementing the equity capital is effected by way of providing guarantees in favor of the project in consideration of a return participating in profits. DCMI owns approx. 19.6% of the equity of Menif. For details regarding guarantees provided by DCMI, see Note 19 C 16 (b).

FURTHER DETAILS AS TO ACTIVITY IN CERTAIN PRODUCTS

CREDIT CARD OPERATIONS

STRUCTURE OF THE FIELD OF OPERATION

The credit card is issued to the customer by the credit card company and the customer uses it for payment, as an alternative for cash or checks. The credit card company issues credit cards of two types: most of the cards are being issued to customers of banks (hereinafter: "banks included in the arrangement"). The remaining cards are being issued directly by the credit card companies to customers, not by way of banks (hereinafter: "off-banking credit cards").

As estimated by ICC, 80% of the adult population of Israel uses credit cards as a means of payment, the Israeli consumer holding an average of 1.5 cards in their possession. ICC estimates the number of cards in Israel at December 31, 2014 was 8.9 million. Furthermore, some 70 thousand trading houses and marketing chains in Israel allow purchases using credit cards.

Use of credit cards as means of payment is made possible upon the combination of several factors, an issuer, a clearing agent, a trader and a customer (the credit card holder), all of which are bound by separate and independent agreements (direct or indirect agreements, by virtue of the issuer and the clearing agent being members of an international organization that provides the franchise in respect of the credit card brand name). These contractual engagements provide the infrastructure for communicating the relevant data for settling the payments relating to transactions paid by credit cards.

The card holder has a contractual engagement with the issuer, to whom he pays a fee for the issue of the card and its current operation. The trader enters into an agreement with the clearing agent. In this framework, the clearing agent, in consideration for a commission, undertakes to credit the trader related to it, in a manner secured in advance, with the consideration due to the trader for the transactions made with him by the customers holding the credit card of the brand that is being cleared approved by it and examined with the issuer. The commission collected by the clearing agent in respect of clearing services to the trader is the "Trader commission". The clearing agent, on his part, pays the issuer an issuance commission called "Cross commission".

This commission is embedded in the trader commission collected by the clearing agent. Namely, the trader commission is composed of the clearing commission and the issuer commission.

THE OPERATIONS OF ICC

ICC operates in two sectors of the main activity in the credit card market: issuance of credit card and clearing of credit card transactions. ICC issues, markets and operates credit cards of the "VISA", "Diners" (exclusively) and "MasterCard" types, valid in Israel and abroad, and also has joint issue agreements with banks that participate in the arrangement.

In the issuance field, ICC issues (directly and through Diners Club, a company under its control) credit cards under two routes: (a) Bank credit cards - issuance of cards to customers of banks in the arrangement with which ICC has agreements for co-issuance or distribution agreements (above and hereunder: "co-issuance"). As regards these cards, ICC issues and manages the card, bears the costs of management of the card and of theft and forgery damage. The banks provide the credit facilities to the customer and bear the full credit risk involved with the card; (b) Off-banking credit cards - issuance of cards directly by ICC, including through clubs and unique organizations. As regards to these cards ICC, through subsidiary companies, provides to the customer the credit facilities and bears the overall risk relating to transactions made by use of the card.

ICC offers its customers various loans for any purpose, including "no card loans" and loans to finance the purchase of a motor vehicle through Shlomo Cal Company Ltd., spreading of charges plans (such as deferral of charges, credit transactions, revolving credit, a fixed monthly debit, monthly debit at the customer's choice – "CAL Choice" and more), as well as rechargeable cards.

ICC clears "VISA", "Diners" and "MasterCard" credit cards that are valid in Israel and abroad, and “Isracard” credit cards (in Israel only).

Clearing operations include the clearing of credit card transactions made in Israel, by way of "Point of Sale" appliances (POS appliances) located at trading houses.

In addition, ICC offers flexible settlement dates and possibilities for the deferral of payments; voucher discounting services against ordinary transaction vouchers or installment transactions; the granting of loans; payment of advances on account of future settlements, which trading houses are expected to receive against ordinary transaction vouchers and advancement of settlement dates.

Following are quantitative data regarding the activity of ICC:

	December 31, 2014		December 31, 2013	
	The total number of cards	Of which: active cards	The total number of cards	Of which: active cards
	in thousands			
Bank cards	1,422	1,212	1,339	1,146
Off-banking cards	840	592	820	576
Total	**2,262**	**1,804**	**2,159**	**1,722**

Transactions turnover

	For the year ended December 31, 2014	For the year ended December 31, 2013
	in NIS millions	
Bank cards	48,258	44,928
Off-banking cards	13,320	12,469
Total	**61,578**	**57,397**

Notes:
(1) "Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
(2) "Off-banking card" - A credit card issued by ICC, separately from the banks.
(3) "Valid card" - A valid credit card which is not blocked.
(4) "Transactions turnover" - Includes transactions made using the credit card and debits in respect of transactions payable in installments, less the credits made to the banks or their customers in respect of the use of credit cards during the same period and commissions collected for the banks or for ICC. The transaction turnover does not include withdrawals of cash through the automatic teller machines in Israel.
(5) "Active card" - a credit card through which at least one transaction was made in the last quarter.

SCALE OF OPERATIONS AND NET INCOME

General. The volume of credit card transactions increases annually. The increase in the use of credit card derives both from an increase in the volume of transactions (as a result of population growth and the existence of a younger population that is accustomed to using credit cards as part of its consumer culture) and from an increase relative to transactions paid for through other means.

Income from credit card clearing operations is attributed to the corporate banking segment, the small business segment and to the middle market segment.

Net income in 2014 amounted to NIS 127 million, compared with NIS 137 million in 2013, a decrease of 7.3%.

The credit loss expenses amounted to NIS 29 million in 2014, compared with NIS 27 million in 2013, an increase of 7.4%.

Following are principal data relating to the credit card operations:

	For the year ended December 31, 2014				
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	in NIS millions				
Interest income, net					
- From external sources	259	23	15	8	305
- Intersegmental	(26)	(7)	-	-	(33)
Total Interest income, net	233	16	15	8	272
Non-interest financing income	8	1	1	-	10
Commissions and Other income	827	33	29	14	903
Total Income	**1,068**	**50**	**45**	**22**	**1,185**
Credit loss expenses	29	-	-	-	29
Operating and other expenses	852	20	14	7	893
Profit before taxes	187	30	31	15	263
Provision for taxes on profit	65	11	12	6	94
Net Income attributed to the Bank's shareholders	**94**	**14**	**13**	**6**	**127**
Return on equity (percentage)	12.4	20.8	35.9	24.8	14.4
Average Assets	8,664	281	350	176	9,471
Average Liabilities	2,821	550	676	346	4,393
Average Risk-assets	8,879	763	434	315	10,391
Components of Interest income, net:					
Margin from credit activity	233	16	15	8	272
Margin from deposits activity	-	-	-	-	-
Total Interest income, net	**233**	**16**	**15**	**8**	**272**

Following are principal data relating to the credit card operations (continued):

	For the year ended December 31, 2013				
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	in NIS millions				
Interest income, net					
- From external sources	259	27	15	4	305
- Intersegmental	(30)	(8)	-	-	(38)
Total Interest income, net	229	19	15	4	267
Non-interest financing income	8	-	-	-	8
Commissions and Other income	804	42	34	9	889
Total Income	**1,041**	**61**	**49**	**13**	**1,164**
Credit loss expenses	21	2	3	1	27
Operating and other expenses	813	45	24	7	889
Profit before taxes	207	14	22	5	248
Provision for taxes on profit	70	3	7	1	81
Net Income Attributed to the Bank's shareholders	**119**	**5**	**10**	**3**	**137**
Return on equity (percentage)	18.0	6.9	27.3	15.0	17.5
Average Assets	8,235	358	380	100	9,073
Average Liabilities	2,422	754	789	210	4,175
Average Risk-assets	8,261	836	462	222	9,781
Components of Interest income, net:					
Margin from credit activity	229	19	15	4	267
Margin from deposits activity	-	-	-	-	-
Total Interest income, net	**229**	**19**	**15**	**4**	**267**

REGULATIONS, LEGISLATION AND ARRANGEMENTS

General. The activities of ICC are regularized under the Credit Card Law, 1986 and various rules under the general law also apply to it. In addition, due to the fact that ICC is a subsidiary of a banking corporation, it is defined also as an "auxiliary corporation" under the Banking Law (Licensing), 1981, and as such, a set of Laws, Regulations and Orders under the banking laws also apply to it including various directives issued by the Supervisor of Banks.

Among other things, ICC is subject to duties relating to the prohibition of money laundering and the finance of terror, including the duties of identification, maintenance of records and reporting to the Money Laundering Prohibition Authority, as regards everything relating to holders of credit cards and to trading houses with which ICC has clearing agreements.

Likewise, ICC is bound to operate in accordance with the rules of the international organizations of which it is a member (VISA International organization, MasterCard Worldwide organization and Diners Club International). These rules are updated from time to time and determine international standards. In addition, clearing operations outside Israel of international trade transactions may be subject to foreign legislation and regulations.

The Antitrust Commissioner. The Antitrust Commissioner is involved extensively in the field of credit card activity. For details as to the arrangements between the credit card companies and for details regarding an amended cross-clearing arrangement, see Note 34 B 1 to the financial statements.

Banking Act (Licensing) (Clearing of charge card transactions). The Banking Act (Licensing) (Amendment No. 18), 2011, was published in the Official Gazette on August 15, 2011. The Amendment relates to the following four matters:

- Regularization of the clearing market by means of the granting of clearing licenses by the Bank of Israel, while certain provisions of the Banking Ordinance will apply to whoever obtains a clearing license, including all the provisions of the Banking Act (Customer service);
- The opening to competition of the issuance market in a manner that the Supervisor of Banks, following consultation with the Antitrust Commissioner, will be empowered to determine that a clearing agent who clears at least 20% of the total amount of transactions made in Israel in the previous calendar year shall be declared "A Clearer with Wide-Ranging Activity", and to compel such a clearing agent to enter into a cross-clearing agreement for the clearing of credit cards of an issuer, in cases where that clearing agent refuses on unreasonable grounds to enter into such an agreement with an issuer;
- The opening to competition of the clearing market, where, within the framework of the law, a duty has been imposed upon an issuer who issued in any calendar year at least 10% of the total number of credit cards issued in Israel, or where 10% of the transactions as above have been executed by means of his credit cards, being an issuer with "Wide-Ranging Activity", to enter into a cross-clearing agreement with any clearing agent, unless he refuses to do so on reasonable grounds. Notwithstanding, the Minister of Finance, following consultation with the Supervisor of Banks and the Antitrust Commissioner, may allow an issuer not to engage with a clearing agent;
- Regularization of the discounting market – the Act regularizes the discounting market and imposes various restrictions upon clearing agents, including the forbiddance of discrimination between discounting companies, forbiddance to refuse engagement with discounting companies and forbiddance of subjecting clearing services to additional services. Also, providers of discounting services must register with the Ministry of finance as providers of currency services.

The law entered into effect upon its publication in August 2011, apart from the provisions relating to opening the clearing market to competition which entered into effect on May 15, 2012. In January 2012, ICC, LeumiCard and IsraCard were defined as "issuer having a wide-ranging activity" (within the meaning of this term in the said legislation amendment). The Supervisor of Banks extended, from time to time, the date for ICC for obtaining a clearing license, recently until March 2015, and until the receipt of a permanent clearing license.

Advancement of Competition and Reduction of Concentration Act. The Advancement of Competition and Reduction of Concentration Act, 2013, (hereinafter : "the Concentration Act"; see "Legislation and Supervision" below) was published on December 11, 2013. The Concentration Act may have an impact of ICC, due to the following provisions:

1. Permits for the holding of means of control in a clearing agent – The Banking Act (Licensing) was amended within the framework of the Concentration Act, by the addition to the Banking Act of Section 36K(1), which states that the provisions of the Banking Act as regards permits for the holding of means of control in a banking corporation will apply also to the holding of means of control in a clearing agent. According to these instructions, a permit must be obtained for the purpose of holding means of control at a rate exceeding 5%, though the Governor of the Bank of Israel may specify a different rate. Accordingly, the shareholders of ICC, of the Bank and of FIBI, will be required to obtain from the Supervisor of Banks a control permit or a holding permit, as the case may be.
2. Separation of non-financial corporations from financial corporations – The Act prescribes limitations regarding cross-holdings, including the prohibition on a significant non-financial corporation, or on whoever controls it, to control or hold more than 10% of a certain class of means of control in a significant financial entity. This restriction applies also to the holding of means of control in a clearing agent.

   A shareholder who holds more than 5% in a significant non-financial corporation is prohibited from controlling a clearing agent which is a significant financial corporation. "A significant financial corporation" is defined by the Concentration Act as an entity the value of all its assets on a consolidated basis exceeds NIS 40 billion, and also a clearing agent having a wide-ranging activity of operations as defined in Section 36L(a) to the Banking Act (Licensing).

The said restrictions may affect the shareholders of ICC, which control significant non-financial corporations. According to the transitional instructions, the holdings should be reduced within a period of six years.

The list of significant financial bodies and of significant non-financial corporations was published on December 11, 2014.

3. The Concentration Act prescribes also limitations on the holding of cross-office in non-financial corporations and in financial corporations, and a transitional period for the application of these limitations.

Licensing of clearing agents. The Supervisor of Banks published on December 31, 2013, two documents in the matter of the licensing of a clearing agent. One document deals with the criteria and general terms in respect of whoever controls and holds means of control in an applicant for a clearing license, and the other deals with the process for obtaining a clearing agent license, in the framework of which the terms of issue of a clearing license to new clearing agents as well as to existing agents were detailed. ICC is studying the said documents.

Draft outline of the transition to a "smart card". The Supervisor of Banks issued a draft letter on June 26, 2013, which includes a definition of the preparations required from banking corporations and credit card companies for the transition to the use of a "smart card", regarding the following: issue of cards, upgrading or replacement of ATM units and the clearing of payments. The letter also defines timetables for completion of the preparations in respect of the above. In accordance with the letter, banking corporations and credit card companies were required to prepare work plans for the implementation of the requirements and allocate the necessary resources.

Use of debit cards. On February 12, 2014, the Antitrust Authority published a draft for comments by the public, in the matter of the increase in efficiency and competition in the credit cards field ("the document"). Within the framework of the document, the Antitrust Authority reviewed the failures existing in its opinion in the credit cards field, which lead to limited competition, and proposed recommendations to rectify this situation in three aspects: (1) transactions involving an immediate charge (debit); (2) Advancing the payment date of issuers to clearers in deferred debit transactions; (3) creation of conditions for the development of a range of progressive means of payment. In the framework of the document the Antitrust Authority detailed the action that, in its opinion, should be taken in respect to each of the said aspects, in order to increase efficiency and competition in the field of credit cards in Israel.

In continuation thereof, the Ministers Committee dealing with cost of living matters met on April 2, 2014, and, among other things, to authorize the Supervisor of Banks to examine the determination of a differential cross commission in respect of deferred debit cards, in accordance with the size of the trading house; to examine the possibility of obligating trading houses to allow the customer to choose between a deferred debit transaction or an immediate debit transaction in the case of each transaction exceeding NIS 500; to examine the possibility of obligating credit card companies to issue an immediate debit card at no extra cost upon the issue of a deferred debit card; to promote the solution allowing the use of one credit card for all types of debits (deferred, immediate, credit); to regulate the transfer of monies from the issuer to the clearing agent and to the trading house within three business days, in transactions involving an immediate debit; to regulate the transfer of monies from the issuer to the clearing agent within three business days, in transactions involving deferred debit; to examine the promotion of an additional brand (to that of ABS) for debit card transactions; to promote the use of the EMV standard, including by way of granting incentives to trading houses, as well as approach the Antitrust Commissioner in order to prepare within ninety days a Bill that would authorize the Commissioner to determine the cross commission.

The Supervisor of Banks issued a notice on February 10, 2015, according to which:

- An immediate debit card is defined as an off-the-shelf banking product, and is an integral part of operating a current account; this, by means of a separate designated card, and not as one that combines different types of debits;
- The charging of a line commission in respect of any use of an immediate debit card in a direct banking channel. is not permitted;
- The cross-commission for immediate debit transactions (transactions made by immediate debit cards and by rechargeable cards) will be declared as price-controlled, and its amount will be fixed at a maximum rate of 0.3% for a period of one year;

- A draft guideline has been published, which requires banks to offer to all existing customers operating current accounts, the issue of an immediate debit card, and this within a specified period of time. Customers who have at their disposal a bank credit card, shall be entitled to receive the immediate debit card at no additional card fees, at least during the initial period of holding of the card (the first three to four years). Banks would also be required to offer the immediate debit card to any customer who opens a current account;
- A draft instruction has been published, which regulates the dates of the transfers of money in immediate debit transactions, such that the whole payment chain, from the debit of the card holder and until the credit of the trading house, shall be made proximate to the date of the transaction and no later than three business days from date of presentation of the transaction;
- A draft has been published, which regulates disclosure of immediate debit transactions within the framework of detailing the current account operations of the card holder (separate disclosure of each transaction, giving the date of the transaction, its amount and the name of the trading house).

At the same time and in addition to the above, the Supervisor of Banks informed of additional measures adopted by him in order to intensify competition, innovation and security as regards the credit card field:

- Promoting the integration of use of the EMV Standard (Europay MasterCard Visa), both as regards the issue of these cards and as regards the use of the technology that supports trading houses (POS). Accordingly, a draft instruction has been published for the implementation of this Standard;
- Promotion of competition in the clearing field: advancing a legislation amendment allowing the connection of off-banking clearing license holders to the debit card switch operated by Automatic Banking Services Company (ABS) and regulating the date for the transfer of money between an issuer and a clearing agent in deferred debit transactions. These measures join additional activities for the establishment of infrastructure required for the entry of new clearing agents into competition, such as announcement of the framework for obtaining clearing license and improvements in the technological layout of ABS Company, the object of which is allowing the provision of services to new clearing agents;
- Regulation of the disclosure regarding clearing services provided to trading houses, in particular with respect to immediate debit transactions.

At this stage, in view of the difficulty to forecast the scope of the use of immediate debit cards and its impact on the mix and volume of credit card transactions in the Israeli economy, it is not possible to estimate the implications of the said reform.

The separation of banks from credit card companies. On April 22, 2013, a private Bill for the amendment of the Banking Act (Licensing) (Amendment – the holding of entities issuing credit cards), 2013, was tabled before the Knesset. The Bill proposes that a banking corporation shall not control and shall not hold means of control in a company that issues credit cards. Additional private Bills of similar content were tabled in January 2014.

Antitrust Bill Memorandum (Amendment No. 16 – fixing of cross commission), 2014. The Antitrust Commissioner ("the Commissioner") issued in August 2014, a Bill Memorandum designed to empower the Commissioner to fix the rates of cross commission in respect of cross clearing arrangements of transactions made by debit cards, replacing the existing legal arrangement, within the framework of which the rate of the cross commission is fixed as part of a judicial process for the approval of a binding arrangement by the Antitrust Tribunal. According to the Bill Memorandum, the commissioner will be empowered, among other things, to fix the cross commission at zero rate, to fix different commission rates for different types of transactions as well as fix different commission rates for transactions made by different means of payment.

Draft Amendment of the Banking Order (Service to customer) (Supervision over the service granted by a clearing agent to providers of discounting services regarding debit card transactions), 2014. The said draft amendment was published by the Supervisor of Banks on September 11, 2014. In the framework of the draft it is proposed to grant to the Supervisor of Banks the authority to fix the rate of commission charged in respect of a service provided by a clearing agent to providers of discounting services.

For details regarding the amendment of the Banking Rules (Customer service) (Commissions), within the framework of which, among other things, certain limitations were imposed on the charging of commissions regarding credit card operations, see Note 35 to the financial statements. ICC estimates that the implementation of the said guideline would lead to impairment in its annual income by an amount of NIS 30 million.

For details regarding the instruction in the matter of "Non-banking benefits to customers", see "Legislation and Supervision" below. In ICC's opinion, the amendment is likely to affect it with regard to the manner of granting non-banking benefits incidental to the issue of a card and the use thereof.

For details regarding the recommendations of the committee examining the reduced use of cash in the Israeli market, see "Legislation and Supervision" below.

TECHNOLOGICAL CHANGES

Use of the "smart card". As part of the effort to reduce misuse and forgery of credit cards, the international VISA organization, the MasterCard Worldwide organization and the International Diners Club organization are adopting various measures to improve the security of credit cards carrying their brand names. These organizations have directed their members to introduce the use of a credit card with special features that complicate its use and/or forgery by unauthorized factors (hereinafter: "the smart card"). The transition date for the VISA and MasterCard brands had been fixed for January 1, 2005, while as regards Diners, the transition date had been fixed for October 29, 2013 (hereinafter: "the transition dates"). In order to induce issuers and trading houses to convert to the use of "smart cards", the international organizations determined rules concerning the assignment of responsibility in the case of misuse of a credit card under certain circumstances: for VISA and MasterCard credit cards, as from the transition date stated above, and for Diners credit cards, as from April 11, 2014. These rules state that in case of forgery/misuse of a card:

(1) If a "smart card" has been cleared by a trading house where a "smart" clearing appliance is not installed, costs will be borne by the trading house;

(2) Where a credit card which is not a "smart" card has been cleared by a trading house where a "smart" clearing appliance is installed, costs will be borne by the issuer.

In accordance with international organizations directives, the Company commenced preparations for introduction of the smart cards. ICC issues on a current basis, "smart" VISA credit cards, and as from February 2015, also "smart" Diners Club cards. Such preparations include modification of the systems of ICC and the definition of a "smart" credit card profile as regards the card manufacturers.

In the clearing field, ICC has begun preparations for the EMV infrastructure, which includes the modification of the company's systems for the reception, for the processing and transmission of messages and files in new structures defined by ABS and the three credit card companies. See also above "Draft outline of the transition to a smart card" under "Regulations, legislation and arrangements".

Upgrading of the information systems. Starting with the year 2010, ICC implements a multi-annual layout for the replacement and upgrading of outdated systems and the setting up of updated infrastructure, at a determined pace of investments, in order to improve the efficiency, upgrade, stabilize and reduce risk as regards all the computer systems that support business activities.

A multi-annual plan is also in effect regarding the implementation of Standard PCI-DSS (International standard in the field of data protection in the matter of the management of credit card systems).

In this respect, the following principal projects were put into effect during the years 2012-2013: replacement of the core servers of the HP Alpha type by HP Itanium servers was completed; the absorption and launching was completed of the on-line communication system with outside factors (Switch) and of an "approval" module for requests for approval by a clearing party, which enables flexibility in the implementation of business logic in response to online messages (requests for approval, blocking, reactivating, etc.), as well as support for high speed activity while improving availability; the transition will be completed in the coming two years and the system is expected to serve also the issuer side (card holders); the significant technological conversion of the SIEBEL system was completed, which is the central system by which the company provides service to its customers; the upgrading of the computer communication system was completed and a full segmentation of the network was made, as part of the preparations in respect of PCI and cyber subjects; proof of feasibility has been performed and the first milestone in the implementation of tokenization has been reached as a solution for compliance with the requirements of the PCI Standard; upgrading of the BI capabilities by integration of the EXADATA storage infrastructure; diverse innovative digital applications have been implemented; improvements have been made to the identification of customers mechanisms of customers in relation to the online channels, by use of a one-off password transmitted to the mobile phone; the first stage of the project for a new movement base, based on Informatica and ExaDa has been completed; the establishment has been completed of a system for the management of report requisitioning using a Java based new platform, including the training of development teams.

CRITICAL SUCCESS FACTORS

The issuance field. There are several positive factors that affect the competitive position in the sector: products and services that appeal to varied population of customers, ICC's image and brand names, quality and experienced human resources, an efficient and well developed risk management layout, information technology systems and advanced infrastructure, long-term agreements with banks for credit card issue arrangements, the ability to issue leading brand name credit cards ("VISA", "MasterCard" and "Diners"), an extensive layout of agreements with customer clubs of varied population segments, a solid capital structure, the ability to borrow funds from financial institutions at beneficial terms.

On the other hand, several factors have a negative effect on the company's competitive position, headed by: the development of alternative means of payment, which may reduce the demand for the issue of credit cards, entry of retail factors into the credit card issue market, and frequent and significant regulatory changes, mostly on the part of the Supervisor of Banks and the Antitrust Commissioner, such as the lowering of the cross commission rate, issue arrangements for the issue of immediate debit cards, and more.

The clearing field. There are several positive factors that affect the competitive position of the company in the sector: cumulative experience in the field of credit card clearing; an efficient service layout providing suitable solutions for trading houses; advanced information and infrastructure systems; a professional and efficient risk management layout; experienced and quality human resources; an extensive and efficient marketing and sales layout, which enables the attraction and preservation of customers; a reputable and powerful brand name; constant development and expansion of the product and services basket; existence of cross-clearing agreements between all credit card companies in Israel; holding a license from international organizations allowing clearing of their brand products; existence and distribution of a communication layout enabling clearing or communication with ABS; a solid capital structure and a positive cash flow.

Negative factors affecting the competitive position of the company, are: technological improvements creating alternative means of payment, which might reduce the use of credit cards; regulatory guidelines regarding the operations of ABS and the possibility of trading houses changing clearing entities at their own discretion, as regards the leading brands: "VISA", "MasterCard" and "IsraCard".

MARKET ENTRY BARRIERS

The issuance field. An entity interested in entering the credit card issuance market faces several barriers, the principal of which are: attaining certain qualifying terms required for obtaining a license from any brand name international credit card issuing organization; maintaining an extensive and costly operating layout, including advanced information and customer service systems; a continuous and considerable investment in marketing channels; countrywide distribution and sales, especially distribution channels regarding banks and customer clubs; financial soundness allowing the raising of funds at advantageous terms; the issuing entity being controlled by a banking corporation enabling recognition by and membership of international organizations; obtaining guarantees from the controlling banking corporation; maintaining an efficient and advanced credit risk rating system; the requirement of minimum equity capital in order to comply with the instructions of the Supervisor of Banks regarding the ratio of capital to risk components.

The clearing field. The main barriers facing a company wishing to enter the clearing segment are: obtaining a license from the international organization owning the credit card brand, which the new entrant wishes to clear. Obtaining such a license requires compliance with business and financial standards securing such an operation; distribution of an extensive communication layout allowing "online" clearing, or alternatively, engagement with ABS, which has such a layout; existence of a reliable and stable information system for billing management; financial means, experience and knowhow required for investment in technology, operating systems, advertizing and marketing; considerable clearing turnover allowing the recoupment of amounts invested in clearing infrastructures; minimum equity capital requirements; customer service layout and extensive and efficient attraction of customers layout.

For details regarding the exemption from a binding arrangement concerning the joint holding and operation of ABS, which is intended to remove the entry barriers into the clearing market, see under "Legislation and supervision" below.

ALTERNATIVE PRODUCTS

Many alternative payment means to credit cards exist, starting with cash payments, standing orders, bank transfers, purchase vouchers and checks and ending with payments through the "smart" telephone and the "digital purse".

Bank and off-banking credit as well as the check discounting service form an alternative product to credit and other financial services provided by ICC.

CUSTOMERS

The issuance field. Customers in this field are holders of credit cards, among whom are private customers, employees of large corporations and businesses. As of today, most of the customers of ICC hold bank credit cards. ICC is active in increasing the rate of holders of off-banking credit cards, mainly through the framework of customer clubs, subject to the examination of solvency of each potential customer.

The clearing field. ICC customers in the clearing field are those traders that accept "VISA", "MasterCard" "IsraCard" or "Diners" credit cards. Additional customers in the clearing field are trading houses that require services of discounting vouchers, obtaining credit, early payments and advances.

MARKETING AND DISTRIBUTION

The issuance field. Marketing and distribution in the issue segment are achieved mostly by increasing cooperation with banks participating in the arrangement as well as with customer clubs. The said banks serve as a "recruitment base" for the company in attracting bank customers to its ranks, while the customer clubs serve to attract off-banking customers. Joining the customer clubs, generally grant participants with discounts and benefits in a variety of trading houses. In addition, ICC cooperates in marketing drives with leading businesses in the country and operates advertising and marketing channels using the different media and through sales stalls. The principal customer clubs at present are FlyCard, Cal-365, Cal-H&O, PowerCard and You. In addition, ICC has established different clubs serving professionals such as certified public accountants and lawyers.

ICC has an active Internet website that provides information regarding its products and services, marketing drives, discounts and benefits, and allows access to accounts of card holders for the purpose of monitoring and control of their activity. In addition, ICC has launched an application for smart phones that allows the monitoring of customer transaction as well as information regarding ICC's services, benefits and various discounts.

The clearing field. The marketing operations in this field are directed towards the traders, including chains (marketing chains generally utilize one clearing agent for all their branches). Sales representatives market clearing services to the traders, and serve as liaison officers with the trading houses, also following their joining. In addition, ICC operates a unique Internet website for trading houses, which includes information regarding previous and future settlement of accounts, ordering of reports and invoices at the single trading house level and chain level and receiving them in a secured safe, and more.

COMPETITION

The issuance field. The competitors of ICC in the issuing field are the IsraCard group controlled by Bank Hapoalim and Leumi Card Company controlled by Bank Leumi. As part of the competition in this segment, ICC competes over new customers having no credit cards, or over customers holding credit cards of competitor companies, as well as acting in various ways in order to preserve existing customers and preventing their leaving to join its competitors. Furthermore, ICC makes considerable efforts in marketing and the granting of discounts and benefits to its card holders, in order for them to use the company's credit card for most of their purchases, and also offers them varied credit services as an alternative to or addition to regular bank credit.

The clearing field is characterized by intense competition between the credit card companies.

Participating in this segment are: the ICC group clearing "VISA", "MasterCard", "Diners" (exclusively) and "IsraCard" credit cards; the IsraCard group clearing the brands "IsraCard", "MasterCard", "VISA", and "American Express" (exclusively), and LeumiCard clearing the brands "VISA", "MasterCard" and "IsraCard".

Competition in the segment intensified during 2012, when the "IsraCard" brand, comprising 17% of the market, opened for clearing by all companies in this sector.

ICC is competing in order to expand the circle of trading houses receiving from it clearing and supplementary services, focusing on attracting new trading houses in clearing agreements, as well as preserving existing trading houses as customers while investing in considerable marketing and sales efforts. Another aspect of the competition in this segment relates to the development of new products and of financial and operating services designed for trading houses, which would increase the volume of business of the company with such trading houses.

DEVELOPMENTS IN THE SEGMENT IN 2014

The implications of the "Protective Edge" Operation. Following the "Protective Edge" Operation, which was conducted in Southern Israel, a slowdown was recorded in July-August 2014 in credit card activity, due to a decline in the volume of private consumption.

An "El Al" brand name credit card. On June 11, 2014, ICC and Diners signed an agreement for the issuance of brand named credit cards to members of the frequent flyers club of El Al Israel Airlines Ltd. ("El Al"). In terms of the agreement, ICC and Diners will issue, exclusively, brand named credit cards to the public at large, in accordance with marketing targets defined by the parties. Furthermore, ICC and Diners will issue, not exclusively, brand named credit cards to VIP customers, who conform to appropriate entitlement terms. The brand named credit cards will entitle the holders thereof to unique benefits in accordance with the type of card and the volume of operations effected by it, and everything in accordance with the commercial terms determined by the parties. These benefits include, among other things, the accumulation of frequent flyer points in respect of transactions effected by the brand named credit cards.

According to the agreement, El Al is entitled to a consideration which is also based upon the volume of transactions made using the brand named credit cards. The agreement regularize also the participation in advertising, marketing and sales promotion expenses as well as customer service to holders of the brand named credit cards. The agreements are for an initial engagement period of five years, with the option of extension for various additional periods, subject to the right of abrogation to which the parties are entitled in certain circumstances.

The customer club was launched on September 3, 2014.

Changes in the terms of the agreement for the sale of the Diners shares and in the terms of the YOU Club agreement. For details, see Note 34 to the financial statements.

Establishment of an additional service center. In July 2014, ICC established a third service center, in the city of Ashdod. This, with the aim of providing swift, courteous and professional response to customers of this field.

The establishment of the "Bitan Wines" Club. In September 2014, ICC and the Bitan wines chain established a joint customer club. The cooperation with this chain, which has many branches countrywide, enables ICC to offer customers added value in the food field. A memorandum of understanding was signed on December 27, 2014, between Hamashbir 365 Holdings Ltd. and Bitan Wines Holdings

Ltd. with respect to the purchase of 50% of the share capital of Club 365 Finance Ltd., which operates Club 365. In accordance with the memorandum, the parties will act towards the joining of the Bitan Wines food chain with the chains participating in and granting benefits to members of Club 365. Upon the entry into effect of the memorandum of understanding, the customers of the "Bitan Wines" Club are expected to join Club 365, while increasing the number of trading houses, at which they are entitled to benefits. Moreover, the joint issuance agreement between the company and Bitan Wines is expected to expire on the above mentioned date. On February 17, 2015 and agreement was signed between the parties.

MATERIAL AGREEMENTS

An agreement with the Allon Group. For details regarding the agreement among the shareholders of Diners Company, see Note 34 A to the financial statements. For details regarding the cooperation with El Al Israel Airlines Ltd., see above "Developments in the segment in 2014".

Agreements with banking corporations. ICC is engaged in agreements with various banking corporations (including the Bank and Mercantile Discount Bank) for the purpose of the issue of credit cards to its customers. Issue of credit cards is made jointly by ICC and the banking corporation, where its status with the International Organization permits issue of the cards. In other cases, issue of the card is made by ICC and the distribution to customers is made by the banking corporation.

For details regarding a joint issuance agreement with FIBI and regarding the granting of a capital instrument to FIBI for the purchase of up to 10% of the company's share capital, see Note 34 B 3 to the financial statements.

For details regarding a joint issue agreement with Mizrahi-Tefachot Bank, see Note 34 B 4 to the financial statements. For details regarding a joint issue agreement with Union Bank and regarding the grant to Union Bank to purchase up to 3% of the share capital of ICC, see Note 34 B 5.

"IsraCard" credit cards clearing arrangement. On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement and a cross-clearing agreement for IsraCard credit cards. The agreements enable ICC to approach trading houses and to offer clearing the IsraCard brand through ICC. It should be noted that the market share of the IsraCard brand is approx. 17% of the clearing market. For additional details, see Note 34 B 2 to the financial statements.

Club 365 agreement. On December 1, 2011, ICC signed an agreement of principles with Club 365 Ltd. (hereinafter : "Club 365") for the establishment of an off-banking credit card club. The credit cards are to be issued by ICC and marketed through all the companies incorporated within the Club 365, such as: viz. Hamashbir Latzarchan, New Pharm and companies which will join Club 365 in the future.

Within the framework of the agreement of principles, it has been determined that the credit cards will be issued as combined cards of Club 365 to existing and new members of the Club, and holders of such cards will be entitled to benefits and terms granted on a current basis to customers of the company in addition to benefits and discounts granted to members of the Club 365, while creating a beneficial differentiation for holders of the credit card.

The agreement of principles determines the manner of attracting new customers, advertising and marketing by both parties, as well as the consideration to which Club 365 will be entitled in accordance with operating indices determined in the agreement.

In addition, provisions have been included allowing a change in the model of cooperation between the parties into a model for the joint holding in the enterprise, subject to the provisions of the Law and regulatory requirements, to the extent required. The detailed model for the joint holding in this enterprise is subject to approval of the Boards of Directors of ICC and of the Bank.

The period of engagement between the parties will amount to ten years, though after five years each of the parties may decide to terminate the engagement, subject to giving a prior notice in writing of twelve months.

Extension of the period of the "PowerCard" agreement. On July 22, 2010, ICC signed an agreement with "PowerCard" (2000) Ltd. and with Fishman Chains Ltd. (hereinafter: "the Agreement"). The Agreement extends until December 31, 2015, the validity of a prior agreement signed by the parties, with certain amendments. The Agreement establishes the obligations and rights of the parties within the framework of joint activities aimed at promoting loyalty to the chains participating in the "PowerCard Club" on the one hand, and the distribution of credit cards issued by ICC on the other hand.

A joint issuance agreement with H&O Club. On December 29, 2010, ICC entered into an agreement with H&O Fashion Chains (2003) Ltd. (hereinafter : "the Agreement"). The Agreement extends until December 31, 2015, the validity of a previous agreement entered into by the parties, with certain changes. The Agreement establishes the rights and duties of the parties within the framework of joint operations, the aim of which is to promote loyalty to the chains participating in the H&O Club on the one hand, and the distribution of credit cards issued by ICC on the other hand.

Arrangements made between the credit card companies. For details regarding the arrangement for the cross clearing of VISA cards, for details regarding an amended cross-clearing arrangement, and for details regarding a cross clearing tripartite agreement of VISA and MasterCard charge cards, see Note 34 B 1 to the financial statements.

A joint issuance agreement between ICC and owner banks. For details regarding the signing of new joint issue agreements between ICC, the Bank and FIBI, respectively, including the granting of a capital instrument to FIBI for the purchase of up to 10% of the shares of ICC, see Note 34 B 3 to the financial statements.

Cooperation agreement with the "VISA Europe" Organization. ICC and the VISA Europe Organization signed in April 2013 an agreement supporting the tightening of cooperation between them, with a view of bringing about a growth in the scope of use of VISA credit cards marketed by ICC.

Agreement with Mizrahi-Tefahot Bank. For details regarding the renewal of the agreement, see Note 34B(4) to the financial statements.

CLEARING OF INTERNATIONAL ELECTRONIC TRADE TRANSACTIONS

ICC had cleared in the past transactions in the international electronic trading field, an activity which the company has since discontinued.

For details regarding the police investigation and the seizure of documents and computer material of ICC and the transfer of the investigation file to the State Attorney Office, see Note 34 C to the financial statements.

For details regarding the demands by clusterers, see Note 34 c to the financial statements.

SEASONAL FACTORS

The seasonality in the fields of issuance and clearing derives from the seasonality of private consumption in Israel.

BUSINESS GOALS AND STRATEGY

The issuance field. Leading the market through the exhaustion of the banking lane and offering solutions adapted to customer needs, issuance of charge cards in the off-banking lane in existing customer clubs, as well as through the cooperation with various entities for the establishment of additional customer clubs.

Moreover, ICC is active in becoming a significant player in the consumer credit market, the attraction of off-banking card holders being the infrastructure for the creation of consumer credit and the positioning of ICC as a factor providing diverse credit services (including by means of credit cards).

The clearing field. The principal goal of ICC is to market an overall array of products to trading houses, while enlarging its market share in the clearing field. Furthermore, ICC is taking steps towards developing and market additional products to be offered to traders, in addition to those offered at the present time.

ANTICIPATED DEVELOPMENTS IN THE COMING YEAR

Changes that occurred recently or which are anticipated and which may affect credit card operations:

- The reduction in the cross-commission rate – see Note 34 B 1 to the financial statements;
- Regulatory guidelines as regarding operations with ABSvand also as regards the use of immediate debit cards – see under "Regulations, legislation and arrangements" above;
- Updating the pricelist of the credit card companies (see Note 35 to the financial statements);
- Development of the "El Al" Club – see above "Developments in the segment in 2014".

OPERATIONS IN THE CAPITAL MARKET

DISCOUNT INVEST

As part of the business strategy focusing on the customer and the variety of his needs, the Bank operates a wide service in the capital market field – "Discount invest". This service offers the Bank's customers a wide and varied array of advanced technology and services layouts for capital market operations.

"Discount invest" offers innovative technological applications, the most noticeable of which is "Discount trade" – an advanced trading system, which enables customers active on the capital market, complete independence and direct communication with the Stock Exchange, while using decision supporting tools for executing their operations. Alongside the technological innovation, subscribers of "Discount trade" enjoy a level of service and unique availability of the Bank's dealing room. The service affords communication with a designated telephonic support center throughout the trading hours. The integration of the advanced technological tool and the telephonic support provides the ultimate solution for investors active on the capital market.

The service also includes foreign securities operations on the U.S. Stock Exchanges.

Within the framework of "Discount invest", the Bank positions a high bar for service, adapted to the type of activity of the customer, with maximum availability. Advisory services in the Bank's branches are rendered by qualified investment consultants who provide personal service during the operating hours of the branches. Advisory services may be further obtained from the central telephonic investment support office until 23:00 hours, Sundays to Thursdays. The service provides continuous consulting services to investors subscribed to the TeleBank service, including foreign securities.

Customers having investments in amounts of between NIS 700 thousand and NIS 4 million, obtain services from nine countrywide investment centers, which provide specialized service, similar to that of an investment house. Thus, the customer enjoys a service experience distinguished from the banking industry. The investment consultants in these centers are personally available for customers throughout the market trading hours and also for prearranged appointments even after that.

An additional innovation relates to the pricing of commissions. Customers of the investment centers, excluding the users of "Discount trade", enjoy varied service lanes at attractive prices. For example: the "Invest Gold" lane offers the total comprehensive services provided by the center in consideration for a fixed quarterly payment.

Customers having financial wealth enjoy a novel layout of private banking centers for Israeli customers, including a professional and specialized investment consulting service as regards both the domestic and the international capital markets.

Alongside the above, the Bank has upgraded the service for all types of mobile telephones. The application installed by Discount is adapted to the Blackberry, Android and IPhone and versions and enables the receipt of information and the execution of capital market operations. In addition, customers can enjoy the "Discount SMS" service, which provides information regarding market indices at the end of trading.

TREND OF EVENTS AND DEVELOPMENTS IN THE MACRO-ECONOMIC ENVIRONMENT

The mutual funds market. The mutual fund market increased in 2014 by NIS 30.7 billion, from a level of NIS 230.8 billion at the end of December 2013 to a level of NIS 261.5 billion at the end of December 2014. Mutual funds recorded deposits in 2014 in the amount of NIS 26.4 billion (net). Positive net deposits were also recorded by bonds funds and by funds specializing in foreign securities, in amounts of NIS 27.9 billion and NIS 8.3 billion, respectively. Concurrently, net withdrawals were recorded by the remaining funds, in particular, the monetary funds with withdrawals of NIS 7.4 billion and the shekel funds with withdrawals of NIS 2.1 billion.

The assets of funds specializing in bonds in Israel grew during the said period by NIS 28.4 billion, mainly due to increases in the assets of other bonds funds (NIS 15.0 billion) and State bonds (NIS 15.0 billion). On the other hand, a decline of NIS 1.7 billion was recorded by the shekel bonds funds. Similar increases of NIS 5.1 billion were recorded by foreign bonds funds and by foreign equities funds. On the other hand, a steep decline of NIS 7.4 billion was recorded by the shekel monetary funds.

The provident fund market. The provident fund market achieved in 2014 a positive return at an average rate of 5.4%. The said increase reflects the increases in the various indices of the Stock Exchange in 2014.

According to data published by the Capital Market Division at the Ministry of Finance, it appears that the assets of all the provident funds at the end of 2014 amounted to NIS 368,720 million, compared to NIS 347,343 million at the end of 2013, an increase of NIS 21,370 million (6%).

Furthermore, according to data published by the Capital Market Division at the Ministry of Finance Provident funds of the "Provident and Personal Severance Pay Funds" class had in 2014 a net negative accumulation in the amount of NIS 1,797 million. This compared to a net negative accumulation of NIS 1,962 million in 2013. The said data reflects the effect of changes in regulation with respect to provident funds.

New pension funds market. In 2014, the new pension funds achieved an average positive return of 6.4%. According to the data published by the Capital Market Division of the Ministry of Finance, the new pension funds in total had a net positive accrual amounting to approx. NIS 20.7 billion in 2014, compared to a positive net accrual of approx. NIS 17.9 billion in 2013. The volume of the new pension funds amounted to approx. NIS 191 billion in 2014, compared to approx. NIS 160.2 billion in 2013, an increase of approx. NIS 30.8 billion (approx. 19%).

The ETN market. According to data published by the Stock Exchange, 75 new ETN's were issued in 2014 (compared to 78 in 2013) and concurrently 15 certificates have expired and were removed from the trading list. The total number of ETN traded at the end of December 2014 was 590, of which 24 currency certificates ("deposit certificates"). The total value of ETN's held by the public at the end of 2014 amounted to approx. NIS 130 billion, following an increase of NIS 17 billion during 2014.

Capital market. For details regarding developments in the capital market in 2014, see "Capital market" above under "Main developments in Israel and around the world in 2013".

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS IN THE CAPITAL MARKET

The regulatory framework relating to the capital market operations continues to be updated on a current basis and is expected to continue and influence the Bank's activities in this line of operation, including the pension consulting field.

Legislation and regulation amendments regarding pension savings

Uniform interfaces. The Capital market, Insurance and Savings Department at the Ministry of Finance continues to regulate the uniform interfaces for the transmission of information and data in the pension savings field among the institutional bodies, license holders and additional consumers of information. This regulation is created by means of a circular that is updated from time to time, each update adding an additional interface and/or enlarging the information and data that has to be transmitted by means of an existing interface.

On June 1 and July 1, 2013, respectively, the duties determined in the circular from January 7, 2013, with respect to the use of the events interface and the holdings interface (hereinafter : "the interfaces") entered into effect. The Bank, similarly to the other entities to which the duty of use of the interfaces applies (distributors and institutional bodies), has developed these interfaces, though deficiencies were found in the reception of the information. In order to allow entities, as above, to identify the deficiencies and make the necessary adjustments, the Ministry of Finance has deferred, under certain conditions, the duty of use of the interfaces to November 1, 2013 and in continuation, the Ministry of Finance even published clarifications and updates for these interfaces, certain of which constituting a further deferral until March 16, 2014. At present, the information is received at the Bank in an orderly fashion by means of the interfaces, and the Bank continues to perform updates in accordance with clarifications and updates of the Ministry of Finance published from time to time.

On September 17, 2014, a new version of the circular was published. A draft amendment of this circular was issued on November 4, 2014, the main element in which is the addition of an interface for use of institutional bodies and license holders, when the proposed initial application date is fixed for July 1, 2015. An additional draft amendment to the circular was published on January 6, 2015, dealing with the establishment of a mobility interface.

Pension clearinghouse. A pension clearinghouse started operations on June 30, 2013. At the first stage, which entered into effect with the beginning of operations of the clearinghouse, a distributor (being an insurance broker or a pension consultant) may apply through the clearinghouse on behalf of a saver to all institutional bodies offering pension savings schemes, for information regarding any pension product registered in the name of the saver. Respectively, the instruction included in the circular dated October 7, 2013, "Compulsory use of the central pension clearing system" entered into effect on November 30, 2013. According to this instruction, an approach by a license holder to an institutional body making a onetime information request shall be made only through the clearing house.

At the second stage distributors would be able to apply through the clearinghouse for effecting transactions, for the receipt of information relating to the deposit of funds. At the third stage the clearinghouse will enable the clearing of funds and receiving data regarding funds transferred through the clearinghouse. It should be noted that according to the circular " Compulsory use of the central pension clearing system", the duty of use of the clearing house with respect to an approach by a license holder to an institutional body for the purpose of transacting business on behalf of a customer or for obtaining information regarding a product of the customer, shall enter into effect on January 1, 2016, unless another designated interface exists between the license holder and the institutional body.

Since the beginning of operations of the clearing house, the company operating the clearing house published for users of the clearing house, institutional bodies and distributors, preparation and connection rules as well as work procedures. At the same time, the Ministry of Finance continues with the regulation and stabilization of operations of the clearinghouse and users thereof, through the updating of existing circulars, including the circular regarding the uniform interfaces, as discussed extensively above, and the issue of new circulars.

Draft Amendment of the Supervision over Financial Services Regulations (Provident funds) (Distribution commissions), 2014. On June 12, 2014, the Capital Market, Insurance and Savings Department at the Ministry of Finance submitted the draft Amendment for approval of the Knesset's Finance Committee. The principal items of the Amendment deal with two material issues pertaining to pension consulting: the one, the possibility of obtaining a distribution commission also in respect of providing consulting services regarding a pension product of the insurance fund type; and the other, change in structure and rate of the distribution commission. As to the issue of consulting that involves insurance funds, it is proposed to determine that a pension consultant would be permitted to engage in a distribution agreement with an insurer for the purpose of conducting operations in pension products of the insurance fund type, appointment of the consultant with respect to these products and the receipt of a distribution commission in respect of the consulting services. As to the issue of the distribution commissions, it is proposed to reduce the rate of the distribution commission payable to a pension consultant, computed on the accumulated funds, from 0.25% to 0.2%, and in no case more than 40% of the management fees payable by the member in respect of the accumulated balance of funds. In addition, it is proposed to determine the possibility of payment of distribution commission in respect of amounts deposited at the rate of 1.6% on each deposit, but not more than 40% of the management fees payable by the member in respect of the amount of deposits. It is clarified that the distribution commission in respect of a further education fund remains unchanged at 0.25% of the accumulated amounts.

It is proposed that these regulations will take effect on January 1, 2015, and as regards the distribution commission payable in respect of customers referred by consultants – on January 1, 2016.

The Commissioner published on January 18, 2015, her position regarding a payment by an institutional body to a license holder, in which, the Commissioner expressed a position that cancels out the existence of mechanisms according to which commission fees payable to a license holder being an insurance agent, shall be higher in as much as the management fees payable by the customer are higher. Following this statement of position, the Commissioner informed the Union of Banks that she finds it difficult to approve the mechanism proposed by the draft Amendment described above. Accordingly, it has been decided to refrain from promoting the amendment to the distribution commissions Regulations, until such time as a different position is formed in the matter.

Additional regulations relating to the pension savings market. The Capital Market, Insurance and Savings Department at the Ministry of Finance continues to regularize the operations of the different factors active on the pension savings market – pension consultants, pension marketers and institutional bodies. The regulation applies to each factor separately as well as to the operations conducted among them, among other things, by means of the uniform interfaces and the clearing house.

The Ministry of Finance issued a number of draft circulars, which if become binding, they would apply to license holders being banking corporations, among other things, requiring extensive preparations for computer systems, changing a part of the documents used in this operation and changing work procedures. Thus for example, on January 10, 2014, a draft circular regarding the reporting of pension consulting data was published, which regulates the current reports and information, which a banking corporation holding a pension consulting license will have to submit to the Commissioner once in every quarter, relating to the scope of its operations in the pension consulting field. On November 24, 2014, an updated draft amendment of the circular in the matter of power of attorney to a license holder was published, which mostly relate to enlarging the possibilities of verifying and completing powers of attorney according to Appendix "A" to the circular, a matter that would require the license holder to make preparations for a computer system if he elects to make use of these possibilities. Furthermore, within the framework of this draft, it is proposed to extend the various powers of attorney also with respect to insurance schemes. It is proposed that the amendment to the circular will enter into effect on July 1, 2015. It is noted that with respect to customers who had signed powers of attorney that are not in accordance with the circular, a license holder would be required to obtain their signature on the new version according to the circular, and this until July 1, 2017. On September 28, 2014, a draft circular regarding the reasoning document, the aim of which is to establish a uniform, summarized and focused structure of the reasoning document, which would help the customer in understanding and acting on the information to which he is exposed as part of pension consulting. To the extent that this draft becomes effective, it will require license holders to prepare for an extensive computer system. Furthermore, the draft proposes to regulate new processes that would promote the pension consulting operations, including the option of transacting business in pension products other than in a face to face meeting and in a retrievable manner, as well as the possibility of providing focused pension consulting. It is proposed in the draft that the circular shall become effective on July 1, 2015.

At the same time, the Treasury has recently begun to regulate the operations conducted by the institutional bodies, and this, among other things, by means of a draft circular regarding the joining a pension fund or a provident fund as from November 23, 2014; a draft circular regarding the principles for medical underwriting dated December 28, 2014, and a circular from January 1, 2015 regarding the transfer of funds between provident funds, which replaces the previous circular in the matter issued in 2008. These circulars require and will require preparations by license holders being the distributing factor, which submits to the institutional bodies the instructions to execute the said acts.

For details regarding the repricing of commissions on securities operations, changes in the full pricelist regarding commissions on securities transactions and disclosure of the cost of securities services, see Note 35 to the financial statements.

Operation of provident funds. The Capital Market, Insurance and Savings Group at the Ministry of Finance published on August 18, 2014, the circular regarding services agreements, which continues the arrangement existing since the year 2006, in respect of operating services (back and front offices) provided to a management company by a banking corporation that holds a pension consultant license.

Legislation and regulation amendments regarding investment consulting, portfolio management, underwriting, mutual funds and custodian services

A file of Bills in the matter of reliefs and development of the capital market – updates regarding the manner of offers to the public. On April 23, 2014, the Israeli Securities Authority published an updated version following comments by the public. The file includes Bills for the amendment of the Securities Act and of Regulations enacted under it, in order to improve the mechanism of public offers of securities. The proposed updates include updates of the mechanism of non-uniform offers, including the possibility of accepting early commitments also with respect to a non-uniform offer; updates related to instructions concerning the conflict of interests of underwriters; updates to the mechanism of early commitments (the institutional tender), including a proposal to delete from the list of those entitled to participate in the institutional tender of individuals mentioned in the first Addendum to the Securities Act, who purchase on their own behalf; a proposal to include in the Act an additional uniform offer mechanism, with a quantitative range, in which would be merged the public tender with the institutional tender, so that the company would conduct only one tender for all investors; a proposal to update the dates of the period for the submission of orders; and a proposal abolish the duty of the underwriter's signature on the draft Prospectus published to the public in an initial offering of securities and to update the price and quantity of the offered securities within the framework of the complementary notice.

New regulations regarding Mutual Funds. A Bill was published on July 3, 2012 regarding Mutual Investment Trust Funds Bill (Amendment No. 21) (ETN's and basket funds), 2012, the purpose of which is to match the regulation applying to ETN's and similar products to the regulation applying to mutual funds.

The Authority informed on February 10, 2015, that as it is not known when the said amendment would be brought forward and due to its desire to promote competition in this area, it is proposed to act towards the development of the market by qualifying the offering already now of Exchange traded Funds (ETNs), separately from the regularization of Exchange Traded Certificates. Accordingly, the Authority has published for public comment a draft of the Mutual Investment Trusts Regulations (ETFs), 2015. The aim is to qualify ETFs as tracking closed funds traded on the Tel Aviv Stock Exchange, the object of which, similarly to an open tracking fund, is to make the maximum effort in order to achieve results similar to the extent possible to the rate of change in the assets (an index for example).

Foreign funds. On February 10, 2015, the Israel Securities Authority published for public comment a draft of the Mutual Investment Trusts Regulations (Distribution commissions) (Amendment), 2014. According to the draft Regulations, it is proposed that a foreign fund manager would be permitted to pay to a distributor a distribution commission in respect of units in a foreign fund, which the Authority had approved their offer to the public. In addition, it is proposed that the distributor shall be permitted to charge the unit holder a commission, and this in cases detailed in the draft, among which, a case in which the fund manager or the manager of a foreign fund had not engaged in an agreement between him and the distributor for the payment of a distribution commission, in respect of a fund being managed by him.

The Israel Securities Authority's Board of Governors approved in March 2014, a draft Mutual Investment Trust Regulations (foreign fund unit offerings), 2013. According to the draft Regulations, the ISA is authorized to permit the manager of a foreign fund to offer units of that fund to the Israeli public, if a number of conditions exist, including that in accordance with the fund`s investment policy, the fund does not specialize in investments in Israel and that the price of the units of the fund are published on a current basis on an Internet site and are accessible to the public at no cost. Amendment No. 23 to the Mutual Investment Trust Act, 2014, was published on the Official Gazette on July 30, 2014. The amendment states, as the default option, that it would not be possible to offer foreign mutual funds to the public in Israel, save under terms to be determined by the Minister of Finance, which, when these exist, the Israel Securities Authority would be permitted to allow the offer of units in foreign mutual funds.

Clarifying the needs and instructions of the customer. The Israel Securities Authority published on June 10, 2014, "Instructions for license holders in the matter of clarifying the needs and instructions of the customer (New version – 2013)", which proposes an efficient, purposeful and focused process.

Draft instruction regarding referring customers to portfolio management services. The Israel Securities Authority published on June 10, 2014, for public comment, a draft "instruction for consultant license holders and marketing license holders in the matter of referring customers to providers of portfolio management services". According to the draft, the reference of a customer to a company engaged in portfolio management shall be made only after the investment consultant had exercised independent judgment in the matter and found that such reference is to the benefit of the customer. The investment consultant shall not be directly or indirectly remunerated in respect of referring the customer to the portfolio management company and the volume of his activity as regards such references shall not be used to measure the activity of the consultant. Furthermore, it is proposed that upon referring the customer to a related portfolio management company, the investment consultant shall inform the customer, orally in a language understood by him as well as by a written document delivered to him, of the type of relations between the bank and the related company.

Regularization of custodian services in Israel. On January 16, 2013, the Supervisor of Banks informed of the adoption of the recommendations of the inter-office committee for the regulation of custodian services in the capital market in Israel, published in January 2012. The recommendations of the committee were designed to determine basic norms in the field of providing custodian services, with a view to align them with international standards in this field and to increase the uniformity of the regularization applying to operators in this field in Israel. Banking corporations were required to implement the recommendations of the committee as from October 1, 2013, except for several requirements regarding custody services provided directly as well as all requirements applying to providing custody services as a broker, applied as from July 1, 2014.

Regulation with respect to electronic voting system. The Securities Act (Amendment No. 53), 2013, was published in the Official Gazette on October 31, 2013. The proposed act is intended to extend the existing instructions in the matter of confirmation of ownership and voting in shareholder meetings also to option warrants, and to regulate the legal infrastructure for the establishment of an electronic voting system, through which holders of securities will be able to vote at various meetings. The possibility of voting shall be granted to shareholders of public companies, to option warrants holders, to holders of debt notes (bonds) and to holders of participation units in oil and gas partnerships. This move is intended to increase the involvement of securities holders in meetings and realize their voting power.

The electronic voting system to be established by the Securities Authority will connect Stock Exchange members to potential voters. Stock Exchange members will be required, on the one hand, to submit to the system all the data regarding the potential voters holding securities through them, and who did not express in writing their refusal for the transmission of data in their respect, as stated, and on the other hand, to deliver to these potential voters the information required by them for the purpose of voting, including control passwords and information regarding the relevant meeting.

The Amendment will take effect on the date on which the Regulations regarding voting papers for holders of option warrants will take effect. The Securities Regulations (Voting in writing and proof of ownership of option warrants for the purpose of voting in meetings of option warrants holders), 2014, were published in the Official Gazette on December 17, 2014. As stated, the effective date of the said Regulations (six months from the date of publication) is also the effective date of Amendment No. 53 of the Securities Act, namely, date of entry into operation of the electronic voting system.

Draft Amendment of the Supervision over Financial Services Regulations (Provident funds) (Distribution commissions), 2014. On June 12, 2014, the Capital Market, Insurance and Savings Department at the Ministry of Finance submitted the draft Amendment for approval of the Knesset's Finance Committee. The principal items of the Amendment deal with two material issues pertaining to pension consulting: the one, the possibility of obtaining a distribution commission also in respect of providing consulting services regarding a pension product of the insurance fund type; and the other, change in structure and rate of the distribution commission. As to the issue of consulting that involves insurance funds, it is proposed to determine that a pension consultant would be permitted to engage in a distribution agreement with an insurer for the purpose of conducting operations in pension products of the insurance fund type, appointment of the consultant with respect to these products and the receipt of a distribution commission in respect of the consulting services. As to the issue of the distribution commissions, it is proposed to reduce the rate of the distribution commission payable to a pension consultant, computed on the accumulated funds, from 0.25% to 0.2%, and in no case more than 40% of the management fees payable by the member in respect of the accumulated balance of funds. In addition, it is proposed to determine the possibility of payment of distribution commission in respect of amounts deposited at the rate of 1.6% on each deposit, but not more than 40% of the management fees payable by the member in respect of the amount of deposits. It is clarified that the distribution commission in respect of a further education fund remains unchanged at 0.25% of the accumulated amounts.

It is proposed that these regulations will take effect on January 1, 2015, and as regards the distribution commission payable in respect of customers referred by consultants – on January 1, 2016.

Companies Regulations (Announcement and notice regarding a general meeting and a class meeting in a public company), 2014; Companies Regulations (Proof of ownership of shares for the purpose of voting in general meetings), 2014; Companies Regulations (Voting in writing and notices of position), 2014. In continuation of Amendment No. 53 to the Securities Act, which, among other things, regulates the matter of the electronic voting system, as detailed above, on June 2, 2014 the said amendments were published on the Official Gazette, the principal of which include the modification of the regulations to voting by means of an electronic voting system in accordance with Amendment No. 53 to the Securities Act. The amendments retain the mechanism of the "manual" voting paper with various adjustments, and allow voting by means of an "electronic" voting paper in any matter and at any meeting; Imposing the duty of detailing the highest remuneration in the company within the framework of convening a general meeting, the agenda of which includes the approval of the remuneration policy, if the said remuneration is not included in a disclosure to the public in accordance with the Securities Regulations or in accordance with the foreign law in effect and modifying the dates for convening a general meeting in a manner that would allow the adding of an item to the agenda of the meeting being convened, and this in order to realize the rights of the shareholders under Section 66(b) of the Companies Act.

Legislation proposals in the matter of reliefs and development of the capital market. In continuation of the "road map" plan published by the Israeli Securities Authority in September 2012, The Reliefs on the Capital Market and the Encouragement of Operations Thereon Act (Legislation amendments), 2014, was published in the Official Gazette on January 27, 2014. The principal amendments relate to the Regulation of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management Act, 1995 ("the Consulting Act"), and to the Securities Act, 1968, and they deal with reliefs relating to enforcement matters (such as the extent of sanctions and the widening of the authority to reduce them), extending the period for the raising of funds in accordance with a shelf prospectus from two to three years and reliefs relating to investment consulting (such as reducing the frequency of the duty to conduct an update of customer needs process). The Minister of Finance was authorized to exclude certain types of financial assets from the definition of the term "financial assets" in the Consulting Act, in a way that would allow the sale of units in deposit and loan fund despite being considered a mutual trust fund, not by means of a consultant, similarly to bank deposits. The deposit and loan fund will constitute a development, a secondary classification, of a shekel monetary fund, especially conservative, the returns of which would reflect the returns inherent in "jumbo" deposits and in short-term loans (up to one year) of the Government of Israel and of the Bank of Israel. The Regulations regarding Regulating of Engagement in Investment Consulting, Investment Marketing and Investment Portfolio Management (Assets for the purpose of a license-free engagement), 2014, was published in the Official Gazette on November 19, 2014.

Furthermore, as part of the roadmap, the Israel Securities Authority published in April 2014 a legislation proposals file in the matter of reliefs regarding immediate reporting, as amended following comments by the public. The principal reliefs relate to the Securities Regulations (Periodic and immediate reports), 1970. For example, extension of the date on which an immediate report has to be submitted and reducing the duty of reporting the appointment and termination of office of certain senior company officers.

The front-running Prohibition Bill. A draft of the Front-running Prohibition Bill (Legislation amendments), 2014, was published on February 18, 2014. The Bill deals with three principal issues: (1) prohibition on front-running by financial brokers and their staff – according to the Bill, a financial broker who traded in a security while having information obtained from a customer as to a future transaction to be effected in that security or in a related security, shall be considered as committing front-running and be subject to imprisonment of five years or to a fine of NIS 1 million and of NIS 5 million in case of a company. The communication of information as above is also considered a front-running offence, subject to the same punishment. The definition of a financial broker includes a banking corporation, a stock exchange member, a corporation holding a license under the Consulting Act, a manager of a mutual fund, management company, an insurer, an underwriter and a distributor. The Bill states several cases in which the said action shall not be considered front-running. (2) Prohibition on the use of an opinion obtained from an inside party of a corporation – the Bill states that the use of an opinion regarding securities of a corporation obtained from an inside party of that corporation, were the user is aware or may reasonably assume that that inside party has inside information, shall be considered use of inside information. It is further proposed to determine that information shall not be considered information unknown to the public after thirty minutes have elapsed from the time of publication on the MAGNA, or after the end of one trading day on the Stock Exchange, following the day on which such information was otherwise made public, in an accepted manner of making information public. (3) Restriction on the holding of securities and on trading in them - it is proposed to determine uniform limitations in the matter of the holding of securities and of trading in them by license holders and staff of mutual fund managers, to be established by regulations to be published by the Minister of Finance.

Report of the Committee for the improvement of trading and encouragement of liquidity on the Stock Exchange (headed by Prof. Ben Horin). The final recommendations of the Committee were published on April 7, 2014. The Committee has been established on the background of the low trading turnover on the Stock Exchange in recent years. The Committee has been asked to examine and propose alternatives for improvement of trade and encouragement of liquidity of securities listed for trade on the Stock Exchange. Among other things, the report includes recommendations regarding changes in the structure of the Tel Aviv Stock Exchange, the launching of new financial products, trading methods and trading orders, the structure of trade commissions, the setting-up of securities lending reservoir, the encouragement of foreign investors, etc.

Changes in the structure of the Tel Aviv Stock Exchange. On November 26, 2014, the Israel Securities Authority issued for public scrutiny a proposal for the regularization of the change in structure of the Tel Aviv Stock Exchange – a preliminary memorandum for amendment of the Securities Act, which had been approved by the Board of Governors of the Israel Securities Authority. The proposed Bill is based, among other things, on the principal recommendation of the committee for improvement of trading and encouragement of liquidity on the Stock Exchange, deliberating the change in the structure of ownership of the Stock Exchange with a transition from the model of membership with no equity rights to a model of a profit earning corporation, in a manner that severs, to the extent possible, ownership from membership, while minimizing conflict of interests between the management of the Stock Exchange and the various interests of all operators therein.

Following the proposed structural change, each shareholder of the Tel Aviv Stock Exchange shall have voting and capital rights in accordance with an agreed distribution.

"Safe Harbor" protection from use of inside information. On April 13, 2014, the final version of the statement of position of the staff of the Israel Securities Authority was published in the matter of safe harbor protection against use of inside information in the case of transactions in securities of a corporation made by senior officers, employees and principal shareholders of that corporation. The publication includes the principles according to which the corporation is required to act in order to provide the above mentioned parties with safe harbor protection upon the execution of transactions in securities issued by it.

On September 2014, the Israel Securities Authority published for public comment, an amendment to the Securities Regulations regarding purchase offers, mergers and the updating of reports. Among other things, it is proposed in the amendment that a Stock Exchange member, who acts as a coordinator with respect to an offer in a purchase offer, shall have the duty to transmit to the offeror the acceptance notices receive by him in writing within the framework of the purchase offer, in order for the latter to be able to examine as to whether a personal interest exists as regards the offeree. Accordingly, a Stock Exchange member will be required to transmit the said acceptance notices to the Stock Exchange member acting as coordinator of the offer in a purchase offer. It is clarified, that furthermore to the preparations required of a Stock Exchange member in order to implement this duty, the matter reflects also exposure of information regarding the customers of a Stock Exchange member.

SCALE OF OPERATIONS AND NET INCOME

Net income recorded from operations in 2014 amounted to NIS 76 million, compared to NIS 27 million in 2013, an increase of 181.5%.

Following are principal data relating to operations in the capital market:

	For the year ended December 31, 2014								
	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	in NIS millions								
Interest income, net									
- From external sources	-	-	-	-	-	-	-	1	1
- Intersegmental	-	-	-	-	-	-	-	-	-
Total Interest income, net	-	-	-	-	-	-	-	1	1
Non-interest financing income	7	1	2	-	-	-	10	-	10
Commissions and Other income	259	45	60	10	56	1	431	60	491
Total Income	**266**	**46**	**62**	**10**	**56**	**1**	**441**	**61**	**502**
Credit loss expenses	215	35	43	9	54	1	357	40	397
Profit before taxes	51	11	19	1	2	-	84	21	105
Provision for taxes (tax savings) on profit	19	4	5	-	-	(1)	27	1	28
Net Income attributed to the Bank's shareholders	**32**	**7**	**14**	**1**	**2**	**-**	**56**	**20**	**76**
Average securities	44,557	8,449	79,061	7,308	19,735	-	159,110	14,115	173,225
Average other assets under management	3,259	611	648	350	663	-	5,531	2,150	7,681

Following are principal data relating to operations in the capital market (continued):

	For the year ended December 31, 2013								
	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	in NIS millions								
Interest income, net									
- From external sources	-	-	-	-	-	-	-	-	-
- Intersegmental	-	-	-	-	-	-	-	-	-
Total Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	5	3	3	-	1	-	12	-	12
Commissions and Other income	225	41	57	10	44	6	383	57	440
Total Income	**230**	**44**	**60**	**10**	**45**	**6**	**395**	**57**	**452**
Credit loss expenses	205	42	47	9	51	3	357	51	408
Profit (loss) before taxes	25	2	13	1	(6)	3	38	6	44
Provision for taxes (tax savings) on profit	9	-	4	1	(1)	2	15	2	17
Net Income (loss) attributed to the Bank's shareholders	**16**	**2**	**9**	**-**	**(5)**	**1**	**23**	**4**	**27**
Average securities	(1)37,889	(1)8,529	(1)(3)73,412	(1)8,891	(1)15,488	-	144,209	12,006	156,215
Average other assets under management(1)(2)	2,457	489	689	288	368	-	4,291	1,509	5,800

(1) Reclassified, see Note 31 B (4) to the financial statements.
(2) Reclassified, see Note 31 B (6) to the financial statements.
(3) Reclassified, see Note 31 B (5) to the financial statements.

DEVELOPMENTS IN THE OPERATIONS

Re-pricing of commissions on securities operations. For details regarding the repricing of commissions on securities operations, see Note 35 to the financial statements.

Distribution of mutual funds. The Bank has entered into distribution agreements with most of the companies managing mutual funds in Israel, for the purpose of distributing their mutual funds to its customers, in consideration for distribution commissions in respect of mutual fund units held by these customers, in accordance with the regulations in this matter. In addition, the Bank is in the early stages of preparation for the signing of distribution agreements with foreign mutual fund managers, once they are permitted by law to offer units of mutual funds in Israel managed by them. It should be noted that banks were prohibited, for the most part, from charging commissions in respect of the purchase and sale of mutual fund units.

Trading services in the capital market. The Bank provides various trading services in securities:

- Discount trade - a service intended for customers who operate independently in the capital market, and which includes an advanced dealing center and a state-of-the-art Internet trading system.
- An interface for securities operations on the Internet website.
- A designated trading interface for securities operations of institutional bodies.

Providing securities services to American customers. Following changes in the enforcement policy of the U.S. Authorities regarding bank accounts managed outside the U.S., the Bank adopted, in March 2010, a policy of terminating the provision of securities services to U.S. related customers (both existing and new), and to prohibit the use of American means of communication for the purpose of providing securities services to customers staying in the U.S., and suitable guidelines have been determined within the framework of the procedures applying to the operations of the Bank and of the relevant subsidiaries in the Group. As part of the current handling and monitoring process, the policy in this respect was updated in January 2013, and the issue of terminating the management of securities accounts of customers identified as U.S. residents was clarified. In continuation to the updates of the relevant U.S. legislation and various clarifications received in the matter, the Bank updates the existing procedure.

DATA RELATING TO THE SCALE OF OPERATIONS IN DIFFERENT AREAS

Securities. On December 31, 2014, the balance of securities held for customers amounted to approx. NIS 151 billion, including approx. NIS 6.15 billion of non-marketable securities, compared to NIS 147.5 billion as at December 31, 2013, including NIS 10.6 billion of non-marketable securities, an increase of 2.4%. For details as to income from security activities, see Note 25 to the financial statements.

In addition, the balance of securities held on behalf of customers at the MDB as of December 31, 2014, amounted to NIS 11.8 billion, compared with NIS 11.5 million in December 31, 2013, an increase of 2.6%.

Investment portfolio management. On December 31, 2014, Tafnit was managing investment portfolios valued at approx. NIS 6,100 million, as compared to a total of approx. NIS 4,803 million as at December 31, 2013. This data points to an increase of 27% in the monetary value of the managed portfolios.

Pension advisory services. On December 31, 2014, the number of customers obtaining consulting services at the Bank amounted to 86,000. The total cumulative assets of customers receiving pension consulting services from the Bank as at December 31, 2014, amounting to NIS 13.1 billion, compared with NIS 11.9 billion in the end of 2013, an increase of approx. 10%.

MARKETING AND DISTRIBUTION

The distribution of products and services is undertaken by segment employees through the use of the Bank’s existing distribution apparatus, the branch network, investment centers, private banking centers, staff units and the Bank’s subsidiary companies. For further details, see "Consulting services" in the Section "The retails sector - General" in the Chapter "Activity of the Group according to principle segments of operation" above.

Following the legislation for the implementation of the Bachar Committee recommendations, the Bank has become a financial and pension consultant independent of the providers of the products, and distributes a range of financial and pension products.

CAPITAL MARKET SERVICES

The Bank provides its customers with an array of investment consulting services, securities trading and operating in Israel and abroad. These are offered to private customers, institutional customers and capital market operators. The Bank offers varied services, which include: equity securities activity in Israel and abroad, bonds (including convertible bonds), short-term Government loans (MAKAM), options, foreign currency, structured deposits, ETN's, derivatives in Israel and abroad, securities offerings and lending of securities, as well as providing professional and objective investment consulting regarding securities and financial assets.

Some of the Bank’s customers maintain securities portfolios managed by various portfolio managers operating through the Bank, including through the subsidiary Tafnit Discount Asset Management.

PENSION ADVISORY SERVICES

The Bank provides since 2008, pension consulting services to its customers and also to individuals who are not the Bank's customers.

The Bank provides pension consulting services with respect to provident funds, pension funds, further education funds and insurance products through pension consultants operating at the Bank branches and investment centers.

Public awareness as to the importance of pension planning had grown in recent years, and as a result, the demand for pension consulting services provided by the Bank has grown significantly. A number of systems and auxiliary tools have been developed as part of the pension consulting services support layout:

- Pension consulting system – a computer system devised as a decision support tool for the pension consultant in recommending and choosing pension products for the customer. This system is being adjusted and updated in accordance with regulatory requirements and business needs;
- An automatic forms system including a graphic signature, for the production of operational instruction forms addressed to the institutional bodies with which the Bank has distribution agreements, based on the results of the pension consulting;
- Presentation of a customer portfolio on the direct lanes – the Bank's customers who receive pension consulting services, and who have permission to access the direct lanes (the Internet or the Bank's automatic service machine) may view the details of the pension products included in their portfolio;
- Pension information portal – providing professional support for consultants, which is being updated on a current basis.

The Bank is obliged to enter into engagements with all institutional bodies managing provident funds, new pension funds as well as further education funds, which wish to do so, with the exception of insurance companies. As of date of preparation of these financial statements, the Bank entered into distribution agreements with most of the institutional bodies operating in the pension market, for the distribution of products managed by them, in consideration for a distribution commission at rates and payment terms identical to those for an identical service. The maximum distribution commission rate is determined by Regulations, and the commission is payable in respect of pension assets (excluding insurance products) of customers receiving pension consulting services from the Bank.

At the "Adif" conference for 2013, the Bank has been elected, for the third consecutive time, as a leader in the pension consulting layout category of the banks, within the framework of the annual election rating of the insurance, pension and finance media reporters and the readers of "Adif".

Since the beginning of 2013, following the discontinuation of pension consulting operations of Mercantile Discount Bank, the Bank has begun providing pension consulting services at the branches of Mercantile Discount Bank by means of the Bank`s consultants and systems.

COMPETITION

In the capital market activity, the Bank competes both with other banks and with private brokers. In the field of financial products competition exists against the consulting entities as well as against the marketing entities (the providers of the products) as regards the sale to customers of one or another financial product.

An institutional body pays a commission to a distributor, who is a license holder (pension consultant, marketer or pension broker), in respect of customer products which the institutional body manages, to the extent that the distributor had been appointed by the customer. The customer may at any time revoke the said appointment and/or transfer it to another license holder, and as from that date, the institutional body will pay the commission to the new license holder (if appointed) and the payment of commission to the previous pension consultant will be discontinued as from that date. Accordingly, competition over a customer is expected between all license holders and institutional bodies.

At the present time, most of the banks are active in the pension consulting market.

GOALS AND BUSINESS STRATEGY

- Improvement in securities trading by means of the Internet, development of the activity of arbitrage player and capital market players;
- Continued cultivation and distinction of the status of the investment consultant.

CONSTRUCTION AND REAL ESTATE ACTIVITY

MARKET DEVELOPMENTS

General. During 2014 uncertainty prevailed with respect to the implementation of the "zero VAT" plan of the Ministry of Finance and the "target price" plan of the Ministry of Construction, which led to a slowdown in the sale by constructers of new residential units. In the period from January to September 2014, the demand for new residential units declined by 15.1%, compared with the corresponding period last year. Notwithstanding the above, the announcement of general elections for the Knesset and the putting on hold of the "zero VAT" plan led to the return to the market of residential units purchasers in November. The number of transactions for the purchase of new residential units amounted in November to 2,648, an increase of 23% compared with the corresponding month last year.

The volume of investment in residential construction decreased in 2014 at a rate of 1.4%, compared with a growth of 3.8% in 2013. The scope of investments in non-residential construction and other construction work decreased at a significant rate of 11%, compared to an increase of 12.8% in 2013.

The following developments occurred in the various operating segments in 2014:

Residential construction

- Prices of residential units – In 2014 the Owner-Occupied Housing Price Index, published by the Israeli Central Bureau of Statistics, rose by 5.8%. The rise in the index resulted mainly from the low interest rate environment, which contributed to the continued demand for residential units and a slowdown in construction beginnings, in view of the uncertainty in the market created by the Government plans;
- Beginnings of construction projects – The low number of beginning of construction projects in the last decade has created a cumulative shortage in the supply of residential units. The construction of 32,850 new residential units began in the first three quarters of 2014[1], of which 42% in the Central Region and the Tel Aviv Region. The number of construction beginnings in the first three quarters of 2014 constitutes a decline of 7% compared with the corresponding period last year. Construction beginnings in recent years satisfy the annual demand, though they do not reduce the cumulative excess demand created in the previous decade.

Demand for mortgage loans. The outstanding balance of mortgage loans increased during the first three quarters of 2014[1] by NIS 11 billion, to a level of NIS 299 billion, a rate similar to the growth rate in the preceding three years. In view of the continuous growth in housing credit and in its share in the total bank credit portfolio, the Bank of Israel has instructed to increase the capital buffer that the banking industry allots with respect to the housing credit portfolio, thus reinforcing the ability of banks to absorb unexpected losses and reinforcing the financial stability in general (see below).

The Bank of Israel interest rate. Interest in real terms, calculated as the difference between the Bank of Israel interest rate and the anticipated capital market inflation for one year ahead, was negative in 2014, and as of December amounted to 0.35%, a trend which started at the end of 2012. This low interest rate supports the continued demand for residential units and the moderate increase of housing prices.

Income generating real-estate - office buildings. The office premises market maintained in 2014 the stability in rental prices and in occupancy rates in most parts of the country. Surplus office space exists in the central region, a surplus that is mostly found in the Ramat Hachyal and Bnei Braq areas, reflected in the slow occupancy pace of the offered office space.

Income generating real-estate - commercial buildings. A slight fall in prices was recorded in 2014, together with the maintenance of stability in occupancy rates. An upward trend exists in the sales turnover of the "power centers" with a decline in the sales turnover of the shopping malls. This trend results from the change in customer preferences, looking for lower price products, which are found in the open centers. There exists a considerable supply of approved building plans, the realization of which might lead to surplus supply that may cause a decline in rental prices.

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[1] The most up to date information available at date of printing of the report.

Infrastructure. This sector in Israel mainly includes 3 areas: transportation (roads, railway lines and light rails), water (desalinization and sewage treatment) and energy (private power producers), and is in the midst of an acceleration in investments. The State of Israel has invested in recent years billions of NIS in infrastructure projects.
The outstanding projects in this field are the development of the infrastructure for the light railway and the BRT, the military training bases center project, the fast lane to Tel Aviv, The police training center, power production by use of renewable energy and more.
Real estate activity abroad. Investments by Israeli corporations in entrepreneurial and income generating real estate in certain Western European markets, U.S. and Canada, due to the following developments.

- North America – The commercial real estate sector continues to show recovery signs with the continuing upward trend in construction beginnings and a growth in the rented retail business spaces. The segments that had led the growth are the discount shops and the outlets. Prices of commercial real estate around the United States continue to rise and rental prices also continued to demonstrate strength.
- Canada – the volume of construction of commercial centers continued to grow, with most of the projects being developed focusing on power centers, extensions of local shopping malls and varied uses centers. U.S. marketing chains expand their business to the Canadian market and push forward the retail market. Most of the large marketing chains are interested in opening branches, in particular in well established and successful purchasing centers. The high demand for real estate led to a gradual reduction in the capitalization rates during the recent decade. Returns prevailing in the market at the present time amount to 6.5%. The decline in the capitalization rates reduces rentability in this sector, however, the stability of the Canadian economy and the low interest environment expected in the coming years, will continue to support this positive trend in the near period.
- Europe – a gradual recovery takes place in the income generating real estate market in Europe. The office premises and commercial centers rental sector is expected to grow. The trend of purchases of properties located in the center of European cities by foreign investors, including institutional bodies, will continue. Demand for such properties by foreign investors may lead to a decline in returns on these assets.

DEVELOPMENTS IN THE FINANCING RESOURCES OF THE ACTIVITIES

Bonds. Companies operating in this sector issued in 2014 corporate bonds amounting to approx. NIS 14.8 billion, compared to NIS 17.5 billion in 2013. The volume of funds raised by the real estate sector comprised approx. 35% of the total funds raised in 2014. Among the real estate companies offering their securities, are five foreign corporations engaged in building projects entrepreneurship and in income producing real estate in New York, which raised an amount of NIS 2.36 billion.
Intensified competition on the part of the institutional bodies. In recent years, the growth in the nonmarketable credit offered by institutional bodies has materially increased. Most of the credit was designated for the finance of real estate and infrastructure projects in Israel and abroad. This trend is expected to continue in the coming years, leading to a more intense competition between the banks and these bodies.

EXPECTED DEVELOPMENTS IN THE ACTIVITY

Residential construction - Central region. Low credit costs, absence of alternative investment opportunities, as a result of the negative real-term interest rate, and the cumulative surplus in demand, support the continuing moderate upward trend in housing prices. The rise in prices of residential units supports the continuing trend of demand being shifted to peripheral areas.
Income generating real estate - office space. New office space in a large volume is expected to be added to the existing inventory in the coming years, and this following the large inventory added in the past year, and this addition may accelerate the price reduction process. Notwithstanding, the Bank estimates that in the short term occupancy rates in the sector will remain stable.

Income generating real estate - commercial space. Stability is expected in the short term in the demand for quality commercial properties, accompanied by stability in rental prices. Nevertheless, the continued slowdown in economic growth and the increase in the cost of living may lead to a decline in sales and to difficulties of tenants to pay the high rental prices. The slowdown might adversely affect demand for new commercial premises and increase the level of risk in this sector.

Infrastructure. The total scope of investments in PPP projects in Israel amounts to over NIS 19 billion. Additional projects are at present undergoing tender proceedings to the tune of approx. NIS 11.5 billion. The total budget commitment in respect of PPP projects amounts at present to NIS 220 million per year. Additional investments in PPP projects are expected in the coming years, so that in 2022 the budget commitment is expected to amount to approx. NIS 500 million.

The above information comprises a forward looking statement. The above reflects the evaluation of the Bank's management while keeping in mind the information available to it at date of preparation of the financial statements, as discussed above in this Section and based on publications of various entities, such as the Central Bureau of Statistics, the Ministry of Housing, the Bank of Israel and others. The information may not materialize if the decline in the level of domestic demand will continue and/or intensify as a result of a deterioration in the political/security situation, a significant decline reaching a complete freeze in the availability of financing resources on the financial markets in Israel and abroad, intensified recession conditions in the global markets, continued fluctuations in interest and exchange rates globally and in the Israeli economy and other developments in macro economic conditions that are not under the Bank's control.

DIRECTIONS OF BUSINESS DEVELOPMENT IN THE MARKETS ACTIVITIES

The Bank defined the following fields of activity in preferred areas for the allocation of credit facilities:

- Closed housing project financing, including small projects, in low volume of finance, in central demand areas in central Israel and in peripheral areas, while maintaining a distribution of credit to borrowers in this field;
- The purchase of new lands available for building in preferred areas in the center of the country and in peripheral areas, where in respect of which the Bank intends to finance housing and/or commercial building projects in the form of closed project financing;
- Financing projects in the national infrastructure field, in cooperation with other banks and/or institutional bodies, that include identified and secured long-term repayment resources having a high certainty level;
- Financing of income generating properties projects, mostly in the field of shopping malls and commercial centers in demand areas, by entrepreneurs having financial strength, while securing in advance a significant part of the potential rental earnings.

CREDIT POLICY IN THE CONSTRUCTION REAL ESTATE ACTIVITY

The Bank's credit policy is based on the following principles:

- Focusing on the financing of operations in Israel;
- Reducing the risk level inherent in the credit portfolio to this sector by focusing on financing operations in areas where the Bank has a positive experience with, and concurrently by reducing credit having a high level of risk;
- The financing of projects will be made under rules and restrictions determined by the Bank for providing finance to this sector, including restrictions on the concentration of borrowers and restrictions on sub-operations in this sector;
- Preference for financing borrowers having high financial strength and experience in this field, with whom the Bank has positive experience in transacting business;
- In view of the required specialization in this field, credit to the real estate sector will be mostly handled by the real estate and infrastructure department;
- The financing of initiating residential construction projects and income generating real-estate projects is to be executed by the "construction loan" method, which allows close supervision of the project being financed;

- The closed project financing will be carried out under minimum requirements, including borrower's equity capital, required project profitability, compliance with stress tests, absorption ability, early sales and more;
- The financing of income producing properties will be conditional upon the existence of financially stable tenants.

SCALE OF OPERATIONS AND NET INCOME

General. In view of the increased activity in the field of residential construction in 2014, the Bank has expanded its business activity with construction companies. As reported with respect to most of the projects being built, the rate of sales exceeded the rate of construction progress, a fact that increased exposure to guarantees granted under the Sales Act against the utilization of the banking loan facility.

Net profit from operations in 2014 amounted to NIS 186 million, compared with NIS 296 million in 2013, a decrease of 37.2%. The decline in net income derives, mostly, from a decline in financing income from real estate operations in the corporate segment, due to increasing competition as against institutional bodies.

The credit loss expenses amounted to NIS 106 million in 2014, compared to NIS 70 million in 2013, an increase of 51.4%. The increase derives, mostly, from an increase in expenses for credit losses as regards real estate operations in the Middle Market banking Segment.

Following are principal data relating to construction and real estate activity:

	For the year ended December 31, 2014							
	Domestic operations				International operations			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	in NIS millions							
Interest income, net								
- From external sources	6	290	123	419	133	42	175	594
- Intersegmental	55	(96)	(17)	(58)	(34)	(15)	(49)	(107)
Total Interest income, net	61	194	106	361	99	27	126	487
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	19	89	28	136	20	8	28	164
Total Income	**80**	**284**	**134**	**498**	**119**	**35**	**154**	**652**
Credit loss expenses (expenses reversal)	18	13	27	58	(10)	58	48	106
Operating and other expenses	21	81	42	144	61	27	88	232
Operating Income (loss) before taxes	41	190	65	296	68	(50)	18	314
Provision for taxes (tax savings) on operating income	16	73	25	114	21	(7)	14	128
Net Income (loss) attributed to the bank's shareholders	**25**	**117**	**40**	**182**	**47**	**(43)**	**4**	**186**
Return on equity (percentage)	26.8	9.5	10.0	10.3	10.1	(30.6)	0.6	7.8
Average Assets	1,329	8,415	3,797	13,541	4,019	1,841	5,860	19,401
Average Liabilities	951	1,821	960	3,732	927	509	1,436	5,168
Average Risk-assets	1,146	14,708	4,858	20,712	5,534	1,709	7,243	27,955
Components of Interest income, net:								
Margin from credit activity	57	190	102	349	79	18	97	446
Margin from deposits activity	4	4	4	12	20	9	29	41
Total Interest income, net	**61**	**194**	**106**	**361**	**99**	**27**	**126**	**487**

Following are principal data relating to construction and real estate activity (continued):

	For the year ended December 31, 2013							
	Domestic operations				International operations			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	in NIS millions							
Interest income, net								
- From external sources	50	520	129	699	121	22	143	842
- Intersegmental	(4)	(251)	(29)	(284)	(27)	(4)	(31)	(315)
Total Interest income, net	46	269	100	415	94	18	112	527
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	22	102	32	156	24	6	30	186
Total Income	**68**	**372**	**132**	**572**	**118**	**24**	**142**	**714**
Credit loss expenses (expenses reversal)	4	23	(9)	18	14	38	52	70
Operating and other expenses	10	61	30	101	56	23	79	180
Operating Income (loss) before taxes	54	288	111	453	48	(37)	11	464
Provision for taxes (tax savings) on operating income	20	105	40	165	11	(8)	3	168
Net Income (loss) attributed to the bank's shareholders	**34**	**183**	**71**	**288**	**37**	**(29)**	**8**	**296**
Return on equity (percentage)	48.7	13.7	20.6	16.5	9.1	(24.2)	1.5	13.0
Average Assets	935	11,464	3,444	15,843	3,883	1,935	5,818	21,661
Average Liabilities	740	1,989	877	3,606	921	313	1,234	4,840
Average Risk-assets	880	16,667	4,232	21,779	5,136	1,505	6,641	28,420
Components of Interest income, net:								
Margin from credit activity	40	262	94	396	75	12	87	483
Margin from deposits activity	6	7	6	19	19	6	25	44
Total Interest income, net	**46**	**269**	**100**	**415**	**94**	**18**	**112**	**527**

LEGISLATIVE AND REGULATORY LIMITATIONS AND SPECIAL CONSTRAINTS APPLYING TO THE ACTIVITY

The limitations described above applying to the business segment also apply to construction and real-estate operations. In addition, it should be noted that as part of Proper Conduct of Banking Business Directives, a limitation applies to industry credit concentration, where that part of the credit being the responsibility of the banking corporation (including off-balance sheet credit) granted to a certain industry, as defined in the Directive, exceeds 20% of total credit to the public being the responsibility of the banking corporation. The rate of Bank's exposure as regards credit to the construction and real-estate industry as of December 31, 2014 reached a rate of 18.43% (16.96% at the end of 2013).

SERVICE TO CUSTOMERS OF THE SEGMENT

Most of the business activity in the real estate and construction segment is carried out by the Bank's real estate and infrastructure department. The department provides a wide range of banking services both to the large and medium level corporations engaged in the promotion and investment in residential and income generating real estate in the local market. In addition the financing operations of the segment are also conducted by business managers at the large corporations department, mostly with respect to holding companies, the principal activity of which centers on the holding of companies in the real estate field.

Within the framework of the real estate and infrastructure department operates a unit specializing in complex transactions for the finance of investments in national infrastructure projects (energy, electricity, water and desalinization plants and toll roads, mostly by

the PPP method). The unit engages in allocating appropriate finance packages with the participation of institutional investors (who have advantage in raising long-term financing resources) or in cooperation with other banks in financing the transaction.
MDB provides the service to customers of this segment by means of the real estate department dealing with all real estate companies conducting business with this bank and engaged in entrepreneurship that includes financing through the "closed project finance" method, for construction projects principally residential buildings (handled by the construction project finance department), contract construction, income generating real estate and real estate holdings (handled by the real estate department).

CRITICAL SUCCESS FACTORS OF THE OPERATIONS

The critical success factors of the segment include:
- Professional and skilled manpower;
- Proper monitoring and control over the credit granted to this segment;
- Understanding of the market and the consistent analysis thereof, including all its aspects, the entrepreneurs, the construction contractors, the competing financiers, the demand for housing and investments, the regulation and exogenous effects. The ability to respond to identified opportunities and concurrently the ability to respond to identified threats and risks;
- Current communication with customers, qualitative service, continued customer satisfaction as regards the quality of service and the financing of projects that had been completed;
- Providing prompt response to applications for credit and other related services;
- The offering of competitive terms from the aspect of project financing terms, the modification of the financial structure to the risk levels, adjustments to the capital requirements, which the entrepreneur has to provide, as a function of the quality of the entrepreneur, quality of the specific project, the levels of demand and of advance sales, the scope of the project and the number of its stages, the housing units offered and the existing competition in the same demand area as well as the consideration of additional parameters;
- Use of specific analyzing and monitoring tools assisting in the decision making process and in the control during the period of project financing;
- Adequate understanding and mapping of the market is required in order to identify risks/opportunities in various sectors, e.g. standard residential construction, luxury residential construction, rental office and commercial property.

THE MAIN ENTRY AND EXIT BARRIERS OF THE OPERATIONS

Customers of the sector conduct business with several banks at any given time, so that the relative advantage of the operations is based upon the Bank's long-term relationship with them, including continued satisfaction as regards the quality of service and the financing of projects. In order to provide quality customer service, highly proficient personnel are required, with comprehensive familiarity with customers of this segment, nature of their activity and analysis of their needs and requirements, while adapting the Bank's products to such needs. In addition, systems are required to monitor and control exposure and risks relating to project financing.
The said close-end system of project financing is, prima facie, supposed to allow the construction company to finance each project at another bank.
Nevertheless, considering the fact that surplus created in respect of projects financed by the Bank or current credit facilities allotted to companies and/or promoters is used in many cases as capital for leveraging other projects, a certain difficulty exists as regards the transfer from bank to bank, mainly among small and medium customers who are particularly affected by the limited availability of financial resources for the contribution of capital.
Suitable preparation is required for the purpose of compliance with regulatory as well as internal limitations prescribed by the Board of Directors with respect to the Bank's maximum rate of exposure in financing the sector.

ALTERNATIVES TO PRODUCTS AND SERVICES OF THE OPERATIONS AND CHANGES THEREIN

Off-banking financing constitutes an alternative financing source for segment customers as to long and medium-term credit used for the financing of investments and/or the purchase of income producing property, while in building projects, customers generally prefer the use of medium-short term bridging finance for the set up period.

In the infrastructure field, where the period of operation/yielding of the project is relatively long, the banking system has an advantage in financing the initiation and construction stage (short to medium term) in contrast to the need to combine institutional bodies in the long-term financing.

The directives that had been determined following the recommendations of the Hodek Committee, which requires the obtaining of guarantees in performing issuance turned companies in this segment into preferred targets for institutional bodies due to pledges on real estate assets which they are able to provide as security for loans. Nevertheless, medium and small size customers are still highly dependent upon the banking industry in obtaining finance for their operations.

STRUCTURE OF THE COMPETITION PREVAILING IN THE OPERATIONS AND CHANGES THEREIN

Most of the competition in this activity takes place within the banking industry. Notwithstanding, in recent years, institutional bodies have established units engaged in the granting of credit financing long-term nonmarketable assets, and the competition against these bodies is expected to intensify.

The financing of infrastructure projects and of income producing properties in Israel faces competition from local banks and institutional bodies (such as insurance companies and pension funds).

Some of the institutional bodies provide guarantees under the Sales Act to purchasers of apartments.

COPING WITH COMPETITION

The Bank operates a syndication unit in the Corporate Division with a view of increasing exposure to syndication transactions, with a focus on undertaking the organizer and coordinator roll, strictly adhering to the underwriting principles, regulatory limitations and the risk appetite level. Sale of the debt would be subject to the Bank of Israel instructions. Furthermore, the Bank has approved a unique policy for the syndication and sale of debt business which complies with the Proper Conduct of Banking Business Directives.

Other means exist for facing with the competition, among which is the offer of professional service, timely response and establishment of a comprehensive and ongoing communication system with customers, while maintaining an overall view of their financial needs.

PRODUCTS AND SERVICES

The services offered include:

- Credit for residential construction projects and/or income generating properties projects (primarily office and commercial space considerable parts thereof are marketed in advance);
- Credit for the construction and acquisition of income generating properties intended for commerce or office premises;
- Credit to acquisition groups;
- Credit for current finance and/or investments in Israel, and in exceptional cases also for investments abroad;
- Providing guarantees under the Sales Act to purchasers of residential units and to the rights of owners in land in the context of combination transactions;
- The granting of credit for national infrastructure projects at the construction and operating stages.

For further information relating to services provided to segment customers, see above, ‘Corporate segment.’

MORTGAGE ACTIVITY

DEVELOPMENTS IN THE MORTGAGE MARKET

In 2014, the mortgage market continued to be typified by intense competition between the banks in this market. The volume of mortgage loans granted amounted to NIS 52 billion, similar to 2013.

	For the year ended December 31		
	2014	2013	Rate of change in %
	in NIS millions		
Total housing loans granted by the mortgage banks, excluding internal recycling of loans	51,597	51,705	(0.2)
Loans from State funds	165	228	(27.6)

The instructions by the Supervisor of Banks published during 2013-2014 (see below "Legislative restrictions") have led to an increase in the average risk assets in the segment's activity.
In addition, the Supervisor has limited the loan component granted at a variable interest rate. Since its entering into effect, the instruction led to a shift from the variable interest option to fixed interest options. Such shift reduces the exposure of borrowers to changes in the monthly repayment amounts in the event of rising interest rates.
The rate of growth in the volume of the mortgage loan portfolio at the Bank in recent years was relatively low in relation to the sectorial growth. The Bank's share in the mortgage portfolio of the banking industry as a whole shows a downward trend.
With the conclusion of the merger of Discount Mortgage Bank Ltd. with and into the Bank, the marketing of the "Subsidized mortgage" product ("Discount Outline") has been discontinued.
A continued increase has been observed since 2013 in the marginal credit spread.
The repayments of mortgage loans are, among other things, affected by the unemployment rate in the market and by housing prices. On the background of the unemployment rate in 2014 and the housing price environment, the problematic debt remained at a relatively low volume.

SECTORS OF OPERATION

Loans financing the purchase, renovation or construction of residential units. Loans financing the purchase of residential units, the renovation or construction thereof, taken by individuals. These loans constitute most of the activity in the mortgage loan field. These loans are financed by the Bank`s funds. In addition, the Bank is engaged in the granting of loan and loan collection services, in an immaterial volume, as part of the assistance programs of the Ministry of Construction and Housing.
Multi purpose loans secured by a mortgage on an apartment unit. Loans collateralized by a mortgage on a residential unit, granted to individuals for various purposes (other than business purposes).
Acquisition groups. The Bank grants credit to groups of individuals joined together for the purpose of a joint building project by means of an acquisition group. Evaluation of the risk involved in the project and the management of the credit line, if approved, are performed by the project finance unit of the Corporate Division. Approval of the individual mortgage files is conducted in designated branches, specifically defined for this purpose. A decline in the volume of these operations has been recorded at the Bank in recent years.
Supporting activity - Mortgage related insurance. As an additional security for credit, the bank requires its customers to purchase property insurance and life assurance.

The Bank holds a subsidiary, Discount Mortgage Home Insurance Agency (2005) Ltd., which acts as an insurance broker. MDB also owns an insurance agency, Marbit Insurance Agency (1996) Ltd. These insurance agencies operate independently and sell insurance through a telephone service separate from the Bank's and DMB's telephone services, respectively.

BUSINESS STRATEGY

The granting of mortgage loans is made under an overall view of the customer. The Bank focuses its mortgage operation on existing customers, as a preserving and maintaining product. In addition, an activity for attracting new customers is conducted through the granting of mortgage loans, in branches regarded as "growth branches".

Policy regarding mortgage operations. The Bank's policy with respect to mortgage operations has been approved, which defines the required criteria for securing the quality of credit and reducing risks involved therein, including criteria for the screening and rating of borrowers and credit applications, examination of the repayment ability of borrowers and guarantors for the debt, the type of collateral securing the loan, credit margins, the manner of credit pricing, as well as principles for performing the monitoring and control over credit and collateral. The policy determined various limitations on mortgage operations, both at the individual borrower level and the combined credit operations level.

The Bank operates a rating model, used in the approval of the transaction and its pricing.

In the past, the Bank granted mortgage loans covered by assisted insurance provided by EMI – Ezer Mortgage Insurance Company Ltd. On the background of the Directive of the Supervisor of Banks regarding the limitation of the financing ratio in respect of housing loans, the Bank no longer approves loans covered by the said insurance.

ORGANIZATIONAL STRUCTURE

The mortgage loan activity is conducted at the Bank`s branches. The retail credit department at the Banking Division is responsible both for the granting of designated loans financing the purchase of residential units by private individuals, and for the granting of loans for whatever purpose secured by residential unit, granted to individuals not for business purposes. In this framework, designated units of the department are trusted with the approval of mortgage loans having a high risk profile, credit underwriting following its approval, as well as the examination of loan portfolios prior to the granting of the loans. Furthermore, additional designated units of the department assist in the current management of existing loans, by operating a central clearing unit and units monitoring the appropriateness of collateral granted to the Bank, with a focus on life assurance and property insurance.

An additional unit, which is responsible for the underwriting of the collateral in mortgage loan portfolios, and for the monitoring over a period of time of the progress made in its registration, subject to the Legal Advisory Group.

SERVICE

At the present time, eighty-five branches of the Bank provide mortgage services countrywide.

The Bank focuses on the granting of mortgage loans as a tool for preserving existing customers.

The Bank operates two centers specializing in the mortgage field: a sales center, dealing with approaches by customers interested in a new loan, including the current attendance to customers during the process of granting the loan, and a customer relations center providing responses to existing customers.

The Bank invests in the enrichment of knowhow of the staff operating in this field and in the improvement of procedures, focusing on shortening loan processing time.

SCALE OF OPERATIONS AND NET INCOME

Following are details regarding new loans and recycled loans granted for the purchase of a residential unit and secured by a mortgage on a residential unit:

	2014	2013	2012
	In NIS millions		
From bank funds[1]	2,997	2,901	2,606
From Treasury funds[2]	7	13	7
Total of new loans	3,004	2,914	2,613
Recycled loans	981	823	295
Total	**3,985**	**3,737**	**2,908**

Footnotes:
(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 195 million in 2014, compared to NIS 197 million in 2013, and NIS 248 million in 2012.
(2) Including standing loans in the amount of NIS 4 million in 2014, compared to NIS 7 in 2013 and NIS 1 million in 2012.

Net profit of the segment in 2014 amounted to NIS 10 million, compared to NIS 21 million in 2013, a decrease of 52.4%.

The credit loss expenses. In 2014, a reduction of expense in the amount of NIS 13 million was recorded, compared to an expense in the amount of NIS 18 million in 2013.

Following are principal data relating to the mortgage activity:

	For the year ended December 31, 2014			
	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	in NIS millions			
Interest income, net				
- From external sources	584	114	12	710
- Intersegmental	(474)	(98)	(2)	(574)
Total Interest income, net	110	16	10	136
Non-interest financing income	-	-	-	-
Commissions and Other income	29	1	-	30
Total Income	**139**	**17**	**10**	**166**
Credit loss expenses (expenses reversal)	19	(32)	-	(13)
Operating and other expenses	147	14	3	164
Profit (loss) before taxes	(27)	35	7	15
Provision for taxes (tax savings) on profit	(11)	13	3	5
Net income (loss) attributed to the Bank's shareholders	**(16)**	**22**	**4**	**10**
Return on equity (percentage)	(2.0)	33.1	7.8	1.0
Average Assets	20,290	893	373	21,556
Average Liabilities	44	3	1	48
Average Risk-assets	9,940	779	492	11,211
Average other assets under management	871	-	-	871
Components of Interest income, net:				
Margin from credit activity	110	16	10	136
Margin from deposits activity	-	-	-	-
Total Interest income, net	**110**	**16**	**10**	**136**

Following are principal data relating to the mortgage activity (continued):

	For the year ended December 31, 2013			
	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	in NIS millions			
Interest income, net				
- From external sources	887	43	10	940
- Intersegmental	(759)	(24)	(2)	(785)
Total Interest income, net	128	19	8	155
Non-interest financing income	-	-	-	-
Commissions and Other income	37	1	-	38
Total Income	**165**	**20**	**8**	**193**
Credit loss expenses (expenses reversal)	31	(10)	(3)	18
Operating and other expenses	130	11	2	143
Profit before taxes	4	19	9	32
Provision for taxes on profit	1	7	3	11
Net Income attributed to the Bank's shareholders	**3**	**12**	**6**	**21**
Return on equity (percentage)	0.4	19.4	16.5	2.4
Average Assets	20,015	738	347	21,100
Average Liabilities	27	3	1	31
Average Risk-assets	9,907	795	454	11,156
Average other assets under management	1,045	-	-	1,045
Components of Interest income, net:				
Margin from credit activity	127	19	8	154
Margin from deposits activity	1	-	-	1
Total Interest income, net	**128**	**19**	**8**	**155**

LEGISLATIVE RESTRICTIONS

Amendment of the Banking Order (Early repayment commissions), 2012. On August 27, 2014, an amendment of the order was published, which will become effective 180 days from the date of publication. The essence of the amendment relates to a change in the formula used for the computation of the early repayment commission pertaining to loans granted by a banking corporation for the purchase of a residential unit or as a mortgage on a residential unit, to customers who were granted loans carrying interest at a higher rate than the average interest rate as published at date of taking the loan. For such customers, the formula for calculating the commission will be based on the average interest rate as known on the date of repayment as against the average interest rate as known on the date of granting the loan. In the event that the interest rate on the date of granting the loan is lower than the average interest rate in effect on the date of granting the loan, the formula will be based on the known average interest rate at date of repayment as compared with the interest rate of the loan (namely, the computation formula will remain as in the past). The amendment shall apply to all early repayments made as from date of the amendment to the Order becoming effective.

Furthermore, the commission for not providing an early repayment notice will be abolished upon early repayment in the case of death of the borrower. The amendment includes also a change in the arrangements of notices by the customer prior to the making of an early repayment, as well as a change in the manner of disclosure that has to be given to the customer upon early repayment.

Amendment of Proper Conduct of Banking Business Directive No. 318 – Collateral data base. On August 5, 2013, the Supervisor of Banks published a circular amending the Directive, according to which a banking corporation will be required to extend the collateral data base and include therein also detailed data regarding collateral for housing loans. Details of the data to be maintained in the data base in respect of each residential unit serving as collateral for a housing loan are specified in an appendix to the Directive and include details regarding the type of the asset, its location in the building, its address, size, value, existence of any attached areas, existence of a bomb protected area in the unit, etc. In addition a banking corporation will have to maintain in the data base documentation regarding the Loan to Value (LTV) and the ratio of repayments to income, as defined in Reporting to the Supervision Department Directive No. 876. In accordance with the Directive, the changes in the Directive became effective on July 1, 2014. The Bank is preparing accordingly.

Statement of position of the Supervisor of Banks in the matter of the recycling of directed loans in the fast channel. On December 25, 2014, the Supervisor of Bank published a statement of position the object of which is a call to borrowers, who had taken State assisted loans ("directed loans"), to recycle their loans to bank loans carrying a lower interest rate, thus refunding amounts to the State Treasury. The recycling of the loans would be at a fixed interest rate linked to the CPI, and the chargeable recycling commission shall not exceed NIS 120. A banking corporation that has announced its participation in this move shall notify the borrowers complying with the applicable terms and shall detail the advantages and disadvantages of the loan recycling. The recycling of the loan shall be effected by a signed facsimile notice, by the Internet website of the bank or by a recorded telephone call. Recycling of loans in this manner would be possible in the period from January 1, 2015 to May 31, 2015. The Bank has announced its participation in this move.

GUIDELINES AND DIRECTIVES OF THE SUPERVISOR OF BANKS DESIGNED TO RESTRAIN THE MORTGAGE MARKET

In the years 2010 to 2014, the Supervisor of Banks published several instructions designed to restrain the mortgage loan market, as detailed below:

- **Letter of the Supervisor of Banks in the matter of developments in the risk pertaining to housing loans from July 11, 2010**. Within the framework of the letter, banking corporations were required to reexamine their credit portfolios and their credit policy with respect to mortgage loans, and to verify that their policy agrees with the risk appetite as defined in their business strategy as well as record an additional provision in respect of housing loans.
- **Letter of the Supervisor of Banks in the matter of leveraged housing loans from October 28, 2010.** Within the framework of the instruction, banking corporations were required to increase the risk weight of their housing loans, in accordance with criteria for amount, ratio of finance and type of interest pertaining to the loan.
- **Guidelines by the Supervisor of Banks regarding housing loans at variable interest rate from May 3, 2011**. Within the framework of the guideline, banking corporations are prohibited from granting a housing loan carrying variable interest, where the intervals at which the interest rate may be changed are shorter than five years, in respect of a part of the loan exceeding one third of the total loan amount. It is also required to provide disclosure to costumers that have taken loans carrying variable interest in respect of a part exceeding one third of the total loan.
- **Letter of the Supervisor of Banks dated January 1, 2011, in the matter of a group allowance in respect of housing loans.** Within the framework of this letter, banking corporations are required to record group allowance for credit losses in respect of housing loans, in addition to the allowance for credit losses based on the extent of arrears, and this in view of the fast growth in housing loans, which has not yet been expressed in the allowances based on the extent of arrears.
- **A Directive limiting the financing rate applying to housing loans from November 4, 2012.** The Supervisor of Banks issued a draft directive limiting the financing rate (LTV) relating to housing loans, which applies to loans that have been approved in principle since November 1, 2012 and thereafter.

  In accordance with the Directive, a banking corporation shall not approve a housing loan that finances more than 70% of the value of the property, excluding housing loans serving the purchase of the first residential unit of the borrower, where the maximum financing rate will be 75%. The maximum financing rate in respect of housing loans serving the purchase of investment residential unit is 50% (investment residential unit – according to the reporting to the Tax Authority, including a residential unit purchased by a foreign resident). The said limitations shall not apply to a housing loan granted for the purpose of repayment of an existing housing loan, including refinancing, in an amount not exceeding the amount of the existing loan, as well as to a housing loan, which over 50% thereof is financed by State funds and which is guaranteed by it.

"Update of Guidelines Regarding Residential Real Estate". On February 19, 2013, the Supervisor of Banks published a directive that astringents the rules for the measurement of credit risk in the housing loans field, including:

- Increasing the risk weight on housing loans with a financing rate of between 45% to 60% of the property's value to 50%, instead of the 35% before, with regard to loans granted from January 1, 2013 and thereafter.
- Increasing the risk weight on housing loans with a financing rate of more than 60% of the property's value to 75%, instead of 35% before, with regard to loans granted from January 1, 2013 and thereafter.
- Retaining an allowance for credit losses calculated on a group basis, which is maintained with respect to housing loans, at a rate of no less than 0.35% of the gross loans. This directive was implemented from the first quarter of 2013. (The aforesaid does not apply to housing loans for which an allowance is maintained according to the period in arrears or where the allowance is calculated on a specific basis.)

Guidelines regarding limitations on the grant of housing loans. On August 29, 2013, the Supervisor of Banks published guidelines regarding limitations on the grant of housing loans (mortgages). The new guidelines regarding housing loans restrict as follows:

- The percentage of the monthly repayment out of the income – a banking corporation will not approve a mortgage when the monthly mortgage repayment exceeds 50% of the borrower's monthly income. Housing loans in which the monthly mortgage repayment ranges between 40% and 50% of the borrower's monthly income, will be weighted at 100% in the calculation of the capital adequacy ratio.
- The portion of the loan granted at variable interest – a banking corporation will not approve a housing loan when the ratio of the portion of the housing loan at variable interest to the total loan exceeds 66.7% (two thirds). The restriction will apply to loans at variable interest for all time periods, and supplements the existing restriction which limits to one third the portion of the housing loan granted at variable interest for a period shorter than 5 years.
- The period to final repayment of the loan – a banking corporation will not approve a housing loan for a period to final repayment exceeding 30 years.

A banking corporation will not approve and will not refinance a loan, if as a result of such refinancing one of the restrictions provided above is deviated from, or such deviation which already existed at the time of the refinancing increases.

The object of the guidelines is to strengthen the resistance of borrowers and the banking industry to possible negative effects that might be caused by future increases in interest rates. The guidelines apply to housing loans approved in principle starting on September 1, 2013. On September 15, 2013, the Supervisor of Banks issued a clarification regarding the transition instructions included in the guidelines.

Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on housing loans". On July 16, 2014, the Supervisor of Banks issued the Directive. The Directive combines the instructions and limitations stipulated with respect to this issue. The instruction redefines the term "the ratio of repayment to income" and clarifies the terms for the recognition of income of self-employed persons, foreign residents, hired workers and controlling interests in corporations as well as the recognition of income of a guarantor for the loan. The change in the definitions will apply to loans approved as from October 1, 2014. In addition, the instruction includes a guideline according to which a risk weight of 100% instead of a range of 35%-100% applying at the present time, would be applied to housing loans approved as from October 1, 2014, in amounts exceeding NIS 5 million. Moreover, the instruction regarding a 100% allotment of risk assets with respect to leveraged loans was cancelled, and it was determined that it is possible to reduce to 75% the risk weight of loans granted in the relevant period.

On July 17, 2014, an FQA file was published in the matter of the implementation of Proper Conduct of Banking Business Directive No. 329, collecting together the issues that have been raised since the publication of the earlier guidelines, within the framework of which clarifications are provided regarding various matters relating to the ratio of repayments to income, the financing ratio, recycling of loans, limitations on loans bearing variable interest and allocation of risk assets. Among other things, a banking corporation will have

to maintain data for the purpose of risk management and stress tests with respect to the income of the borrower, such as the amount of his disposable income, the level of his net monthly income and his fixed expenses.
The Supervisor of Banks issued on September 28, 2014, an amendment to Proper Conduct of Banking Business Directive No. 329.
On January 25, 2015, the Supervisor of Banks published an amendment to Proper Conduct of Banking Business Directive No. 329 in respect of the definition of "Payment to Income", according to which, the full income of the spouse of the borrower may be recognized, even if the spouse has no rights in the asset, on condition that the borrower and spouse cohabit in the property.
Restrictions on the granting of housing loans. For details regarding the requirement for the raising of the Common equity tier 1 ratio and the total capital ratio, by a rate reflecting 1% of the outstanding balance of housing loans, see Note 14 to the financial statements.

ADDITIONAL DETAILS REGARDING THE MORTGAGE PORTFOLIO OF THE DISCOUNT GROUP AND THE RISKS INHERENT THEREIN

General. The data presented hereunder relate to all the activity of the Group in this field: the Bank, MDB and IDB New York. It is noted though, that the data relating to IDB New York are negligible (housing credit in the amount of NIS 43 million as of December 31, 2014 and NIS 9 million as of December 31, 2013).

Following are details regarding the amount of loans and average financing ratios:

	2014	2013	2012
Average amount of loan (in NIS thousands)	644	638	666
Average financing ratio for housing loans (in %)	52.7	52.9	57.5
Average financing ratio for general purpose loans (in %)	36.8	37.0	32.2

The average ratio of finance granted for housing by the Bank is declining in recent years, both due to the Bank`s focus on operations with customers belonging to selected segments, together with a risk adjusted pricing policy and due to the effect of the Bank of Israel instructions regarding the limit on financing ratio.

Following is the division of housing credit balances according to size of credit to borrowers:

	December 31,					
	2014		2013		2012	
Credit limit (in NIS thousands)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 1,200	17,079	83.4	17,265	85.7	17,014	85.7
Between 1,200 and 4,000	3,013	14.7	2,552	12.7	2,524	12.7
Over 4,000	380	1.9	327	1.6	325	1.6
Total	**(1)(2)20,472**	**100.0**	**(1)(2)20,144**	**100.0**	**(1)(2)19,863**	**100.0**

Footnotes:
(1) As at December 31, 2014 the credit balance includes an amount of NIS 43 million in respect of Housing loans that were granted abroad (December 31,2013: NIS 9 million, December 31,2012:NIS 9 million).
(2) The credit balance is after deduction of allowance for credit losses.

Following are data regarding the volume of problematic debts in housing credit:

As at	Balance of credit to the public[1]	Balance of credit to the public[1]	Balance of allowances for credit losses[2][3]	Ratio of problematic debt
December 31	In NIS millions			in %
2014	20,735	429	190	2.1
2013	20,401	449	184	2.2
2012	20,092	447	181	2.2

Footnotes:

(1) Recorded amount.

(2) As at December 31, 2014 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 164 million, and also an allowance over the extent of arrears in an amount of NIS 26 million (as of December 31, 2013: NIS 167 million and NIS 17 million, as of December 31, 2012: NIS 167 million and NIS 14 million, respectively).

(3) Not including group allowance in a percentage of 0.35% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in amount of NIS 73 million as at December 31, 2014.(as at December 31, 2013: NIS 70 million).

Following is the distribution of housing credit granted, according to financing ratios and as a ratio of credit granted

	2014		2013	
Loan to value (LTV) ratio[1]	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 45%	933	31.2	901	31.1
Between 45% and 60%	1,146	38.2	1,270	43.8
Over 60%	918	30.6	730	25.2
Total	**2,997**	**100.0**	**2,901**	**100.0**

Footnote:

(1) The loan to value (LTV) ratio is computed in respect of the purchased asset and does not include additional collateral, if granted.

An increase was recorded in 2014 in the volume of loans granted having a financing ratio of over 60% of the value of the property. It is noted that the component of such loans at the Bank is not higher than this component of operations at the banking industry in general.

Following are data regarding developments in housing credit balances according to linkage segments:

	Non-linked credit[2]			CPI linked credit[2]			Foreign currency linked credit[2]			
	Fixed interest	Variable interest		Fixed interest	Variable interest		Fixed interest	Variable interest		
December 31	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	In NIS millions		% of total Housing Credit	Total Housing Credit [1][2]
2014	1,878	7,786	47.2	4,974	5,374	50.7	3	458	2.2	20,472
2013	992	7,446	41.9	6,273	5,073	56.3	6	354	1.8	20,144
2012	448	7,249	38.7	6,987	4,765	59.2	4	410	2.1	19,863

Footnotes:

(1) Of which approx. NIS 245 million housing loans granted for acquisition groups which are in the process of construction.

(2) The credit balance is after deduction of allowance for credit losses.

Until 2013 a shift is noticed from loans granted in the CPI-linked segment to non-linked loans.

Most of the loans are granted for an initial period of up to 25 years.

The outstanding balance as of December 31, 2014, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 1,365 million, comprising 6.7% of the total housing loans portfolio (as of December 31, 2013, the balance amounted to NIS 1,408 million, comprising 7.0% of the total housing loans portfolio).

Following are data regarding the composition of loans granted for housing purposes, divided by the ratio of repayments to earnings:

	2014		2013		2012	
Ratio of payment to income (PTI)[1]	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public	In NIS millions	% of total credit to the public
Up to 40%	2,464	94.7	2,264	88.8	2,055	91.8
Over 40%	139	5.3	286	11.2	183	8.2
Total	**2,603**	**100.0**	**2,550**	**100.0**	**2,238**	**100.0**

Footnote:
(1) The amount of loans granted do not include loans secured by a mortgage on a residential unit, balloon loans and bullet loans.

A growth was recorded until the year 2013 in the volume of credit granted with a repayment ratio of over 40%. In this respect, it should be noted that the Bank operates a rating model, which takes into account additional parameters that supplement the repayment ability profile and which does not rely exclusively on the repayment ratio.
On the background of regulatory instructions regarding restricting the refund ratio to 50% and increasing the allotment of capital with respect to loans of a refund ratio exceeding 40%, a significant decline has occurred in the rate of credit granted in 2014 at a refund ratio of over 40%, which comprised 5.3%. It should be noted that the data for 2013 was affected by a single transaction in this segment.

COMPETITION

The mortgage loan sector was characterized in recent years by mergers of mortgage banks that had been operating as separate entities, with the commercial banks owning them. At present, the five major banks have completed the merger of their subsidiaries operating in the mortgage field. This sector is characterized by high competition, which is distinctly price inclined. Among other things, the competition is affected by the bank's view of the mortgage product as a base product for the preservation of existing customers and as a tool for attracting new customers.
The Bank copes with the said competition by improving service, focusing on reducing the time required for the granting of loans, making processes more efficient, widening the service spread in the branches and providing preference service to segments of customers. Furthermore, the Bank is preparing for upgrading its systems in respect of interest spread management, with a view of improving the reaction time to customers' new mortgage loan applications. This, in order to improve the service to its customers, in view of the competition in the mortgage field existing between banks.

SEASONALITY

Certain seasonality exists in the mortgage loan field, which is typified by a reduced volume of activity during the holiday period as well as during the winter months, and on the other hand, activity increases in the second half of the year and in particular in the months of July and August and the year-end months (November and December).

MARKETING OF MORTGAGE PRODUCTS

The Bank does not act at the present time in initiative marketing of mortgage loans. As stated, the granting of a mortgage loan is made while focusing on existing customers and the activity is conducted by the Bank's branch layout. In respect of this segment, the Bank has no dependence on outside marketing and distribution agents.
Housing loans in MDB are granted through specialized branches of this bank.

INTERNATIONAL OPERATIONS

GENERAL

The foreign operations of the Discount group are mainly conducted by subsidiary companies in the United States - in DBLA and in Uruguay (including representative offices in Latin America), in Switzerland, and by the Bank's branch in London.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE INTERNATIONAL OPERATIONS

The principal restrictions applicable to the international operations are briefly described below:

Exposure restriction with regard to overseas extensions. In accordance with guidelines of the Supervisor of Banks, a board of directors of a banking corporation, which operates or intends to operate by means of overseas extensions, is required to discuss and approve a comprehensive policy document with respect to the operations of overseas extensions. Within the framework of the said statement of policy, the Board of the banking corporation is required, among other things, to determine a restriction or a set of restrictions as to the exposure regarding the activities of overseas extensions, which should reflect the risk propensity applying to the operations of the overseas extensions, on condition that the principal part of the operations of the banking corporation and the banking group is located in Israel.

On December 31, 2014, the calculated rate of the Bank's exposure with respect to overseas extensions stood at 20.47% of total risk assets, as compared with 20.59% on December 31, 2013. The said exposure rate complies with the exposure limitations set by the Board of Directors, within the framework of the risk appetite declaration of the Discount Group (restriction of the exposure rate, as stated, was 30% on December 31, 2014. On February 2, 2015, the Board of Directors resolved that the exposure rate shall not exceed 25%).

The Bank monitors the development of the risks assets in respect of its operations in overseas extensions.

Overseas regulatory supervision. Operations of the international segment are subject to supervision on the part of the appropriate authority in the country in question.

Regulation in England. On September 5, 2014, the Prudential Regulation Authority of the Bank of England (the PRA) issued a guideline paper clarifying and detailing the parameters and requirements of the PRA for the licensing of operation in England of branches of foreign banks, or their subsidiaries (both of existing and new, seeking license to operate). The aim of the new regulation, as seen from the paper, is an examination of the extent of the influence foreign banks might have on the stability of the financial market in England, and the strengthening of supervision on these operations.

U.S. legislation. The supervisory authorities in the United States issued on December 10, 2013, the final rules relating to investment portfolios of banks ("Nostro"), as determined in the Dodd Frank Act ("Volcker rule"), and recently, the preparation period has been extended to July 21, 2015.

SCALE OF OPERATIONS AND NET INCOME

Net profit of the operations in 2014 amounted to of NIS 82 million, compared with NIS 165 million in 2013, a decrease of 50.3%. The decline in income of the segment was, among other things, affected by the loss on sale of the operations of DBLA in the net amount of NIS 50 million.

The credit loss expenses in this segment amounted to NIS 59 million in 2014, compared to NIS 75 million in 2013, a decrease of 21.3%.

Following are the principal data relating to the international operations:

	For the year ended December 31, 2014					
	Households	Corporate Banking	Middle Market Banking	Private Banking	Financial management	Total
	in NIS millions					
Interest income, net	(1)-	162	204	248	170	784
Non-interest financing income	(1)-	-	-	5	(19)	(14)
Commissions and Other income	(1)-	49	40	191	(30)	250
Total Income	**(1)-**	**211**	**244**	**444**	**121**	**1,020**
Credit loss expenses (expenses reversal)	(1)(1)	72	(6)	3	(9)	59
Operating and other expenses	(1)3	129	135	430	158	855
Operating Income (loss) before taxes	(1)(2)	10	115	11	(28)	106
Provision for taxes (tax savings) on operating income	(1)-	21	36	5	(38)	24
Net Income (loss) Attributed to the Bank's shareholders	**(1)(2)**	**(11)**	**79**	**6**	**10**	**82**
Return on equity (percentage)	(1)(94.3)	(1.7)	8.7	1.5	3.8	3.8
Average Assets	26	8,335	8,458	3,824	15,663	36,306
Average Liabilities	41	2,393	2,318	18,931	8,830	32,513
Average Risk-assets	21	8,233	10,163	3,617	3,136	25,170

Footnote:
(1) Amounts lower than NIS 1 million.

Following are the principal data relating to the international operations (continued):

	For the year ended December 31, 2013					
	Households	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Total
	in NIS millions					
Interest income, net	(1)-	152	199	232	89	672
Non-interest financing income	(1)-	-	-	16	26	42
Commissions and Other income	(1)-	52	47	161	(20)	240
Total Income	**(1)-**	**204**	**246**	**409**	**95**	**953**
Credit loss expenses (expenses reversal)	(1)-	50	33	3	(11)	75
Operating and other expenses	(1)-	116	127	334	69	646
Profit before taxes	(1)-	38	86	72	37	233
Provision for taxes on profit	(1)-	6	17	44	1	68
Net Income Attributed to the Bank's shareholders	**(1)-**	**32**	**69**	**28**	**36**	**165**
Return on equity (percentage)	-	4.9	9.3	9.3	13.5	8.6
Average Assets	26	7,947	8,065	2,869	20,087	38,994
Average Liabilities	50	2,173	2,278	17,661	12,495	34,657
Average Risk-assets	20	7,992	9,466	3,181	3,330	23,988

Footnote:
(1) Amounts lower than NIS 1 million.

TAXATION

For details regarding taxation of overseas banking subsidiaries, see "Taxation" hereunder and Note 29 L to the financial statements.

Rubik Tax Agreement. Two international treaties entered into effect as from 2013 – a treaty between Switzerland and Great Britain and a treaty between Switzerland and Austria. These treaties regulate (both in respect of the past and in respect to the future) the

taxation treatment of income and capital gains earned on financial investments at Swiss banks performed by residents of the said countries, who had elected to remain anonymous, and which preserves the protection of privacy in Switzerland.
Where account holders would wish to declare their financial investments and pay the relevant taxes directly and personally, the banks, with the consent of the account holders, shall provide the details of their accounts to the tax authorities of their countries of residence.

DEVELOPMENTS IN THE SEGMENT

Sale of DBLA operations. For details regarding the sale of DBLA operations, see Note 8 A to the financial statements.
The Bank's Extensions in Europe. The Bank's Management is taking steps to implement the decisions of the Bank's Board of Directors to take the necessary measures in order to promote the closing of the London Branch and to examine various alternatives for the continuation of the activity in Switzerland.
Agreement between the Swiss Authorities and the U.S. Department of Justice. For details, see Note 19 C (15) to the financial statements.
IDB (Swiss) Bank. For details regarding claims submitted by a former senior officer of IDB (Swiss) Bank, see "Additional legal proceedings" under "Legal proceedings" below.
Asset-Backed Securities. For details as to the Group's investments in asset backed Securities, see above "Securities" under "Developments of Assets and Liabilities" and Note 3 to the financial statements.

SERVICE TO SEGMENT CUSTOMERS

Europe. IDB (Swiss) Bank is a Swiss subsidiary, wholly owned by Discount Bank, operating through the Geneva Branch, and provides solutions to its customers, regarding advanced private banking services and investment management in an international financial center.
A representative office of IDB (Swiss) Bank operates in Israel providing information and promoting the business of this Bank in Israel.
Discount Bank branch in London focuses on business middle market banking services.
America. IDB New York ("IDB Bank") is the largest of the Israeli banks operating overseas.
This bank maintains four branches in the New York area, one branch in Florida, two branches in California and one branch in the Cayman Islands.
IDB Bank has an Uruguayan banking subsidiary, Discount Bank (Latin America) (DBLA), and representative offices situated in Latin America and in Israel.

SERVICES AND PRINCIPAL PRODUCTS OF IDB NEW YORK

Credit. IDB New York provides bank credit to a wide array of U.S. and Israeli corporations, operating in the U.S., to their shareholders and to private banking customers.
Middle Market. IDB New York grants credit to the middle-market segment, operating in various fields in the New York metropolitan area, Miami and Los Angeles. Customers are being offered a large variety of services, including foreign trade and financing operations in respect thereof, the financing of commercial real estate, including financing the purchase of commercial real estate and the financing of housing projects (Multi Family), as well as the financing of the health institutions, not-for-profit organizations and domestic activity of Israeli corporations.
Revolving Credits. These loans include the financing of inventory and trade receivables and allow the financing of working capital through the leveraging of the customer's current assets.
Factoring. This activity includes instituting credit facilities against trade receivables of the customer and allows him to improve the collection process from such customers.

Private Banking. IDB New York provides varied private banking services to customers, who are U.S. residents (local private banking) as well as non-U.S. residents (international private banking), having a high level of personal wealth.
At the disposal of these customers are, among other things, securities management and trusteeship services as well as different credit services, including the granting of housing mortgages and products and services of IDB Capital, as subsidiary of IDB New York, engaged in securities transactions and insurance products in behalf of customers.

EXPOSURE TO RISKS AND RISK MANAGEMENT

RISK PROFILE OF THE DISCOUNT GROUP

The Discount Group is engaged in a wide range of financial operations involving risk taking. The geographical and business spread of the Group and the size of the subsidiaries in Israel and abroad in relation to the operations of the parent company expose the Group to an environment having a variety of different business and regulatory characteristics.
The major external effects, to which the Group is exposed, are:

- **The capital requirements from the banking industry.** The guidelines of the Supervisor of Banks regarding the implementation of the Basel III principles and the requirement for a minimum core capital ratio that should not fall below 9% (and a certain addition in respect of mortgages), as from January 1, 2015, constitute a challenge for the whole banking industry and are expected to influence the ability of the banking industry, including the Discount Bank Group, to develop business activities involving a higher volume of risk assets. The Bank prepared a detailed plan for attaining the capital targets, with the addition of a capital buffer;
- **Developments in economic markets.** The recovery of the U.S. and British economies is expected to lead the global economy in 2015. The Eurozone is expected to grow at a moderate rate, led by Germany and Spain, while Italy and France lag behind. The developing countries are expected to recover at a moderate rate, with considerable differences between these countries. A relatively slow growth is expected in the BRIC countries in general and China in particular, with the small and export inclined countries presenting better performances. Concern for deflation, which increased in the wake of the steep decline in oil prices, impacts principally the Eurozone countries, and will continue to impact the markets in 2015. The Group follows and monitors the developments in the markets, and has determined indicators for the monitoring of the different exposures;
- **Intensified competition and erosion of income sources.** The low interest environment, the growing regulatory supervision over income and the removal of entry barriers for new competitors (including social banks, financing services on the Internet), lead to increased competition within the banking industry, to the transfer of banking activity to financial bodies that are not banks, and as a result thereof, to the erosion of the sources of income of the banking industry. The Group is preparing for expansion of digital services and value offers to customers;
- **The domestic real estate market.** The real estate sector has the highest exposure rate concerning borrower operations in Israel. The Group is acting towards a change in the mix of the portfolio by means of spreading its operations to segment having lower risk profiles (in the granting of credit to housing project finance) and concurrently, the reduction in exposure to segments and borrowers having a high risk profile;
- **Regulatory changes.** A trend of increased legal and regulatory requirements is being noticed in recent years in Israel and the world over, including the exterritorial application of the law, particularly as regards compliance and prohibition of money laundering, which increase the disclosure and reporting duties of banking corporations, requiring infrastructure preparations and integration of the changes among bank employees. Alongside the various regulatory changes, an increased enforcement trend is noticed in different areas (investment consulting, labor laws, antitrust laws, privacy protection, accessibility, etc.). The Bank is performing a focused activity towards the improvement of compliance culture and verification of compliance with legal and regulatory demands;

- **Cybernetic risks.** An increase has occurred recently in cybernetic threats, to which financial institutions in Israel and in the world at large are exposed. Accordingly, supervisory attention has been drawn in the matter, emphasizing that in view of the complexity of the matter, the magnitude of the potential damage and the difficulty existing in facing the threats in this field, it is necessary to manage this risk as a cross-organization risk, which requires managerial attention and in addition to the technological risk constitutes also a strategic-business risk;
- **Business continuity.** The regional geopolitical situation and the increase in cybernetic threats, require the Bank to prepare for the facing of stress situations and for the strengthening of business continuity processes. In this respect, the Bank is preparing in accordance with Proper Conduct of Banking Business Directive No. 355 in the matter of business continuity, and from time to time it performs exercises testing the preparedness of the Bank and the Group for various possible scenarios.

The principal internal effects to which the Group is exposed:

- **Organizational changes.** The strategic plan of the Group includes an efficiency plan as regards manpower (including voluntary retirement and natural retirement acts) and the flattening of organizational structures. In the short run, the said efficiency measures contributes to an increase in risk, due to exposure to loss of know-how and/or shortage in manpower in specific cases, and this in view of the material changes and the resources required by the Bank for the implementation of the different projects, in relatively short time schedules. However, in the long run, the said efficiency measures provide a solution to challenges eroding the Group's profitability.
- **Operating efficiency ratios.** Improvement of the operating efficiency ratios is considered one of the Group's central goals and constitutes a central challenge in view of the competition environment, erosion of profitability and the sources of finance of the banking industry, and in view of limitations in the flexibility of the payroll expense management and sensitivity of labor relations systems, among other things, on the background of organizational changes, which the Group has to carry out for efficiency purposes and the utilization of synergies. Implementation of the overall strategic plan combined with retirement acts, will contribute to improved efficiency ratios.

In addition to the wide-ranging risk factors mentioned above, the Group is performing a process of identification and assessment of the unique major risk factors to which the Group is exposed.

RISK FACTORS TABLE

Within the framework of risk management processes at the Discount Group and in accordance with regulatory requirements in the matter, identification, analysis and evaluation processes are conducted in respect of the risks to which the Group is exposed, in accordance with the Group's methodology for the evaluation of the risk profile.

Banking corporations in Israel are required to present the risk factors in the framework of the annual report and to classify according to categories their impact on the business of the banking corporation, to the extent possible in respect to each risk factor: substantial, medium and small impact.

The assessment presented in the following table is a self assessment made by the Bank's Management, of the material risk factors and their impact, in accordance with the unique characteristics of operations of the Discount Group. The overall assessments is based on identification and mapping of the vulnerable areas of the Group, evaluation of the quality of management of the control layouts at the Bank and at the subsidiary companies, forward looking view of developments in the Group and in the risk environment, etc.

All these, as well as the methodology that had been formed for the internal capital adequacy assessment process, comprise, among other things, a basis for the assessment of capital requirements coinciding with to the Group's unique risk profile.

Due to the complexity of the risks discussed, as well as the ability to assess their impact, the Group uses various assessment tools, including expert assessment, risk cards, models and stress tests, which include different assumptions regarding the impact of exposure, the magnitude of future events and the probability that such events would materialize. Notwithstanding, no standardized objective grading exists for the conversion of the results received by use of the assessment tools, as stated, to the categories used in the table.

In view of that stated above, it is emphasized that the assessment of the impact of each risk factor is a subjective assessment made by the Bank`s Management, and therefore, extra care should be taken in examining the impact of the risk factor, as stated in the table, and in comparing this data with that of other banks.

RISK FACTOR TABLE

The risk		Risk Factor Impact	Risk description
1.	Risk environment	Medium-High	Risk of material impairment in the Group's value and its ability to attain its goals, deriving from factors and events external to the Group, including economic, financial, regulatory, social, political and geopolitical factors and events. Assessment of the risk impact remained "medium-high", in view of the growing competition environment, the cybernetic risks, the regulatory requirements and their complexity, as well as increased fluctuations on the markets. On the other hand, the business focuses of the Group, the spread of the risk in its operations, as well as the plans providing response to the impact of external factors and events, including stress situations, contribute to the moderation in uncertainly deriving from the risk environment.
2.	Overall impact of credit risk	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of the deterioration in the ability of borrowers to honor their obligations. Assessment of the risk's impact remained "medium", despite of the improvement in the composition and quality of the portfolio. Furthermore, implementation of the directives of the Supervisor of Banks referring to the responsibility of the risk management function for the credit policy and the determination of restrictions as well as improving the use of models and scenarios, contribute to improvement of the risk management quality.
2.1	Quality of borrowers and collaterals	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of deterioration in the quality of borrowers and/or in the value of the collaterals. Assessment of the risk's impact remained "medium", despite the continued reduction in expenses for credit losses and in the rate of impaired credit and the improvements made in credit management and monitoring processes.
2.2	Industry concentration risk	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of deterioration in the business activity of a certain economic sector. Assessment of the risk's impact was raised from "low-medium" to "medium", despite adherence to sectorial limitations, in accordance with instructions of the Supervisor of Banks, in view of certain increase in exposure to the real estate and construction sector.
2.3	Borrower/groups of Borrowers	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of deterioration in the business activity of a borrower/large group of borrowers. Assessment of the risk's impact remained "medium", despite improvement in various concentration indices and adherence to limitations on indebtedness of borrower/group of borrowers, in accordance with instructions of the Supervisor of Banks. This, in view of the potential impact of the risk environment on large borrowers and on groups of borrowers.
3	Overall impact of market risks	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result from changes in the economic parameters of the financial markets, which affect the fair value at market terms of the Bank`s balance sheet assets and liabilities. Assessment of the risk's impact remained "medium", despite the adoption of measures leading to a decline in sensitivity of the Group's economic and accounting value to market risk and despite improvements in the quality of management and control.
3.1	Interest rate risk	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of movements in interest rates, re-pricing, changes in the yield graph and effect of optionality inherent in different financial instruments, both on the economic value of the Group's capital and on the regulatory capital. The assessment of the impact of the risk remained "medium", despite a decline in the scope of exposure.

RISK FACTORS TABLE (CONTINUED)

The risk	Risk Factor Impact	Risk description
3.2 Inflation and exchange rate risk	Low	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of the effect of changes in inflation rates or in exchange rates, including the effect of derivatives and transactions in futures on the gaps between assets and liabilities. The assessment of the risk impact remained "low", despite material changes in exchange rates, due to exposure, the impact of which on capital adequacy is not material.
3.3. Share price and credit spreads risks relating to the holding of securities	Low-Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of erosion in the value of securities having credit risk and in the value of non-financial investments, including funds, due to fluctuations in prices. Assessment of the risk's impact remained "low-medium", though the scope of exposure has declined.
4. Liquidity risk	Low	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of uncertainty as to the availability of resources and the ability to provide its liquidity needs, as well as the possibility of facing difficulties in honoring the Group's obligations due to unexpected developments, and would be compelled to raise funds and/or realize assets in a manner that would result in a material loss to the Group. Assessment of the impact of the risk remained "low", principally in view of the high liquidity level in the markets and in the Group and the proper quality of management in the monitoring and control of the risk.
5. Operating risk	Medium-High	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of impropriety or failure of internal processes, failure of the Group's systems, external events, human errors, fraud and embezzlements or as a result of the absence of proper control processes, including the exposure to IT risks, cyber threats and business continuity matters. Assessment of the risk's impact was raised from "medium" to "medium-high", in view of the increased exposure in the short run, on the background of extensive organizational changes alongside efficiency measures and the implementation of a strategic plan, and given the increased risk in the technological environment, particularly the increasing cyber threats. This, given the strict management of the changes plan, which combines processes implementing the management of risk and performance culture, and continuing an extensive activity of improving the risk management processes, including the strengthening of preparedness as regards matters of business continuity, data protection and cyber.
6. Legal and regulatory risk	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of absence of the possibility to legally enforce fulfillment of a contract, or from exposure to legal proceedings against the Bank (whether on a criminal or civil planes), or from exposure to fines or penalties, punitive damages resulting from supervisory activities, as well as from private settlements, etc. Legal risks include regulatory risks of a legal nature. A regulatory risk is a risk deriving, among other things, from the non-implementation, or incorrect implementation of various regulatory instructions, under the power of which, various duties are imposed on the Bank. Assessment of the risk's impact has been raised from "low-medium" to "medium", in view of an increase in the scope of regulatory requirements in Israel and around the world, including changing trends in legislation and in enforcement with respect to exchange of information relating to customers and cross-border risks, and this given high quality management and the measures taken for the monitoring and control of the risk.
7. Compliance, Money Laundering and Financing of Terror risks	Medium-High	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of non-compliance with the provisions of the law or regulation, in the area of Bank/customer relations and/or in the field of prohibition of money laundering and prevention of the finance of terror. Assessment of the risk's impact was raised from "medium" to "medium-high", as a derivative of the increase in the legal-regulatory risk, and given the supervisory anticipations for the extension of compliance risk management to wider areas. This, given the improvements in the quality of the risk's management and the investment made in the development of control tools and in view of the focusing of the Group on the activity for the implementation of compliance culture.

RISK FACTORS TABLE (CONTINUED)

The risk		Risk Factor Impact	Risk description
8.	Reputation risk	Medium	Risk of material impairment in the Group's value and its ability to attain its goals, as a result of damage to image following true or erroneous publications, external events, including events in the competition environment and/or internal events, including mistaken business decisions, material computer failures, strikes, embezzlements, material violation events in the compliance and money laundering fields, etc. Assessment of the risk's impact was raised from "low-medium" to "medium", as a derivative of the assessment regarding the growth in the operational risk, the legal-regulatory risk and the compliance risk and the assessment of the profitability risks and efficiency ratios, alongside the expected improvement resulting from the implementation of the strategy and improvements in the quality and effectiveness of risk management and control processes.
9.	Strategic risk	Medium	A material impairment in the Group's value and to the ability to attain its goals, as a result of the realization of a business risk, either of action (such as misled business decisions or improper implementation of business decisions), or neglect (such as lack of response to changes in competition). Assessment of the risk's impact remained "medium", in view of the implementation of the strategic plan, having a risk reduction effect, and despite the growth in risk environment, with a focus on the competition and regulatory environments.

PRINCIPLES OF RISK MANAGEMENT

Continuation of the global trend for the recognition of the risk management field as an essential component in the activities of a banking corporation and for emphasizing the need of establishing the risk management concept and its integration in current operations and in the business decision making process.

The Bank is studying the various risks to which the Group is exposed from a forward looking Group standpoint.

The Board of Directors and Management assign great importance to risk management aspects and to the absorption by the Bank and its subsidiaries of a proper risk management culture, while allotting the required resources for this purpose and determining focuses in these fields as part of the Group goals.

GROUP RISK MANAGEMENT

Risk management, including all its different components, is conducted on a group basis. Policy documents, tools, methodologies and infrastructure developed by the parent company are delivered to the subsidiary companies, which are responsible for their adoption, subject to adjustments required by their special operational characteristics. The Group acts continuously towards the improvement and tightening of the management, supervisory and control capabilities of the Group, and for the improvement of Group management capabilities, while establishing strategic moves from a Group standpoint and utilizing synergies within the Group.

In this framework, various functions have been defined having group responsibilities, for forming and strengthening mutual interfaces and involvement in significant decisions taken by subsidiaries, and for improving the quality of control and of the group risk management.

During 2014, the development of monitoring and follow-up abilities continued at the Group level.

Risk managers at the subsidiary companies administratively subject to the CEO of the subsidiary, but are guided professionally by the Group's Chief Risk Manager.

RISK MANAGEMENT POLICY AND OBJECTIVES

The risk management concept formed by the Group, reflects and applies the spirit of the guidelines and rules detailed in the Basel guidelines and of the directives of the Supervisor of Banks regarding this matter, in the center of which is the Proper Conduct of Banking Business Directive No. 310 of December 2012, which states the basic principals with respect to optimal risk management.

The risk management concept is established in a series of policy documents for the management of the various risks. These have been approved by the Bank's Board of Directors and their aim is to outline the comprehensive infrastructure for risk management at the Bank and in the Group. This concept includes extensive addressing of corporate governance aspects of risk management, including the roles of the Board of Directors, Management and the definition of authority and responsibility of the functionaries taking part in the risk management processes. Furthermore, the documents define the tools and mechanisms for the identification, measurement, evaluation, control, monitoring and reporting of exposure to risks, including risk appetite and stress tests.

The risk management policy documents are consistent with the developing regulation in the risk management field within the given business environment, and are delivered for adoption to the major subsidiaries, subject to the required adjustments.

The risk management policy documents combined with the Group strategy, capital planning, the work plans and the restrictions on risk appetite, constitute the basis for the formation of specific policy documents as well as for determining the various responsibility and authority of the different control functions, in obligating work procedures.

The Bank and the Group are implementing ongoing effective processes of regulation, identification, supervision, monitoring, reporting and control processes regarding risk management and perform the monitoring of the Bank's and the Group's risk profile.

The various policy documents express and provide a supporting framework for methodologies, tools (models) and infrastructure established by the Bank. In this respect, we should note the use of various quantitative tools enabling the management of risk through varied statistical models (such as models for the credit rating of borrowers, models for assessment of market risks, etc.) as well as by means of methodologies and qualitative tools allowing an orderly and systematic process of identification, evaluation and monitoring of developments in risk and exposure. Alongside tools used for the current management of risk, the Group uses various scenarios in order to examine the exposure to risks under various scenarios and stress situations, as detailed hereunder.

The methods and work procedures regarding risk management, in Israel and abroad, are examined and updated from time to time, in accordance with changes in the internal and regulatory business environment.

RISK MANAGEMENT TOOLS

RISK APPETITE

The risk appetite of a banking corporation shall reflect the risk considerations of the board of directors, shall be consistent with the business strategy, the liquidity planning and sources of finance and the corporation's capital planning, and shall serve as one of the central tools of the board of directors for the supervision of the agreement of the corporation's risk profile with the determined risk appetite.

The formation of the risk appetite is a core process of the risk management of the Discount Group, being conducted in agreement with the strategic outline and the capital outline, with a forward looking combined overall corporate insight. Accordingly, the risk appetite declaration document constitutes one of the infrastructure documents for an overall corporate risk management, as stated in the basic document regarding risk management.

As a general rule, a banking corporation shall not deviate from the regulatory limitations and accordingly, the quantitative limitations and the qualitative goals, determined in the risk appetite declaration of the Discount Group, are designed to ensure compliance, as stated. By power of this declaration, specific documents have been prepared as to the risk appetite in material risk areas, which outline the determination of the Group's business policy as to risk areas, and which include restrictions, risk goals and/or warning lines, designed to ensure compliance with quantitative limitations and qualitative goals, as determined in the overall corporate declaration.

The limitations determined in the risk appetite declaration are being monitored on a current basis and reported periodically to the Board of Directors. According to the declaration, a deviation from such limitations is reported to the Board of Directors or to one of its committees, while determining an outline for the lowering of the risk level and for compliance with the limitations.
In February 2015, the Board of Directors approved the risk appetite declaration of the Discount Group, which complies with the requirements of Proper Conduct of Banking Business Directive No. 310. The risk appetite declaration is being updated on a yearly basis.
No deviations from restrictions set by the Board of Directors in this matter were found in 2014.

STRESS TESTS

The Bank uses forward looking stress tests as a complementary tool for the risk management processes, the aim of which is to alert Management of unexpected severe results relating to the variety of risks, and to provide indication of the capital that would be required to absorb losses in case of serious upheaval. Furthermore, the importance of stress tests is reflected in challenging the capital planning processes and in determining the risk appetite for vulnerability areas identified by the scenarios.
A uniform methodological framework was defined to establish an orderly work procedure for the implementation of stress tests at the Bank and at the subsidiary companies, which details the methodology and the models used by the Group to evaluate the effect of stress tests on credit risks, market risks and on certain components of the statement of income.
This methodology combines the examination of the effects of stress tests examining the effects of changes in macro-economic parameters on the statement of income items and on the equity, using internal models developed by the Bank, and the examination of the effects of stress tests on identified vulnerability areas/specific risk centers. The examination and evaluation process is conducted by the business functionaries. The said combination provides the Bank flexibility and relative speed in running a variety of scenarios with different sensitivity analyses on the one hand, and specific examination of the exposures on the other hand, while addressing the Group's unique risk characteristics and increasing the usefulness of the tool in the hands of the business factors and the risk management group, in determining specific restrictions, in defining the risk appetite and in forming alternative plans for situations in which the risk might materialize.
A uniform macro-economic stress test. The Supervisor of Bank published a letter in November 2014, according to which, banks are required to conduct a macro-economic stress test based upon two scenarios common to the banking industry as a whole. The scenarios include: a basic scenario reflecting the anticipated direction of the economy, and a macro-economic stress test, typified by a serious local shock as a result of deterioration in the geopolitical situation of Israel, alongside a global shock being the result of a significant slowdown in the European economy as well as a certain slowdown in the U.S. economy.
The uniform stress test is integrated into the processes for the evaluation of capital adequacy.
The Bank implements the guidelines of the Supervisor of Banks in the matter.

FINANCIAL PLAN FOR THE STRENGTHENING OF THE CAPITAL IN TIMES OF CRISIS

The financial plan for the strengthening of the capital adequacy in case of a crisis and the contingency funding plan (CFP) are two central documents regarding the financial business continuity. The aim of the plan for the strengthening of the capital adequacy in case of a crisis is to establish means of facing situations involving a significant impairment of the capital ratios, in a manner that would reduce the risk of intensification of the crisis and would assist the proper management thereof. The management of a crisis, as stated, is based upon the following principles: identification of the crisis, declaration of the crisis and of the capital risk level, monitoring and reporting the capital adequacy ratios, examination of the updating of the risk appetite goals and its limitations and activating predetermined plans for the reduction in risk assets and the increase of the capital base.

APPROVAL OF NEW PRODUCTS

In accordance with guidelines of the Supervisor of Banks, prior to the introduction of new products/operations, it is required to perform an orderly and systematic process ensuring the identification and evaluation of all risks inherent in the new product/operation, while examining their effect on the risk profile, among other things, by means of materiality thresholds, and verifying the propriety of the infrastructure and controls supporting their operation. The said process has been established in a designated policy and in supporting work procedures applied by the Bank and the Group. The subsidiaries have been guided to deliver for examination and approval of the parent company requests for approval of operation of new products that are material to the operations of the subsidiary.

Integration of the process at the Group level contributes to the ability to identify and evaluate new risks being created, and verify proper preparations and hedge of such risks by means of supporting work processes, infrastructure and controls.

RISK PROFILE EVALUATION

The Bank's and the Group's risk profile evaluation is performed by an orderly and methodical process, through a group methodology, which is at the base of the process for evaluating capital adequacy, the ICAAP (see a wider discussion below). Changes in the risk profile are examined on a quarterly basis, within the framework of the risks document, which was modified to the requirements of Proper Conduct of Banking Business Directive No. 310. The risks document serves as an evaluation tool assisting the Bank's Board of Directors in the monitoring of changes in the risk profile, while verifying that the Group does not exceed the determined risk appetite and that it maintains capital adequacy.

The report presents the position of the Chief Risk Officer with respect to changes in the risk profile, inter-alia, based on changes in the business and regulatory environments and while examining compliance with limitations and various indicators used for the monitoring of exposure, also by comparison in certain parameters with the banking system. Within the framework of the document, examination is made of material changes in the quality of risk management, including their effect, and quality and effectiveness of the risk management processes, and additional subjects and issues are raised, which enable the focusing of the discussion and risk based decision making.

DEVELOPMENT OF MODELS

The model development processes in the Group are conducted with an emphasis on advanced models for the rating and pricing of risk based credit in accordance with accepted methodologies in this field. This, recognizing the importance of applicability and adjustment of the models to business activity, and the improvement in risk adjusted return.

MODEL VALIDATION

The Bank operates a unit for the management of model risks. The validation process of models used by the Bank was completed in 2013 and they were found to be appropriate and to provide response to the needs for which they had been developed.

A policy in the matter of model risk management was established during 2014. The policy outlines a framework for the risk management processes, the object of minimizing potential risks arising from the inappropriate use of models. The implementation of the policy by the Bank, and the principal subsidiaries will contribute to identifying the impact of the models on the level of risk and maintaining them within the limits of the risk appetite. Furthermore, the Bank maintains a catalogue of models and forms a multi-annual work plan, which includes periodic validation performed at frequencies and preferences determined according to the model's risk level and to changes in models or in the economic environment.

TRAINING, EXERCISING AND INTEGRATION OF RISK MANAGEMENT CULTURE

The Bank ascribes great importance to the improvement and absorption across the Group of the risk management culture. The activity is conducted by the second line of defense (as defined below in the item "Lines of defense"), by means of the control functions of the divisions and of the training group. These organs serve as knowhow implementers also in the field of specific risk management, with a cross-organization focus in matters of compliance risks, money laundering prohibition and operational risk management (including risk of fraud and embezzlement).

Absorption processes are conducted in respect of target population as well as all Bank employees, which include, among other things, orderly training and guidance programs, conducting knowhow tests, formation of work routines and risk focused controls, the holding of seminars on various subjects related to the improvement of the culture, such as seminars for the drawing of conclusions, analysis of material failure events, etc. This, in addition to training processes in the business fields being conducted with a view of preserving the qualification of employees.

RISK MANAGEMENT CORPORATE GOVERNANCE

The Discount Group adopts a corporate governance framework in accordance with the Basel guidelines and the directives of the Supervisor of Banks, established as stated, in a series of infrastructure and policy documents regarding the various risks.

The Board of Directors, its committees and the Management place considerable importance on the existence of a risk management culture, aspiring to strengthen the professional standing, the independence and performance of the lines of defense.

The risk management structure at the Bank includes: the Board of Directors, the Management, and the three lines of defense, as detailed below.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for the Group's business affairs and for its financial soundness, and its operating framework is defined in accordance with Proper Conduct of Banking Business Directive No. 301 and is established in work procedures supporting its activities and the activities of its different committees.

The Board is responsible for outlining a strategy and policy that would enable realization of the business goals from a long-term standpoint and maintain the stability of the Group and acts to achieve a tightened and strong connection between the strategic planning process, capital planning, the risk appetite and the risk profile, so that they would be consistent with the business strategy.

The Board is responsible for outlining the risk management policy and for supervising changes in the risk profile, in accordance with the risk appetite and the various restrictions determined under it.

The operation of the Board of Directors is performed by the plenum of the Board and/or by its sub-committees on different subjects, by means of current, periodic and designated discussions, including from a Group standpoint.

Control and monitoring of risk management are conducted by the various committees of the Board, the principal of which are:

- **The Board of Directors' Risk management committee.** The committee assists and advises the Board in fulfilling its duties, verifying the existence of effective risk management processes in the Bank and in the Group. The Committee discusses and recommends to the Board on a policy for the management of the various risks and supervises the implementation of the policy determined by the Board;
- **Audit committee.** The committee examines the effectiveness of the internal control group through the various audit and control functions, monitors their findings and, among other things, is responsible to advise to the Board ways in which to rectify them. For the purpose of fulfilling its duties, the audit committee relies on the independent control functions, including the internal control group, the compliance, money laundering and finance of terror prohibition functions.

MANAGEMENT

The Bank's Management has many responsibilities as regards the risk management in the Bank and the Group. The policy documents (see above) include wide references to the tasks of the Management as an "organ" in the risk management field, where, in general, each task under the Board of Directors' responsibility, requires the prior attention of the Management: holding preliminary discussions, performing control and supervision tasks and forming recommendations for the Board of Directors. The Management is responsible for applying the risk management policy, maintaining control and supervision over the quality of risk management and the propriety of the risks measurement and evaluation. The Management acts through the Chief Risk Officer and the risk management group and through the risk managers committee.

COMMITTEES AND FORUMS

Different forums and committees operate within the framework of the Management, which contribute to and assist the Management in its risk management tasks. The principal forums and committees headed by the Chief Risk Officer, or anyone on his behalf, are: the risk managers committee, stress tests forum, model validation committee, new products committee, the committee for the prioritization of technological projects for the implementation of regulation, operational risks management committee, an independent review committee, a group allowance committee. Furthermore, a large number of designated committees regarding different fields of activity operate at the Bank. These committees are, among other things, involved in the risk management process. Among these may be mentioned the different credit committees, assets and liabilities management (ALM) committee, market and liquidity risks forum, the Group operational risk controllers forum, compliance officers forum, and more.

The committees of the Board of Directors, the Management committees and the various forums, assist the Management and the Board of Directors in conducting in-depth and focused discussions, while analyzing and examining alternative to a decision, contributing to the improvement of the quality of control and the risk management at the Group.

The Group risk managers committee. The committee constitutes the central forum by which risk management is being conducted. This committee holds current discussions, reports and consultations, regarding all matters required to promote and improve the risk management processes at the Bank and at the Group, including: methodologies, means and tools required for risk management, stress tests, business continuity, regulatory directives and best practice. Aspects of risk management with regards to work plans and to strategic focuses, this in addition to the monitoring of risk exposure developments, as compared with the risk appetite, limitations and policy determined by the Board of Directors.

It was decided in November 2014 that the committee forum shall be a Group forum led by the President & CEO, the Bank's Chief Risk Manager officiating as deputy and acting chairman of the committee, and the members of which would be the members of The Bank's Management, who are risk managers, and the CEO's and risk managers of the principal subsidiaries.

LINES OF DEFENSE

The risk management concept at the Group is based upon three lines of defense participating in the current risk management:

- **Risk bearers (First line of defense).** All units of the Bank that accept risks, and in particular business units, are responsible for the current management of such risks through control procedures conducted by the functions in the unit and/or in designated control units. These units are sometimes responsible for the formation of "business strategy and policy", in relation to the risks accepted within the framework of their operations fitting the risk management policy and their professional guideline by the Risk Management Group. In recent years, the Group has strengthened their status, qualification and independence of the control functions operating within the first line of defense.
- **Chief Risk Officer and the Risk Management Group (Second line of defense).** This line of defense is responsible for the overall risk management framework at the Bank. See below.

- **Internal audit (Third line of defense).** The internal audit has an important role in the risk management field, from a Basel standpoint, being subject to the Chairman of the Board, and as such, independent of the first and second lines of defense, and assisting the Management and the Board in the efficient and effective realization of their duties and responsibilities. Among other things, the internal audit conducts a current and independent review of the Risk Management Group and of the evaluation of the Group's risk profile, including efficiency and effectiveness of controls and of the resources allocated to a proper risk management, as well as an examination of the reliability and timing of reports to the Supervisor of Banks and to regulatory authorities.

RISK MANAGEMENT GROUP (SECOND LINE OF DEFENSE)

Heading the Group is the Chief Risk Officer, who is also a member of the Management who reports to the President & CEO independently from the business lines that create the risk. The Chief Risk Officer is required also to assist the Board of Directors in fulfilling its duties regarding risk management, and he has full access to the Board of Directors and to the Board's Risk Management Committee. The Chief Risk Officer is responsible for the management of all risks at the Bank and the Group, within the framework of the second line of defense.

Risk management has been defined by the Bank as a function having Group responsibility. Accordingly, special emphasis is being put on tightening the interfaces with the subsidiaries and the overseas extensions and on the guidance provided to them regarding the adoption of processes and tools in methodologies determined by the parent company, with the required adjustments.

Among the main tasks of the group may be mentioned:

- identification and correct evaluation of the exposures;
- verification of capital adequacy, ensuring the long-term stability of the Group, taking into consideration, among other things, changes in exposures and in the business and regulatory environment, and compliance with risk appetite as determined by the Board of Directors;
- involvement in material processes of decision making, such as providing a second opinion on credit applications and on investments that involve a material credit exposure and approval of ratings, classifications and allowances and in strategic processes, such as the planning of capital, with the aim of verifying the integration of risk management aspects in these processes and the examination of their effect on the risk profile at the Bank and the Group;
- current reporting to the Management, to the Board of Directors and to committees of these organs, as a risk based management tool.

The Risk Management Group combines under it the independent functions of risk management, comprising the units managing credit risks, market and liquidity risks, operational risk, including business continuity risks and fraud and embezzlement risks, as well as compliance risk and prohibition of money laundering and finance of terror risks, IT risks, including cyber risks, model risks. The managers of the risk management units operate, as stated, as the second line of defense and conduct a variety of processes for the measurement, evaluation and control of risk and the development of methodologies. In addition, the Chief Risk Officer is responsible for control functions, including the credit controller, second opinion units regarding credit applications, as well as supervision and evaluation function, which conducts supervision and control procedures over subsidiaries and overseas extensions, as well as the overall risk assessment processes, including management of the annual Internal Capital Adequacy Assessment Process (ICAAP). Furthermore, an information system unit operates within the framework of the layout, providing support for the promotion and management of risk management systems, including the work desk system for the Chief Risk Officer.

BASEL AND THE REGULATORY CAPITAL REQUIREMENTS

GENERAL

The Basel Committee is an international body established in 1974 by the central banks of various countries. The decisions and recommendations of the Committee, though not legally binding, determine the supervisory principles according to which the authorities that supervise the banking systems in a significant number of countries around the world operate. In June 2004, the Basel Committee published recommendations intended to ensure proper regulation with respect to capital adequacy of banks in the various countries (hereinafter: "Basel II"). The Basel II guidelines have been regularized in Israel within the framework of Proper Conduct of Banking Business Directives Nos. 201-211. Most of these instructions have been amended in the course of 2013, and adjusted to the instructions of Basel III. In general, the amendments take effect as from January 1, 2014. For additional details, see below.
The Basel II instructions are comprised of three pillars:

- **First pillar - minimum capital requirements.** Defines the manner of computing the capital to risk components ratio. For additional details, see hereunder.
- **Second pillar - Supervisory evaluation.** Emphasizes the supervision and control process, the quality of risk management as well as capital adequacy in relation to the risk profile of the banking corporation. Within the framework of the second pillar banking corporations are required to conduct an internal process designed to evaluate the appropriateness of capital adequacy and to adopt a strategy intended to ensure capital adequacy - Internal Capital Adequacy Assessment Process ("ICAAP"). For additional details, see hereunder.
- **The third Pillar – "market discipline".** The banking corporations are required to present proper disclosure and expand the reporting to the public regarding the risks involved in their operations, in a manner that would enable the public to better understand the overall risks to which they are exposed, the way in which such risks are being managed and the amount of capital allocated in their respect.

FRAMEWORK FOR MEASUREMENT AND CAPITAL ADEQUACY ACCORDING TO THE FIRST PILLAR OF BASEL

The framework for the measurement and capital adequacy, as adopted by the Supervisor of Banks, applies to the Discount Group headed by the parent company, Discount Bank. The said framework applies also to a banking corporation and auxiliary corporations of the Discount group: MDB and ICC.
The framework is being implemented on a consolidated basis and there is no difference between subsidiaries included on a consolidated basis in accordance with generally accepted accounting principles and the supervisory consolidated basis of the framework. For details of the principal subsidiaries of the group, see "Main investee companies" and Note 6 to the financial statements.
Investments in financial companies, in which the Bank has a material influence and which are included in the Bank's books in accordance with generally accepted accounting principles, are deducted from capital for the purpose of implementation of the Directive. The principal investment in an affiliate as stated above, is the investment in FIBI (and this until the first quarter of 2014. For details, see Note 6 D (1) to the financial statements).

CAPITAL REQUIREMENTS

- **Credit risks.** The capital requirements in respect of credit risks are computed according to the standard approach, in the basis of external credit ratings;
- **Market risks.** The capital requirements in respect of market risks are computed according to the standard approach;

- **Operational risks.** The capital requirements in respect of operational risks are computed in accordance with the standard approach, according to which, the gross income from the various business lines is multiplied by a different coefficient for each business line, which fluctuate between 12% and 18%, as determined in the instruction.

CAPITAL TRANSFERABILITY

Capital transferability is a key component in establishing capital adequacy for the Group. Discount Group regards a high level of capital transferability within the Group as supportive of Group capital adequacy, due to the capacity to transfer capital, if needed, between Group companies.

Capital transfer between Group companies may be achieved by issuing Tier 1 and Tier 2 capital between Group companies, purchase/sale of risk assets, or even by providing letters of indemnity so as to reduce the need for the actual capital transfer. Regulation and improvement of capital transfer procedures makes a contribution to robustness of claims with regard to capital adequacy of the Group and of each individual subsidiary.

It should be noted that such capital transfer may be effected between subsidiaries, or from the parent company (the Bank) to subsidiaries. Indeed the Bank has, in fact, invested in capital and capital notes of certain subsidiaries, and has indemnified other subsidiaries. Capital transfer from subsidiaries to the parent company is not relevant. However, excess tier 2 capital in a subsidiary may serve the parent company in calculating capital adequacy.

For additional details, see above "Capital Management" under "Capital Resources".

THE ICAAP PROCESS - CAPITAL REQUIREMENTS ACCORDING TO THE SECOND PILLAR OF BASEL

The internal capital adequacy assessment process (hereinafter: "ICAAP") is a Group self evaluation process performed within the framework of the second Pillar of Basel II, which is intended to ensure a continuous capital adequacy of the Group in relation to its risk profile.

An annual report to the Supervisor of Banks in Israel is submitted in respect of this process, which is being reviewed by the Supervisor within the framework of the Supervisory Review Evaluation Process (hereinafter : "the SREP").

Furthermore, current monitoring and supervisory processes are being conducted with respect to changes in the risk profile, while monitoring and examining developments in the risk assets and in the capital and submitting a quarterly report, "the risk document", which also includes an evaluation of the Group's capital adequacy.

From the viewpoint of the Basel framework, the processes for capital adequacy assessment are complementary processes to the provisions of the first pillar, providing a binding framework for the allotment of capital.

In this process, the banking group is required to evaluate, by itself the adequate volume of capital requirements in relation to the risks to which it is exposed and to the quality of its risk management, in order to ensure its long-term financial stability. Accordingly, the ICAAP includes an examination of all risk management processes in the Bank Group, including corporate governance and a group management of risk management, identification of material risks to which the Group is exposed, quantification of the overall exposure to risk in terms of capital and performing a comparison between the volume of exposure and the Bank's capital resources at the present time and from a forward looking standpoint, while providing a solution for the market cycle, for periods of stress and for various scenarios, including stress tests.

As part of the ICAAP, banking corporations are required to reassess their capital requirements, both in respect of risks that were addressed by the first Pillar and material risks not addressed by it, and determine, subjectively, what is the adequate level of capital required in respect of such risks (capital adequacy assessment).

The additional risks included in the second Pillar are composed of risks not addressed by the first Pillar, where it is possible to compute the extent of related exposure and the capital allocation required in their respect on a quantitative basis (such as: concentration risk, interest risk in the banking book, etc.) and from qualitative risks, which are examined within the framework of the comprehensive examination of the capital adequacy (such as: reputation risk, compliance risk, strategic risk, legal risk, etc.). Furthermore, within the framework of the second Pillar, banking corporations are required to perform stress tests in order to examine their capital position.

DISCLOSURE IN ACCORDANCE WITH THE THIRD PILLAR OF BASEL

The Basel guidelines broaden the qualitative and quantitative disclosure requirements in the matter of credit risk, market risk and operating risk exposure management.
Qualitative and quantitative disclosure regarding the various risks is presented above and below in the Chapter "Exposure to Risk and Risk Management".
It should be noted, that a part of the data, the disclosure of which is required according to the third pillar of Basel, is presented in part "C" of the "Additional disclosure according to the third pillar of Basel" document, tables 1-7. The document is available for perusal on the Bank`s website together with the Bank`s 2014 annual report (this report), on the MAGNA site of the Israel Securities Authority, and on the MAYA site of the Tel Aviv Stock Exchange Ltd. (hereinafter: "the Internet document in the matter of Basel"). The data presented in the said tables is presented herewith and hereunder by way of reference. Furthermore, the Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "B"), includes a table relating the disclosure requirements according to the third Pillar to the data presented in the Report.

BASEL III

The recommendations of the Basel Committee, "Basel III", are intended to improve the stability of banks in crisis periods (translation of the instructions is available on the website of the Bank of Israel). As part of the lesson learnt from the global crisis that started towards the end of 2007, The Basel Committee has decided that the core capital of banks comprises the principal component for the absorption of losses, in the ordinary course of business as well as in crisis times, therefore, the maintenance thereof at an appropriate level is required in order to avoid damage to the financial corporation. The recommendations refer to several principal issues:

- Improving the quality of capital;
- The addition of a requirement for leverage ratio management;
- The addition of a requirement for capital for different risks, such as counterparty risk in derivative transactions;
- The definition of a quantitative framework for liquidity, which dictates the liquidity ratio for a period of one month, and an additional liquidity ratio for a period of one year, the manner of their computation has to reflect also stress tests;
- Supervision that would review the risk to the financial system beyond the risk to a certain sector or a certain financial institution.

Within the framework of the said recommendations for improvement of the quality of capital, the Basel Committee recommends, among other things, that the core capital components should be strengthened and that its minimum ratio should be increased.

Amendment of Proper Conduct of Banking Business Directives in the matter of "Basel III". On June 3, 2013, the Supervisor of Banks issued amendments Proper Conduct of Banking Business Directives Nos. 201-205, 208 and 211, which includes amendments of existing measurement rules regarding capital adequacy ("Basel II" principles), as well as new guidelines designed to integrate the principles of the Basel Committee document published in December 2010 ("Basel III" principles) relating mainly to the improvement of the "capital base" quality and to enhancing "risk coverage", as detailed hereunder:

- Stricter criteria have been introduced for the recognition of capital components that would be included within the framework of the Tier 1 capital (hereinafter: common equity tier 1), and would principally include: share capital, retained earnings and capital reserves (including premium on shares);
- A new capital tier has been added – "additional Tier 1" to include perpetual capital debt instruments (which may be eligible for early redemption only after five years from date of their issue and subject to a prior approval of the Supervisor of Banks) and which include mechanisms for "loss absorption", including:

- Cessation of interest payments to holders of the instrument, at the sole discretion of the issuing bank, and automatic conversion of the debt instrument into shares in certain defined circumstances or at the Supervisor's request;
- Automatic conversion of the debt instrument into shares whenever the "Tier 1 capital" ratio falls under 7% or after an announcement from the Supervisor of Banks is received, according to which conversion of the debt instrument into shares is necessary to maintain the stability of the issuing banking corporation or a decision to provide capital inflow from the public sector, without which, the banking corporation may reach a non-viability point, as determined by the Supervisor of Banks ("non-viability" event).
- The differentiation existing in the "Basel II principles" between the two types of capital in Tier 2 ("Tier 2" and "Upper Tier 2") has been cancelled and accordingly the capital of Tier 2 will include only one tier. Furthermore, stricter criteria have been applied for the recognition of capital debt instruments issued by the banking corporation, as "Tier 2 capital components", as follows:
- The instruments will be issued for a period of at least five years, and will be eligible for early redemption only after the elapse of five years from their issue date, subject to the prior approval of the Supervisor of Banks.
- The instrument will include "loss absorption" mechanisms that will allow automatic conversion into shares whenever the "Tier 1 capital ratio" falls under 5%, or after the Supervisor of Banks notifies that the conversion of the debt instrument into shares is necessary to maintain the stability of the issuing banking corporation (a "non viability" event).
- Stricter regulatory adjustments in respect of the capital means have been introduced, as well as additional components to be deducted from the Tier 1 capital, including:
- Accounting adjustments in respect of the bank's credit risk (DVA) included in the fair value of liabilities regarding derivative instruments.
- Deferred tax assets the realization of which is based on the future profitability of the banking corporation.
- "Excess deferred taxes" comprising the balance of the deferred tax assets derived from timing differences, which exceeds 10% of the common equity Tier 1.
- Investments in the capital of financial corporations exceeding 10% of the equity capital of the corporation, which is in excess of 10% of the common equity tier 1.

The last two items are not to exceed 15% of the common equity tier 1.

- Investments in the capital of financial corporations, which are below 10% of the equity capital of the corporation, which exceeds 10% of the common equity tier 1.
- A ratio of 9% has been determined for the minimum common equity tier 1 to weighted average risk assets and a total capital adequacy ratio of 12.5%. For details of the requirement to increase the common equity tier 1 target at a rate reflecting 1% of the outstanding balance of housing loans, see Note 14 (c).
- In addition, it will be permitted to recognize the profits of the net capital reserve in common equity tier 1. In addition, surplus minority interests over the minimum requirement of the subsidiary company for common equity tier 1.
- On the other hand, banking corporations will be permitted to include within the framework of "Tier 2" capital components also the balance of the allowance for credit losses computed on a group basis (subject to a maximum amount equal to 1.25% of the weighted average risk assets in respect of credit risk, as defined in the instructions).
- The Directive includes "transitional instructions" permitting the gradual adoption of the new guidelines included in the Directive relating to the stricter criteria for the recognition of capital and for deductions from capital, as follows:
- The requirements for the deduction from capital of regulatory adjustments will be gradually implemented in the years 2014-2018 and will be adopted in full as from January 1, 2018. The gradual adoption includes a deduction of only a certain part of the amount required to be deducted, and the recognition of the other part as a "risk asset".

- Whereas the debt notes that had been issued in the past by the banking corporations do not comply with the criteria for the recognition as a "Tier 2" capital component (due to the fact that they do not include a loss absorption mechanism), the transitional instructions established a mechanism for the gradual adoption of the criteria for the recognition as regulatory capital of the said debt notes, which will apply in the years 2014-2022, according to which the said debt notes will be partly recognized as "Tier 2" capital in this period, at diminishing rates, until their complete elimination at the end the period.

The amendments to the Directives came into effect on January 1, 2014.

For details regarding the Bank's evaluation regarding the effect of the adoption of the new instructions, see "Capital resources" above.

REGULATORY FRAMEWORK FOR RISK MANAGEMENT

During the past year, the principal part of the preparations for the implementation of various Proper Conduct of Banking Business Directives continued. In this respect, as detailed further on, the operation of the second opinion unit has been absorbed, the instructions regarding the group allowance have been implemented, processes were conducted for the improvement of qualifications, evaluation of the effectiveness and the framework for internal control, the involvement of risk management in the formation of credit policy has been increased, and more.

INSTRUCTIONS PUBLISHED DURING 2014

Draft instructions and Various Directives in the field of credit risk management. For details see below "Management of credit risks".

Proper Conduct of Banking Business Directive, and a Provisional Instruction in the matter of the liquidity coverage ratio – see below "Management of Liquidity Risks".

Amendment of Proper Conduct of Banking Business Directive No. 355 in the matter of business continuity risk management – see below "Operational Risks".

Draft instructions regarding management of cybernetic protection, regarding the reporting of a cybernetic incident and regarding risk management in the cloud computing environment – see below "Information technology risk management".

Proper Conduct of Banking Business Directive No. 329 in the matter of "restrictions on housing loans" – see "Guidelines and directives of the Supervisor of Banks, designed to restrain the mortgage market", under "Mortgage activity".

For details regarding instructions in the matter of housing loans, published during 2014, see "Mortgage activity" under "Further details as to activity in certain products".

CREDIT RISK MANAGEMENT

Credit risk is the risk of losses being sustained as a result of the inability of a borrower or counterparty to honor their obligations, in whole or in part.

The credit risk management concept at the Bank and at the Group is designed to secure a proper balance between the business factors that directly create and manage exposure to credit risk, and the factors engaged in supervision, independent risk control and evaluation, and the factors engaged in the audit.

Hereunder is included reference, as the case may be, to the principal subsidiaries - IDB New York and Israel Credit Cards ("ICC"). In view of the fact that MDB is similar to the Bank in its general characteristics, from the general lines of operation and related regulatory aspects, no separate reference is generally included with respect to this bank.

Amendment of Proper Conduct of Banking Business Directive No. 311 in the matter of "credit risk management". On November 30, 2014, the Supervisor of Banks published an amendment of the Directive, according to which, credit control requirements were integrated into the Directive, and Proper Conduct of Banking Business Directive No. 319 was abolished. The emphasis laid in the

Directive was shifted from technical quantitative indices to qualitative requirements and to products required from the operation of the credit control function. According to the amendment, credit control will assist in forming across-the-board conclusions in respect of credit granting processes, and in supervising and monitoring the principal risk centers existing in the various lines of operation. In addition, credit control has to verify that the subsidiary companies have in operation a unit of a professional level. The amendment takes effect as from January 1, 2015 and thereafter.
For details regarding instructions for housing loans – see "Legislative restrictions" under "Mortgage activity" above.

THE BANK'S STRATEGY AND POLICY WITH RESPECT TO CREDIT RISK MANAGEMENT

CREDIT RISK MANAGEMENT POLICY

The credit risk management policy is aimed at establishing an infrastructure for credit risk management at the Bank and at the Group, in a manner that would contribute to attaining an adequate return for the risk taken (in risk adjusted terms), in accordance with the determined risk appetite, while understanding the credit risk profile of the Bank and the Group and ensuring that the level of capital reflects this risk profile.
The approach forming the basis for the policy is the definition of the framework for credit risk management, and the responsibility of the functionaries at the Bank involved in the identification, measurement, monitoring and control processes regarding the credit risk that the Bank accepts.
The credit risk management policy determines, among other things, the organizational structure of the risk management, the role of the control functionaries, the credit risk appetite declaration, restrictions and limitations for credit risk acceptance, criteria for credit approval, the credit approval process, credit risk identification process, processes for the measurement and evaluation of credit risk factors and reporting procedures regarding exposure to credit risk.

CREDIT POLICY

The credit policy of the Bank and of its subsidiaries is, among other things, intended to improve the quality of the credit portfolio, to diversify the portfolio, to limit its concentration and to spread out the risks inherent therein.
The Bank's policy and strategy documents are discussed and approved by the Management and by the Bank's Board of Directors on an annual basis.
In addition, a detailed credit policy is determined with respect to various areas and activities, among them: economic sectors, large borrowers and borrower groups. Special emphasis is put on economic activities having a material and unique credit exposure, such as: the acquisition of means of control, holding companies, leverage finance, the diamond sector, real estate and project financing, housing loans, acquisition groups and capital market participants.
The credit policy documents for the year 2015 include also the Group credit policy document, which reflects the risk appetite of the Group, the object of which is to create within the Group a uniform risk concept in everything related to the subject of credit. The policy relates to the nonmarketable credit and is binding on each of the subsidiaries in Israel with the necessary adjustments.
A policy has been determined also for environmental issues in view of the increased awareness of ecological and social damage caused as a by-product of the activities of corporations and due to increased legislation in the matter and in accordance with the guidelines of the Supervisor of Banks in this respect. A policy has also been determined with respect to complex foreign trade transactions, syndication and the sale of credit, financial institutions, to the Bank`s operations versus custodians, to banks as well as borrowers in less developed countries (LDC) and to the credit in the "nostro" portfolio.

In addition, the regulatory limitations imposed on banking corporations within the framework of directives of the Supervisor of Banks as to industry concentration, single borrower, group of borrowers, a banking borrower group, the credit policy of the Bank and of its subsidiaries include internal restrictions and lines of operation. The Discount Group complies with these limits.
In addition, the credit policy established criteria and guidelines for the granting of credit, a pricing methodology and rules intended to reduce the credit risk through collateral and its management.
The Bank's credit policy includes detailed rules regarding collateral, with reference to obtaining collateral, managing the different types of collateral and the rate of reliance thereon. As a general rule, the Bank grants credit to its customers against collateral of various kinds, including liquid assets, fixed assets and pledges and guarantees of all types. To the extent possible, the collateral is modified to the credit secured by it as regards to the credit period, currency of the loan, redeemed or renewable credit. A valuation of the collateral is made on a periodic basis. In addition, the credit policy determines maximum reliance rates according to the nature of the collateral.
The credit policy of IDB New York. The credit policy of the subsidiary, which is approved each year by its Board of Directors, establishes rules for the granting of credit according to the following categories of concentration: type of industry, geographical distribution, exposure to large borrower groups, risk rating and the real estate portfolio, with the aim of distributing the risks inherent in the credit portfolio. In addition, the policy document determines limitations and/or targets within the framework of such concentration risks. Credit exposure and compliance with limitations are reported to the Board of Directors on a quarterly basis. The credit policy also determines the credit authorization hierarchy, and the duties of the business units and the control units relating to assessment, monitoring, measurement and management of the credit risk.
The credit policy of ICC. The credit policy which is approved by the Board of Directors of ICC at least once a year, and states the credit strategy and the rules and limitations applying to the various lines of operation in the company.

STRUCTURE AND ORGANIZATION OF THE CREDIT RISK MANAGEMENT FUNCTIONS

The organizational structure designed for the management of credit risk is composed, as above said, of three lines of defense.

FIRST LINE OF DEFENSE

- **Business units.** Various processes for the reduction of credit risk are performed within the framework of the business units through the economic and business analysis of applications for credit in order to evaluate the credit risk involved in the operations of the borrower, credit rating and the ongoing monitoring and control over the credit granted as well as the quality of the borrower. Within the framework of such processes, the collateral provided is being assessed and revalued in accordance with the collateral policy and procedures derived there from. The current survey of credit files includes a review of implementation of decisions taken by the credit committees, including documents related to credit transactions (loan agreements, pledge documents, compliance with terms and conditions, availability of current reporting by the customer, etc.).

  The control procedures are performed using irregularity reports and outstanding debt reports at various profiles. The aim of the control is to identify as early as possible defaults in customer accounts and to draw the attention of the business factors to the urgent need to correct any irregularities in their indebtedness.

Credit committees. The Bank has determined a scale of credit authority for managers and the various credit committees, reaching up to the Board of Directors.
Presented below is a list of the Bank’s credit committees, as determined by the Board of Directors:
- The credit committee of the Board;
- The central credit committee headed by the Bank's CEO;
- Division level credit committees (corporate and Banking Divisions);
- Local credit committees (in accordance with the business unit to which the customer belongs).

The credit committees discuss and make decisions in matters of credit, both as regards to applications for new credit and as regards to existing indebtedness. Committee discussions include a review of the debtors, including their compliance with credit terms, changes in the profitability of credit, developments in their financial condition, evaluation of the level of exposure to changes in exchange rates, the debtor's credit rating, risk adjusted return etc.

The hierarchy regarding the authority to grant credit is in accordance with Proper Conduct of Banking Business Directive No. 311, so that the authority of the Board of Directors for approval of credit shall focus on the approval of transactions which are exceptional in relation to the determined policy.

Presented below are the control units in the various divisions:

- **Credit management unit** at the banking division manages the corporate credit risk at the banking division vis-à-vis the business functions in the division (business centers and regions), the control, collection and compliance department and various functions at the Bank, such as the accounting group and the risk management group.

  The unit is responsible, among other things, for providing an opinion and for approval of credit by a second signature on credit applications, participation in the various credit committees, responsibility for the drafting of methodologies, procedures and training concerning the corporate credit in the division, quality reasonableness examinations, rating of indebtedness and industry classification of the division customers.
- **The control collection and compliance department** at the banking division, which includes the following units:
  - **The collection department** is responsible for the formation of debt arrangements with borrowers, instigating legal proceedings in respect of debts, as well as the handling and monitoring of debts undergoing legal proceedings and debts which are not subject to legal proceedings.
  - **Credit control department** performs current monitoring and control of accounts of the business sector customers, control over mortgage activities and performance of risk focused controls.
  - **Debt monitoring unit** identifies accounts having "negative characteristics" in order to avoid credit failure, and performs current follow-up of accounts through the "Red Lights" system. In addition, the unit performs in-depth control over consumer credit at all branches of the Bank.
  - **Business control unit** is responsible for performing conclusion drawing investigations, monitoring of exceptional performances of units and industry developments, examination of exogenous effects on the credit portfolio and performance of risk focused controls.
  - **Credit documents control** is responsible for the examination of borrower files and for the examination of completeness and regularity of credit and security documents in the credit files.
- **The credit risk management department** operates within the framework of the corporate division which serves as the first line of defense for the operations of the corporate division and is a partner to the process of forming the Bank's credit policy, which is the responsibility of the Risk Management Group. Moreover, the department is responsible for the credit methodologies, and for the formation of work procedures that would ensure the implementation thereof. The department includes the following units:
  - **Business control.** Conducts control and monitoring over the credit portfolio and the current monitoring of borrowers of the division as a whole, with the view of identifying weaknesses and high risk borrowers and reducing risk exposure beforehand. Among other things, the conduction of a follow-up list of non-problematic borrowers having negative indications (indebtedness of NIS 5 million and above).

    Furthermore, it coordinates the process of discussion of the committee for the examination of the adequacy of the classification and the allowance, monitors the implementation of decisions taken by the credit committees, performs current control over the improvement of the credit portfolio data of the Division, coordinating and responding to audit reports regarding the Division received from the Internal Audit, as well as to letters and external audit reports regarding customers of the Division.
  - **Economic department.** Conducts reviews of economic sectors and groups of borrowers, monitors the mix and distribution of the borrowers, divided by the rating of the debt and the quality of the portfolio, develops and maintains the methodology for credit risk management of the single borrower, prepares complex credit applications independently of the business factors, is

responsible for preparing operational reviews for the analysis of credit risk and preparing the Bank`s credit exposure document. The economic department takes part in the process for the formation of credit policy documents being the responsibility of the risk management group, in accordance with the determined distribution of responsibility. It is also engaged in the development of a methodology used as a tool for the analysis of financial reports, repayment ability, reasonableness of credit, value of collateral, and for the absorption thereof by the business factors.

  - **The valuation unit,** the duties of which are to examine, provide an opinion and validate the estimates made of the value of real estate serving the Bank as collateral for credit, while determining the maximum value of assets used as collateral.
  - **Examination of credit documents, compliance and prohibition of money laundering unit,** performs an examination of the regularity and completeness of credit documents (loan files of over NIS 10 million); provides training, integration, learning flashes and monitoring material exposures in matters of compliance and money laundering prohibition, the drawing of conclusions from credit failure events.
  - **A unit engaged in the treatment of systems and methodologies** supporting the processes of classification and the allowances in respect of problematic debts.
- **The special credit department** operates in the corporate division and attends to large problematic credit files, with the view of reaching collection arrangements and the repayment of debt.
- **Credit management and operation department** at the corporate division is engaged in the preparation and updating of follow-up files for the credit committees. The department is responsible for the connection of borrower groups, in accordance with instructions by the Bank of Israel in the matter, and the current monitoring for the avoidance of deviation from the limitations applying to single borrower/groups of borrowers. The department is also responsible for the writing of a part of the credit and collateral procedures at the Bank and the systems supporting the management of credit products at the Bank.

SECOND LINE OF DEFENSE

- **Credit risk management division.** The duties of the division include, among others:
  - Formation and implementation of policy and methodology documents for the management of credit risks (in cooperation with the business factors), all this in order to define the "risk appetite", to monitor and verify that the credit portfolio is managed in accordance with exposure limitations approved by the Board of Directors;
  - Responsibility for the process of forming and updating the credit policy documents of the Bank (standalone) with the participation of the business functions;
  - Challenging the credit policy documents of the subsidiaries;
  - Analysis of the credit risk profile relating to vulnerable areas at Group level;
  - Development and application of internal models for internal credit rating of Bank customers, in order to quantify credit risk and support decisions;
  - Development and implementation of a methodology for the pricing and assessment of risk adjusted performance;
  - Development of a statistical model for the computation of a group allowance, according to the directive of the Supervisor of Banks concerning defective debts;
  - Evaluation of the credit risk profile of the Bank and of the Group and reporting to the Board of Directors within the framework of the exposure document and the ICAAP report;
  - The development of methodologies for the quantification of stress tests and the examination of their impact on the portfolio of the Bank and of the Group.

- **The credit control unit** is a vital function of credit risk management. Its duty is to examine retroactively the manner of credit risk management at all its stages, including the considerations of the professional factors which approve the granting of credit and the appropriateness of the current monitoring thereof, and to provide vital assessment as to the specific credit quality and the quality of the credit portfolio in general. In accordance with the requirements of Proper Conduct of Banking Business Directive No. 311, the work plan will be based on the examination of credit, in accordance with a risk based sample. The unit reports to the Bank's Chief Risk Manager.
- **"Second opinion" unit** provides an independent and unattached opinion on credit transactions and in particular on approval of exposures, credit rating determination, classification and allowances. The unit provides independent opinions regarding credit applications and the renewal of credit prior to their being distributed to the credit committees.

The said three units operate within the framework of the risk management group.

THIRD LINE OF DEFENSE

The internal audit performs sample test checks of credit files. In addition, it examines the procedures for approval of the credit granted, and its management and tests whether work procedures are in line with the Bank's procedures. In addition, the internal audit performs across the board audits in respect of credit issues.

CREDIT UNDERWRITING AND MANAGEMENT PROCESSES

The credit underwriting process at the Bank is defined by procedures, credit authority and work processes. The underwriting process is a structured one, which begins with the interface between the customer and the customer relation officer at the Bank, the writing of the application, analysis of the application, stage of approval of the application in accordance with the credit authority, the actual granting of credit, following which the current control of the borrower's file.

An economic and business analysis of the customer is performed as part of the approval of the credit designed to locate and evaluate credit risks inherent in his business. Furthermore, as part of the discussions held by the credit committee, it is being considered whether the approval of the credit reflects acceptance of a reasonable risk on the part of the Bank concurrently with profitability and an appropriate return.

The considerations for the granting of credit to a business customer are mostly based on purpose of credit and repayment ability, financial soundness, business position and quality of collateral provided by the customer. An additional important parameter is the quality of the customer and past experience with him.

The consumer credit at the Bank is characterized by small amounts and a high distribution. The methodology and procedures regarding the examination of credit applications submitted by private customers, is intended to focus more on acquaintance with the customer, on socio-economic parameters and on his financial soundness in addition to the examination of the collateral. Furthermore, a private customer credit scoring system is also used, in order to determine the rating and credit recommendations for existing customers. Decisions on the granting of consumer credit are taken under personal authority or by the relevant credit committee, in accordance with the scope of credit.

Credit underwriting in the mortgage field is performed through a comprehensive examination of the borrower, with emphasis on his solvency, and an examination of the transaction, its purposes and the collateral pledged to secure the credit.

Within the framework of the credit management process at the Bank, current discussions are conducted at the credit committees at an annual frequency in respect of every customer having a credit facility in excess of NIS 400 thousand. Quarterly discussions are being held in respect of customers of a higher complexity or risk levels. Preparation and updating of follow-up files are made prior to each discussion. Developments and principal changes in the business condition of the borrower are reviewed within the framework of the discussion, including compliance of the borrower with the credit terms, changes in the credit profitability, the financial condition of the customer and his indebtedness rating.

The Bank acts according to procedures that define criteria for identifying credits having a problematic potential, in order to ensure the ongoing monitoring of the quality of the credit portfolio, and where required, the classification of problematic debts and/or creation of allowances at the appropriate time. The process of classifying debts as problematic and determination of allowances is made once a quarter by the Bank's Management, and in a manner that would reflect the risk level of the credit portfolio.

The monitoring process of the credit portfolio. The process includes:

- Identifying and locating borrowers having negative indications, by means of the "red light" system and follow-up lists;
- Identification of customers whose financial condition and/or their ability to honor their obligations towards the Bank have deteriorated, and classifying them, in consequence, as "problematic debts" (debts under the definition of "under special mention", "substandard" and "impaired");
- The creation of allowances that reflect the Bank's expected loss at a specific level. In determining the allowances, the Bank's Management relies on information at hand regarding the borrower, such as: financial soundness and/or owner guarantees, scope and quality of the collateral held, estimate of the present value of the future cash flows of the debtor;
- Recording allowances that reflect the Bank's expected loss at a group level. In determining the allowances, the Bank’s management is based upon information at hand regarding the borrower, such as: their credit rating, the classification of the debt, the economic sector, the scope and quality of the collateral and an assessment of the risk environment.

Credit underwriting process at IDB New York. The credit policy states that the underwriting process shall begin with the business units that specialize in a particular segment of customers and act in accordance with specific procedures. The credit risk management unit, which is subject to the chief risk officer in IDB New York, prepares an "opinion" with respect to each credit application, which, among other things, examines whether the credit exposure exceeds the various limitations determined by the credit policy.

Evaluation of credit risk at IDB New York is based on an internal rating model. The model is divided into two stages of analytical processes, Borrower Risk Rating and Transaction Risk Adjustment, which determine the rating of the transaction .

Credit underwriting and management processes at ICC. ICC operates according to procedures and work processes which define the underwriting principles, management and monitoring of the credit portfolio. Procedures for the handling of credit and collateral and the relevant information systems are updated on a regular basis with a view of improving credit management.

Evaluation of credit risk at ICC is based on the following statistical models:

- Credit scoring model - a statistical model used for determining new customer scores, according to which the level of credit/type of card is determined.
- Behavior scoring model - a statistical model used for determining customer scores based on their behavior during the period of their relationship with the company.

Every new of evaluation and re-approval of credit facilities is made in accordance with criteria and authority scale defined in the policy document.

CREDIT RISK MEASUREMENT AND REPORTING SYSTEMS

Assessment of the risks. The Discount Bank Group bases the concept of credit risk in accordance with globally accepted advanced systems, which are based upon two components, viz., probability of default (PD) and the loss given default (LGD), by means of qualitative and statistical models.

Measurement and reporting systems. The Bank uses several systems supporting credit risk management, as follows:

- Computerized system for the management of credit facilities and for the management of borrower debt, which also enables following up on the volume of the credit file. The system covers all Bank customers whose indebtedness exceeds NIS 400 thousand. The system provides information regarding the status of credit and collateral of the borrower, credit facility, guarantees and financial covenants. The system supports the work of the various credit committees and summarizes customer data, including the different risk components, in a comprehensive report presented to the various credit committees. In addition, the system supports the process of analyzing financial statements and evaluation of floating pledges.

Furthermore, the system supports the customer credit risk management and based upon models for the assessment of risk components (PD and LGD), which are based, among other things, on qualitative questionnaires, quantitative data and banking practice;

- A computerized system for credit scoring and providing credit recommendations for private customers;
- A computerized system for the management of collateral. The system documents all collateral, such as deposits, pledges on real estate assets, fixed assets, securities and floating pledges. The system manages the value of the material collateral securing the debt;
- A computerized system for guarantee management;
- An information system used for assessing the profitability of a single portfolio and of a business unit (under development is the enlargement of the system in respect of assessment of yield from an individual customer);
- A computerized system for the computation of risk assets on a Group level, in accordance with Basel guidelines.

Credit risk exposure document. In accordance with of the Supervisor of Bank's directives, the Bank prepares in each quarter credit risk exposure documents relating to all credit exposure in the Bank and in the Group, including: the volume and composition of the credit portfolio, concentration of the portfolio, linkage segments, segments of operation, economic sectors, large borrowers and large borrower groups. These documents also examine the quality of the credit portfolio according to the distribution of the borrowers' credit rating, the volume of the troubled debts and the credit loss expenses and reference is accorded to changes in the risk management quality. Furthermore, the documents relate to compliance with restrictions set by the Supervisor of Banks and the goals and internal restrictions set by the Bank and by the Group for control and monitoring purposes. The exposure document is presented to the Bank's Board of Directors.

CREDIT RISK MITIGATION

General qualitative disclosure regarding the credit risk mitigation. According to the Basel guidelines, banking corporations may obtain relief from capital requirements with respect to usage of methods of credit risks mitigation (CRM), subject to legal certainty. Legal certainty requires, among other things, that all documents securing a transaction, setoff documents, guarantees, etc. shall be binding on all parties involved and may be legally enforceable in all relevant judiciary fields.

Collateral management and control processes. The Bank's credit policy includes detailed rules on the subject of collateral, including management and control processes thereof, performed by the different control units, as well as in the Legal Advisory Group, as mentioned above.

The mitigation of credit risk relating to different entities. The Bank's policy is to enter into transactions in financial derivatives only with entities with which an ISDA agreement had been signed. This agreement leads to a mitigation in credit risk by permitting the Netting of liabilities and mutual demands stemming from over the counter derivative transactions in cases of insolvency of the counterparty.

The credit risk applying to derivatives is mitigated by means of collateral. The transfer of collateral in agreements with banks engaged in significant derivative activity is regularized by Annex CSA (Credit Support Annex) to the ISDA agreement. Deviations in this matter are brought before the Board of Directors for approval.

IDB New York transacts business only with entities with which ISDA agreements had been signed.

MDB applies off-balance sheet netting with respect to transactions in derivative instruments with entities with which netting agreements had been signed that comply with ISDA rules. Most entities active in derivative instrument transactions have signed the ISDA agreement.

The mitigation of clearing risks. The clearing of derivative transactions with foreign banks and financial institutions constitutes the main source for the Bank's exposure to clearing risks. In order to hedge the clearing risk inherent in these transactions, the Bank uses the services of the CLS - Continuous Linked Settlement system where the clearing process is executed net in the various currencies, simultaneously.

In order to mitigate clearing risks, the Bank, where possible, performs the clearing of dual transactions in the principal currencies with banks, using CLS.

MITIGATING THE RISK IN RESPECT OF CREDIT CONCENTRATION

Concentration risk is the risk emanating from the lack of diversification of the credit portfolio. This risk is made up of two main categories: (1) Risk emanating from a large volume of credit granted to a specific borrower and/or several borrowers who belong to the same group of borrowers; (2) Risk emanating from a large volume of credit granted to borrowers belonging to a certain economic sector or to a certain geographical area.

Spreading of the credit risk is reached, among other things, by the spreading of the credit portfolio over a large number of borrowers/groups of borrowers in various economic sectors and industries.

Mitigating the credit risk in respect of the concentration of borrowers/groups of borrowers. The Bank performs an ongoing monitoring of the situation of large borrowers/ groups of borrowers with indebtedness exceeding 10% of the Bank's equity) and compliance with the Bank of Israel limitations and within internal limitations determined by the Bank. In addition, the Bank conducts surveys and holds periodic discussions with respect to the borrower groups, with a view of evaluating the credit risk at Group level.

The Bank complies with the Bank of Israel limitations and with internal limitations in respect of a single borrower and in respect of the large borrower groups.

Mitigating the credit risk in respect of concentration according to economic sectors. The Bank performs industry surveys of various economic sectors as well as current surveys of the situation of the economic sectors in Israel in order to evaluate the credit risk at the industry level.

Within the framework of the individual application for credit, an analysis of the economic sector of the borrower is performed and it is examined whether the application is in line with the credit policy according to economic sectors.

The Bank complies with the Bank of Israel limitations and with internal limitations in respect of economic sectors, including the specific limitations regarding the real-estate sector.

Mitigating credit risk in respect of holding companies and credit granted for the acquisition of means of control. The Group, and mostly the Bank, have granted credit to holding companies and to finance the acquisition of means of control. The principal repayment ability of the loan is based upon the cash flows of the active investee companies, which is transferred to the holding companies by way of dividends, management fees and repayment of shareholders' loans.

Due to the high dependence of the repayment ability of the investee companies, held directly or indirectly by the holding company, on the quality of the collateral, the credit granted to holding companies for the acquisition of means of control is as an area having a high risk profile.

The credit policy includes a restriction on the volume of exposure to holding companies and to means of control. The restriction is set in absolute terms (based on the existing framework) and in relative terms to capital and to the overall credit portfolio. In addition, indicators in risk terms have been defined in the credit policy for holding companies.

A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 4, and the information included therein is presented herewith by way of reference.

ADDITIONAL DISCLOSURES

DESCRIPTION OF THE APPROACH AND STATISTICAL METHODS FOR THE CREATION OF SPECIFIC AND GENERAL ALLOWANCES

As part of the implementation of the instruction regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank has developed methodologies and statistical tools for the determination of allowances for credit losses. The Bank has modified the methodologies and tools applied by it, as required in view of the draft "group allowance for credit losses", which in the meantime turned into a binding instruction (see Note 1 D 4.4 to the financial statements).

QUANTITATIVE DISCLOSURE REGARDING CREDIT RISK

Segmentation of credit risk according to main credit exposure types

Gross credit risk exposure

	December 31, 2014	Average for the period(1)	December 31, 2013	Average for the period(1)
	Basel III		Basel II	
	in NIS millions			
Credit	161,935	152,877	149,885	149,895
Bonds	31,741	33,263	35,964	37,324
Others(2)	8,741	8,944	8,282	8,054
Guarantees and other liabilities on account of clients(3)	63,076	59,820	57,706	58,649
Transactions in derivative financial instruments(4)	3,018	2,412	1,875	1,819
Total	**268,511**	**257,316**	**253,712**	**255,741**

Footnotes:
(1) The average is computed on a quarterly basis.
(2) Primarily: cash, shares, fixed assets.
(3) Off balance sheet credit risk is stated prior to conversion to credit equivalent (before multiplication by the CCF coefficient).
(4) Credit risk in respect of transactions in derivative financial instruments is presented in terms of credit equivalent (after netting effect and after multiplication by the "add-on" coefficient).

DISCLOSURE AS TO CREDIT FILES MANAGED ACCORDING TO THE STANDARD APPROACH

For the purpose of averaging out exposure risk, the Bank and its banking subsidiaries in Israel use international rating data issued by Moody's - the international rating agency. IDB New York uses rating data issued by the international rating agencies - Moody's, Fitch and S&P.
The Group acts according to the standard mapping and with the framework published by the Supervisor of Banks.

GENERAL DISCLOSURE REGARDING EXPOSURE RELATED TO CREDIT RISK OF A COUNTERPARTY

Over the counter derivatives. Counterparty credit risk is the risk that the counterparty to the transaction will be in default before the final settlement of the cash flows in respect of the transaction.
The Bank's policy as regards the management of counterparty credit risk is based on the counterparty credit risk management policy document, which is brought for approval of the Board of Directors at least once every two years. The policy document includes, among

other things, principles for the identification, measurement and evaluation of the risk, requirements for the determination of combined limitations and for exposure reporting as well as definition of responsibilities and authorizations.

Exposure of the Group to counterparty credit risk arises both with respect to banks and international financial institutions and with respect to customers.

The framework of exposure to international financial institutions is approved at Group level on the basis of an internal model. The approved framework is allocated by the Bank among the subsidiaries in the Group.

Activity in derivatives is conditional on the prior approval of the credit facility that determines limitations on counterparty exposure. The framework of exposure to customers is approved in accordance with credit approval authorizations.

The monitoring of counterparty credit risk exposure is performed as follows:

- Exposure to foreign banks and financial institutions - the back office unit at the finance division performs, a comparison of actual exposure to the approved framework on a daily basis;
- Exposure to large customers and/or those having complex activities - The middle office unit at the finance division performs a comparison of actual exposure to the approved framework, on a daily basis, and if required, at higher frequency, in accordance with market conditions. Evaluation of the exposure includes the use of stress tests and of internal models designed for this purpose. As part of management and control over the utilization of the exposure framework, the information system produces a daily irregularity report, which, among other things, includes a list of customers whose actual utilization of the exposure framework is equal or exceeds 85%. The purpose of this report is to give warning to the responsible business factor as to the high utilization rate.

In addition, the Bank determined a set of internal limitations imposed on combined credit exposure of counterparties, such as: combined limitations according to currencies. These limitations have, among other things, been designed to provide response to market liquidity risks, stemming from a possible difficulty in operating in large volumes in markets having a low trading activity.

The methods used by the Bank for counterparty credit risk reduction, include:

- Daily monitoring of the customer's collateral situation, and where needed, a demand for additional collateral;
- A contractual "stop loss" clause - enabling the Bank to enforce the closing of a customer position, in cases where a deviation in loss terms from the "stop loss" amount determined for the customer exists;
- The signing of ISDA agreements and CSA annexes (for explanations regarding "ISDA agreement" and "CSA annex", see "Reduction of credit risk" above).

The method for determining counterparty credit exposure limitations. For regulatory reporting purposes the Group uses the "present exposure method", according to which the present cost of replacement is computed by the revaluation of agreements to market prices together with an "Add-On" coefficient, in order to reflect the future potential exposure over the remaining life time of the agreement. The future potential exposure, computed on the basis of the notional principal sum of the total counterparty file, is in accordance with the type of product and the remaining average period to maturity, according to a coefficient table included in the Basel II guidelines.

For counterparty credit risk exposure management purposes, the Group uses the "customer exposure model", based on the computation of exposure in equal value credit terms that includes a Mark to Market valuation of transactions together with the future potential exposure.

From time to time, the Bank makes changes in the future exposure coefficients used for the assessment of contemporary credit risk exposure regarding derivative financial instruments, this in the light of developments in market conditions.

Policy for the protection of collateral, its valuation and management. According to the Bank's policy, the financial collateral is valued on a daily basis. The rate of reliance on such collateral is determined according to the risk volatility of its market price over time, and are secured in the policy document approved by the Board of Directors.

The effect of the amount of collateral that would have to be provided by the Bank in case of a reduction of its credit rating.
Some of the collateral agreements to which the Bank is a party within the framework of the ISDA agreements, state that the threshold amount and the minimum transfer amount shall be reduced in the event that the Bank's credit rating would be reduced. Accordingly, in such cases a situation may arise where the Bank will be required to provide the foreign bank with collateral in higher amounts (in case of profit on derivatives to the foreign bank).
A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 5, and the information included therein is presented herewith by way of reference.

ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

Credit risks in financial instruments. The Bank's operations in derivative financial instruments involve special risk factors, including credit risk. The singularity of credit risk in such transactions stems from the fact that the stated value of the transaction does not necessarily reflect the credit risk involved therein. For further details, see above "General disclosure regarding exposure to credit risk of counterparty" under "Credit risk management".
Note 20 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part B of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Presented below are further details.
The Annex to the Report of the Board of Directors, forming an integral part thereof (Part C, Item 1), contains further details of the data presented in the said Part B of the Note.
Securities financing transactions (SFT). The Bank has customers who are active on the capital market and who act according to complex strategies and carry out transactions that involve the borrowing and lending of securities, Margin Lending transactions and operations in marketable and non-marketable derivatives.
The monitoring of these operations is performed by means of computer systems that measure in real time the requirement for collateral with respect to the activity facilities and the collateral actually existing.
The credit policy includes limitations on the total volume of customer activity and limitations on the volume of holdings of specific securities or groups of securities.
REPO transactions. IDB New York conducts "reverse repo" transactions as part of its asset and liability management. Such transactions are being made with financial institutions having an "A" and above credit rating, with whom ICMA agreements have been signed regularizing the manner in which such transactions are executed.

SECURITIZATION EXPOSURE

IDB New York invests in several types of securitized securities, in marketable mortgage backed securities (CMBS), in securities of the "Trust Preferred CDO" type and residential mortgage backed securities (RMBS). IDB New York is an investor in securitized securities and is not the issuer of any securitized securities.
For the purpose of averaging the risk of securitization exposure, IDB New York makes use of ratings published by the international rating agencies Moody's, Fitch and S&P.
For further details, see Note 3 to the financial statements and "Investment in asset backed securities" under "Developments of assets and liabilities" above.
A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 6, and the information included therein is presented herewith by way of reference.

CREDIT EXPOSURE TO FOREIGN FINANCIAL INSTITUTIONS

General. Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

As opposed to the definition of the "financial services" economic sector for the purpose of disclosure in the Management Review concerning the "Overall credit risk according to economic sectors", the exposure in respect of foreign financial institutions presented in the table hereunder includes exposure to foreign banks and to foreign investment banks, which, on the one hand, are not included in credit to the public, and on the other hand, does not include exposure in respect of investment in asset backed securities and in respect of potential off-balance sheet exposure.

Developments in world markets. The economy of the Eurozone grew during the year at a moderate rate, of 0.9%, led by Germany and Spain. On the other hand, Italy lags behind the other Eurozone countries. Concurrently, the inflationary environment declined in view of the decrease in oil prices and the slow economic activity in the Eurozone. As a result of the above, the Eurozone entered a deflationary period, and in total for 2014 prices fell at a rate of 0.2%. Following the reduction in inflation, the central bank reduced the Eurozone interest rate to a level of 0.05%, and announced a plan for providing loans to banks and purchasing backed bonds.

A Government has been elected in Greece, which opposes the terms of the bailout plan, and as a result thereof, concerns have increased regarding the possibility of bankruptcy of Greece and its departure from the Eurozone. However, it seems that in the past few days, the Greek government reached an agreement with the heads of the Eurozone, and as a result, the likelihood of a crisis has subsided. At the same time, the intensification of the crisis in Russia harms the economy of the Eurozone and comprises a risk for the growth of the Eurozone economy in 2015.

In accordance with the Bank's policy, exposure of the Group to financial institutions in the PIIGS (Portugal, Ireland, Italy, Greece and Spain) countries are at a negligible level. The Bank maintains a careful credit policy and is monitoring developments and volume of exposure to key markets and to markets of the countries at risk. This is performed on an ongoing basis and at the Group level, within the framework of an inter-division forum. The Bank's dealing room monitors these markets in order to obtain a comprehensive picture and to react in real time to currency risks in accordance with the risk profile of each customer and the approved credit facilities. Moreover, the business divisions perform on an ongoing basis, a comprehensive examination with respect to customers who might be adversely affected by the crisis in Europe.

As seen from Schedule "F" to the Management Review below regarding "Exposure to foreign countries", the direct exposure of the Group to the said country is not material and in a downward trend. However, it is not possible at this stage to evaluate the indirect effect, particularly if a global crisis develops as a result of the crisis in the said countries.

The manner of managing credit risk applying to foreign financial institutions. The Bank's policy with regard to various exposures to foreign banks and financial institutions, has been re-examined, and is reflected in the following items:

- The Bank has adopted a conservative policy as regards management of exposure to foreign banks and financial institutions;
- The allocation of credit facilities to foreign banks is more strictly and conservatively conducted, using mathematical auxiliary tools that had been re-examined and modified to the lessons of the crisis;
- Deposits by the Bank are made on a selective basis, mainly at banks in the U.S. and Western Europe, having a rating of "A" at the least;
- The Bank has reduced the volume of deposits abroad;
- The Bank has adopted a policy according to which exposure to financial derivatives requires a signed ISDA agreement with every financial institution with which the Bank enters into transactions of this kind. This process was performed in respect of the vast majority of financial institutions with which the Bank transacts business in financial derivatives;
- The clearing risks facilities are individually examined, with the clear aim of significantly reducing clearing risks, while using the CLS tool, being a central tool for mutual dual clearing;
- A policy has been adopted regarding exposure to less developed countries (LDC). This policy defines exposure at low amounts and for relatively short terms;

- A methodical and close management with upgraded monitoring, supervision and control systems, and cooperation of all involved factors at the Bank and the Group;
- An information system that assists in obtaining a picture on a Group basis regarding exposure to foreign banks and financial institutions.

With respect to the management of exposure to foreign financial institutions, it should be noted that:

- A reduction in the rating of a foreign bank and/or deterioration in its financial data are weighted into the model, and where necessary, the Bank reduces its credit facility accordingly;
- The financial institutions unit of the Financial Markets Division allocates the credit facilities approved by the Board between members of the Group, and the various units at the Bank, including the Bank's dealing room for which the Financial Markets Division is responsible;
- The Bank manages exposure to financial institutions in South America through IDB New York, which specializes in emerging markets.

Credit exposure to foreign financial institutions. The Bank's credit exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 83% of the exposure as of December 31, 2014, is to financial institutions rated "A-"rating or higher.

The states in respect of which the Bank has exposure as stated above as of December 31, 2014, include, inter-alia, the United States, Great Britain, Germany and France.

In 2014, an amount of NIS 105 million was included as loss on the sale of securities and a provision for a loss with respect to the impairment of securities of financial institutions. The loss and provision are with respect to TRUPS bonds, and result from their sale, as part of its preparations for the implementation of the Basel III instructions in the United States , as from January 1, 2015 (see Note 3 to the financial statements).

In 2013, no loss on impairment of securities was recorded in respect of exposure to financial institutions.

Following are details of present credit exposure to foreign financial institutions[1], on a consolidated basis:

	Balance sheet credit risk[(2)(4)(5)]	Present off balance sheet credit risk[(3)(4)]	Present credit exposure[(4)]
	In NIS millions		
	As at December 31, 2014		
Present credit exposure to foreign financial institutions[(6)]			
External credit rating[(7)]			
AAA to AA-	2,433	518	2,951
A+ to A-	5,511	182	5,693
BBB+ to BBB-	1,316	22	1,338
BB+ to B-	193	2	195
Not rated[(8)]	126	108	234
Total present credit exposure to foreign financial institutions	**9,579**	**832**	**10,411**
Of which credit exposure to foreign financial institutions:			
In the USA	2,085	271	2,356
Balance of problematic bonds	122	-	122
	As at December 31, 2013		
Present credit exposure to foreign financial institutions[(6)]			
External credit rating[(7)]			
AAA to AA-	2,228	269	2,497
A+ to A-	5,569	167	5,736
BBB+ to BBB-	2,107	7	2,114
BB+ to B-	358	8	366
Not rated[(8)]	196	105	301
Total present credit exposure to foreign financial institutions	**10,458**	**556**	**11,014**
Of which credit exposure to foreign financial institutions:			
In the USA	3,150	45	3,195
Balance of problematic bonds	176	-	176

Notes:

(1) Foreign financial institutions include: banks, investment banks, brokers/dealers, insurance companies, institutional entities and entities controlled by the said entities.

(2) Deposits with banks, credit to the public, investment in bonds, securities borrowed or purchased under resale agreements and other assets in respect of derivative instruments.

(3) Mainly guarantees, including guarantees securing third party indebtedness.

(4) Credit exposures and problematic credit risk are presented before the effect of allowance for credit losses and before deductions as defined in Section 5 of Proper Conduct of Banking Business Directive No. 313.

(5) For further information regarding the composition of the credit exposure reflected in the table showing derivative instruments in relation to banks/dealers/brokers, see Note 20 to the financial statements.

(6) Credit exposure does not include exposure to financial institutions that have explicit and full government guarantees, and does not include investment in assets backed securities (for additional details regarding assets backed securities, see Note 3 to the financial statements).

(7) According to Moody's rating, and in its absence, the Fitch rating or S&P.

(8) Most of the off-balance sheet credit risk which has no rating is in respect of guarantees by private Swiss banks and Swiss banks owned by banks in Western Europe that are rated A1 and above.

In addition to the exposure presented in the above table, as of December 31, 2014 and 2013 a potential off-balance sheet exposure exists in respect of derivative instruments of foreign banks (as defined in Section (4)(a) to the definition of indebtedness in Proper Conduct of Banking Business Directive No. 313 regarding "Restrictions on indebtedness of a single borrower and of a group of borrowers"), namely, variable percentage of the outstanding balance of a future transaction, in the amount of NIS 160 million and NIS 283 million, respectively.

CREDIT RISK IN HOUSING LOANS

General. The activity of granting housing loans by the Bank is presented with the activity done by Mercantile Discount Bank (hereinafter will be named together as "the Group").

Developments in the field of housing loans. A growth was recorded in recent years in the demand and in the volume housing loans granted. This stemmed from increasing demand in the housing market and from rising prices resulting from the shortage in the supply in residential units in relation to the said demand.

The rise recorded in the volume of housing loans granted (including a rise in the average amount of loans) exceeded the economic growth rates and the rates of increase in the standard of living and in income of households. Therefore, certain concerns arise that these developments might adversely effect the quality of the housing credit portfolio and increase the exposure of the banking industry to credit risk.

Measures taken by the Group. The credit policy defines the criteria required for ensuring the quality of credit and reducing the risks derived there from, including the rules for examination of the repayment ability of borrowers and guarantors for the debt, the hierarchy of authority, classes of collateral securing the credit, the pricing of credit as well as the principles of management, monitoring and control over the credit and collateral. Limits and restrictions have also been determined with respect to the repayment ratio, the financing rate, the rating of the transaction, bridging loans, and geographical distribution. Furthermore, cross limits have been determined in respect of a part of the said parameters.

In addition, the following actions are taken:

- The Group conducts credit quality control prior to the granting of the credit, by means of a back-office layout, which includes credit underwriting unit, legal underwriting and an examination unit. Mortgage loans having a high risk profile are approved by means of a specialized approval center;
- The use of "safety factors" (durability tests) in the loan approval process. Prior to approval of the loan facility, the Group studies possible implications that might arise from theoretical changes in market variables (principally, an increase of 2-3 basis points in the annual interest rate) - on the repayment ability of the borrower.
  Reduction in the volume of credit granted in loan lanes where the interest rates changes in accordance with the restriction determined by the Supervisor of banks;
- Determination of exposure policy in respect of special segments: acquisition groups, foreign residents, all-purpose loans, etc. In loans financing the purchase of luxury properties, the Bank applies a stringent scale of authority;
- Current use of theoretical scenarios, including stress tests, for the sensitivity analysis of anticipated changes in the Bank's exposure to credit risk - as a derivative of changes in the tested parameters;
- Conducting the monitoring of key risk indicators (KRI), including, in the case of developments in the housing market, the employment market and the volume of arrears concerning loans granted by the Bank and by the banking industry;
- Entering into specific arrangements with borrowers who meet difficulties in honoring the periodic repayment terms of the original loans;
- Implementation of a credit application rating model for mortgages.

The volume of the Group's housing loan portfolio as of December 31, 2014, amounted to NIS 20,735 million (December 31, 2013 - NIS 20,401 million).

Following are data regarding certain risk characteristics of the Group's housing loans portfolio:

	December 31,	
	2014	2013
	%	%
Rate of housing loans financing over 75% of the value of the Property	7.9	9.6
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	18.1	17.2
Rate of housing loans carrying variable interest rate of the total amount of the housing loan portfolio[(1)]	64.8	65.2

Footnote:
(1) Loans in which the interest rate change frequency exceeds five years were also included in computing the ratio.

For additional details, including details regarding the mortgage portfolio of the Discount Group and the risks inherent therein, see above "Mortgage activity" under "Further details as to activity in certain products".

ADDITIONAL DISCLOSURE REGARDING CREDIT RISK IN RESPECT OF SIGNIFICANT EXPOSURE TO BORROWER GROUPS

The banking corporations are required to include in their reports, information regarding the existing credit risk at the reporting date with respect to groups of borrowers, the net indebtedness of whom, on a consolidated basis, after the permitted deductions according to Section 5 of Proper Conduct of Banking Business Directive No. 313, exceeds 15% of the equity of the banking corporation.

Until March 31, 2013, the Discount Group had one group of borrowers the indebtedness of which is approx. 15% of the Bank's equity. Since then the indebtedness of the Group has declined significantly to below the limit determined by the Supervisor of Banks, and accordingly, the Bank is no longer exposed to groups of borrowers required to be presented within the framework of the additional disclosure, as stated above.

The Bank maintains a continuous monitoring process over the large borrowers groups, performs periodic reviews assessing the risk attributed to each group, and as regards certain of the groups, even performs an examination of the stress tests and their effect on the repayment ability. The Bank complies with all regulatory restrictions relating to credit concentration aspects.

DEFINITION OF PROBLEMATIC DEBTS

The identification and classification of debts as "problematic debts" is performed according to classifications determined by the Public Reporting Directives and according to criteria specified in this Directive: "impaired debts", "substandard debts" and "debts under special mention".

For details regarding credit risk and its components relating to problematic debts, see above "Credit granted to the public" under "Developments of assets and liabilities" and Note 4 to the financial statements.

CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

Definition of leveraged finance. Leveraged finance is defined as credit granted for the acquisition of means of control of corporations and credit granted to borrowers typified by a high leverage finance level which significantly exceeds accepted norms in this sector of operations.

The Supervisor of Banks issued on January 19, 2015, a draft amendment of Proper Conduct of Banking Business Directive No. 327, according to which, the definition would be widened to include, among other things, also the acquisition of operations and the distribution of capital.

Credit risk in respect of leveraged finance. The Bank's credit policy determines strict guidelines regarding underwriting and restrictions on the scope of exposure to leveraged finance. In addition, developments in leveraged finance and compliance with the determined limitations are reported once in each quarter to the Bank's Management and the Board of Directors, this, in order to monitor the risks inherent in such financing.

Proper Conduct of Banking Business Directives determined restrictions regarding the finance of acquisition of means of control, which the Bank abides by.

For additional details in respect of this matter, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "C", item 2).

MANAGEMENT OF MARKET RISKS

Market risk is the risk of impairment of the Bank's equity and profitability stemming from changes in financial markets which have an effect on the Bank's assets or liabilities: interest rates, foreign exchange rates, inflation, prices of securities, product prices, the fluctuations in these parameters and in other economic indices.

Market risks are presented in this review on a Group basis, including the Bank, Mercantile Discount Bank, IDB New York, IDB (Swiss) Bank, ICC and BLD, the severance pay fund for the Bank's employees (hereunder in this section: "the Group")

STRATEGY AND POLICY

The Board of Directors has approved the following policy documents relating to market risks:

Market risk management policy. The market risk policy is intended to define the framework of market risk management in the Group's activity. The policy document determined the principles for the Group policy, core processes as regards market risks, and the organs responsible for their implementation.

The Group's market risk appetite includes limitations in terms of the impact of various scenarios, including stress tests regarding the economic value, on the common equity tier 1 ratio in the short and long terms.

Financial management policy defines the principles of market risk management in the Bank within the framework of the first line of defense (risk acceptance), including reference to the tasks of the Financial Markets Division, the responsibility of the functionaries involved in market risk management processes and their authority. The current management processes at the Bank are conducted subject to a supplementary document – document issued by the Head of the Financial Markets Division, which defines specific procedures and principally an additional layout of limitations enabling a more conservative management of exposure to market risks.

Nostro investments management policy states rules and principles as regards the management of the Bank's and the Group's investments, including control and risk management procedures involved in this activity.

Market risk management policy of subsidiary companies. The boards of directors of the banking subsidiaries have determined policies regarding the maximum exposure to market risks, on the basis of the principles of the Group policy, as detailed in the Group's market risk management policy document. Market risk management and measurement methodologies of the subsidiaries were modified to the Group's methodology, while considering the scope, the nature and the complexity of the specific activity of each subsidiary company.

The current management of market risks is conducted separately at the Bank and at each of its main banking subsidiaries. In the course of 2014, and as part of the absorption of the Group financial management principles, a Group forum has been established for the management of market risks, which meets on a quarterly basis. Reports regarding the Group's compliance with the limitations on exposure to market risks are presented before the Board of Directors within the framework of the risk document. The Bank frequently reviews the compliance with market risk appetite of the Bank, its banking subsidiaries and of the Group as a whole.

Main changes in exposure policy and risk management procedures. The Group made preparations during 2014 for the implementation of Proper Conduct of Banking Business Directive No. 333 (interest risk management). The said preparations were expressed in the designing and adjustments of risk management processes as well as in the updating of policy documents. In the course of the year, the Board of Directors approved the accounting market risk appetite as well as the Group's investment risk appetite.

The Bank and the Group have begun the absorption of the basic outline for the group financial management, according to which, the parent company bears the group responsibility for market risks, capital risk and liquidity risk management of the Group.

STRUCTURE AND PROCESSES

Within the framework of the processes conducted in the different defense lines, the following should be mentioned:

First line of defense. The Financial Markets Division coordinates the Bank's overall financial activity that includes both the business factors (those who take the risk) and the back office and middle office (the control factors).

The duties of which are: realization of the asset and liability management policy; identification and management of the market risks inherent in the different activities; capital planning management and monitoring; determination and management of transfer prices; liquidity risk management.

Second line of defense. Includes the market and liquidity risks management unit which operates within the framework of the risk management department, the duties of which are:

- Reporting to the Board of Directors and the Management regarding market risk, while performing complementary and independent analysis of the calculations made by the first line of defense, including market risk management processes at the Bank and at the principal subsidiaries;
- Verifying that the exposure limitations are consistent with the limitations defined by the risk appetite declaration and that they include all the market risk factors existing in the ordinary course of business and in stress tests and examination of their effectiveness;
- Development of models and appropriate tools for the evaluation and management of exposure to market risk;
- Computation of capital allocation to market risk;
- Assessment of the effect of stress tests on the Bank`s equity, both from the accounting aspect and the economic aspect;
- Modifying the risk management policy to regulatory instructions, in accordance with the decision of the Board of Directors;
- Review of the effectiveness of the market and liquidity risks management processes.

Current management and supervision. Current management and supervision in the area of market risks management are performed, among others, by the following committees:

- **Asset and liability management committee (ALM committee).** The committee is headed by the President & CEO and meets once a month. The role of the committee is to determine the Bank's assets and liabilities management policy, to determine exposure limits for market and liquidity risks based on a situation evaluation of expected developments in the market and subject to limitations determined by the Board of Directors and to study the profitability of the various activities as well as abiding by the capital adequacy targets;
- **Group committee for assets and liabilities management (GALCO committee).** A committee headed by the President & CEO, which meets once in each quarter. The duty of the committee is to review the market risk level of the Group and of its central subsidiaries, subject to capital adequacy targets;
- **The financial forum** is an internal committee of the Financial Markets Division, headed by the head of the Financial Markets Division. The forum meets on a weekly basis for the purpose of evaluating current developments in the markets and monitoring the implementation of guidelines issued by the ALM committee. The forum is responsible for the current management of the Bank's linkage base and interest rate exposure, within the framework of the targets outlined by the assets and liabilities management committee;
- **Stress test and Group market risk methodology Forum** meets at a bi-annual intervals with the participation of representatives of the Bank and of the subsidiaries having a material exposure to market risk. The Forum is aimed at coordinating the management processes of market and liquidity risks, including the current management of exposure to risk, the definition of methodologies for the implementation of tools used to manage such exposure, determination of the managed scenarios and the monitoring of the Group's exposure under stress tests.

PROCESSES

The Bank takes the necessary steps in order to measure and assess the overall exposure to market risks at the Group level.

The procedures require those who accept the risk and the control factors to report of any exceptional events, e.g. loss exceeding the predetermined limit, deviations from limitations and so forth. The manner of treatment of deviations from restrictions was defined in the policy document.

In addition, internal limitations determined by the Head of the Financial Markets Division, are monitored on an ongoing basis.

MEASUREMENT AND REPORTING

Measurement of exposure to market and liquidity risks, including the calculation of the various risk assessments is performed at the Bank on a weekly basis, using a designated system for market risk management. The system is used as a data base for financial data, which contains the financial information regarding the range of financial instruments operated by the Bank, including embedded options, for market data (such as indices, exchange rates and interest rates), their volatility level and the statistical correlation between them, as well as financial and behavioral models. In addition, simulations are conducted by the system, regarding the overall operations at the Bank and Group levels, regarding operations/files. Likewise, additional risk indices and interest rate exposure are computed and measured (it should be noted that the system is also used for fair value measurement for the purpose of the accounting report).

This system is also used by MDB in computing its exposure to market and liquidity risks.

At the end of 2014, the Bank decided to upgrade this system to a more advanced version.

IDB New York. Measurement of the exposure to market and liquidity risks is performed by the first line of defense (Treasury) through an independent risk management system (VTen) providing a computation of risk assessments at monthly intervals. The risk management controls the exposure to market and liquidity risks and performs independent calculations of stress tests.

Towards the end of 2014, IDB New York has begun the absorption of a new designated system for the management of market risks.

RISK MITIGATION

Hedging of market risk policy. The Bank's policy and its banking subsidiaries as regards market risks management is based on the management of exposure to market risks, within the framework of quantity active limitations determined with respect to such exposures while defining the manner of operation and protecting it.

The means used for compliance with the determined limitations include:

- The purchase and sale of marketable instruments in all linkage segments (mainly securities for various periods);
- Investment in and raising of non-marketable financial instruments (mainly deposits by banks and large customers);
- Activity in derivative financial instruments with banks and large customers.

QUANTITATIVE DISCLOSURE

(1) BASE RISK EXPOSURE

The exposure to base risk is reflected in the loss which may incur as a result of changes in exchange rates or in the consumer price index, due to the difference between the value of assets and liabilities, including the effect of forward transactions and the effect of options embedded. Exposure to linkage base risk is measured in the CPI linked segment and in the foreign currency segment (including Israeli currency linked to foreign currency).

The actual management of the exposures is conducted on a daily frequency on the basis of economic positions in the various linkage segments, which differ from the accounting positions which may be seen in Note 17 to the financial statements.

The differences between these positions might be divided into the following groups:

(a) Certain economic adjustments to the managed position: Non-inclusion of profits or losses stemming from changes in market value of foreign currency bonds or CPI linked bonds (in relation to the purchase value together with accumulated interest); the addition of fixed assets denominated in foreign currency as a financial asset; Transfer of non performing impaired debts in foreign currency to the shekel linked segment.

(b) Reference to subsidiary companies: the linkage balance sheet is on a consolidated basis and includes all subsidiaries, while the managed position includes the managed positions of the main subsidiaries only; The exposure to foreign currency in the severance pay fund for Bank employees (BLD) is not included in the linkage balance sheet, due to the fact that only the difference between the severance pay provision and the value of the deposits with the fund is presented in the Bank's balance sheet. On the other hand, it is included in the managed position.

The mix of investments in the various linkage segments is determined on current basis within the framework of the limitations presented below and on the basis of forecasts regarding the relevant market variables.

Following is the actual distribution of investment of the equity in relation to the set limitations (the data is stated in relation to the equity)[(1)]:

		2014				2013			
		Range of exposure							
Segment	Limitation	Year end	from	to	average	Year end	from	to	average
CPI linked	50%-(25%)	25.6%	6.8%	27.0%	18.3%	8.5%	4.5%	29.0%	19.3%
Foreign currency	15%-40%	26.7%	25.0%	29.9%	27.0%	25.1%	25.1%	28.1%	26.8%

(1) Timing of position computation: the managed position is computed on the basis of the capital data as of the end of the previous quarter together with changes occurring during the last quarter until date of the computation. These changes are based on data that is not final as it is known at date of computation. On the other hand, the position in the linkage balance sheet is computed on the basis of audited data used in the framework of the financial statements.

Capital sensitivity to changes in exchange rate. The capital's sensitivity to changes in exchange rate is presented in the following table, which provides details regarding the impact of changes in exchange rates of the major currencies on the equity as of December 31, 2014.

	The Bank's capital sensitivity of changes in exchange rates			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	242	137	(131)	(266)
EUR	(3)	(2)	-	(1)
Other Foreign Currencies	(2)	(1)	2	6

This effect has been computed on the basis of the expected change in the fair value of the Group in the various currencies, given the scenario determined by the Supervisor of Banks. It should be noted that the cancellation of the hedge on the investment in IDB New York, decreased the sensitivity of the ratio of capital to risk assets to changes in exchange rate.

(2) INTEREST RISK EXPOSURE

A. General

Interest risk is the risk of impairment of the Bank's capital and earnings as a result of changes in market interest rates. The risk derives from the exposure to future changes in interest rates and their possible effect on the present value of assets and liabilities including certain economic amendments. Management of interest risk exposure is performed for each of the linkage segments separately.

B. Sensitivity analysis to the effect of changes in interest rate based on the fair value of financial instruments

Fair value of financial instruments. Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of future cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date.

Discounting the future cash flows was made, where possible, by discount rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, in arriving at the fair value amounts, no consideration was given to commissions receivable or payable as part of the business activity, neither do they include the tax effect.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity.

In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

Hybrid financial instruments are debt instruments, in which are embedded derivative components that have not been separated there from. In providing information regarding fair value, the Bank is not required to classify financial instruments as hybrid financial instruments, because, according to the Bank of Israel's guidelines, the interest rate exposure of these instruments included the division of such transactions according to maturity dates, while separating the option component from these instruments. Following are details of the hybrid financial instruments, where in the disclosure regarding exposure to changes in interest rates, the separated option and the host instrument have been treated as standalone instruments (the effect on the financial statements is not material): deposits with the option of a fixed rate of interest or of a variable rate of interest, savings deposits linked to the CPI or linked to foreign currency with an option for changing the linkage base and an option securing the Shekel principal sum deposited, deposits and loans linked to the CPI or linked to foreign currency with an option for securing the Shekel principal sum.

For further details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 21 to the financial statements.

Fair value of the Bank and its consolidated subsidiaries' financial instruments, excluding non-monetary items (before the effect of hypothetical changes in interest rate)

	Israeli currency		Foreign currency[2]			
	Non linked	CPI linked	US dollar	Euro	Other	Total
	In NIS millions					
	December 31, 2014					
Financial assets[1]	116,282	22,409	50,539	4,337	3,936	197,503
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	81,545	3,775	70,299	15,868	8,668	180,155
Financial liabilities[1]	(99,936)	(18,549)	(58,342)	(8,153)	(4,438)	(189,418)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(95,486)	(4,545)	(59,672)	(12,048)	(8,197)	(179,948)
Net fair value of financial instruments	**2,405**	**3,090**	**2,824**	**4**	**(31)**	**8,292**
	December 31, 2013					
Financial assets[1]	109,194	25,682	47,094	4,369	3,918	190,257
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	92,840	3,179	53,175	18,279	10,589	178,062
Financial liabilities[1]	(98,157)	(21,860)	(49,985)	(8,616)	(4,913)	(183,531)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(100,128)	(6,878)	(48,138)	(14,117)	(9,598)	(178,859)
Net fair value of financial instruments	**3,749**	**123**	**2,146**	**(85)**	**(4)**	**5,929**

Effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its consolidated subsidiaries, excluding non-monetary items

	Net fair value of financial instruments, after the effect of changes in interest rate[4]							Change in fair value	
	Israeli currency		Foreign currency[2]						
Change in interest rate	Non-linked	CPI linked	US dollar	Euro	Other	Offsetting effects	Total	Total	Total
	in NIS millions								in %
	December 31, 2014								
Immediate parallel increase of 1%	2,273	3,004	2,323	10	(29)	-	7,581	(711)	(9%)
Immediate parallel increase of 0.1%	2,389	3,078	2,772	5	(31)	-	8,213	(79)	(1%)
Immediate parallel decrease of 1%	2,694	3,177	3,070	5	(29)	-	8,917	625	8%
	December 31, 2013								
Immediate parallel increase of 1%	3,391	30	1,543	(76)	(2)	-	4,886	(1,043)	(18%)
Immediate parallel increase of 0.1%	3,688	115	2,090	(84)	(4)	-	5,805	(124)	(2%)
Immediate parallel decrease of 1%	4,111	229	2,609	(87)	(5)	-	6,857	928	16%

Footnotes:

(1) Not including balances of balance sheet derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Including Israeli currency linked to foreign currency.

(3) Amounts receivable (payable) in respect of derivative financial instruments, discounted at interest rates used to compute the fair value presented in Note 21 to the condensed financial statements.

(4) The net fair value of financial instruments presented in each linkage segment, is the net fair value in the segment, under the assumption that the change noted in all interest rates applying to the segment has in fact occurred. The total fair value of financial instruments is the net fair value of all financial instruments (excluding non-monetary items) under the assumption that the change noted in all interest rates applying to all segments has in fact occurred.

For details regarding the effect of changes in interest rates on the fair value of problematic debts, see Note 21 c.

The decline in the net fair value, in CPI-linked shekels, against the increase in the net fair value, in non-linked shekels, derives from the active management of the active capital and the decision to move it in accordance with the anticipated returns in the different linkage segments.

C. Data used for the management of interest rate risk. The data presented in item "B" above, was computed on the basis of fair value, as required by the public reporting directives of the Supervisor of Banks and in accordance with the computation of Schedule "D" to the Management Review, hereunder.

The current management of exposure to interest rates applies to all of the Bank's operations, and takes into consideration additional data that represent the economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

The principal differences between the computation of exposure according to accounting fair value and economic exposure (BPV) are as follows:

(a) The distribution of credit current account balances is made only in computing the economic exposure;

(b) The computation of the accounting fair value made use of graphs that take into consideration credit margins. Computation of the economic exposure made use of graphs representing the Bank's transfer prices;

(c) The difference in population and the allocation to the linkage segments, mostly: non performing impaired debt (at its accounting fair value remains in the segment in which it was originally included, while in the economic fair value it is classified to the non-linked segment), optionally linked deposits (at accounting fair value are presented in the principal segment, while at economic fair value they are analyzed according to their basic financial components, each component being allocated to its respective linkage segment).

Following are details of the effect of hypothetical changes in interest rates of 100 base points on the Group's economic value:

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2014		
An increase of 100BP in interest rates	51	(13)	23	-	61
A decrease of 100BP in interest rates	28	4	(317)	(2)	(287)
			December 31, 2013		
An increase of 100BP in interest rates	(138)	(48)	(212)	9	(389)
A decrease of 100BP in interest rates	158	53	107	(8)	310

The exposure level to market risks has been significantly reduced during 2014.

The limitation determined by the Board for interest risk exposure in the various linkage segments relates to the maximum damage to economic capital resulting from concurrent movements in the yield curve of 1% in each segment.

The limit on the group’s exposure was set to a change of 1% in the interest graphs at 7.5% of the equity. This, in addition to the limits determined by the Bank and banking subsidiaries on this risk assessor. In 2014, the Bank and the Group complied with the determined exposure limits.

In addition to a scenario of a parallel move in the interest graphs, the exposure to non-parallel changes in the various interest graphs is also being studied.

Measurement of the risk at the Bank is performed in weekly intervals and exposure estimates at Group level are being monitored on a monthly basis.

The measurement at the banking subsidiaries is carried out using a similar methodology and at a frequency of at least once a month. Exposure to interest risk is managed individually by each of the companies by means of the entities authorized for this purpose.

D. The characteristics of interest rate risk with respect to the banking book

The banking book contains most of the interest rate risks of the Group and includes the Bank's activity in the granting of credit, in the purchase of securities and in attracting deposits and the issuance of capital notes. Such activity is affected by strategic considerations and by a long-term view of the Bank's interest rate risk propensity.

The Group's banking book in Israel is directed towards risking exposure to Shekel and CPI linked interest rate changes, while the banking book of the foreign subsidiaries includes exposure to foreign currency interest rate risks (primarily U.S. dollar interest rate), including the risk of early repayment of the Bank's assets and liabilities.

Following are details of the effect of hypothetical changes of 100 base points in the interest rate applying to the banking book:

The change in interest rates	Non-linked	CPI linked	US dollar	Other foreign currency	Total
			In NIS millions		
			December 31, 2014		
An increase of 100BP in interest rates	49	21	26	16	112
A decrease of 100BP in interest rates	18	(31)	(318)	(14)	(345)
			December 31, 2013		
An increase of 100BP in interest rates	(138)	(34)	(205)	7	(369)
A decrease of 100BP in interest rates	158	38	99	(4)	290

No weekly cumulative change occurred in the past ten years, which had it occurred in the reported period would have adversely affected the "going concern" assumption used at the basis of preparation of the financial statements.

The following is a summary of the Bank's and its consolidated subsidiaries' exposure to fluctuations in interest rates, including the internal rate of return (IRR) and the average maturity, as per the various linkage segments including assumptions regarding early repayments:

	As at December 31, 2014			As at December 31, 2013		
	Shekels			Shekels		
	Non-linked	CPI linked	Foreign currency and foreign currency linked	Non-linked	CPI linked	Foreign currency and foreign currency linked
			In NIS millions			
Total Assets	197,827	26,184	153,647	202,034	28,861	137,424
Total Liabilities	195,422	23,094	150,850	198,285	28,738	135,367
Average maturity (years):						
Assets	0.72	3.26	0.94	0.93	3.35	0.95
Liabilities	0.76	3.24	0.66	0.76	3.10	0.61
Average maturity gap	**(0.04)**	**0.02**	**0.28**	**0.17**	**0.25**	**0.34**
IRR gap	**2.34**	**0.78**	**1.69**	**2.51**	**1.11**	**2.18**

(3) THE VALUE AT RISK (VaR)

Assessment of this risk served as one of the central tools for the management of market risk. At the present time, it is in secondary place where the administrative attitude towards it is concerned. However, presently, the importance of sensitivity tests and stress tests is being emphasized much more in the current management of market risk. Due to these factors, it has been decided to discontinue the presentation of VaR data within the framework of this Chapter, starting with the 2013 annual report.

Assessment of the group exposure to market risk using the VaR model is performed at monthly intervals over the overall activity of the Bank and on a daily basis over the trading activity, as required by Proper Conduct of Banking Business Directive No. 339.

The nature and scope of the risk reporting and measurement systems. The VaR is computed according to a parametric model based on the historical behavior of various market risk factors in the period preceding the computation (one year), assuming normal distribution of the changes in the parameters.

The Board of Directors determined a limitation according to which the VaR of the Group's portfolio (for a range of ten days and at a precision level of 99%) should not exceed 4% of the equity. No deviations from this limitation were recorded in 2014.

The VaR does not assess a loss that may occur in stress situations in the market and its results should not be treated as a real loss barrier, which the Group might sustain in extreme scenarios. A more appropriate assessment may be obtained through examination of the potential loss in a stress test (as detailed below).

(4) LOSS ANALYSIS IN EXTREME SCENARIOS (Stress Tests)

Stress tests enable the examination of the possible effect on exposure of various scenarios, by determining the level of changes in risk factors deriving from such scenarios.

Exposure of the Bank and of the principal subsidiaries to market risks is being examined both from the economic aspect and the accounting aspect in a wide range of stress tests, that include changes in interest rate curves (parallel and not parallel), changes in major currency exchange rates and in the CPI and changes in the spreads of investments in corporate bonds. The managed stress tests are determined by the stress tests forum, given impact/probability considerations.

Following are details of the main stress scenarios implemented:

- Scenario of deterioration in the security situation in Israel;
- Scenario of a financial crisis in the U.S.A.;
- Scenario of a global rise in prices;
- A scenario for increase in returns in the domestic market and in the U.S..

In addition, certain technical scenarios are brought into play, as required by Proper Conduct of Banking Business Directive No. 333.

In addition to the array of restrictions on the erosion of the economic value in stress tests, restrictions have been defined on exposure to market risks in stress tests from the accounting viewpoint, in the short and long terms. No deviations from these restrictions were recorded in 2014. During the year, the Group acted towards a significant reduction in the scope of exposure in terms of erosion in value in the stress tests.

(5) THE NII (NET INTEREST INCOME) MODEL AND THE EaR (Earning at Risk) MODEL

In addition to testing the sensitivity of the economic value of the equity attributed to the Bank's shareholders, the effect of changes in interest rates on financing income is also being examined. This examination is based on the financial income forecast (NII) performed by means of dynamic simulation of the net interest income for the coming year, and is intended to test the impact of various strategies for asset and liability management on the Bank's future interest income.

The EaR index measures the sensitivity of the anticipated financing income to changes in market return and it is the principal model for the management of interest rate risks at IDB New York and at IDB (Swiss).

(6) BEHAVIORAL ASSUMPTIONS APPLIED IN THE ASSESSMENT OF INTEREST RISKS

Creditory current accounts spread model. For purposes of assessing the exposure to interest risks, the Bank assumes that a significant part of creditory current account balances is not expected to be withdrawn immediately ("the stable part") and therefore it may be spread over a number of years.

Examination of customer habits over a period of time has indicated that non-interest bearing current accounts show a steady outstanding credit balance over a length of time. Therefore, in calculating the Bank's exposure to interest risk, the steady part is treated as being a long-term liability. From time to time, in accordance with the results of examining the changes in the steady part, a decision is taken as to the spreading thereof.

During the past year, the Bank has updated the manner of treatment of the steady part given a low interest environment. Any change in the methodology of computation is brought for approval of the ALM committee in consultation with the Chief Risk Officer. Material changes in the results of the computation are reported to the risk management committee and to the Board of Directors, within the framework of the risk document.

Models for quantifying early repayment of assets risk (Prepayment Risk). The Group operates several models forecasting early repayments in the asset portfolio. The Bank manages the early repayment risk of mortgage loans. The model is based upon historical data pertaining to the early repayment of mortgage loans.

The subsidiary IDB New York makes use of models accepted in the U.S. for the forecasting of early repayment rates in the mortgage backed asset portfolio held by it.

(7) THE STANDARDIZED APPROACH TO THE ALLOCATION OF CAPITAL TO MARKET RISKS

The Bank computes the capital allocation required in respect of the exposure to market risks in accordance with the standardized approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. The allotment to market risks includes:

- Risks deriving from instruments related to interest and to shares in the trading portfolio.
  The Bank's trading portfolio includes all the activities of the dealing room in addition to securities portfolios defined as trading securities (see item 8 hereunder). The interest risk is computed by the "periods to maturity" method;
- Foreign exchange risk of the banking corporation as a whole (eliminating a structural position in respect of IDB New York).

In addition, in respect of each of the above mentioned risks, an optional component shall be added, in accordance with the "delta plus" method of the instruments included.

Following are details of capital allocation to market risks according to the standard approach (Basel II guidelines):

	Capital allocation as of	
	December 31, 2014	December 31, 2013
	In NIS millions	
The Bank:		
Interest rate risk*	280	171
Foreign exchange rate risk	35	32
Share risk	3	2
Option risk	11	28
Total for the Banking Group	**329**	**233**
Allocation in risk asset terms	2,629	2,588

* Including the specific risk in the amount of NIS 8.1 million and NIS 8.6 million in Year 2014 and Year 2013, respectively.

The allocation to market risks in risk asset terms comprises 1.85% of the total risk assets as of December 31, 2014, compared with 1.96% as of December 31, 2013.

(8) MANAGEMENT OF TRADING POSITIONS

The Bank distinguishes between exposure created in the course of managing the Bank's assets and liabilities and exposure to trading. The trading positions are the result of the Bank's activity as a market maker and a result of dynamic management of its liquid financial asset portfolio. The trading activity is intended at creating income while enabling exposure within the approved risk limits for this activity, and maintaining daily and sub-daily monitoring and control.
The Board of Directors has determined separate sets of limits pertaining to trading activities and to asset and liability management activities. Limitations on various trading activity were determined by the Board of Directors in terms of scope of activity, sensitivity to risk factors and theoretical losses incurred, including in stress tests. Measurement of the value at risk (VaR) of trading operations commenced in the course of 2014. A restriction on the assessment of this risk will also be determined in the coming months.
For the purpose of computations of capital allocation to market risks in the first pillar, the Bank has determined the positions to be included in the trading portfolio. Such positions comply with the requirements of Basel II guidelines and include financial instruments held for trading as well as instruments hedging other components of the trading portfolio. The Bank has defined that the portfolio shall include the activity of the dealing room as well as certain activities relating to bonds. The volume of the trading portfolio of subsidiaries is not material.
Control over trading operations, including examination of compliance with restrictions and computation of profitability, are performed on a daily basis by the control functions of the first line of defense.

(9) OPTION RISKS

Option risks relate to the loss that might be incurred as a result of changes in base assets and the volatility thereof, which affect the value of such options, including standard deviations. The Bank is active in a variety of types of options– regular options and "exotic" options of certain types as well as on a variety of base assets (foreign currency and interest rates).
The Bank's Board of Directors has set out guidelines regarding the permitted activity in options both as regards overall volume and in terms of the maximum impairment in value under stress tests and in cases of moderate scenarios. The scenarios relate to simultaneous changes in exchange rates, indices and in the volatility of base assets. In addition, the dealing room procedures include limitations on maximum changes in the value of the option portfolio in terms of sensitivity indices ("GREEKS").
The boards of directors of the principal banking subsidiaries have also set limitations on the activity in options.
No deviations from limitations set by the Board of Directors were recorded in 2014.

(10) ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

The Board of Directors has determined the mode of the Bank's operation in derivative financial instruments, maximum volume of activity and the range of financial instruments in which the Bank may engage (whether on behalf of its customers of or its own account). In addition to the other restrictions, a scope restriction has been set for each derivative financial instrument, intended to limit the operational risk involved in transactions made in such instrument. The volume of activity in respect of a certain instrument does not necessarily represent the level of financial risk inherent therein.
The Bank's transactions in derivative financial instruments are made partly with banking institutions or with Tel-Aviv Stock Exchange members, who are subject to capital adequacy requirements or compliance with the level of security required by the Tel-Aviv Stock Exchange, and partly with other Bank's customers, who provide security in accordance with the Bank's procedures. The dealing room implements trading activity and risk hedging activity for customers as part of its market risk management. Subject to the limitations set out by the Board of Directors, further internal limitations were fixed for the dealing room with regard to this area of operations.

The Bank is active in a wide range of derivative financial instruments both in shekels and in foreign currency and acts also as a "market maker" for some of which. A substantial part of the transactions are made "over the counter" (OTC) in accordance with customer needs and those of the Bank. The price determination for these transactions is based on returns and prices of base assets using accepted pricing models and taking into account market competition.

Market exposure created as a result of transactions in derivative financial instruments, both as regards linkage base and as regards interest rates, is included within the framework of the various limits imposed by the Board of Directors on exposure to linkage base, interest rates and options. In addition, limitations have been set on the nominal volume and for instruments of certain types also a limitation on the number of open transactions at any given moment. The total exposure and compliance with the Board of Directors limits are being measured and controlled on an ongoing basis by control functions of the first line of defense.

No material deviations from limitations set by the Board of Directors were recorded in 2014.

Following are data as to the volume of operation in derivative financial instruments of the Bank and its consolidated subsidiaries

	December 31, 2014	December 31, 2013
	in NIS millions	
Hedging derivatives	2,129	1,869
ALM derivatives	191,612	183,347
Other derivatives	29,942	36,173
SPOT foreign currency swap contracts	2,942	2,078
Total	**226,625**	**223,467**

Accounting aspects. The accounting policy with regard to the measurement of the value of derivative financial instruments and the results thereof is stated in Notes 1 D 6 and 20 to the financial statements.

According to the said directives of the Supervisor of Banks, most of the transactions in derivative financial instruments made by the Bank for managing market risks resulting from its financial base assets (ALM) are classified as "ALM transactions" and not as "hedging transactions". In terms of the said directives more stringent criteria have to be complied with so that transactions in derivative financial instruments could be considered as "hedging transactions".

The majority of base assets, the exposure of which to market risk, as stated, was hedged by derivative financial instruments, are not marketable. Income and expenses generated by such assets are recognized on the accrual basis while the results of the transactions in derivative financial instruments defined as "ALM transactions" are computed, according to "fair value". Accordingly, no correlation exists between the recording of the base assets and the results they produce in accordance with generally accepted accounting principles and the transactions in derivative financial instruments in respect of those base assets, which are classified as "ALM transactions". The effect of the above was a decrease in the non-interest financing income by NIS 2 million in 2014, compared with an increase of NIS 195 million in 2013.

Details of financing income from derivative financial instruments are presented in Note 24 to the financial statements.

Activity in the Ma'of market. The Bank operates in the Ma'of share index market only on behalf of customers, while maintaining the security level required by the Tel-Aviv Stock Exchange. The Bank operates in options on the dollar exchange rates in the Ma'of market both on customers' behalf and on behalf of the Bank itself. The Bank permits selected customers to operate on credit in the Ma'of market while monitoring closely, on an ongoing basis, the risk involved in the portfolio as compared with security received.

MANAGEMENT OF THE LIQUIDITY RISK

A liquidity risk is the risk of the Bank finding it difficult to meet its liabilities due to unforeseen developments, and being forced to raise funds in a way that would cause it a material loss. As this involves an uncertainty situation, in which the liquidity risk always exists, the Bank has determined the limitation of maximum exposure to liquidity risk.

During the year, the Group completed its preparations for the implementation of Proper Conduct of Banking Business Directives regarding liquidity (Nos. 342 and 221). In this respect, the Group has prepared for quantitative disclosure and for a qualitative discussion regarding the liquidity coverage ratio (LCR), both of the Group and of the material subsidiaries (see below).

POLICY

The Bank manages its liquidity risks subject to the policy of liquidity risk management, approved by the Board of Directors and reflecting the guidelines of the Regulator on the subject and the accepted principles in this matter. The policy includes reference to a number of stress tests, the structure of the resources of funds, the liquidity cushion and the fixing of limits regarding the various risk assessments. The policy includes in addition the Bank's plan for dealing with a liquidity crisis (CFP), including defining an array of indicators used for the identification of liquidity risk trends.

Limitations on the exposure to liquidity risks. The limitations determined by the Board of Directors in the policy document, refer to a number of risk assessments as well as to the structure of assets and liabilities. Several deviations from restrictions of the Board of Directors were recorded in 2014, caused by specific failures in work procedures. The Bank maintains high liquidity levels, so that such deviations do not indicate deterioration in liquidity risk and are technical in substance. The Bank has taken steps to improve work procedures in the area of liquidity risk.

STRUCTURE AND PROCESSES

The Internal control mechanisms for avoidance of deviation from policy:

- A Business Liquidity Forum is run convening at least once a week discussing the liquidity situation and examines the application of decisions made by management factors.
- A forum dealing with the adequacy of the model constituting a joint committee of the risk management and assets and liabilities management, the duties of which are to review the adequacy of the parameters used in the model, the methodology of their determination and risk limitation, and to provide recommendations for changes in the managed pressure level.

Asset and liability management committee (ALM committee). In the framework of the committee, the situation of the liquidity risk at the Bank and at the Group has been reviewed. See above "Management of market risks".

MEASUREMENT AND REPORTING SYSTEMS

The current assessment of the liquidity risk provides decision makers with indications for the identification of situations in which the liquidity risk rises, which enables the maintenance of a proper liquidity level, and is conducted, as stated, using the designated system for market risk management.

Risks are being identified and assessed on a current basis, both at the Group level and at the level of each Group company, the operations of which involve liquidity risk.

The identification of trends in the liquidity situation is conducted through a monitoring process that examines the results of the internal model, and through indices and additional tools, as well as the current examination of the key risk indicators.

The Banking subsidiaries also conduct their liquidity risk management in accordance with the requirements.

The policy document regarding liquidity risk management was updated during 2014.

For additional details see "Liquidity and the raising of resources in the Bank".

INSTRUCTION WITH RESPECT TO THE "LIQUIDITY COVERAGE RATIO" AND THE "LEVERAGE RATIO"

PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 221 IN THE MATTER OF "LIQUIDITY COVERAGE RATIO"

Following the conclusions drawn from the global financial crisis, The Basel Committee on Banking Supervision published in December 2010 the Basel III document: a global supervisory framework for strengthening the stability of the banking industry ("Basel III"). One of the central reforms of Basel III is the development of a minimum standard for liquidity, named the liquidity coverage ratio (LCR). The standard is designed to improve the stability of the liquidity risk profile of banking corporation in the short term, ensuring this by requiring banking corporations to hold an appropriate inventory of unpledged high quality liquid assets (HQLA), which may be easily and quickly converted into cash on the private markets, in order to respond to the liquidity requirements under a stress test of liquidity lasting thirty calendar days. The standard defines a specific framework for calculating the liquidity coverage ratio with the aim of creating uniformity on an international level.

On October 2, 2014, the Supervisor of Banks published a new Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", which implements the principles prescribed by the Basel Committee.

The Directive states the manner of computing the liquidity coverage ratio, including definition of the characteristics and operational requirements for the "high quality liquid assets" (the numerator) and collateral coefficients in respect thereof as well as the net cash outflow anticipated in the stress test as defined in the Directive for the thirty calendar days (the denominator).

Proper Conduct of Banking Business Directive No. 342 in the matter of "liquidity risk management" shall remain in effect alongside Directive No. 221, and the banking corporations are required to comply with the qualitative and quantitative requirements contained therein, including computation of the "minimum liquidity ratio", which differs in the manner of computation from the liquidity coverage ratio. At this stage, credit card companies are not required to comply with the new instructions and the requirements of Directive No. 342 shall continue to apply to them.

The Directive shall take effect on April 1, 2015, but the minimum requirement will amount to 60%, rising to 80% on January 1, 2016 and to 100% on January 1, 2017.

PROVISIONAL INSTRUCTION IN THE MATTER OF "IMPLEMENTATION OF THE REQUIREMENTS ACCORDING TO THE THIRD PILLAR OF BASEL– DISCLOSURE REGARDING THE LIQUIDITY COVERAGE RATIO"

In continuation of the publication of the instruction regarding: "liquidity coverage ratio" (see above), the Supervisor of Banks published on October 2, 2014, a provisional instruction enlarging the disclosure requirements stated in the third pillar, and which include new disclosure requirements as to the "liquidity coverage ratio".

Within the framework of the guidelines contained in the provisional instruction, banking corporations are required to include in their Directors' Report qualitative and quantitative information regarding the liquidity coverage ratio, as follows:

- Quantitative information – relating to different components used in the computation of the liquidity coverage ratio, including: the factors affecting the liquidity coverage ratio over a period of time, changes occurring in the reported period, the composition of the qualitative liquid assets, centralization of financing resources, cash inflow and outflows not included in the "liquidity coverage ratio" model, etc.;
- Qualitative information – relating to qualitative aspects involved in liquidity risk management, including: structure of the corporate governance of liquidity risk management, financing strategy, methods reducing liquidity risks, use of stress tests, emergency financing plans, etc.;

- Expanding the information in the financial statements – inclusion of quantitative data as to "liquidity coverage ratio" also in the notes to the financial statements (quarterly and annual).

The provisional instruction is to become effective on April 1, 2015. The Bank is preparing for the implementation of the guidelines contained in the instruction.

DETERMINATION OF A "LEVERAGE RATIO"

The Basel Committee issued on January 14, 2014, guidelines determining the "leverage ratio", including reference to a future process for the monitoring of the results received in respect of this ratio, until binding restrictions are determined.

"Leverage ratio" is defined by the Basel Committee as the ratio between the "Capital measure" and the "Exposure measure", as detailed below:

- "Capital measure" – is defined as "Tier 1 capital", including the effect of the determined provisional instructions.
- "Exposure measure" is defined as the total of the following exposures:
  - Balance sheet exposure – total assets included in the financial statements, including collateral for derivatives and for securities financing transaction, excluding balance sheet assets in respect of derivatives and of securities financing transaction;
  - Exposure to derivatives - the cost of a change of a derivative contract together with the amount of the future potential exposure to the derivative during the remaining period until termination of the contract ("add on");
  - Exposure to securities financing transaction – including repurchase agreements, reverse repurchase agreements, transactions for the borrowing and lending of securities and margin loans transactions;
  - Off-balance sheet items – this exposure is measured by the conversion to "credit equivalent" approach, using credit conversion factors (CCF), as detailed in Proper Conduct of Banking Business Directive No. 203.

Following the said publication of the Basel Committee guidelines, the Supervisor of Bank has begun preparations for the implementation of the said ratio in the banking industry in Israel. In this respect, the Supervisor of Banks published on October 20, 2014, a document containing a requirement for a quantitative impact survey (QIS) and for the computation of the leverage ratio in each of the banks, in accordance with the guidelines included in the draft document.

As of the present time, the supervisor of Banks has not yet published a binding instruction for the adoption of the leverage ratio.

OPERATIONAL RISKS

Operational risk is the risk of loss caused by impropriety or by the failure of internal procedures, individuals and systems or as a result of external events

The operational risk is inherent in all business lines, products, systems and the work processes performed at the Bank. Accordingly, awareness and management of the operational risk at all levels of duty are of importance.

Proper Conduct of Banking Business Directive no. 350 regarding operational risk management. The Discount Group complies with the instructions of the Directive, the central principles of which matched the policy and vision of the Group's risk management.

POLICY

Operational risk management policy. The Bank endeavors to manage the operational risk in accordance with the policy document, including a declaration of tolerance to operational risks, initially approved by the Board of Directors in March 2014, which defines targets for monitoring. The subsidiary companies have adopted the policy with the required adjustments.

The policy document in the matter of operational risk management was updated and approved in July 2014.

The objectives of the operational risk management policy are to define and communicate the operational risk management principals to all the Bank's and group's units and to ensure the effectiveness of managing, controlling and supervising the material operational risks which are inherent in all types of operations, processes, products, systems and business lines. The policy is also intended to ensure:

- Optimal risk management, which complies with the operational risk management principles according to Proper Conduct of Banking Business Directive No. 350;
- Maintaining risk identification processes, evaluation and current monitoring thereof, measurement and minimizing exposure, current control and current reporting to the Management and to the Board of Directors of relevant information, supporting the proactive and effective management of the operational risk;
- Appropriate corporate governance – an organizational and functional structure, which supports the management of operational risks;
- Absorbing the culture of reporting failure events, including events of the "Near Miss" type, credit failure realizing also operational risk, an effective manner of drawing conclusions and the implementation thereof;
- Proactive control of the second line of defense in order to ensure the effectiveness of operational risk management.

STRUCTURE AND PROCESSES

The Chief Risk Manager bears the overall responsibility for the management of this risk at the Bank and the Group.

FIRST LINE OF DEFENSE

Each Division or Group Head is responsible for the management of operational risks inherent in his area of activity. In addition, operating risk controllers serves at all of the Bank's divisions and Groups, the duty of which, among other things, is to assist the division or Group head in managing operating risks, including identification of the risks, their measurement and formation of plans for reducing them. Operating risk controllers communicate with and report to the risk management department.

SECOND LINE OF DEFENSE

The Risk Management Department, which reports to the Chief Risk Manager, is in charge of formulating the operational risk management policy and is responsible of verifying its implementation while providing the necessary tools in this respect, formation of a methodology for identification and measurement of risks, monitoring and reduction of risks and reporting the results to the Risk Managers Committee, the Bank's Management and the Board of Directors. The department is also responsible for integrating the culture of managing the operating risks within the units of the Bank and the Group.

In the Risk Management Department, operates the fraud and embezzlement risks management unit, responsible for the second line of control in the management of fraud risk at the Bank, has the duty to ensure that fraud risks are diligently and consistently managed by all managers of risk centers, including the monitoring of warnings raising suspicion of activities by employees, which is seemingly unauthorized.

The subsidiary companies have formulated an organizational structure to support the management of their operational risks along the same lines mutatis mutandis. Such an organizational structure enables an efficient and overall Group management of the operational risks in the Group.

Operational risk controllers' Forum. The Forum, headed by the chief risk officer, meets once every quarter and also meets as a Group Forum twice yearly.

MEASUREMENT AND REPORTING SYSTEMS

Risk evaluation methodology. The risk evaluation methodology has been formed by the Risk Management Group and is used by the Bank and its subsidiaries in their current evaluation, both of existing risks and of risks involved in new work processes and new products. The methodology is examined periodically in order to ensure its effectiveness and relevance. The methodology has recently been updated in accordance with the changes required in particular with respect to business continuity risks and fraud and embezzlement risks.

The risk evaluation averages out the characteristics of the process and the volume of the damage that might occur as well as the effectiveness level of existing controls, based on defined parameters. The combination of risk evaluation and existing controls enables evaluation of the fundamental and residual risk level in qualitative terms.

Operational risk survey. The operational risk survey is one of the tools used by the Group for the periodic identification and evaluation of operational risks to which the Group is exposed.

Operational risk management system. The information system for the management of operational risk has been fully integrated at the Bank and at most of the subsidiaries. The system enables monitoring, analysis and reporting of operational risks at the Discount Group. The system enables Group management in accordance with the risk evaluation policy and methodology. In accordance with the operational risk management policy, a survey of operational risks has to be performed once every three years or during the course of three years, and which is to be performed by means of a self assessment (RCSA). Accordingly, the Discount Group has initiated an independent survey, guided closely and managed by the divisional controller in each group/division, which is to be performed over a period of three years, 2014-2016.

The object of the survey is to maintain the up-to-datedness and relevancy of the operational risks maps, as well as to reinforce the perception of responsibility for the risk maps, by means of performing a process of self assessment by each risk center manager.

RISK MITIGATION

Operating failure events. Investigating and reporting failure events comprising an integral part of the current risk management in its framework, the managers of risk centers report and investigate failure events that have occurred, draw conclusions and improve and strengthen controls over the various processes. The Bank is setting up a data base concerning the realization of operating failure events based on reports by the Bank's different risk centers. The Bank endeavors to achieve a wide and comprehensive data base of failure events. Such data base will enable the analysis of failure factors, the treatment of risk centers identified and the establishment of risk indicators that would allow, in the future, the monitoring of risks prior to their materialization.

Current management of operational risks. The Bank examines on an ongoing basis exposure to operational risks and implements measures for the mitigation in the material risks level. The risk centers managers are taking steps towards the implementation of the risk mitigation plans and update on a quarterly basis, the information regarding the progress of implementation of the new controls. The performance status regarding the implementation of the mitigation plans is reported to management and the Board of Directors on a quarterly basis. In addition, the risk centers managers update the risk maps on a regular basis, following the implementation of controls (information systems, procedures, reports etc.), identify and evaluate risks and controls applying to new work processes or following changes in existing work processes. The internal failure events database enables the validation of the risk evaluation performed by the risk center managers and an examination on a current basis of the necessity for a re-evaluation of the risk.

Mitigating exposure to operating risks through the purchase of insurance. The means applied by the Bank with a view of mitigating exposure to operating risks, include, among other things, the purchase of a designated bank insurance policy within a responsibility limit of US$150 million, that hedges a part of operating risks to which the Bank is exposed.

The Bank's insurance policy includes several relevant sections, namely: (1) Banking insurance section, focusing on events such as betrayal of trust by Bank employees, monies and valuable assets at the Bank's premises, monies and valuable assets in transit, forgery of checks, forged collateral and forged monies; (2) Computer offences insurance section, focusing on events such as fraudulent or malicious input of electronic data directly into the Bank's computer systems or of a service bureau, or into an electronic money transfer system or to a customer communications system, fraudulent or malicious change or destruction of electronic data; (3) Professional liability insurance section, intended to insure the Bank in respect of its legal obligations to third parties, considering a lawsuit or claim for damages in respect of a financial loss resulting from negligent action, error or omission or betrayal of trust on the part of a Bank employee; (4) Personal deposit boxes insurance intended to insure the Bank in respect of loss or damage to customers' assets, including cash and jewelry, found in personal safe deposit boxes at the Bank's premises within the boundaries of the State of Israel.

Furthermore, within the framework of the insurance policy issued to companies in the Discount Bank Group, the Bank had purchased insurance coverage for claims against Directors and Officers within a responsibility limit of US$150 million.

In addition, the Bank purchased an "Expanded Fire" policy to insure its property, an insurance covering its liability under law for bodily harm in the amount of US$50 million, and employer liability insurance in the amount of US$30 million.

The scope of the Bank's insurance coverage has been examined with the assistance of an independent professional advisor and is in compliance with Proper Conduct of Banking Business Directives Nos. 301 and 352.

PREPARATIONS BY THE BANK FOR BUSINESS CONTINUITY

The Bank's Business Continuity Plan ("BCP") is designed to ensure the continuation of regular banking operations and services defined as vital, during periods of emergency on national and local levels. The plan covers and supports vital business operations, in all their chain of supply, from one end to the other: infrastructure, computer, hardware, software, communications, human resources, etc. All these will assure the Bank's continuing business operations under extreme circumstances, while providing an array of services to the Bank's customers at a reasonable level of service.

Layouts and services supporting the corporate and retail networks are at the disposal of customers, as follows: countrywide core branches that are prepared and equipped to continue and provide service during emergencies, backup branches for those damaged, direct banking lanes through telephone and internet communication. All these are designed to provide 24 hours a day banking services at any place, a "hot-line" for customers of closed branches and countrywide automatic banking machines that enable self-service banking operations. In addition, the Bank is able to operate mobile bank branches in emergency situations.

At the basis of the preparations for continued business operations is the backup system established by the Bank for the vital technological infrastructure. The backup system is based on: "hot backup" for the central computer system established at a designated distant location, a backup location for the dealing room, a backup location for direct banking operations/Discount Telebank, an active "hot backup" for the vital information systems, backup of the clearing layout through backup arrangements with other banks, and more.

Regulation and control. The Bank is acting towards the implementation of the regulation in the matter of business continuity, in accordance with: Proper Conduct of Banking Business Directive No. 355 – Business continuity management; the implementation of the recommendations included in the "Evaluation of the framework for business continuity management" document issued by the Supervisor of Banks; updating of impact scenarios in accordance with the "Reference scenarios for the banking industry" document of the Supervisor of Banks; reporting instructions to the Supervisor of Banks in times of emergency.

Amendment of Proper Conduct of Banking Business Directive No. 355 in the matter of "business continuity management". Further to Proper Conduct of Banking Business Directive No. 355, published in December 2011, and following a survey regarding the safeguarding of critical locations, conducted at the banking industry, the Supervisor of Banks published on May 26, 2014, an Amendment of Proper Conduct of Banking Business Directive No. 355, which includes guidelines intended to regulate the subject of safeguarding of critical locations, including: a requirement for the safeguarding of a principal or alternative location against the consequences of a conventional war and against earthquake damage; protection against war of each site serving for data processing, permission for a banking subsidiary to rely on the critical location of the parent company. The new guideline became effective at the date of the approval of the amendment.

Reporting to the Supervision Department Directive – Reporting in a state of emergency. The Directive applies to banking corporations, to joint service companies and to credit card companies. The Directive details the data and information as well as the frequency of reporting to the Supervisor of Banks once the Supervisor declares a state of emergency.

STRATEGY

The strategy document for business continuity management was approved in July 2014. The document forms part of the framework for business continuity management, required in accordance with Proper Conduct of Banking Business Directive No. 355. The document defines the Bank's solution concept in facing a business continuity crisis, and forms the basis for a structure maintaining business continuity. The strategy relates both to aspects of business continuity emergency situations, and to its routine aspects, and is being updated by the Management when required.

POLICY

The business continuity management policy document defines the targets for the preparation for business continuity management; the organizational structure under everyday and emergency situations; authority and responsibility of executives in the business continuity layout; methodology for the management of business continuity.

STRUCTURE AND PROCESSES

All divisions of the Bank have upgraded their preparedness for maintenance of business continuity in accordance with the across the board work plan, which emphasizes the implementation of five basic principles (updating of the emergency file, the holding of round-table discussions, formation of response plans, monitoring and control of the elimination of gaps, instruction training and exercising).
During 2014, the Bank's divisions updated the divisional response plan with respect to business continuity (emergency file) in accordance with a standardized format that had been established and which serves all of the Bank's divisions.
A divisional "qualification index" has been devised assists the Bank in the objective evaluation of the measure of its preparedness for the maintenance of business continuity and respectively focuses the allocation of the required resources.
A methodology for the assessment of vital processes in emergency situations has been approved and a business impact analysis (BIA) survey has been performed, examining the impact on business processes in different cases of crisis, in accordance with reference scenarios as determined by the Supervisor of Banks, within the framework of which the vital processes at the Bank had been determined, and gaps and principal recommendations presented to the Management.
Exercise. A significant part of the high preparedness level for business continuity management is the performance of exercises and training. A multi-annual exercise plan has been formed by the Bank, within the framework of which work processes related to business continuity are examined and conclusions are drawn as to their improvement.
During the year, the Bank`s units have performed some fifty four exercises for increasing the Bank's preparedness for the materialization of business continuity events, including: Management exercise, field exercise, exercising the disposition of a mobile branch; exercising the operation of alternative designated sites; exercising the alternative manning of business units/regional units and head office units; exercising technological infrastructure and the relocation of technological installations; methodical exercise of business and operational issues in times of emergency.
Training. An extensive and varied training, authorization and implementation plan was performed in 2014, which included lifesaving aspects, in the framework of which sixteen training activities have been performed.

MEASUREMENT AND REPORTING SYSTEMS

The mapping of business continuity risks, the evaluation and monitoring thereof is being conducted as part of the identification and evaluation of operational risks and it is managed by means of the operational risk management system. This assists the Bank in managing the risk effectively and with a high degree of transparency.
An additional system supporting this process is the crisis management system. As part of the integration process of the system, procedures were formed and relevant information fed into it.

INFORMATION TECHNOLOGY RISK MANAGEMENT

General. The IT layout is a central component in the proper operation and management of a banking corporation, in view of the information, including all its aspects and ramifications, having a decisive influence over the stability of the corporation and its development. Information technology risks are risks deriving from the use or the non-use by a corporation of information technology and/or the dependence of a corporation thereon.

STRATEGY AND POLICY

The Bank has the following policy documents with respect to information technology:
- Information technology policy, the essence of which are managing and operational information technology aspects;
- Data protection policy, the essence of which is guiding principles for maintaining reliability, confidentiality and availability of information;
- Information technology risk management policy, the substance of which comprises basic principles for the reduction of exposure of the Group to the realization of these risks.

STRUCTURE AND PROCESSES

The Head of the Technologies and Operations Division serves as the information technology risk manager at the Bank and the Group.

RISK MANAGEMENT UNITS

First line of defense. Two central units operate within its framework – IT risk department and data protection department.
- **IT risk management department.** The responsibility of the department is to outline, in collaboration with the Risk Management Group, the IT risk policy; to guide the computer units at the Bank and at the Group regarding the management of IT risks, and to supervise the implementation of the policy in this matter; to outline control processes designed to assure that exposure to IT risks will not deviate from the determined maximum risk tolerance, and exposure limits determined in accordance therewith and to periodically perform a self evaluation of the risk and effectiveness of the risk management process.
- **Data protection department.** In the framework of the department, operates various contents specialists in the field of data protection. The department is responsible for outlining the data protection policy at the Bank and the Group; guiding the different units in the Technology and Operations Division, in the Bank and in certain subsidiaries in matters of implementation of data protection aspects in the various systems and supervise the implementation of its recommendations; implement various control processes for the evaluation of the data protection quality, including tests of system penetrations by an independent factor, and more.

Second line of defense. A designated function operating in the risk management group at a Group level, which is responsible for: independent verification of the appropriateness of risk management processes; challenging information technology risk mapping; monitoring compliance with determined limitations on risk tolerance; verifying effective risk management in strategic projects with respect to information technology; and an independent evaluation of the fairness of preparations made by the information technology group with respect to emergency situations and/or stress situations.

CENTRAL COMMITTEES

Two group committees operate in the Group headed by the Head of the Technology and Operations Division.

- **Information technology risk management committee.** The committee is responsible for the examination of the information technology risk management policy, examination of risk and material failure events in the IT risk field and the drawing of conclusions, examination of the determined tolerance threshold for information technology risks, and more.
- **Data protection supreme steering committee.** The committee is responsible for the examination of threats and material and/or new risks in the field of data protection, examination of exceptional events, providing operating guidelines and acting to minimize risk performing, monitoring and control over the implementation of data protection policy, and more.

THE CORE PROCESSES FOR RISK MANAGEMENT

The core processes are based on the risk management principles, with the required adjustments to the information technology world, including: the mapping of all of the Bank's systems in order to evaluate the level of importance of each system to the Bank's business activity and to evaluate the existing control environment of the system, assessment of the exposure to the realization of business risks, such as: credit risk, market risk, compliance risks, etc. deriving from a failure of one of the systems, and more.
In addition, IT risk surveys and data protection risk surveys are being performed in the systems of the Bank, at intervals that match the criticality of the system and the risk inherent therein.
These processes allow effective focusing on areas and systems that had been identified as having the highest risk of disrupting business operations. They also enable the formation of a multi-annual work plan as well as a rapid adjustment of the risk management strategy and the risk map, in accordance with changes occurring at the Bank and/or in its operation environment.

REPORTING

The Head of the Technologies and Operations Division reports, on a fixed frequency, to the Management and to the Board of Directors, on cases of deviation from the limit of risk tolerance in the field of information technology at the Bank and at the subsidiaries in the Group, the operations of which are dependent upon computer services provided by the Bank. He also reports risks at a "very high"/"high" level of exposure, material failure events and rectifying measures taken in their respect, and more.

BUSINESS CONTINUITY

As part of the Bank's preparations to ensure its business continuity, the Bank has at its disposal a secondary site, operating continuously, which is capable of providing support for the Bank's core processes and for additional processes in the event that the production site is put out of operation. Furthermore, as part of the reduction in the risk of damage to the two data bases, the Bank has established a site in which it maintains an additional copy of the data on a layout of discs (this in addition to the two existing sets and to the backup layout using cassettes that exists at the Bank). Furthermore, the Bank is in the advanced stages for the examination of the transfer of the secondary site to a new site providing advanced standards in this field.

DRAFT INSTRUCTIONS REGARDING THE MANAGEMENT OF CYBERNETIC RISK AND THE REPORTING OF A CYBERNETIC INCIDENT

On September 11, 2014, the Supervisor of Banks issued an updated draft of the Proper Conduct of Banking Business Directive in the matter of "management of cybernetic protection". On June 2, 2014, the Supervisor of Banks issued a draft of Reporting to the Supervision Department Directive regarding "the reporting of a cybernetic incident".

Draft Proper Conduct of Banking Business Directive in the matter of "management of cybernetic protection". The Directive stresses the approach of the Supervisor of Banks that the cybernetic risk is a cross-organization issue and includes regulation of requirements and expectations of the Supervisor of Banks from banking corporations in the matter of management of the cybernetic risk. The draft views the management of the cybernetic risk as part of the overall layout of risk management at banking corporations, and prescribes that banking corporations have to focus on and adopt the necessary measures for the effective management of the cybernetic risk.

The Directive includes: details of the basic principles for the management of cybernetic protection; details of the duties of the board of directors and of senior management, description of the duties of the cybernetic protection manager and the management layouts, coordination and control layouts required for the maintenance of effective protection; the cybernetic protection concept, definition of the cybernetic protection strategy, determination of a framework for the management of cybernetic risk, definition of a protection policy and formation of work plans; requirement for the maintenance of a process for cybernetic risk management, including identification of the risk, Risk evaluation, determination and evaluation of cybernetic protection controls and the reporting of risks; control objects to be formulated in order to reduce exposure to cybernetic threat.

Draft Reporting to the Supervision Department Directive in the matter of "the reporting of a cybernetic incident". The draft establishes new reporting Directive, which regulates the submission of real-time reports in a pre-established format in respect of the following matters: warning as regards a cybernetic incident, identification of a cybernetic incident, basing a cybernetic incident, blocking and settling a cybernetic incident, restoration following a cybernetic incident, publication and publicity of a cybernetic incident.

Draft instruction in the matter of "risk management in the cloud computing environment". The Supervisor of Banks published on September 10, 2014, an updated draft instruction concerning risk management in a cloud computing environment. The draft deals with the management of risk stemming from cloud activity. According to the draft, The Supervisor of Banks does not prohibit the use of such services, except for use for the purpose of core operations and systems, though it requires obtaining the permit of the Supervisor prior to any use of Cloud computerization through which information is being stored with a supplier, the draft stating also restrictions and additional term regarding the use of Cloud services. The draft emphasizes the involvement of management and the board of directors in the management of the subject and the risks inherent therein, the duty of forming a policy document for this subject and controls that should be integrated in respect of this operation.

The Bank is preparing for the realization of the implementation program, in accordance with guidelines of the Supervisor of Banks in the matter.

THE IMPLICATIONS OF DATA PROTECTION RISKS AND CYBERNETIC INCIDENTS

Threats in the cyberspace. As a general rule, threats in the cyberspace are defined as threats that may cause a shutdown of systems, preventing material services, material damage to confidentiality and completeness of data and performance of hostile actions and fraud. In recent periods, we are witnessing a global intensification of this threat, both regarding the scope of attacks as well as their sophistication.

In 2014, there were no one or more cybernetic incidents that materially affected the products or services offered by the Bank or by the Group, their relation with customers or the competitive conditions.

Structure and processes. A data protection manager serves at the Bank, who is directly subject to the Head of the IT and Planning Division. For details regarding the duties of the data protection department, see above.

Attainment of the data protection goals is achieved through the implementation of a set of protection means, monitoring and control. Starting with policy and procedure outlines, determination of areas of responsibility and authority, installation of protection and reinforcement technologies, and ending with monitoring methods and treatment of security incidents.

Data protection surveys and penetration tests to the Bank's systems are performed by independent external companies specializing in data protection and IT risks. The frequency of performing a survey in respect of each system is determined according to the criticality of the system and the risk inherent therein.

Protection of the Bank's sites. In accordance with the Bank's policy in the matter, systems preventing unauthorized access as well as systems monitoring and identifying deviation from authorized activities are integrated into the Bank's systems. Protection of the marketing sites and of the Bank's operations is continuous. The Bank operates a data protection center that operates continuously throughout the year (24 hours per day 365 days per year), and is responsible, among other things, for the identification and warning of any activity intended to damage the Bank's sites or its customers (by means of imitation sites). The Bank's operational sites that provide service to customers over the Internet, are protected by several layers of defense, which include protection components for hardware/ communication/and services providing information regarding attacks and hostile addresses. Infrastructure systems are monitored and reported to the data protection center. The Bank performs current operations to increase awareness and improve the organizational culture with regard to data protection aspects, which include, among other things, training sessions and memos.

As part of risk management, the Bank investigates various incidents, gains insights and draws conclusions. Such insights, together with data protection surveys enable the Bank to map gaps that should be rectified and determine preferences in the treatment thereof, on the basis of which the Bank establishes work plans.

ENVIRONMENTAL RISKS

In the Supervisor of Banks' guidelines regarding the exposure to environmental risks and their management, various possible aspects regarding the exposure of banking corporations to environmental risks are detailed and the need to relate to these risks individually is emphasized. These risks may be included within the framework of the other risks (such as: credit, market, operating, legal and liquidity risks). Environmental risk may derive from an impairment of collaterals when realized. Furthermore, the risk might be realized in an indirect manner as a result of deterioration in the financial condition of another party due to environmental costs resulting from regulations regarding environmental protection. Damage to reputation may also be recognized as part of environmental risk, as a result of the possibility that relation to an environmental hazard might be attributed to the banking corporation.

Within the framework of the Bank's credit policy in the matter of environmental risks, the Bank has defined an evaluation process with respect to the level of environmental risk and of the quality of risk management regarding business customers upon the granting of credit and upon performing the periodic evaluation of customer quality, with special reference to customers having a high environmental risk potential. The monitoring of the credit risk exposed to significant environmental risks is performed on an ongoing basis during the year.

Training sessions have been performed by outside experts, as part of the process of absorption of environmental risk management for the business factors.

LEGAL RISKS

According to Proper Conduct of Banking Business Directive No. 350 of February 14, 2012, the legal risk forms part of the operational risk, defined therein as risk of losses due to improper or failure of internal processes, employees and systems, or due to external events, where the legal risk is defined as including, but not limited to exposure to fines or other punitive action stemming from supervisory activity as well as from individual arrangements.

Among the principal legal risks, the following may be mentioned: absence of knowledge of the law, whether local or foreign, applying to the operations of the Bank and the Group, with the resulting higher risk of obtaining mistaken legal advice, the absence of legal

certainty as regards the applicable law, failure in the timely identification of changes in the law, considering the many changes made from time to time, business activity without legal support, use of inappropriate standard documents, non-compliance with the law and/or regulations, which might result in monetary sanctions and/or criminal liability of the Bank and/or of its staff.
The Bank's chief legal adviser serves as legal risks manager and is responsible for the legal risk management at the Bank and the Group. As part of legal risk management, the Bank acts towards the collection and concentration of information relating to legal risks at the Bank and the Group, including information as to changes in legislation and/or updated court rulings that have material implications upon the Bank's operations, as well as information with respect to material legal actions and proceedings in which the Bank is involved. The Bank has a legal risk management policy intended to minimize exposure to legal risks. In this framework, the Bank acts towards pinpointing legal risk centers and the formation of processes, procedures and reporting routines for the purpose of treatment and monitoring such risks.
On November 10, 2014 the Bank's Board of Directors approved the updated legal risk management policy document of the Discount Group.

INTERNAL ENFORCEMENT

The Improvement of Enforcement Procedures at the Israeli Securities Authority (Legislation Amendments) Act, 2011 was published on January 27, 2011.The Act includes a reform in the enforcement authorities of the Israeli Securities Authority (hereinafter – "the Authority"). In addition to the enforcement authority already granted to it earlier on, the Act also grants the Authority administrative enforcement authority as regards individuals and corporations in respect of violations of the Securities Laws, including the Securities Law, the Regularizing of Engagement in Investment Consultancy Law and the Mutual Investment Trust Law.
On August 17, 2011, the Capital Market Enforcement Intensification Act (Legislation amendments) 2011, was published, which extends the supervisory authorities of the Capital Market, Insurance and Savings Commissioner at the Ministry of Finance, and grants him administrative enquiry powers for the purpose of clarifying the existence of violations of supervisory Acts as regards insurance, provident fund and pension consulting, in order to ensure the implementation and enforcement of supervisory Acts, similarly to the administrative enforcement powers granted to the Israel Securities Authority as stated. The supervisory Acts regarding insurance and provident funds establish the authority of the Commissioner with respect to the supervision and administrative enquiry, as well as new regulations regarding the imposition of monetary sanctions. With respect to the Pension Consulting Act, a more limited amendment was established, in that it does not contain new regulations for the imposition of monetary sanctions.
The Bank’s Management and Board of Directors have approved a comprehensive plan of action, subjected to a timetable, for the formation of an internal enforcement plan, suitable for the Bank and for the Group, having regard to the criteria published by the Israeli Securities Authority on the matter and to the relevant regulatory requirements, taking into consideration to the procedures and processes existing at the Bank. In continuation of that stated above, the Board of Directors appointed a compliance officer responsible to the Bank's Chief Legal Advisor, adopted an enforcement policy and acted for the formation of an enforcement plan which is implemented at the Bank. In accordance with the said plan, the Bank and the group companies are acting towards the carrying out of the said plan.

REGULATION RISKS

Regulatory risk forms part of the legal risk, and has been defined by the Bank as a loss stemming from non-compliance with various regulatory directives, including requirements of foreign regulation, applying to the Bank and the Group.
The Bank's operations are regularized by various regulatory directives, under which various limitations are imposed on its fields of operation and sources of income and which impose on the Bank different duties applying to it due to its status as a "banking corporation". These directives include, among other things, the Banking Law (Licensing), 1981, the Securities Law, 1968, the Regulation of Engagement in Investment Consulting and in Investment Portfolio Management Law, 1995, the Anti Trust Law, 1988,

Proper Conduct of Banking Business Directives, including regulations, rules and additional duties imposed on the Bank by the various supervisory authorities to which the Bank is subject within the framework of its operations.
The Bank and the subsidiaries under its control are exposed to frequent changes in legislation and various regulatory directives, which at times apply retroactively and which expose the Bank and its subsidiaries to risks involved in frequent changes in work procedures and to costs involved in the preparations required for the implementation of the relevant directives. As part of managing the regulation risk, the Bank conducts an ongoing follow-up of changes in legislation and regulation that have a material effect on the Bank's operations, in order to prepare for the implementation of the directives applying to the Bank and its subsidiaries.

COMPLIANCE RISKS

Compliance risk is a risk of exposure of the banking corporation to legal or regulatory sanctions of material financial loss or damaged reputation, as a result of failure to comply with legal or regulatory rulings.
Compliance risk at the Bank is being managed by the compliance officer with respect to consumer regulatory instructions, in accordance with Proper Conduct of Banking Business Directive No. 308 (with respect to regulations in the matter of money laundering and finance of terror prohibition, see below "Officer in charge of money laundering prohibition").
The operations of the Bank and of its subsidiaries are subject to various consumer instructions (laws, regulations, orders and directives regulating banking operations in Israel with respect to bank/customer relations), both in areas of banking activity and in other areas.
Non-compliance with consumer regulations might expose the Bank to sanctions originated from regulatory provisions (such as: fines, monetary sanctions, etc.), to criminal liability of the Bank and its officers, monetary losses and reputation risks.
New activities at the Bank, frequent changes in consumer regulation, and a multitude of consumer regulation instructions applying to the Bank and to its subsidiaries relating to existing and new fields of operation, require modification of the infrastructure supporting the duties stemming from these instructions.
Draft Proper Conduct of Banking Business Directive No. 308 "Compliance and the compliance function at a banking corporation". The draft was published on December 23, 2014, and it is proposed therein to assign to the board of directors and management of a bank the responsibility to verify the implementation of all regulation rules and the procedures of a bank.
The Bank has commenced preparations for the verification of the implementation of the non-consumer regulation rules.
Policy document regarding management of compliance risk. The policy document for compliance risk management had been approved by the Bank's Board of Directors, and was applied, with the necessary modifications, on the subsidiary companies, including IDB New York. The policy document establishes basic principles taken from the Basel documents regarding compliance aspects and corporate governance principles. The document defines the structure of control circles supporting the management of compliance risk and areas of responsibility, details the main core procedures of the operation of the compliance officer and the principles for the management of Group risks.
Supporting infrastructure. Different kinds of infrastructure exist at the Bank to verify implementation of the regulation – computer, control, integration (procedures) and training infrastructure. As part of the examination of a new activity or a new regulation, examinations are performed with respect to the infrastructure supporting the activity/regulation and its agreement with the risk deriving from the new activity/regulation. Furthermore, in accordance with Proper Conduct of Banking Business Directive No. 308, an infrastructure survey is being performed once every five years, the object of which is to verify that the Bank is prepared for the implementation of compliance with duties stemming from the consumer instructions. The last infrastructure review performed by the Bank was completed in December 2013 and was discussed by the Bank`s Boards of Directors and by the relevant subsidiaries.
A mechanized system for the management of compliance risk became operational towards the end of 2014, which would enable the management of the risk in a risk based fashion founded on the products of the infrastructure survey that had been performed.
An infrastructure of procedures exists at the Bank, designed to enforce compliance with the various requirements of the consumer regulatory provisions. The procedures are updated from time to time in accordance with the regulatory directives and in accordance with the various activities performed by the Bank. Concurrently the systems supporting compliance with the said regulatory provisions

within various activities are being updated. In addition, in order to increase awareness to the importance of compliance, the Bank conducts study sessions on the subjects of compliance among the staff, including managers in general, and of compliance with the consumer instructions relevant to the work environment of specialized groups of employees in particular.

Control and supervision. Compliance with the provisions of the consumer regulations are enforced on a regular basis by means of various control and supervision systems - the compliance officer, compliance trustees and internal audit. With a view of improving control mechanisms and tightening supervision over compliance to regulatory provisions, as stated, including in the matter of money laundering prohibition, the Bank has appointed Compliance Officers, compliance trustees at various organizational levels (branches, regions, divisions, as the case may be).

The internal audit constantly and continuously examines all areas of operation of the Bank. For details of the activities of the internal audit, see the section "The internal audit in the Group" below.

Compliance officer. According to Proper Conduct of Banking Business Directive No. 308, the Compliance Officer is responsible for coordinating the Bank’s actions regarding compliance with consumer regulations including in the field of prohibition of money laundering.

The Chief Compliance Officer at the Bank, a senior executive responsible to an Executive Vice President coordinates and manages the field of compliance and the field of money laundering prohibition, within the framework of the compliance and money laundering prohibition department as part of the risk management group.

The compliance officer acts in this role also at several subsidiary companies of the Bank. Most of the subsidiaries in Israel and abroad have appointed their own compliance officers in accordance with the said instruction, and the Chief Compliance Officer maintains communication with them on a regular basis. Between the compliance function at the Bank and the compliance functions at the subsidiary companies, an interface exists for the purpose of updating and coordination within the framework of which, among other things, operates a permanent forum of compliance officers of the Group in Israel, which convenes in each quarter. In addition, action is being taken to tighten the interface with the compliance functions at the Bank's overseas extensions (IDB New York, IDB (Swiss) Bank and the London Branch).

For the purpose of his work, the Compliance Officer is assisted by the coordination committee that meets once in every quarter.

The compliance officer monitors the Bank’s preparations for the implementation of the duties imposed on it under the consumer regulations, involved in an active manner in the preparations for a new activity at the Bank, for the purpose of verifying compliance of the Bank with the said duties relevant to the Bank's new activity, and monitors the rectification of various deficiencies in complying with the consumer instructions. The compliance officer submits quarterly reports that include a summary of his operations, to the Bank's President & CEO as well as to the CEO's of the subsidiaries in which he serves as a compliance officer. In addition, the compliance officer submits to the Bank’s President & CEO, to the CEO’s of the said subsidiaries and to their Boards of Directors, an annual report summarizing his operations of the Bank and of the said subsidiaries. In accordance with Proper Conduct of Banking Business Directives and at intervals determined therein, the Bank conducts an infrastructure survey that includes mapping of the consumer instructions applying to the Bank and the duties stemming from them, the potential exposure arising from the non-fulfillment of the said duties and the preparations for their implementation are being monitored by the infrastructure supporting the fulfillment of duties (work procedures, computer infrastructure and other means of control).

The officer in charge of money laundering prohibition being an additional duty performed by the Chief Compliance Officer, who is appointed for this duty under the provisions of the Prohibition of Money Laundering Act (hereunder: "the Act") and related regulations, and he is responsible for the fulfillment of the duties imposed on the Bank with respect to money laundering and the financing of terror activities. In accordance with the requirements of the Act and of the Proper Conduct of Banking Business Directive No. 411. As stated, the Prohibition of Money Laundering unit forms part of the compliance department in the Bank`s risk management group.

The subsidiaries in Israel as well as the Bank's overseas extensions that are subject to this requirement, have also appointed an officer in charge, as required by law.

Non-compliance with directives applying to the Bank with respect to money laundering exposes the Bank to monetary sanctions, goodwill risks as well as to criminal proceeding, in respect of violation of the provisions of the law relating to this issue.

The officer in charge of the prohibition of money laundering is responsible for the writing of work procedures and the establishment of a computerized infrastructure required for the compliance with the provisions of the law applying to the Bank in this respect, as well as for the submission of reports to the Prohibition of Money Laundering Authority, in respect of operations subject to reporting in accordance with the law. The Bank is assisted by a computerized system in monitoring transactions that seem unusual and should be reported.

The Bank conducts ongoing instruction sessions at its various units intended to increase awareness and knowledge of this subject.

The officer in charge of money laundering prohibition communicates with the subsidiaries in Israel and with the Bank's foreign extensions for the purpose of monitoring the implementation of the Bank's policy and regulatory directives regarding money laundering prohibition and the finance of terror on a Group basis and this in accordance with the Group's policy.

See "Prohibition of Money Laundering Law and Prohibition of the Financing of Terror Law" under "Legislation and supervision" below regarding legislation in the matter of money laundering.

Disclosure regarding risks and limitations pertaining to relations with Iran or with the enemy. The Bank strictly complies with the requirements of the law in this respect, including the provisions of the Money Laundering Prohibition Act, Trading with the Enemy Ordinance and the provisions of the Financing of Terror Prohibition Act and to the best of its knowledge it does not have relations, directly or indirectly, with Iran or with the enemy. Accordingly, the Bank has no material exposure in this respect.

Group policy regarding money laundering prohibition. A Group policy is updated and approved by the Board of Directors in each year in the matter of prohibition of money laundering and prevention of the finance of terror. The policy was updated in February 2015, regarding with various subjects. The policy is applied with the required modifications to the subsidiary companies and the overseas extensions. The policy document determines the Group's standards with respect to money laundering and the finance of terror as well as principles for management of this risk on a Group basis. The object of the policy is to support the business goals and strategic objectives of the Bank and the Group, in order to prevent or minimize losses.

For details regarding an audit by the Bank of Israel in the matter of "Implementation of the provisions of the Prohibition of Money Laundering Law" at ICC, see hereunder in "Israel Credit Card Company Ltd." under "Main investee companies".

Audit report in the matter of the prohibition of money laundering. An audit report by the Bank of Israel in the matter of prohibition of money laundering was received on February 24, 2014, following an audit performed at the Bank in the last quarter of 2012 and in the first half of 2013. The report examines the fairness of integration of the laws and instructions relating to the prohibition of money laundering and the manner in which the Bank applies them in practice. The audit focused on four main areas: the "know your customer" process, the control layout with respect to the law and regulations in one of the Bank's divisions, the control layout in another division of the Bank and the fairness of the monitoring of extraordinary operations and the reporting thereof to the Israel Money Laundering and Terror Financing Prohibition Authority. The Bank rectifies the deficiencies indicated by the report and implements the requirements included therein.

EFFECTS OF EXTERNAL FACTORS

MAIN DEVELOPMENTS IN ISRAEL AND AROUND THE WORLD IN 2014

DEVELOPMENTS IN GLOBAL ECONOMY

General. World economy continued to grow in 2014 at a moderate rate, with significant differentiation in the growth rate between the leading economic zones. At the same time, a certain slowdown occurred in the growth rate of international trade.

The U.S. economy grew in 2014 at a rate of 2.4%. This, following a growth of 2.2% in 2013. The continuing recovery applied to all the fields of activity. Concurrently, the U.S. market continued to absorb employees at a fast rate, the unemployment rate declining to 5.6% (compared to 6.7% at the end of 2013).

The Eurozone economy has grown at a moderate rate of 0.9%, following two years of a declining product. The positive growth (though different in its force) applied most of the Eurozone countries, including peripheral countries (excluding Italy). The unemployment rate in the Eurozone remained high (11.3%), though a decrease is noticed compared to the end of 2013.

A slowdown in growth has been recorded in the BRICS countries, which applied to all these countries, excluding India. In particular, the Chinese economy grew at a rate of 7.4% (compared to 7.7% in 2013) and a negligible growth was recorded in Brazil and Russia.

Meanwhile, in the first quarter, on the background of concerns for the implications of the monetary contraction in the U.S., alongside the growing geo-political tension between Russia and the neighboring Ukraine, concern grew regarding a crisis in the developing markets. These concerns were reflected in the steep devaluation of the domestic currencies and falling prices on the capital markets of the developing countries in the same quarter. In continuation of the year, concerns regarding the implications of the impact of the U.S. monetary policy on the developing markets have declined, though the geo-political tension in Eastern Europe continued and even intensified in the second half of the year. Moreover, on the background of the said escalation, Western countries and Russia adopted mutual sanctions. The impact of the sanctions included, among other things, impairment of the economic recovery in the Eurozone and a considerable devaluation of the Russian currency (in particular in December 2014).

The inflationary environment continued to be moderate in most of the developed countries. A significant slowdown in the rate of price rises (reaching even a decline in prices) was recorded in particular in the fourth quarter of 2014. The trend in the developing countries has not been even. A decrease in inflation in China and in India and on the other hand a significant acceleration in Russia.

The slow recovery alongside a moderate inflation rate provided support for the continuation of an expansionary monetary policy, though different in most of the developed economies in the world. In the U.S., the FED left the interest rate at the low level of 0.25%, though it terminated the quantitative expansion program. It is noted, that in the reviewed period, the FED reduced the forecast for long-term equilibrium rate of interest, though on the other hand, the interest outline for the coming years has been raised.

Towards the end of the first half of the year, the Governor of the ECB reduced the base interest from 0.25% to 0.15%, and in the third quarter reduced the interest rate to a record low of 0.05%. Concurrently, the deposit interest for the commercial banks was reduced and a new plan has been introduced, within the framework of which banks will be able to borrow funds at a fixed interest rate for the range of four years, in order to encourage the granting of loans to the business sector (it is noted that the success of the plan was rather limited). Furthermore, the ECB announced that it would examine the possibility of introducing a plan for the purchase of asset backed bonds.

The policies of the central banks in the developing markets reflected, mostly, a response to the slowdown in growth and to the devaluation of the domestic currency in some of the countries. As a result thereof, while the interest rate in China declined, in Russia, on the background of the steep devaluation of the currency and the rise in inflation, the interest rate was raised at a steep rate. Rising interest rates were recorded also in Brazil.

Financial markets. Trade on the equities markets of the developed economies has been conducted on the background of the considerable liquidity on the markets and the infinitesimal interest environment, alongside the speedy economic recovery in the U.S. on the one hand, and the weakness in the economy of the Eurozone, on the other hand. The equities index of the developing markets was, among other things, affected by the crisis at the beginning of the year, the events in Eastern Europe and the slowdown in the Chinese economy.

Following are the changes in the leading equities indices recorded during the years 2013 and 2014:

	Change during the year	
Index	2014	2013
500 S&P	11.4%	29.6%
DAX	2.7%	25.5%
MSCI Emerging Markets	(4.6%)	(5.0%)

A trend of decline in returns on U.S. government bonds for ten years was recorded in the reviewed period. The said trend was supported by the shifting to secured assets (on the background of the crisis in the developing markets and in the Ukraine), alongside the continuing low interest environment and a downward updating of the long-term interest rate in the country. It is emphasized that the said decline was recorded despite the termination of the purchase plan of the FED. A decline in returns on bonds was recorded also in most of the Eurozone countries, on the background of the expansionary measures adopted by the ECB and anticipation for a significant expansionary plan at the beginning of 2015.

Following are the returns on government bonds:

Return on bonds for 10 years	December 31, 2014	December 31, 2013
U.S.A.	2.2%	3.0%
Germany	0.54%	1.92%

The trading in the U.S. dollar as against the Euro was typified by the strengthening of the U.S. currency, in particular in the second half of the year. The said strengthening derived, mostly, from the lowering of the interest rates in the Eurozone and from additional expansionary measures taken by the ECB. It is noted that the U.S. dollar strengthened during 2014 as against all leading currencies in the world. Among other things, the said strengthening reflected the demand for assets in the U.S. (on the background of the economic recovery) and anticipation for the reduction in the expansionary monetary policy, in contrast to most of the developed economies.

Following are the changes in the U.S. dollar against selected currencies:

	Change during the year	
Exchange rate	2014	2013
EUR	13.9%	(4.3%)
JPY	13.9%	21.5%
GBP	6.3%	(2.0%)

The global commodities index GSCI recorded an uneven trend. While during the first half of the year the index rose by a rate of approx. 4%, in the second half the index dropped by a steep rate of 37% (27% in the fourth quarter). The said drop affected all components of the index, and in particular, the prices of energy commodities, recorded a dropped of 47%, on the background of excess supply of oil on the part of non-OPEC member countries. As stated, prices of agricultural goods and of industrial metals have also decreased.

Following are changes in selected commodities indexes:

	Change during the year	
	2014	2013
The commodities index - GSCI	(33.9%)	(2.2%)
The oil price (BRENT)	(48.3%)	(0.3%)
The oil price (WTI)	(45.9%)	7.2%
Gold	(1.4%)	(28.1%)

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

GENERAL

In 2014, the economy of Israel grew by 2.9% and the business product also grew at an identical rate. This, compared to 3.2% and 3.4% in 2013, respectively. The slowdown resulted mostly from the aftereffects of the "Protective Edge" Operation, which led to a moderate growth of 0.6% (annualized rate) in the third quarter. However, a quick recovery (though not in full) was recorded in the fourth quarter and the product grew at an annualized rate of 7.2%.

In addition, the domestic economy continued to suffer from the global low demand and from the strong Israel shekel (until August). As a result thereof, the export of goods grew at a very moderate rate. The year 2014 experienced also deterioration in investments, including housing construction (on the background of the considerable uncertainty in this field). As stated, while demand around the world was low, the comfortable background conditions in Israel, viz.: improvement in the employment market, a low interest and inflationary environment, rising prices on the capital markets and the decline in oil prices alongside a strong local currency, have all benefited the private consumer. As a result thereof, private consumption grew at a fast rate of 3.9%, including the accelerated consumption of durable goods.

It should be noted that despite the slowdown in economic growth, the employment market continued to improve. The average unemployment rate has declined to a new low of 5.9%, while the rate of participation rose to a new record of 64.2%. Moreover, the rate of full-time employees has risen alongside acceleration in the growth rate of wages in real-terms.

MAIN DEVELOPMENTS IN ECONOMIC SECTORS

Industrial production expanded in 2014 at a moderate rate of approx. 1% (following contraction in 2013), mostly due to a weakness in the first half of 2014. The turnover of the commercial sectors expanded by approx. 2%, following an increase of 3% in 2013. The retail turnover, in particular, recorded a rise of 5%.

DEVELOPMENTS IN THE ACTIVITY OF THE ISRAELI ECONOMY WITH OVERSEAS MARKETS

A considerable growth was recorded in 2014 in financial investments by foreign residents in marketable Israeli securities (traded on the Tel Aviv Stock Exchange and abroad). The said growth applied to both investments in shares and in bonds. Concurrently, a significant flow in direct investments in Israel (through banks) by foreign residents continued.

The volume of financial investments abroad by Israeli residents (excluding banks) in 2014 was similar to that of 2013 (US$ 7.8 billion). Nevertheless, while the share of households in the above amount in 2013 amounted to 35%, in 2014 their share increased to 70%. From the aspect of investment channels, differentiating between bonds and shares, in 2014 the share of bonds amounted to 66% compared to only 22% in 2013.

Following are the changes recorded in investments of the Israeli economy abroad:

Investments in Israel by foreign residents	2014	2013	Change
	US$ billion		
Total direct investments through banks	8.3	8.0	2.8%
Total financial investments	8.4	1.8	376.8%
Of which: Government bonds and MAKAM	3.5	(1.7)	-
Shares	3.3	2.7	22.9%

Investments abroad by Israeli residents	2014	2013	Change
		US$ billion	
Total direct investments through banks	0.3	(0.1)	-
Total financial investments (excluding banks)	7.8	7.8	0.5%

DEVELOPMENTS IN FOREIGN EXCHANGE RATES AND INFLATION RATES

Since the beginning of the year and until August the Shekel gained ground against the U.S. currency at the rate of 1.6% (in contrast to the strengthening of the U.S. dollar globally), however in continuation the Shekel weakened by 14%. The said weakening of the Shekel derived from a variety of reasons, mainly from the effect of decreasing interest margin, the continued strengthening of the dollar around the world and from the aggressive intervention by the Bank of Israel. In total for the year, the Shekel weakened as against the U.S. dollar by 12%. However, against the currencies basket, the Shekel weakened by only 3%.
The inflationary environment continued to be very moderate in 2014 to negative and for the first time since 2006, a negative inflation rate of minus 0.2% was recorded. Residential units prices (which are not included in the CPI) continued to increase, though at a more moderate rate than in the past.

FISCAL AND MONETARY POLICY

Fiscal policy. The deficit amounted in 2014 to NIS 29.9 billion, NIS 1.2 billion lower than that originally planned. In terms of product percentage, the deficit amounted to 2.8% of the product (as compared to the targeted 3%). The "surplus" originated from under performance in expenditure of Government offices (mainly the economic offices, while the spending of the Defense Ministry exceeded the original budget) and from tax revenues which exceeded the amount forecasted. It should be noted in this respect, that when eliminating changes in legislation (which added NIS 5.1 billion), a real-term increase in tax revenues was recorded in 2014 at a rate of 5.1% compared with 2013, reflecting an accelerated growth rate.
Monetary policy. The expansionary monetary policy of the Bank of Israel continued in the reviewed period and included three stages of interest lowering at a cumulative rate of 0.75%. As a result thereof, the interest rate in September 2014 reached a record low of 0.25% and remained at this level until the end of the year. The dominant factors supporting the lowering of the interest rate were the strengthening of the Shekel exchange rate (until August 2014), the decline in the rate of inflation (in fact and anticipated) and concerns regarding significant economic weakness on the background of the "Protective Edge" Operation.

THE CAPITAL MARKET

A mixed trend was recorded in the course of 2014 in the leading share indices in Israel. Trading in equities was affected mostly by the trend in the stock exchange of the developed countries, by the low interest environment and by the increase in demand for risk assets. This, alongside development in specific corporations (in the natural gas sector and in corporations exposed to business in Russia).

Following are the changes in selected share indices in the years 2013 and 2014:

	Change during the year	
Index	2014	2013
General share index	11.5%	15.3%
TA 25	10.2%	12.1%
TA 100	6.7%	15.1%
TA banks	(5.6%)	16.3%
Blutech 50	(5.2%)	8.6%
Real-estate 15	0.9%	26.0%

The daily trading turnover in equities and convertibles amounted in the reviewed period to NIS 1.21 billion on an average, an increase of 3.5% compared with 2013. It is noted that the market value of equities and convertibles increased during 2014 by 10.6%, amounting at the end of December 2014 to NIS 780 billion.

The trade in government bonds in Israel was characterized by falling returns and was affected to a large extent by the lowering of the interest rate in Israel and from the decline in long-term returns in the U.S., as well as from expectations regarding inflation.

The trade in corporate bonds was affected by factors having contrary effect trends. On the one hand, the demand for risk assets, on the background of the low returns on government bonds, and on the other hand, the growth in risk relating to specific corporations alongside the decrease in expectations regarding inflation.

Following are the changes recorded in selected bond indices during 2013 and 2014:

	Change during the year	
Index	2014	2013
General bonds	4.7%	5.4%
General Government bonds	6.6%	3.5%
Shekel Government bonds	7.2%	4.0%
Linked Government bonds	5.8%	3.0%
General Corporate bonds	1.5%	8.9%
Linked Corporate bonds	1.0%	9.5%
Shekel Tel-Bond	4.0%	6.0%

The raising of capital through corporate bond (in Israel and abroad) amounted in 2014 to NIS 57.8 billion, an increase of 57% as compared with 2013. Of this amount, bond issuance to institutional bodies amounted to NIS 21 billion (of which some NIS 13 billion raised abroad), as compared with NIS 2.2 billion in 2013.

The bonds daily trading turnover amounted to an average of NIS 4.25 billion, a decrease of 2.2% compared with 2013. On the other hand, the daily trading turnover in short-term loans (MAKAM) recorded a rise of approx. 10% amounting to an average of NIS 640 million.

THE ASSET PORTFOLIO HELD BY THE PUBLIC

The value of the financial assets portfolio in the hands of the public increase during 2014 by 7.2%, and reached at the end of December an amount of NIS 3.18 trillion. Developments in the asset portfolio during the reviewed period reflected a growth in all classes of assets, where 70% of the growth derived from the increase in value of non-linked assets and assets linked to foreign currency.

Following is the distribution of the asset portfolio held by the public:

	December 31, 2014	December 31, 2013
Shares	24.2%	24.1%
Non-linked assets	33.7%	33.7%
CPI linked assets	29.8%	31.4%
Foreign currency assets	12.4%	10.8%

PRINCIPAL ECONOMIC DEVELOPMENTS IN JANUARY-MARCH 2015[2]

In January 2015, the International Monetary Fund updated downwards its growth forecasts for the years 2015-2016, principally due to the weakness noticed in the developing countries. On the other hand, the growth forecast for the U.S. was raised.

Economic activity indicators in the U.S., published in the reviewed period, continued to point at the continued expansion, and in particular, an additional improvement has been recorded in the employment market. Notwithstanding, certain of the indicators (with a focus on the corporate sector), were disappointing, reflecting the strengthening of the U.S. dollar and impairment to the energy sector, on the background of falling oil prices.

A moderate improvement continued in the economy of the Eurozone, with an increase in optimism, and a slight decline in unemployment. This was supported by the weakening of the Euro and the monetary expansion, announced in January by the ECB. It is noted that during most of the period, economic and financial activity in the Eurozone was conducted under the shadow of the negotiations between Greece and its creditors and the concerns regarding its departure from the Eurozone (with other peripheral countries being "infected"), and alongside the continuing crisis in the Ukraine. Towards the end of February 2015, an agreement was reached regarding the crisis in the Ukraine and the Greek problem also toned down on the background of the four month extension of the bailout plan for this country.

The trend in the developing countries was not even, with a continuing slowdown in China, weakness in Brazil and Russia and on the other hand the continuing gradual recovery in India.

A further decline in inflation was recorded in the reviewed period, in the U.S. and in the Eurozone, as well as in additional leading economies, including China. On the background of the decline in the inflationary environment, alongside the desire to prevent the strengthening of the local currency, central banks of several countries adopted an aggressive expansionary monetary policy. This policy included the lowering of the interest rate to record low levels and even to a negative level. Of the central banks which introduced negative interest rates, was noted the central bank of Switzerland, which lowered the interest rate to minus 0.75% and at the same time cancelled the bottom exchange rate as against the Euro.

As stated above, the ECB announced the purchase of bonds to the tune of €60 billion per month. Purchases are to continue until September 2016, or until such time when inflation reaches close to the targeted inflation rate of the central bank (2%). Concurrently, the central bank announced that it does not anticipate the further lowering of the interest rate. In the U.S., the FED left the interest rate unchanged, with a high level of uncertainty as to the beginning date for the raising of the interest rate.

Trading on the global equities markets was characterized by a positive trend and was mainly impacted by the high liquidity and the low interest environment around the world, alongside the low level of oil prices. In total for the period, the S&P 500 index rose by 2.2%, the German DAX index rose by 16%, and the emerging markets index rose by 3.5%. The U.S. long-term bonds recorded volatility during the reviewed period, when in total for the period the returns declined by 15 basis points to a level of 2.02%.

During the reviewed period, the U.S. dollar and the Swiss Franc strengthened significantly while the Euro weakened against most of the leading currencies in the world. The commodities index GSCI fell during the period by a rate of 1%, the trading in oil being characterized by high fluctuations. In total for the period the price of Brent oil rose by 7%.

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2 All the data in this chapter refer to the period from January 1, 2015 to March 2, 2015.

The indicators for economic activity in Israel, published in the said period, were mostly positive and the integrated index of the Bank of Israel rose in January by 0.3%. Concurrently, the employment market continued to improve and the rate of unemployment dropped to 5.6% (compared to 5.7% at the end of 2014).

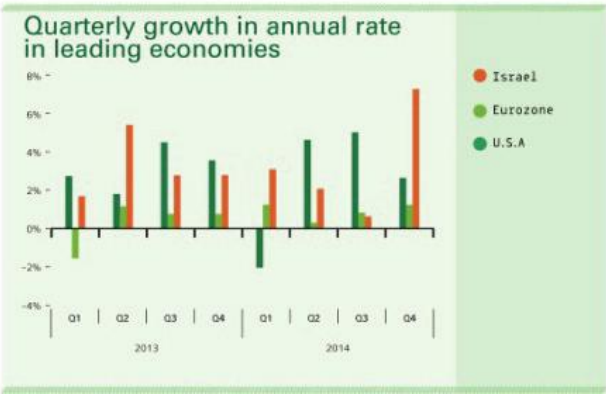
A surplus (seasonal) in the amount of NIS 5.3 billion was measured in January in the budgetary activity of the Government, and the cumulative deficit for the last twelve months amounted to 2.6% of the product. It is noted, that in the absence of an approved budget (on the background of the dissolution of the Knesset at the end of 2014), the monthly expenditure of the Government has been restricted to one-twelfth of the budget for 2014.

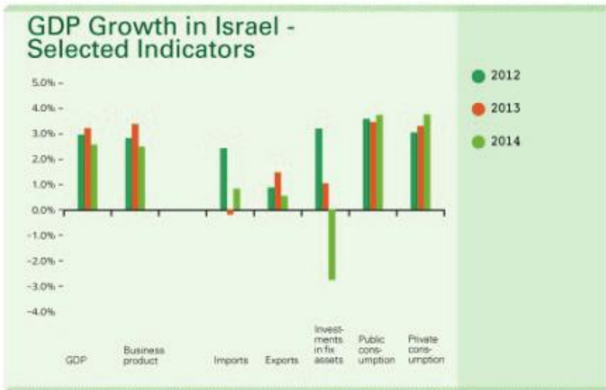
The inflationary environment continued to be negative and the annual inflation in January amounted to minus 0.5%.

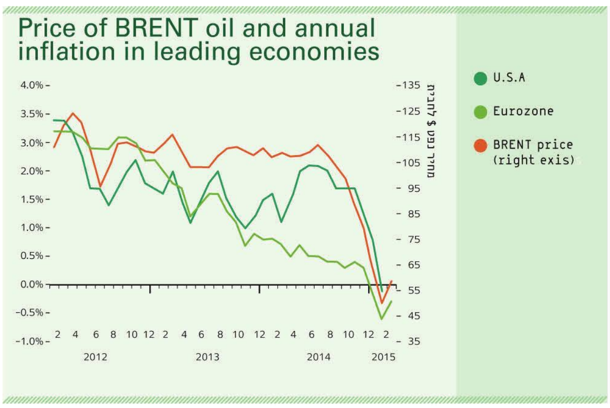
Until February 23, the Shekel gained ground against most of the leading currencies in the world and in particular against the Euro and the U.S. dollar, by rates of 7.7% and 0.8%, respectively. Further on, on the background of the lowering of the Bank of Israel interest rate, the Shekel weakened so that in total for he period the Shekel weakened against the U.S. dollar by 2.5% while against the Euro it strengthened by 5.5%.

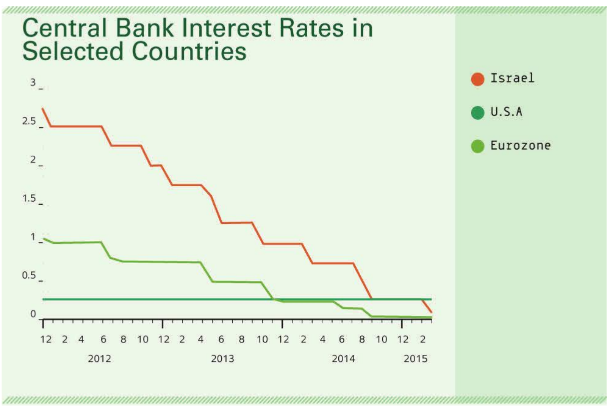
The monetary policy continued to be expansionary, the interest rate for February remaining unchanged while the interest rate for March was surprisingly lowered by 0.15% to a level of 0.1%. The factors supporting the lowering of the interest rate were, mainly, the appreciation of the Shekel and its possible impact on the economic activity and inflation.

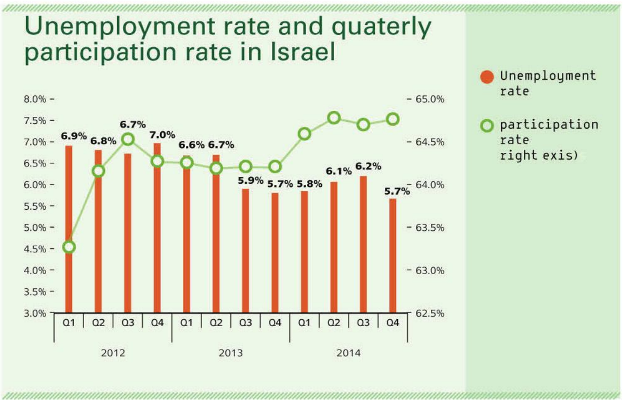
Share prices on the Tel Aviv Stock Exchange recorded fluctuation and in total for the period the TA 100 index and the TA 25 index rose by 5.3% and 4.7%, respectively. The long-term non-linked government bonds recorded a steep decline in returns (to new low levels), in particular the return on bonds for ten years declined to 1.61%, opening a negative return gap as against the U.S.. It is noted, that during the period the Tel-Bond 60 index recorded a decrease in returns, reducing the spread against government bonds.

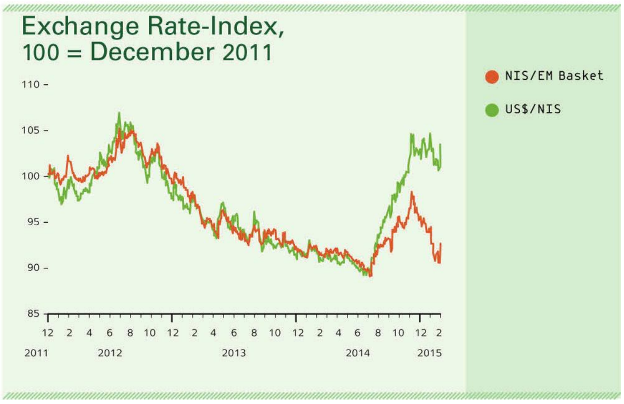


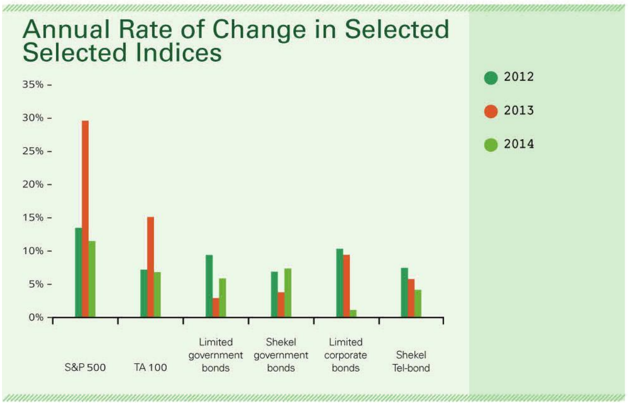


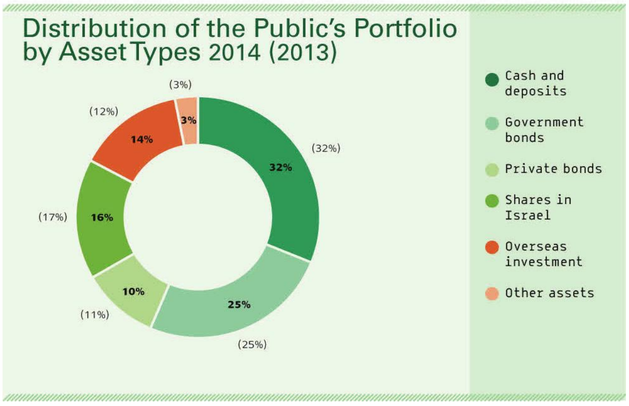












LEGISLATION AND SUPERVISION

GENERAL

The Bank operates within the framework of Laws, Regulations and Directives, certain of which are exclusive for the banking industry, and others, though even not exclusive as above, do have an effect on certain sections of its operations. This framework is based mostly on the Israeli law and its various layers, however, the Bank's conduct in certain areas is also affected by the provisions of foreign law, to the extent that these have an extraterritorial effect relating to its operations.

The Banking Ordinance, various banking laws and the Proper Conduct of Banking Business directives issued from time to time by the Supervisor of Banks, constitute the central legal basis for the operations of the Bank Group. These, among other things, define the limits of the Bank's operations, the permitted operations of subsidiaries and companies related to the bank and the terms for owning and controlling them, the relations between the Bank and its customers, the use made of the Bank's assets and the mode of reporting to the Supervisor of Banks and the public as to the Bank's said operations.

Alongside these, the Bank is subject to a wide legislation that regulates its capital market operations both on behalf of customers and on its own behalf (for example: investment consulting and customer portfolio management, pension consultation, mutual investments funds, the overall activities of provident funds and restrictions on insurance business activity).

Additional legislation as regards special subjects imposes on banks, including the Bank, specific duties and rules. Thus for instance, the legislation relating to the prohibition of money laundering and the prohibition of financing of terror activities, the credit data law, legislating relating to housing loans, guarantees, etc.

In addition to these, a supplementary legislation exists, which because of its connection to the Bank's operations, has a considerable implication on the way the Bank is being managed. In this respect it should be mentioned, among other things, the debt execution laws, liquidation and receivership laws, laws relating to specific economic sectors (local authorities, mortgagees, the agricultural sector) and various tax laws.

The Bank's and its subsidiaries' operations are subject to supervision and audit by the Supervisor of Banks as well as by other supervisory authorities regarding specific fields of operations, such as the Securities Authority and the Commissioner of the Capital Market, Insurance and Savings at the Ministry of Finance. These entities perform, from time to time, audits at the Bank and its subsidiaries relating to various fields of operation.

The Bank and its subsidiaries are taking steps towards complying with the duties imposed upon them under the said provisions of the law.

A monetary sanction by most of the laws applying to the Bank's operations exists, in respect of violations of the provisions of the laws and secondary legislation (including guidelines and circulars) issued or to be issued under them.

Following is a summary of legislation changes and relevant legislation initiatives during the reported period, which have a significant effect or might have a significant effect on the Bank's operations.

In view of the dissolution of the 19th Knesset, it is not possible to evaluate whether the continuity rule will apply to the following proposed Bills, and accordingly, whether the process of legislation will continue.

BANKING LAWS

THE BANKING ACT (LEGISLATION AMENDMENTS)

On March 19, 2012, the Banking Act (Legislation amendments), 2012, was published in the Official Gazette, intended to regularize the activities of a banking corporation that does not have a core controlling interest therein.

Within the framework of the law, special instructions have been determined in the matter of appointment of directors, their tenure of office and termination of office, which apply to a banking corporation not having a core controlling interest. Among other things, an instruction has been determined according to which voting on the appointment of directors shall take place only at the annual meeting of shareholders or at a meeting of shareholders convened with the approval of the Supervisor of Banks; an instruction limiting to three years the period of office of a director who is not an external director, and to nine years on a cumulative basis, of the period of office of such a director; and an instruction according to which the number of directors who are to be replaced in each year shall not exceed one half of the number of the acting directors.

According to the Law, a statutory committee is to be established for the appointment of directors in a banking corporation. In the case of a banking corporation not having a core controlling interest, the committee shall propose candidates at each general meeting of shareholders for office as directors, in a number equal to the number of open positions on the board of directors plus one more candidate of each class.

In the case of a banking corporation not having a core controlling interest, candidates for office as directors may be proposed to the general meeting of shareholders by the committee as well as by anyone holding more than two and one half percent of a certain class of means of control in the corporation, and by a group of holders numbering two or three holders, each one of them holding over one percent and not more than two and one half percent, and together not less than two and one half percent and not more than five percent, of a certain class of means of control (hereinafter : "group of holders").

A shareholder holding more than one percent of a certain type of means of control of a banking corporation not having a core controlling interest, is required to report his holdings to the banking corporation and to the Supervisor of Banks, and the banking corporation is required to report to the public any shareholder holding over two and one half percent of a certain class of means of control in the banking corporation. The duty to report to the public shall apply also in the case of a shareholder holding more than one percent and up to two and one half percent of a certain class of means of control in the banking corporation, if the said shareholder

agreed to such reporting to the public, and if he refuses to be reported, he shall not be permitted to join a group of holders for the purpose of proposing to the general meeting of candidates for office as directors.
The Bank`s articles have been amended following the Act, in order to modify them to the possibility that the Bank would operate as a banking corporation having no core controlling interest. (For details regarding the amendment of the Bank's articles, see "Amendment of the Bank's Articles - Instructions regarding the appointment of directors" in "Board of Directors and Management").

DOCUMENT OF PRINCIPLES REGARDING THE DECENTRALIZATION OF THE CORE CONTROLLING INTEREST IN A BANK

On July 11, 2013, the Supervisor of Banks published a document of principles regarding the decentralization of the core controlling interest in a bank. The document is intended to regularize the process of sale of the core controlling interest of a bank in a decentralized manner, so that following the sale the bank will operate with no core controlling interest. The principles are designed to ensure that the former controlling shareholders will not continue to control the bank in practice, despite the withdrawal of the control permit, considering the fact that during the transitional period the former controlling shareholders may hold a significant rate of means of control in the bank. The document of principles determines various restrictions applying to the rights of the controlling shareholders in the transitional period in which the core controlling interest will be decentralized, among other, regarding the acquisition of means of control, the appointment of directors and the distribution of dividends. The document states the general principles for the decentralization of the core controlling interest of a bank, though any approach in the matter will be examined by the Supervisor on its own merits for the purpose of granting a specific holding permit for the transitional period until the decentralization of the core controlling interest.
For convenience purposes, the principles document is available on the Bank's Internet site.

BANKING ACT (SERVICE TO CUSTOMER)(AMENDMENT NO.19)(NOTICE TO THE CUSTOMER AS TO THE INSTIGATION OF ACTION WITH RESPECT TO A LOAN), 2012

The Act was published on the Official Gazette and entered into effect on September 10, 2014. According to the Act, a banking corporation shall not demand the immediate repayment of a loan and shall not institute legal proceedings against a customer in respect of non-compliance with the terms of a loan, unless notice in writing of such action is delivered to the customer, by personal delivery, at least 21 business days prior to taking action. In this notice, the bank has to detail the outstanding balance of the debt, the rate of interest on the loan, the amount in arrears and the manner of its computation and the commissions charged in respect of its immediate repayment. A banking corporation is not required to deliver a notice, as stated, if the delivery of such notice creates a real concern of damaging the collection ability of the banking corporation.
See also details regarding the amendment of Proper Conduct of Banking Business Directive No. 453.

DRAFT AMENDMENT TO SECTION 9A OF THE BANKING LAW (CUSTOMER SERVICE), 1981

On July 29, 2014, the Banking Supervision Department published a draft amendment to Section 9A of the Banking Law (Customer Service), 1981, whose main provision is to obligate a banking corporation to ensure the cancellation of a pledge, mortgage or caveat, in the event of a customer settling all its debts, for the secure of which the aforesaid were created; obligating the banking corporation to bear the cost of the fee for canceling the caveat in the aforesaid situation.
Implementation of the provisions of the amendment, should it be enacted, will necessitate making complex computerized arrangements and will involve future expenses that may have to be borne by the Bank.

ANTITRUST

EXEMPTION FROM A BINDING ARRANGEMENT WITH RESPECT TO THE HOLDING AND JOINT ACTIVITY WITHIN THE FRAMEWORK OF ABC AND BCC

Following a new and comprehensive examination the Antitrust Commissioner decided, on November 5, 2008, to grant a conditional exemption from a binding arrangement in respect of the arrangement regarding the joint holdings and operations of the five large banks in Automatic Bank Services Ltd. ("ABS") and Bank Clearing Center Ltd. ("BCC"). The exemption was in effect for three years from date of the Commissioner's decision.

The exemption was provisionally extended in November 2011, March 2012, May 2012, September 2012 and May 2013. On August 26, 2013, ABS was granted an exemption for a period of three years, in which was determined, among other things that ABS has to sign until October 20, 2013, an agreement for the sale of all the ATM machines owned by it (for details regarding the sale of operations, as stated, see "Developments in the segment" under "Financial management segment" in "Activity of the Group according to principal segments of operation"). Furthermore, as from October 1, 2015, ABS has to make available for use the technological interface providing information gathering and confirmation services and interface services, which would be developed and integrated into its systems and into a credit software to be developed by it in accordance with all its obligations and according to determined principles, and everything with a view of removal of the entry barriers to the clearing and issuing markets.

The Commissioner extended on March 21, 2013, the exemption granted to BCC for a period of three years. Within the framework of the said extension, it has been determined that the banks and the BCC shall take any action required in order to allow every banking corporation being a member of the inter-bank clearing house related to the Bank of Israel and to its customers, access to clearing services for debits and credits and to bank document transfer services provided by the BCC. Access shall be given under terms that will not be less attractive than those provided by the BCC to the banks. It has been further determined that commissions in respect of the services as above, charged by the BCC to each recipient of such services shall be identical, unless a difference exists in the direct cost of providing the service.

On May 5, 2014, Automatic Bank Services (ABS) and the banks applied to the Antitrust Commissioner with a request to amend the terms of the exemption from approval of a binding arrangement granted on August 26, 2013, so that an additional field of operation would be added to the definition of fields of activity of ABS – namely, assisting services for improving the protection against cyber attacks. The request follows a decision made recently, in coordination with Bank of Israel, to establish a cyber center by ABS, with a view of assisting the banking industry in Israel in facing cyber threats.

CONSORTIUM AGREEMENTS FOR THE GRANTING OF CREDIT

The Antitrust Commissioner informed on February 28, 2011, that she had reached the conclusion that the consortium arrangements for the granting of credit, made between banks and insurance companies and between themselves, should continue to exist, and she detailed the conditions, which subject to their existence, she does not intend to enforce the provisions of the Antitrust Law, 1988 upon the said arrangements. The announcement extends the effect of prior announcements issued by the Commissioner with respect to the consortium arrangements, with certain changes, for a period of two years. The notice had been extended from time to time, the most recent one until December 31, 2015.

PROHIBITION OF MONEY LAUNDERING AND PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

PROHIBITION OF MONEY LAUNDERING

The Prohibition on Money Laundering Law, 2000 (hereinafter - "Prohibition of Money Laundering Law") came into effect on August 17, 2000, under the power of which, Regulations and Orders have been enacted over the years. Also amended was Proper Conduct of Banking Business Directive No. 411, and the Supervisor of Banks issued clarifications and circulars in the matter. This set of legislation imposed upon banking corporations as well as on additional subsidiaries (like the company for Portfolio Management - Tafnit Discount Asset Management) identification, verification, reporting and record maintenance duties regarding customers and customer accounts managed by them. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

The Prohibition of money laundering Act (Amendment No. 10), 2012. On May 14, 2012, Amendment No. 10 to the Prohibition of Money Laundering Act was published, which relates mostly to the application of the money laundering rules also to traders in precious gems. This amendment entered into effect upon the publication of an Order applying to traders in precious stones. The order was published on September 15, 2014 (see hereunder).

Prohibition of Money Laundering Act (Amendment No. 13), 2014. The Amendment was published on the Official Gazette on August 7, 2014. The principal of the Act is applying a money laundering prohibition regimen on providers of business services, lawyers and public accountants, as detailed in the Order to be published in this respect. The provisions of the Act will become effective upon entry into effect of the said Order.

Prohibition of Money Laundering Order (Duty of identification, maintenance of records by a provider of business services for the prevention of money laundering and the finance of terror), 2014. The Order was published on the Official Gazette on December 2, 2014. Among other things, the Order imposes upon lawyers and public accountants providing business services (as defined in the Act), the duty of identifying their clients, performing a "know your client" process, and the maintenance of records. The Order does not include the duty of reporting to the Israel Money Laundering and Terror Financing Prohibition Authority. The Order will enter into effect nine months after the date of its publication on the Official Gazette.

Prohibition of Money laundering (Obligation for identification, reporting and maintenance of records by banking corporations for the prevention of money laundering and the finance of terror)(Amendment), 2014. This amending Order was published in the Official Gazette on February 2, 2014. It deals with a series of amendments to the Banking Order, the principal of which are instructions regarding identification of the parties to bank transfers abroad, additional and more extensive instructions regarding the maintenance of documents and the data base established under the Prohibition of Money Laundering Act, as well as changes in the reporting criteria regarding unusual transactions in activities, which according to the information in the hands of the bank, raise suspicion that it might be connected to forbidden operations under the Prohibition of Money Laundering Act or under the Prohibition of the Finance of terror Act.

Except for a number of instructions, most of the instructions of the amending Order came into effect after the end of six months from date of its publication.

Prohibition of Money Laundering Order (Obligation of identification, reporting and maintenance of records applying to a trader in precious stones to prevent money laundering and the financing of terror), 2014. The Order was published on the Official Gazette on September 15, 2014. The Order applies the prohibition of money laundering and the financing of terror regimen on traders in precious stones, in respect of types of transactions in precious stones defined in the Order. The Order will impose upon the precious stones trader market the duties of identification, recording, verification and recognition of the customer, as well as the duties of checking against a list, determination of a policy, classification of customers according to risk and reporting to the Israel Money Laundering Prohibition Authority. The duties of identification, recording, verification, recognition of the customer, safekeeping of documents, etc. will take effect at the end of twelve months from date of publication of the Order in the Official Gazette. The duty of reporting will take effect at the end of twenty-four months from date of publication of the Order in the Official Gazette. The Prohibition of Money Laundering Act (Amendment No. 10), 2012, entered into effect upon the publication of the Order, which relates mostly to the application of the money laundering regimen also to traders in precious stones.

Prevention of Infiltration Act (Felonies and judgment) (Provisional instruction), 2013. The Provisional Instruction prohibits an infiltrator from transmitting funds out of Israel for as long as he resides in Israel and permits him to take property out of it only when leaving the country, and that only at the value determined in the Provisional Instruction. The Provisional Instruction determines as a felony the transition of funds against the law by an infiltrator or on his behalf. The Provisional Instruction came into effect on September 13, 2013, and will remain in effect until December 11, 2016.

Prevention of Money Laundering (Provisional instruction), 2013. The Provisional Instruction establishes as a predicate offence, the felony of transmitting funds out of Israel on behalf of an infiltrator. The Provisional Instruction came into effect upon entering into effect of the provisional instruction relating to the amendment for the prevention of infiltration on September 13, 2013, and shall remain in effect until June 11, 2015.

A joint announcement to the public made by several Regulators regarding the possible risks involved in decentralized virtual currencies. On February 19, 2014, a joint announcement to the public was made by the Bank of Israel, the Capital Market Insurance and Savings Department at the Ministry of Finance, the Taxation Authority, the Israel securities Authority and the Israel Money Laundering and Terror Financing Prohibition Authority, in the matter of the possible risks involved in decentralized virtual currencies (such as BitCoin). The announcement contains a recommendation to those who consider the use of decentralized virtual currencies to understand the characteristics of such currencies and to be aware of the unique risks inherent in their use, as well as exercise extra care and alertness. In addition, the announcement states that the said activity has a high risk coefficient regarding money laundering and the finance of terror, and therefore, banking institutions have to consider these factors within the framework of their risk management policy, including in regards to the reporting to the Israel Money Laundering and Terror Financing Prohibition Authority.

Banking Act (Customer Service) Bill (Amendment No.), 2014. The Supervisor of Banks published the above Bill on March 26, 2014, according to which refusal on the part of a banking corporation to provide services as stated in Section 2(a) of the Banking Act (Customer Service), 1981, shall be considered reasonable with respect to this Section also in one of the following cases: (1) if the refusal results from the customer's reluctant to provide details required under the law and in particular under the Prohibition of Money Laundering Order (Duty of identification, reporting and maintenance of records by providers of currency services for the prevention of money laundering and terror financing) (Amendment), 2001, and Directive No. 411; (2) if the refusal is based upon a reasonable assumption that the transaction involves money laundering or the finance of terror activities.

Prohibition of Money Laundering Bill (Amendment No. 13), 2014. On July 21, 2014, the Knesset approved the Bill in first reading. The object of the amendment is to authorize the Registrar of Currency Services Agents and the Supervisor acting on his behalf, to deliver to the enforcement and investigation authorities, documents that had reached them in the line of their duty, if they are of the opinion that this is required for criminal proceedings. The Bill will be transferred to the Constitution, Law and Justice Committee of the Knesset for preparation for a second and third reading.

Prohibition of Money Laundering Order (Duty of identification, reporting and maintenance of records by currency services agents for the prevention of money laundering and the finance of terror), 2014. The Order was published on the Official Gazette on June 30, 2014. The Order states new procedures for currency services agents with respect to the duty to identify customers, the recording of transactions and the reporting of a part of the transactions to the Israel Money Laundering and Terror Financing Prohibition Authority. This Order abolishes the previous Order in the matter and will enter into effect nine months after date of its publication.

PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

The Prohibition on Terror Financing Law, 2005 (hereinafter: "Prohibition on Terror Financing Law"), came into effect at the beginning of August 2005 and further on was amended several times. This Law specifies directives prohibiting the finance of terror activities, and various regulations and orders have been enacted under it imposing on banking institutions additional duties of identification and examination of customers based on published lists of terrorist organizations and activists. Furthermore, criminal sanctions and the authority to impose sanctions as well as the forfeiture of funds have been determined with respect to violation of the law and related regulations.

Struggle against the Nuclear Program of Iran Bill, 2012 (hereinafter : "the Struggle Act"). The Act was published in the Official Gazette on August 5, 2012.

In accordance with the Act, the Committee of Ministers (established under it) has been empowered to declare a foreign entity as assisting Iran in the promotion of its nuclear program (hereinafter : "a foreign assisting entity") and such a corporation maintaining business relations with Iran (hereinafter : "corporation maintaining business relations with Iran"). Once so declared, the Act states a set of prohibitions relating to engagement with such parties as well as reporting duties and felonies constituting predicate offences.

The Struggle Act abolishes the Prohibition on Investments in Corporations maintaining Business Relations with Iran Act, 2008, and replaces it. The above provisions of the Struggle Act shall enter into effect upon entry into effect of the Struggle Regulations (see below). Furthermore, amendments to the Trading with the Enemy Ordinance were made by power of the Struggle Act, including intensification of the punishment for the felony of trading with the enemy. The amendments to the Trading with the Enemy Ordinance took effect upon publication of the Struggle Act.

The Struggle against the Nuclear Program of Iran Regulations (Issue of notices and work procedures), 2013. The Constitution, Law and Justice Committee of the Knesset approved the said Regulations on October 15, 2013 (above and hereunder : "the Struggle Regulations"). The Struggle Regulations deal with the procedure, mechanism and declaration of a foreign entity as a factor assisting and an entity maintaining significant business relations with Iran. The Regulations were published in the Official Gazette on March 31, 2014, and entered into effect on April 10, 2014. With this entry into effect, the relevant parts of the Struggle against the Nuclear Program of Iran Act, 2012, also entered into effect.

THE COMPANIES LAW AND CORPORATE GOVERNANCE

COMPANIES ACT (AMENDMENT NO. 20), 2012

On December 12, 2012, the Companies Act (Amendment No. 20) Bill, 2012 (the "Amendment") in the matter of the terms of office and employment of officers at public and corporate bonds companies, entered into effect. The Amendment is based on the recommendations of the Neeman Committee, established to examine private bills proposing the reduction in remuneration differentials in the economy. The Amendment imposes the duty on public companies to establish a remuneration committee and of adopting a policy with respect to the terms of office and engagement of company officers within nine months since date of the Act entering into effect, which, among other things, would relate to considerations and criteria detailed in the Amendment.

Within the framework of such considerations, a company should relate, among other things, to the objects of the company, attainments of goals, risk management, the officer's contribution to profits maximalization, the qualifications of the officer, remuneration differentials between officers and other employees and their effect on labor relations in the company, as well as the possibility of determining a ceiling for variable components. In addition, instructions have been determined in respect of considerations to be taken into account in determining retirement awards, as well as instructions regarding variable components comprising a part of the remuneration.

In accordance with the provisions of Amendment No. 20, the terms of office and employment of officers of the Bank require approvals, as detailed below: officers, excluding directors and/or the President & CEO, whose terms of office and employment are in line with the

remuneration policy, require the approval of the Remuneration Committee and of the Board of Directors. Terms of office and employment of officersthat deviate from the remuneration policy require approval of the general meeting of shareholders by a special majority vote of shareholders who are not controlling shareholders, or who do not have a personal interest ("special majority vote").
The terms of office and employment of the President & CEO require the approval of the Remuneration Committee, the Board of Directors and of the general meeting of shareholders by special majority vote.
The terms of office and engagement of directors require the approval of the general meeting of shareholders by regular vote, unless these terms deviate from the remuneration policy, requiring approval of the general meeting of shareholders by special majority vote.
The Board of Directors may approve the terms of office and employment even if the general meeting of shareholders opposed their approval, provided that the Remuneration Committee and the Board of Directors resolve, on the basis of reasoned arguments, that approval of these terms, despite the opposition of the general meeting of shareholders, is for the benefit of the Bank.
As a result of the Amendment, the Board of Directors has established a remuneration committee, the composition of which complies with the requirements of the Amendment. For details regarding the approval of the remuneration policy with respect to the Bank`s officers, see "Remuneration policy for officers of the Bank" under "Remuneration of interested parties and senior officers and transactions with controlling shareholders" below.

For details regarding certain updates in taxation, see Note 29 to the financial statements.

U.S. LEGISLATION

Dodd Frank

A wide reform – the Dodd-Frank Wall Street Reform and Consumer Protection Act – was approved in the U.S. in July 2010. The Reform regulates the operations of banks and financial institutions in the U.S., as well as regulating the activity of financial institutions operating outside the U.S., the operations of which may be related to the U.S., including, among other things, as providers of financial services to Americans, or as operating through American brokers or having activity with American counterparties, etc.
Parts of the Reform have an influence on various activities of the Group, such as the Bank's dealing room operations in everything relating to activities having a U.S. relationship as stated. The dates of implementation of the legislation vary according to the various requirements stemming from the Law, as detailed below.
Following are several fields included in the reform:
Living Will. As part of the Reform, it is determined that foreign banking organization (FBO), the global total assets of which on a consolidated basis is in excess of US$50 billion, and which operate in the U.S., to prepare and submit to the U.S. authorities a plan of action, in respect to their entities operating in the U.S., a plan of operation - "living will" - in the case of insolvency of the parent company.
A plan of action, as stated, was submitted to the U.S. authorities at the end of December 2013 for the year 2012. The Bank is required to resubmit an updated plan of action in each year. An updated program for the year 2013 was submitted to the U.S. authorities in December 2014.
Volcker Rule. The Volcker Rule has been enacted within the framework of the Dodd Frank Reform, which, among other things is intended to restrict the activity of banks to "traditional" banking operations (the granting of credit and similar activities) and to prevent their exposure to risks related to investment activity having a higher risk potential. The two central restrictions imposed on financial institutions under the Volcker Rule are the prohibition on propriety trading in derivatives, securities and other instruments, and the prohibition on sponsoring activities or on investment in private equity funds, hedge funds and such, all this where a "U.S. factor" is involved in any of the above mentioned activities.
The instruction entered into effect on July 21, 2012, granting a period of two years for its implementation, until July 21, 2014. Final provisions of the Instruction were published in December 2013, within the framework of which the period of preparation was extended

to July 2015. At the beginning of 2014, the period of preparations in respect of everything relating to existing investments by banking institutions in funds, was extended to July 2016. It is expected that during the period of preparation the financial institutions will devise a plan of action for the implementation of the instruction, in order to be ready for its full implementation at the end of the period. A legislation amendment was passed in December 2014, which defers for another year the implementation of a part of the Directive in the matter of separation of financial institutions from existing investments in funds. The Bank has begun preparations for the implementation of the instruction.

Swap Rule. Constitutes legislation intended to regularize trading in non-marketable derivatives (OTC). According to this legislation, large participants in the market, considered "swap dealers" or "major swap participants", as such terms are defined in the legislation, will have to register with the U.S. authorities (SEC, CFTC). According to an examination made by the Bank, as of 2012, with respect to its derivatives operations, the Bank is not required to register, as stated. Another part of the legislation with respect to trading in non-marketable derivatives relates to changes in the manner of effecting the trade and clearing of transactions of this kind through engagement with a third party, who would perform the central clearing (CCP). The duty of central clearing in respect of certain derivatives with U.S. counterparties entered into effect in the course of 2013. In addition to the reform in the U.S., a parallel reform exists in Europe (EMIR), which is expected to take at the end of 2015. The Bank is in an advance stage for the implementation of the EMIR reform with respect to everything relating to the central clearing of derivatives, including the operational and computer system changes that would be required in order to implement the legislation, to the extent that this would apply to the Bank's operation in derivatives.

FRB Assessments for Large Financial Companies. The U.S. Federal Reserve Bank issued in August 2013 an instruction according to which certain financial institutions included in the instruction (domestic and foreign) would be required to make an annual payment to the Federal Reserve Bank in respect of expenses incurred in the supervision of their operations. According to the criteria in the instructions, Discount Bank, as a bank holding company with total assets (on a consolidated basis) of over US$50 billion, is subject to the instruction and to the payment under it. The first notice of payment in respect of the year 2012 was delivered to the Bank at the end of 2013. A notice of payment in respect of 2013 was delivered to the Bank in June 2014.

For details regarding changes in U.S. tax legislation, see under "Taxation" below.

Section 165 - Enhanced Prudential Standards Final Rule. The U.S. Federal Bank issued in February 2014 instructions regarding the implementation of enhanced requirements relating to the supervision over bank holding corporations in the U.S., as well as over foreign banks operating in the U.S. including, among other things, enhanced requirements as to liquidity, equity capital and risk management. The Bank began to examine the implications of the said legislation upon the Bank and upon IDB New York. The instruction will enter into effect in July 2016.

VARIOUS LEGISLATION MATTERS

BILL INTENDED TO PROMOTE COMPETITION AND REDUCE CONCENTRATION, 2012

The Concentration Act, which is based on the recommendations of the Committee on Increasing Competition in the Economy, was published on December 11, 2013. The Act prescribes arrangements, which enter into effect on different dates. Within the framework of the Act instructions have been determined the aim of which is to create a separation between whoever controls a significant nonfinancial asset and whoever controls a significant financial asset. According to these provisions, a significant nonfinancial corporation as well as whoever holds over 5% of a significant nonfinancial corporation may not hold over 10% of a significant financial institution, and if that institution is a banking corporation not having a core controlling interest, a rate which is not in excess of 5%. In additions, restrictions have been set on simultaneous office of directors in significant nonfinancial corporations and in significant financial institutions.

According to the Act, a significant financial institution is a financial institution the total assets of which and of entities under its control and under the control of whoever controls the financial institution, exceed NIS 40 billion. The Act states that a list of significant financial institutions and of significant nonfinancial institutions will be published by the Concentration Committee.

The provisions of the Act include instructions the aim of which is to restrict the ability to control through pyramidal structures, in which a difference exists between the rights of the controlling shareholder in the equity and his voting rights. Furthermore, the Act includes amendments to the Companies Act applying to the procedures for approval of transactions made by public corporations with their controlling shareholders. According to these instructions, audit committees are charged with the duty to conduct a competitive process for the approval of transactions with controlling shareholders, and further duties have been imposed with regards to approval of transactions with controlling shareholders which are not negligible though not exceptional.

In addition, the Act includes instructions authorizing regulators to take into account competition and concentration considerations within the framework of processes for the allocation of assets by the State for essential infrastructure.

The transition period for realizing the restrictions on prohibition of holdings is six years. The Act is expected to have an effect on central factors in the economy, including the banks and their controlling shareholders.

The Committee for Minimizing Centralization issued in December 2014 the list of centralized bodies in the market.

For details regarding the report of the team for examining the increase in competition in the banking industry, including actions taken by the Supervisor of Banks for the implementation of the team's recommendations, see Note 35 to the financial statements.

For details regarding the possible implications of the Concentration Act on ICC, see "Credit Card Operations" under "Further details as to activity in certain products".

ACCESSIBILITY REGULATIONS – ACCESSIBILITY ADJUSTMENTS TO BUILDINGS AND SERVICES

Equal Rights to Handicapped Persons Regulations (Accessibility adjustments to a public place being an existing building) 2011, dealing with accessibility adjustments to public places being existing buildings, entered into effect in June 2012.

Equal Rights to Handicapped Persons Regulations (Accessibility adjustments to service) 2013, dealing with accessibility adjustments to services, entered into effect in October 2013.

In accordance with the Regulations, the Bank is required to make accessibility adjustments to buildings, infrastructure and the environment as well as accessibility adjustments to services provided by him to customers. The accessibility adjustments include, among other things, accessibility adjustments to approach ways, overcoming height differences, and providing restrooms and parking lots for the disabled, the Bank's internal design branches; the Bank's service desks; the automatic devices at the disposal of the Bank's customers; the information provided to the Bank's customers; the Bank's call center; the Bank's Internet website; signposts at the Bank; auxiliary instruments that the Bank has to provide to its customers.

The Bank is preparing to meet the requirements of the Regulations (see below "Accessibility" under "Fixed assets and installations").

THE UNIFORM CONTRACTS LAW (AMENDMENT NO. 5), 2010

The Amendment was published on the Official Gazette on December 17, 2014, and became effective upon its publication, except for items relating to the determination of additional discriminatory terms which would become effective one year from date of publication. The principal changes are:

- Determination of the following terms as discriminatory: a term which grants the supplier a remedy that is not granted to him by law, or that the addition of which is not permitted by law, or an agreed compensation in an unreasonable amount; a term stating that the customer is required to confirm that he has read the contract, or declare a commitment or awareness of a certain matter;
- Determination that the approval of a uniform contract by a Court of Law shall create only a prima facie presumption that the contract is not discriminatory;

- Retroactive application of the Court ruling in connection with a discriminatory term, so that it will also apply to contracts entered into prior to the date of the determination, as well as its application to "substantially identical" contracts of that supplier.

The Bank is examining the implications of the Amendment.

REMUNERATION OF OFFICERS OF FINANCIAL CORPORATIONS BILL

On July 28, 2014, the Knesset approved in first reading the Bill regarding Remuneration of Officers of Financial Corporations (Special approval and the non-deductibility tax wise of exceptional remuneration), 2014. Within the framework of the Bill, it is proposed that the annual remuneration of officers and employees in an amount that exceeds NIS 3.5 million ("maximum remuneration") would require a special approval mechanism by the remuneration committee, the board of directors with the support of a majority of the external directors, and the general meeting of shareholders by a special majority of the majority of the minority shareholders. It is further proposed to determine that salary in excess of NIS 3.5 million per year shall not comprise a deductible expense tax wise. The said maximum remuneration shall apply to all components of the fixed and variable salary. The provisions of the Act would apply to all remuneration approved as from date of publication of the Act and thereafter. As regards existing remuneration that had been approved prior to the date of publication of the Act, the provisions of the Act shall apply after one year from date of publication of the Act, while it is being clarified in the Bill that remuneration that had been approved prior to the date of publication of the Act, as above, would have to be reapproved until the end of that year. Notwithstanding that stated above, the amendment of the Income Tax Ordinance with respect to the provisions regarding the maximum compensation, which would be allowed as a deduction tax wise, shall become effective on January 1, 2015.

PUBLIC COMMITTEES

For details regarding the report of the team for examining the increase in competition in the banking industry, including actions taken by the Supervisor of Banks for the implementation of the team's recommendations, see Note 35 to the financial statements.

THE COMMITTEE EXAMINING THE REDUCED USE OF CASH IN THE ISRAELI MARKET

On May 26, 2014, the committee examining the reduced use of cash in the Israeli market (the "Locker Committee") published its report. On October 22, the Government approved the recommendations of the Locker Committee (hereinafter: "the Government decision"). Below are the principal recommendations, as amended by the Government:

- Cash used in transactions would be immediately limited to an amount of NIS 10,000, and thereafter to NIS 5,000;
- A cash transaction between private individuals would be limited to NIS 15,000;
- Limitation on the use of checks that had been endorsed more than once.

In addition, an outline promoting the use of advanced electronic means was formed, including among other things, the following recommendations:

- Expanding the use of immediate charge cards and of identified rechargeable cards. The Committee has formed an outline expanding the use of immediate charge cards and of identified rechargeable cards and reducing the commissions involved therein, including determination of a maximum period of three days for the crediting of the trading house by the credit card companies, and the authorizing by legislation of the Antitrust Commissioner to determine immediately separate cross commissions for transactions made through the use of an immediate charge card;
- Acceleration of the transition of the banking industry to the use of the "smart card", while employing the advanced protection standard "EMV";
- Promotion of the smart virtual purse serving as a cache for funds from various sources enabling the use of existing and future means of payment, as well as the promotion of the use of the digital check.

In addition, the Committee recommended to formulate regulations regarding providers of currency services ("PCS"), including the duty of obtaining a license (as different from the duty of registration existing at present). A new concept in this field is to be defined within the framework of the regulations: provider of credit services, who is a PCS engaged in activity requiring the granting of credit, including the discounting of checks, factoring and off banking loans. Stricter licensing and supervisory requirements would apply to providers of credit services compared to the requirements applying to PCS.

Two Bill Memorandums were published in January 2015 following the Government's resolution:

Electronic Clearing of Checks Bill Memorandum, 2015. The principal points of the Bill Memorandum are: Regulation of the electronic clearing of checks by the banking industry instead of the physical presentation of the checks, regulation of the return of dishonored checks to the customer, regulation of the admissibility of a computerized check in legal proceedings, authorization of the Governor of the Bank of Israel to introduce rules in the matter of electronic clearing and in the matter of the safekeeping of the physical check, as well as determination that the scope of responsibility of a bank towards its customers in accordance with any law, shall not change in view of the change in the clearing system.

Minimizing the Use of Cash Bill Memorandum, 2015. The principal points of the Bill Memorandum are:

- Prohibition on the payment and receipt in cash of an amount exceeding NIS 10,000 by a trader in a transaction for the sale of an asset, the granting of a service or the payment of wages, compulsory payments and fines;
- Prohibition on the receipt of an amount in excess of NIS 50,000 in cash by a person who is not a trader in consideration for a transaction as above;
- Prohibition on the payment of an amount in excess of NIS 10,000 in cash by a person who is not a trader in consideration for a transaction as above where the recipient of the amount is not a trader;
- Prohibition on the issue and receipt of a check in which the name of the beneficiary or endorsee, as the case may be, is not noted;
- Prohibition on the endorsement of a check without noting on the check the identifying details of the endorser;
- Limitation on the possibility of honoring a check being traded more than once, where the amount of the check exceeds NIS 10,000;
- Prohibition on the receipt in cash of an amount of NIS 50,000 and over, by a lawyer or certified public accountant in consideration for providing business service to a client.

Furthermore, conditions have been determined as regards the application date of the Act prior to increasing the availability of alternative means of payment to the public, among which: regulating the manner of transferring funds from an issuer to the clearing agent and from the clearing agent to the trading house in transactions of immediate debit; authorization by law of the Antitrust Commissioner to determine a separate cross-commission for transactions made by means of an immediate debit card; regulation of commissions in respect of immediate debit transactions; guiding lines to the banking industry with respect to immediate debit cards; as well as increasing the availability of the possibility to transact business through immediate debit using means as detailed in the Bill Memorandum.

It is proposed in the Bill Memorandum that the limitations shall be enforced, inter alia, on traders - by means of a monetary sanction, on an individual who is not a trader – by criminal offence, fraud offence, and by adding the Act to the Addendum to the Administrative Offences Act.

The application of the Act to Israeli citizens outside Israel is to be examined.

On February 8, 2015, the Government decided to approve the draft Bills for their first reading by the Knesset.

For details regarding several drafts of the instructions for the regularization of certain aspects of immediate debit cards activity, published by the Supervisor of Banks on February 10, 2015, see above under "Credit card operations".

THE COMMITTEE EXAMINING THE PROCESSES FOR THE FORMULATION OF DEBT ARRANGEMENTS IN ISRAEL

On July 3, 2014, the Committee appointed by the Minister of Finance and the Governor of the Bank of Israel ("the Endoran Committee") published an interim report for comments of the public. The committee published its final conclusions on November 16, 2014. The committee's conclusions relate to debt arrangements by corporations, which had issued bonds or corporations the amount of a loan taken by them from one or more financiers exceeds NIS 50 million.

The committee recommends two stages in the arrangement process: the first relates to the arrangement between the corporation and its bond holders the stage when the corporation regularly repays its debts and the second stage applies when the corporation does not repay its debts.

The committee recommends that where the second stage applies, creditors will have the option of not applying to the Court for insolvency proceedings if a majority of the creditors, holding 75% of the value of the debt not paid, agree to such option.

The committee recommends, among other things, that the Bank of Israel shall advise banks to determine various rules regarding the process of granting credit, pricing and granting of loans for a leveraged acquisition; the imposing of credit restrictions on a business group, so that a business group shall not be permitted to obtain credit in an amount exceeding 5% of the total business credit in the market; a reporting duty to the centralization committee shall apply in the case of credit exceeding 3% of the business credit in the market. Furthermore, the committee requests that a financial body will have the duty of determining internal restrictions on the leverage ratio of a borrower corporation.

The committee recommends that banking corporations should determine their own debt collection policy as regards problematic debts, debt arrangements and the writing-off of debts, taking into consideration the various components. The committee also recommends that a banking corporation shall report to the Bank of Israel any debt arrangement, within the framework of which a single borrower had waived a debt in an amount exceeding NIS 20 million.

The Supervisor of Banks published on February 1, 2015, draft amendments to Proper Conduct of Banking Business Directives and to the Reporting to the Public Directives, which are designed to implement the recommendations of the committee.

THE DIRECTIVES OF THE SUPERVISOR OF BANKS

ADVANCING THE DATES FOR SUBMISSION OF ANNUAL AND QUARTERLY REPORTS

The Supervisor of Banks issued on October 3, 2013, an amendment of the Public Reporting Directives according to which the annual report of a banking corporation shall be published within sixty days from balance sheet date (instead of the present ninety days, on the eve of publication of the amendment, with respect to a banking corporation standing at the head of a banking group) and a quarterly report within forty-five days from balance sheet date (instead of the present sixty days, on the eve of publication of the amendment). This in order to match the publication dates to those accepted in the U.S. and in order to improve the availability of the information to users of financial statements.

The advancement of the dates is applied gradually and shall terminate as from the 2015 annual report and thereafter and as from the quarterly report for the first quarter of 2016 and thereafter, so that for example: the annual report for 2014 is published until March 10, 2015, and the quarterly reports in 2015 shall be published within fifty days from balance sheet date. The Bank is preparing for the implementation of the instruction, as stated.

AMENDMENT OF PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 453 - THIRD PARTY GUARANTEES TO A BANKING CORPORATION

On April 23, 2014 the Supervisor of Banks issued an amendment of Proper Conduct of Banking Business Directive No. 453 in the matter of third party guarantees to a banking corporation according to which a banking corporation that wishes to bring a loan for immediate repayment, or to start legal proceedings against the borrower, has to deliver to the guarantor of the loan a notice in writing, by registered mail, 21 days in advance. The amendment will take effect on September 10, 2014.

PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 422 - THE OPENING OF A CREDIT BALANCE CURRENT ACCOUNT AND ITS MANAGEMENT

Proper Conduct of Banking Business Directive No. 422 was published on May 26, 2014. Most of the provisions of the Directive became effective on September 1, 2014 (except for certain items which became effective upon publication of the Directive and items that would become effective at a later date, as detailed below).

Section 2(a)(2) of the Banking Act (Customer Service), 1981, states that a banking corporation shall not unreasonably refuse to open and manage an Israeli currency current account. The Directive is intended to clarify what are the services comprising an integral part of the management of such account, and states that: allowing access to information regarding the account by means of the Internet and by means of a service station (in force from date of publication of the Directive), effecting payments by means of authorized charges, receiving a card for the withdrawal of cash (in effect as from September 1, 2014), and receipt of an immediate charge card (in effect from January 1, 2015), are included in such services. The Directive also states the cases in which a "reasonable refusal" claim in respect of the opening of a credit balance current account will not be admitted, and includes in such cases (with effect as from date of publication of the Directive): a case where the customer is limited, or strictly limited, or an especially limited customer, a customer under bankruptcy proceedings, or which in the past was under bankruptcy proceedings, a customer whose accounts had been foreclosed, a customer involved or who had been involved with another banking corporation in legal proceedings regarding the collection of a debt. It has been clarified that this is not a closed list of cases. Furthermore, the Directive stipulates guidelines referring to the examination of an application for the opening of an account and to the decision regarding such application, as well as the duties to provide explanations and publications regarding the services offered to customers in accordance with the Directive.

AMENDMENT OF PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE NO. 301 - BOARD OF DIRECTORS

On May 26, 2014, the Supervisor of Banks published an amendment to the Directive. According to the amendment, among other things, the Supervisor of Banks was, empowered to determine instructions regarding the gradual increase in the number of directors of a banking corporation that had become a banking corporation having no core controlling interest, until the number of fifteen is reached. The amendment becomes effective on date of publication.

In his letter dated June 25, 2014, the Supervisor of Banks informed the Bank, that by the power vested in him as stated, he approves a gradual increase of one additional Director for each of the next three annual general meetings of shareholders, so that the number of the Bank's Board members proximate after the coming annual general meeting of shareholders (2014) would be 13 Directors, and proximate after that of 2016 would be 15 Directors.

DIRECTIVE REGARDING "NON-BANKING BENEFITS TO CUSTOMERS"

Details regarding the draft directive were presented in the 2013 Annual Report (p. 201). On July 6, 2014, the Supervisor circulated an amendment to Proper Conduct of Banking Business Directives Nos. 403 and 470 with respect to "Non-banking benefits to customers". The amendment states, that as a general rule banks and credit card companies are not permitted to grant non-banking benefits, except in cases and under terms detailed in the amendment. In addition, the amendment states ways to improve fair disclosure with respect to the advertising of non-banking benefits.
The amendment entered into effect on January 1, 2015.

DRAFT UPDATE OF THE PROCEDURE FOR OPENING BRANCHES OF BANKING CORPORATIONS

The Supervisor of Banks issued on May 20, 2014, a draft proposal for the updating of the above procedure. According to the draft, it is suggested to update two formats for opening branches of banking corporations: the format of the permit for the provision of certain banking services, and the format of the permit for the opening of temporary branches. It is also suggested to add two new formats of permit: the permit format for the provision of partial banking services in a branch, and the permit format for the provision of mutual services within a banking group. In addition, it is proposed to withdraw the general permit granted to mortgage banks for the opening of temporary branches, and to withdraw the permit format for mortgage banks to operate a desk at a bank branch.

PROPER CONDUCT OF BANKING BUSINESS DIRECTIVE IN THE MATTER OF CUSTOMER COMPLAINTS

The Directive was published on October 2, 2014, and is intended to adopt Principle 9 of the G-20 High-Level Principles on Financial Consumer Protection issued by the OECD, with a view of improving the handling by the banking industry of complaints of the public.
Principal elements of the instruction: banking corporations to determine a policy for the handling of complaints by the public on a group basis, and accordingly establish a designated function for the handling of complaints by the public, headed by a public complaints commissioner. The Public Complaints Commissioner and his staff shall not undertake any other office, and they will have the status, resources and authority as required for the execution of their duties; the Public Complaints Commissioner will report material deficiencies to his immediate superior and to the compliance officer. He will also prepare periodic reports covering his work to be discussed by the Management and the Board of Directors; the public complaints commissioner shall submit a periodic report to the Supervisor of Banks regarding the treatment of complaints and of identified material deficiencies; the charter of service of the public complaints commissioner and a report summarizing his work would be made available to the public; the public complaints commissioner will have the authority to determine a monetary or other relief to a complaining customer following the clarification of the complaint, as well as recommend measures rectifying the deficiencies; The process of the handling of complaints by the banking corporation and by the Supervisor of Banks have been determined, including – the period of time for providing an answer; the complaining customer will be entitled to appeal to the Supervisor of Banks against the decision of the banking corporation; It has been determined that the clarification of a complaint by the banking corporation being complained against, is a condition precedent for the filing of a complaint with the Supervisor of Banks.
The new instruction shall become effective no later than April 1, 2015. The Bank is preparing for the implementation of the instruction.

THE DUTY OF INFORMING THE CUSTOMER WITH RESPECT TO INTEREST DIFFERENCES

In a letter dated January 15, 2015, ("the letter"), the Supervisor of Banks orderd banking corporations to provide the following with respect to the difference existing between the interest paid on deposits by standing order and the interest charged in respect of outstanding overdraft balances on bank accounts:

- In respect of customers wishing to deposit funds in a deposit account while having a debit balance on their current account – to strictly provide information regarding the said interest difference, prior to accepting funds in the deposit account, and to verify that proper procedures in the matter exist;
- As to customers who as of date of the letter have a debit balance on their current account while concurrently deposit amounts in a deposit account by means of a standing order – within sixty days from date of the letter, a bank has to communicate in writing with the customers, presenting to them the rate of interest payable on the deposit account and the rate of interest charged on the debit balance on their current account, as well as the difference between the two rates, both interest rates updated as of the date of delivery of the communication;
- Initiated approach – it has been clarified that a bank should not initiate an approach to customers, who at that time have a debit balance on their current account, with an offer to deposit funds in a deposit account.

At the beginning of 2015, the period of preparations in respect of everything relating to existing investments by banking institutions in funds, was extended to July 2016.

Details regarding additional new Proper Conduct of Banking Business Directives (or draft Directives) were also provided in the chapters "Description of the Activity of the Group According to Segments of Operation", "Exposure to Risks and Risk Management" and "Human Resources" above.

For details regarding an Income Tax Ordinance Amendment Bill in the matter of the enquiry by financial institutions as to the details of holders of accounts opened with them and the exchange of information between states, see "Taxation" hereunder.

ABUNDANCE OF LEGISLATION INITIATIVES

The year 2014, as its preceding years, was typified by an abundance of private law proposals (part of which supported by the Government) regarding the imposition of restrictions on banks (by law or by regulations under it) applying to various fields of activity, including: restrictions on the granting of credit, restrictions on the charging of commissions, restrictions on the payment and/or collection of interest, etc. These law proposals and other similar ones, if passed, might have a material adverse effect on the activities of the Bank and its subsidiaries and on their results of operations in the future. The Bank is not able to evaluate which of these law proposals will in fact be passed and what would be the scope of their effect.

The year 2014 was also characterized by an abundance of regulatory directives, both Proper Conduct of Banking Business Directives and various instructions regarding reporting to the public the issued by the Supervisor of Banks. To these were added instructions by the Commissioner of the Capital Market, Insurance and Savings of the Ministry of Finance and by the Securities Authority, as to issues under their control, and the decisions taken within the authority of the Antitrust Commissioner. The implementation of the various instructions requires, on more than one occasion, preparations involving the investment of resources, and sometimes it has a possible adverse impact on the income of banking corporations from various sources. The Bank expects that this state of affairs will also continue in the future. See above also, "Regulation risks" under "Exposure to risks and risk management".

ADDITIONAL ISSUES IN THE DESCRIPTION OF THE GROUP

STRUCTURE OF THE BANKING GROUP

The Bank's Group is composed of commercial banks in Israel and overseas and financial services companies. Total investment in the investee companies as at December 31, 2014, amounted to NIS 9.0 billion, compared with NIS 9.2 billion on December 31, 2013, a decrease of 1.9%.

Following is the distribution of net income (loss) by the Group's structure:

	Contribution to the Group's income		Contribution to the income after elimination[1]	
	2014	2013	2014	2013
	In NIS millions			
Banking Activity:				
Commercial banks:				
In Israel - the Bank (including branches overseas)	161	288	460	288
Mercantile Discount Bank	157	182	177	182
First International Bank	12	38	38	196
Overseas - Bank offices	60	138	175	138
Other Activities:				
Israel Credit Cards	95	92	95	92
Israel Discount Capital Market and Investments	93	114	93	114
Other financial services	18	22	18	22
Net income	**596**	**874**	**1,056**	**1,032**

Note:
(1) Disregarding certain components, see table under "Main figures from the consolidated financial statements".

MAIN INVESTEE COMPANIES

At the end of 2014, 17.35% of all assets in the consolidated balance sheet were assets of consolidated companies in Israel, and 20.83% were assets of overseas consolidated companies and branches. The contribution to the net income by the consolidated companies in Israel amounted to NIS 352 million in 2014 (NIS 411 million in 2013). The contribution to the net income by overseas consolidated companies amounted to NIS 60 million in 2014 (NIS 138 million in 2013), and the contribution to the net income by affiliated companies amounted to NIS 22 million in 2014 (NIS 38 million in 2013).

The total contribution by both domestic and overseas investees companies to the Bank's net results amounted to NIS 435 million in 2014, compared with NIS 586 million in 2013, a decrease of 25.8%.

Following are the main developments in principal investee companies.

Since March 13, 2014, the investment in FIBI is no longer stated by the equity method (for details see Note 6 D to the financial statements).

DISCOUNT BANCORP, INC.

Discount Bancorp, Inc. (hereinafter: "Bancorp") is a fully owned and controlled subsidiary of the Bank, which is a bank holding company, incorporated in accordance with the law of the State of Delaware. Bancorp is the 100% shareholder of Israel Discount Bank of New York (IDB New York), which is the largest Israeli bank operating overseas.

Pursuant to Bancorp's Certificate of Incorporation and By-Laws, IDB New York may not be sold by Bancorp unless the Bank has given its consent. The data presented hereunder in this section have been taken from Bancorp's audited financial statements.

	In US$ millions		
Balance sheet items	December 31, 2014	December 31, 2013	Change in %
Total assets	9,783	9,604	1.9
Total credit	4,924	4,448	10.7
Total deposits	6,595	6,474	1.9
Total equity	784	794	(1.3)
Ratio of total capital to risk assets	12.9%	13.9%	
Income statement items for the year	2014	2013	
Net income attributed to the shareholders	22	9	144.4
Return on equity	2.8%	1.1%	

For details regarding investments by IDB New York in mortgage backed securities, see "Development of assets and liabilities" above and Note 3 to the financial statements hereunder.

Distribution of dividend. In 2014, Bancorp distributed dividend to Discount Bank in a total amount of US$75 million (2013 – NIS 25 million).

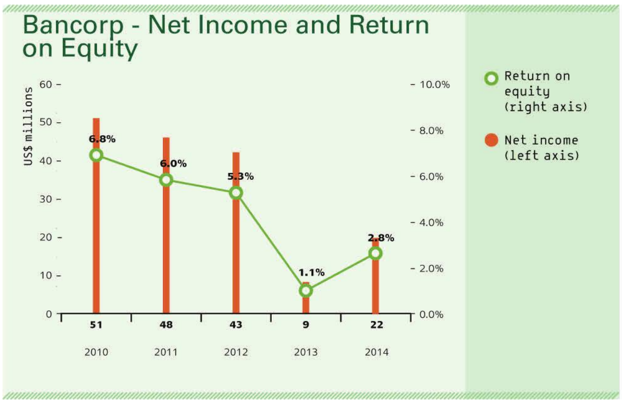
The sale of holdings in DBLA. For details, see Note 8 A to the financial statements.

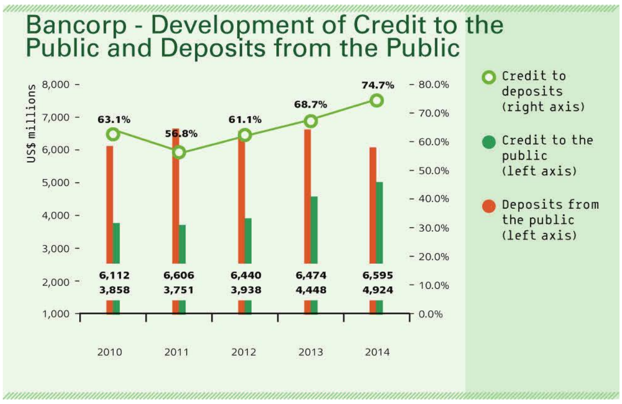
The Bancorp results for 2014 were affected by the decision to sell TRUPS class securities and by the signing of an agreement for the sale of the DBLA operations. For additional details, see "Securities" above and Note 8A to the financial statements. Eliminating the loss recorded by Bancorp as a result of the above, its profits for 2014 would have amounted to US$58 million.

The results of Bancorp for 2013 had been affected by the decision to sell DBLA. As a result of the said decision, a provision for taxes in the amount of US$28 million, was recorded in respect of the share of Bancorp in the earnings of DBLA for prior years, and due to the presentation of the investment in DBLA in the financial statements of Bancorp as a discontinued operation, in consequence thereof, an expense of US$3 million in respect of the presentation at fair value of bonds in the portfolio of DBLA. With the elimination of the said amounts, the profit of Bancorp in 2013 would have totaled approx. US$ 40 million.

The contribution of the Bank's investment in Bancorp to the Bank's net results reached a profit of NIS 58 million in 2014 (after deducting a provision for taxes of NIS 25 million), compared with NIS 147 million in 2013 (including an addition in respect of tax savings of NIS 83 million).

The difference between the net income and the contribution to the Bank's business results in 2013 derived from the said provision for taxes in respect of the share of Bancorp in prior years' earnings of DBLA, payable to the U.S. Tax Authorities upon the sale of DBLA. According to a tax agreement between the Israeli Tax Authorities and the Bank in Israel, the taxes in respect of the said earnings had already been paid by the Bank in Israel, and accordingly, the said provision for taxes would be offset as provided in the said tax agreement.





MERCANTILE DISCOUNT BANK LTD.

Mercantile Discount Bank Ltd. ("MDB") is a fully owned and controlled subsidiary of the Bank.
At the end of 2014, MDB operated through 80 branches (similar to the end of 2013).

	In NIS millions		
Balance sheet items	December 31, 2014	December 31, 2013	Change in %
Total assets	28,520	28,446	0.3
Total credit to the public, net	18,915	17,792	6.3
Total deposits from the public	24,060	23,964	0.4
Total equity	2,026	1,931	4.9
Ratio of total capital to risk assets	14.6%	14.6%	
Income statement items for the year	2014	2013	
Net income attributed to the shareholders	157	182	(13.7)
Return on equity	7.9%	9.7%	

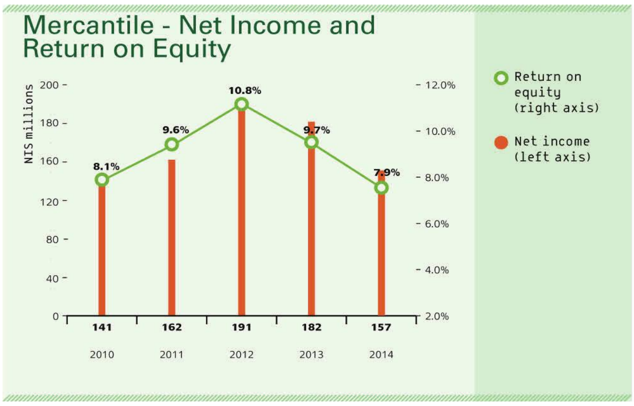
The ratio of capital to risk assets. On January 28, 2014, the Board of Directors of MDB resolved that the total capital ratio of this bank shall not fall below 12.5%.

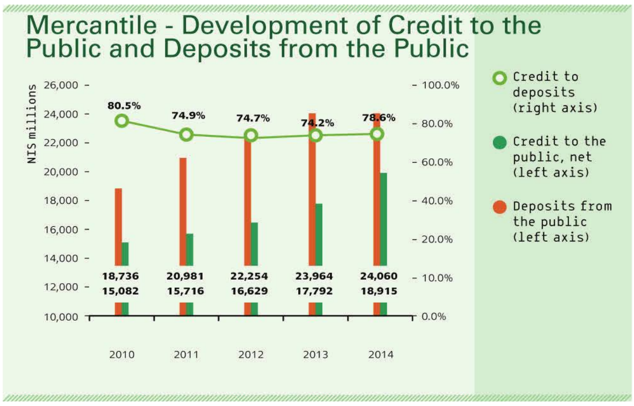
The principal factors affecting the business results. The decrease in income in 2014 was affected, inter alia, from an increase in the amount of NIS 78 million in interest income, net, and by a decrease in the amount of NIS 39 million in non-interest financing income, stemming mainly from a decrease in the amount of NIS 11 million in the gains on realization of bonds, from a decrease in the amount of NIS 8 million in income from the sale of an investee company and from a decrease in the amount of NIS 39 million in the gains on fair value adjustments of derivative financial instruments. The decrease in commission income of NIS 62 million also had an effect. On the other hand, a decrease in the amount of NIS 60 million was recorded in credit loss expenses, explained by high allowances recorded in 2013 with respect to a small number of business customers whose repayment ability deteriorated, as well as from the decrease in expenses for credit losses on a group basis, and an increase of NIS 50 million in other operating expenses, mainly derived from an increase in the amount of NIS 50 million in payroll expenses, mostly from expenses with respect to a retirement plan.

Distribution of dividend. In 2014 Mercantile Discount Bank has distributed a dividend in the amount of NIS 45 million (2013 – NIS 120 million).

Extending the operations of the back-office operating unit. Following the plan for business focusing and improving efficiency implemented by Mercantile Discount Bank (MDB) in the years 2011 and 2012, MDB has launched in 2014 a strategic plan that changes the operational concept of the bank branches and its head office operating units. Within the framework of this plan, certain operational activities previously performed by the bank`s branches, have been moved during 2014 and were concentrated in designated back-office operating units. The plan is designed to provide the bank with advantages regarding the operating and service field. Implementation of the plan involves changes in work procedures at the branches and in the back-office operating units, and involves investment of input required for the impartment of the new concepts and work procedures. Completion of the plan is planned for 2015.

For details regarding an appeal filed against the decision in the motion for a declaratory judgment in the matter of charging the debtor's account with violation interest, see Note 19 C item 12.6 to the financial statements. For details regarding lawsuits and motions for approval of the lawsuits as class action suits, in the matter of: the format for granting loans guaranteed by the State (a proceeding in respect of which a removal arrangement was approved in February 2015), commission regarding the handling of credit and collateral, the charging of a commission with respect to operations of conversion and transfer of foreign currency, a unilateral increase in the interest rate on credit taken within an approved credit facility, the charging of commission with respect to the transfer and handling of foreign currency, see Note 19 C, items 12.11, 12.14, 12.16, 13.2 and 13.5, to the financial statements.





ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of December 31, 2014, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC. At this date, the First international Bank held the balance of the rights in ICC.

A letter of understanding between the shareholders of ICC. The Bank and FIBI established a letter of understanding between them as shareholders of ICC, which is to regulate several issues, including: the distribution of dividends by ICC, entering into new issuance agreements, actions taken to increase the number of credit cards in use and assisting measures for the sale of the holdings of FIBI in ICC, in the event that FIBI would decide to realize it's holdings.

	In NIS millions		
Balance sheet items	December 31, 2014	December 31, 2013	Change in %
Total assets	10,263	9,545	7.5
Total equity	1,221	1,078	13.3
Ratio of total capital to risk assets	16.3%	16.2%	
Income statement items for the year	2014	2013	
Total Income	1,148	1,113	3.1
Net income attributed to the shareholders	141	132	6.8
The contribution to the Bank's business results	95	92	3.3
Return on equity	13.0%	12.1%	

The ratio of capital to risk assets. On February 27, 2011, the Board of Directors of ICC adopted a policy according to which, the total capital ratio to risk assets of the company shall not fall below a rate of 15%.

Distribution of dividend. During 2014, ICC distributed dividends in the amount of NIS 60 million (the Bank's share is NIS 43 million) (2013 – NIS 100 million and NIS 72 million, respectively; 2012 – NIS 291 million and NIS 209 million, respectively).

An additional distribution of dividend. The Supervisor of Banks informed ICC in December 2014, that an additional distribution of dividends shall be made with the prior coordination with the Supervisor.

Adoption of the strategic plan for 2015-2017. The Board of Directors of ICC approved on December 10, 2014, the strategic plan for the years 2015-2017. The plan is structured on two central layers – growth in the credit field and the reduction in costs, alongside preservation of the competitive capabilities in the realm of payments.

Implementation of the plan would lead to an operational model that would support attaining the goals of the plan, including: relying on advanced digital and technological platforms in order to support the realization of the business moves, educated risk management within the framework of the risk appetite as well as the development of human capital and organizational culture that would support the strategy.

The Management of ICC estimates that the implementation of the plan would lead to a growth of profits of the ICC group and would enable it to face in an optimal manner the challenges of the financial market in Israel in the coming years.

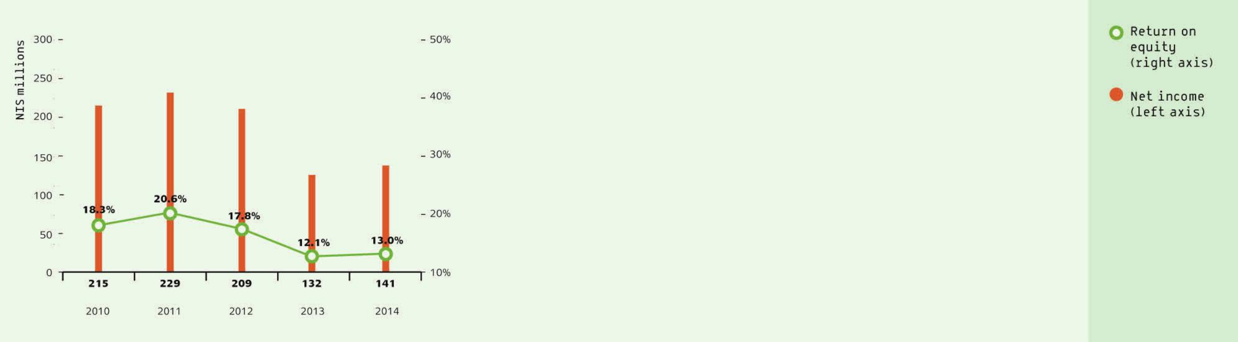
Integration of the strategic plan. Following the approval of the strategic plan, preparations for its integration have begun. In this framework, cross-organizational teams have been established for activation and implementation of the programs that would lead to a change in each focus matter. In addition, a strategy administration has been formed, the principal duties of which are the coordination of plans for the change, assisting their realization, monitoring and control of the progress made and reporting to the Management and the Board of Directors.

For details regarding the police investigation and the seizure of documents and computer material of ICC and the transfer of the investigation file to the State Attorney Office, see Note 34 C to the financial statements.

For details regarding activity in the credit card field in Israel, see "Credit card operations" under "Further details as to activity in certain products" above and Note 34 to the financial statements.

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, with respect of the following matters: the marketing of gift cards and the charging of excess amounts in respect of refueling of vehicles (a proceeding in respect of which a removal arrangement was approved in February 2015), the granting of credit by means of the "Active" credit card, allegation of two binding arrangements in the field of immediate debit cards ("debit") and pre paid cards ("pre-paid") (proceedings in respect of which a motion for withdrawal has been submitted), see Note 19 C to the financial statements items 12.9, 12.13, 12.15, 13.5 and 12.17 respectively.

ICC -Development of Net Income and Return on Equity



ISRAEL DISCOUNT CAPITAL MARKETS AND INVESTMENTS LTD.

Israel Discount Capital Market and Investments Ltd. (hereinafter: "DCMI"), a fully owned and controlled subsidiary of the Bank, is engaged in investment in companies, in private investment funds and venture capital funds, in investment banking and in the underwriting and management of public offerings of securities (through a subsidiary).

	In NIS millions		
Balance sheet items	December 31, 2014	December 31, 2013	Change in %
Total assets	1,076.9	1,070.6	0.6
Total equity	345.0	228.6	50.9
Income statement items for the year	2014	2013	
Net income attributed to the shareholders	114.9	107.5	6.9
The contribution to the Bank's business results[1]	94.6	113.9	(16.9)

Footnote:
[1] Differences between net income and the contribution to the Bank's results is derived from differences in the implementation of generally accepted accounting principles

The income in the years 2013-2014 was affected mainly by different realizations – see "Non-Financial Companies Sub-Segment" above.
During 2014, DCMI, through a subsidiary, participated in 50 public offerings of securities of which one with underwriting and in 5 private placements with a total volume of approx. NIS 22 billion (73 public offerings and 10 private placements with a total of approx. NIS 24.4 billion in 2013), and in 8 brokerage transactions (2013 – two brokerage transactions).

DIVIDENDS

The Bank has not distributed dividends to its shareholders since 1996, excluding the distribution of dividend in October 2008 in the amount of NIS 250 million, and except on the Bank's cumulative preference shares, in an annual amount of £24 thousand (see Note 13 B and E (3) to the financial statements), which the Bank distributes each year. The main limitation affecting the Bank's ability to distribute a dividend in the recent years was the capital base limitation.
For details regarding the limitations set in the Supervisor of Banks' directives, see Note 13 E (2) to the financial statements.
Distribution of dividend. The Bank's Management believes that it would not be possible to distribute a dividend in 2015.

FIXED ASSETS AND INSTALLATIONS

BUILDINGS AND EQUIPMENT

At the end of 2014, the investment in buildings and equipment amounted to NIS 2,500 million, compared with NIS 2,696 million at the end of 2013, a decrease of 7.3%.
Economic data. Most of the premises on which the Bank's business is conducted in Israel are owned directly by the Bank or by its auxiliary corporations. The total office space at the Bank's disposal at December 31, 2014, was approx. 166.6 thousand square meters, compared with approx. 172.3 thousand square meters at the end of 2013. Of this area, approx. 112.4 thousand square meters were freehold property and approx. 54.2 thousand square meters leasehold property (2013: approx. 115.7 thousand square meters were freehold property and approx. 56.6 thousand square meters leasehold property). At the end of 2014, approx. 74.1 thousand square meters served the Bank's branches and the remainder served the head office. In 2013, approx. 80.3 thousand square meters served the Bank's branches.
For details as to the Bank's investments in buildings and equipment, see Note 7 to the financial statements.

Focus points for 2015. Within the strategic program of the Discount Group, it has been decided to reduce real estate areas held by the Bank and the Group, among other things, in view of the reduction of the labor force. An extensive project was put into operation in the last quarter of 2014, to be continued in 2015, within the framework of which, examinations are being performed, intended to ensure the efficient and effective utilization of the real estate assets. The lines of action being examined are the reduction in the number of branches, reduction in the floor area of branches, merger of branches, improvement in terms of rental agreements or the exchange of rented locations, etc.

Since the start of the project and until February 2015, twelve assignments were put into action, the completion of which would lead to annualized savings of NIS 9 million. Twenty additional assignments are planned to begin in the continuation of 2015.

Following are details regarding the floor area at the disposal of Bank branches:

As of December 31	Sq. meters	Number of brunches	Average Sq. meters per branch
2014	74,068	138	537
2013	80,257	145	553

Following are details regarding the distribution of all floor area at the disposal of the Bank:

	As of December 31	
	2014	2013
	In Sq. meters	
Freehold	112.4	115.7
Leasehold	54.2	56.6
Total	**166.6**	**172.3**

ACCESSIBILITY

Preparations by the Bank. In accordance with the law, the Bank has appointed an "Accessibility Coordinator" whose duties are to lead and coordinate the accessibility operations at the Bank and serve as an address for any approach in the matter. Within the framework of these preparations, the Bank launched the "Discount Accessible" project, the object of which is to carry out accessibility modifications in accordance with the new regulations, both from the aspects of building, infrastructure and environmental modifications and the aspects of modifications for accessibility to service. Within the framework of this project, a multi-annual plan has been formed for the completion of accessibility modifications. Moreover, a supreme steering committee has been established headed by two members of Management, the duty of which is to manage and supervise the progress of implementing the provisions of the law.

In July 2013, the Bank engaged an association specializing in the matter of access to handicapped persons whose professionals accompany the Bank and advise on the modifications required for easy access, including the defining of requirements for the elimination of existing accessibility differences as regards all relevant services and installations.

Modification of service accessibility. All services requiring accessibility modifications have been mapped (such as: call center, Internet website, forms, automatic self-service machines, service and waiting stations, signposts, etc.) and the definition has started of the requirements for the preparations for their accessibility, with the assistance of accessibility consultants. Until June 22, 2014, accessibility modification to services had been made at 15% of the Bank's properties. In addition, accessibility modification was made to the directory of the call-center and of the central telephone exchange at the Bank, employees have undergone trainings and procedures and guidelines were published regarding the manner of providing accessible service to handicapped persons. At the present time, the Bank is preparing for the adaptation of accessibility to services of additional 20% of the Bank's properties, as required by law (termination date: June 22, 2015).

Modification of building, infrastructure and environmental accessibility. A multi-annual plan has been devised for the accessibility of all the Bank`s properties, with the assistance of the accessibility consultants. A comprehensive review of all the Bank`s properties was implemented, mapping gaps and defining contents in order to carry out the modifications required to make these properties accessible to disabled persons, in accordance with the Equal Rights for Handicapped Persons Regulations (Access modifications to a public place being an existing building), 2011.
In accordance with the requirements of the law, buildings, infrastructure and environmental accessibility modification was made until June 22, 2014, to 20% of the Bank's properties. At the present time, the Bank is preparing for the buildings, infrastructure and environmental accessibility modification to additional 20% properties, as required by law (termination date: June 22, 2015).
In each new branch or renovated branch, accessibility modifications are being made in accordance with the Accessibility Regulations, including: ramps and wheelchair lifts, washrooms for disabled persons, service and waiting stations, adjustment of the height of ATM and information desks.
A similar project is in operation at MDB.

INFORMATION AND COMPUTER SYSTEMS

GENERAL

The information and control systems stand at the core of the Bank's operations and comprise the backbone on which the Bank’s operations are based. The Bank’s data processing system is a central computerized system composed of main frame computers located at the Bank’s computer centers and work stations at the branches and at the head office units. The central system is currently based on IBM computers.
Some 12,000 work stations (PC’s) and 2,000 servers are installed at the branches and at head office units, providing service to both internal and external customers.
Direct banking services are provided by the Bank through a variety of lanes: Internet, information stations, automatic teller machines, computerized vocal response and more. These services are interfaced with the central computer in order to receive and update data, by way of designated servers using advanced data protection technologies.
Over 500 information stations are available to customers providing also self service operations and a wide variety of services - "Discount Information Station".
Most of the various computer systems serve both the Bank and MDB.
Over the years the Bank has developed efficient, stable and effective computer solutions with respect to all business areas in which the Bank operates. Solutions that had been developed with respect to core systems, within the framework of the "Ophek" project, are among the most advanced existing at present at banks in Israel. These systems are capable of serving the Bank for many years to come, subject to maintenance services being provided at an appropriate level. The Bank continues to upgrade and replace systems in accordance with its needs, all subject to budget limitations and strategic plans.
For details as to the cost of in-house development of computer software, see Note 7 H to the financial statements.
Major suppliers. The Bank has a large number of major suppliers from Israel and abroad in the field of information systems and their development. The Bank has no significant dependence on suppliers, with the exception of IBM, Oracle, Microsoft, EMC, Checkpoint, NetApp and CISCO. These companies have engagements with the Bank through their representatives in Israel.

LOCATIONS OF THE OPERATION

The Bank's mainframe systems are located at two different sites, in various cities in the Greater Tel Aviv area. The fact that the two systems are located at a distance from one another adds to the survivability of the Bank's information systems. The Bank's two computer sites are connected by optical fibers in two different routes. These sites also house the disc systems of the companies EMC, IBM, Netapp, Kaminario and Oracle, cassette robots, central printers and additional peripheral equipment required for the Bank's operation. Needless to say that this equipment is also backed-up at the two sites. The branches and the head office units are connected to the computer center by two communication lines. The two lines are simultaneously active, each line providing an adequate bandwidth for each website. In the event of failure, one line provides back-up for the active applications on the other line, and vice versa.

BACK-UP AND DISASTER RECOVERY

In its core systems, the Bank operates by the "hot backup" method. This means that the computers in both locations are updated concurrently as to the transactions conducted at the Bank's branches, so that in case of failure at the central computer site, the secondary location begins operations without losing any entry.
In addition, an infrastructure was established for a third copy of data, in a third location, under the "Hosting" model.
At this stage, a full third copy of production data of the Main Frame computer and of the data of critical systems of the open environments exists.
The Bank is acting to upgrade the capabilities of the direct banking operations at times of disaster. The upgrade will enable direct banking to operate even when the Bank's telephone service center is out of service.

DATA PROTECTION

The importance of survival and availability of IT is steadily increasing in view of the great technological development in recent years and its implications on the Bank, in view of the cyber threats that are growing in severity and frequency, and in view of the growing volume of use of information technology products in contrast to manually operated products. Therefore, the Bank views the protection of data as a primary goal and invests vast resources in order to protect the data on hand.
The principal risks involved in damage to data protection is the damage to privacy and confidentiality of the Bank's information, as well as to its customers and employees, the realization of cyber threats (see "IT risk management" under "Exposure to risks and risk management" above), hostile use of information by users of the system, disruption of data stored on the system, damage to the availability and survival of systems and information, damage to the Bank's business and to its reputation.
Data protection at the Bank is governed and regulated in accordance with various statutory provisions, including the Privacy Protection Law and its regulations, the Computer Law, the Supervisor of Bank's Proper Conduct of Banking Business Directives, and particularly Directive No. 357, standards, data protection policy as approved by the Bank's Management and Board of Directors, SOX and Basel.
The Bank's links to the Internet for any purpose whatsoever, is separated from the central banking system providing information to Bank employees, who perform banking activity on an ongoing basis. Thus, the exposure to the risk of hostile activity against real data at the Bank is significantly reduced.
Data protection activity is implemented in accordance with a strategic plan, approved by the Bank's Management and Board of Directors.
The systems and projects that are under development and that are under maintenance are closely supported by professional instructors.
The Bank operates continuously a data protection center the purpose of which is to identify risks and breaches in the data protection system (see "IT risk management" above). Furthermore, as part of the internal audit operates a unit which specializes in the field of information systems, which conduct a current audit of these matters.
In accordance with the risks outline and in accordance with Directive No. 357, risk surveys and intrusion checks are performed with the prescribed frequency, and as a result thereof mitigation measures and mandatory reporting are implemented. Access to data and privilege levels are controlled by means of designated staff and systems for authorization and password administration, with the administration processes and management tools undergoing major improvement and reorganization.

The Bank takes ongoing action to intensify awareness and improve the organizational culture from data protection aspects, which include, among other measures, training, distribution of policy documents, manifestos and marketing aids. The Bank has established the majority of the actions and processes in procedures, and the Bank's Data Protection Unit is involved in the approval of all of the Bank's procedures in order to ensure the early identification of actions that create data protection risks.

Physical security aspects, as far as they relate to data protection, are managed and implemented by the Bank's security officer in coordination with the data protection manager.

PRINCIPAL PROJECTS EXECUTED IN 2014 AND ARE EXPECTED TO CONTINUE DEVELOPMENT IN 2015

1. MIS – the establishment of a management information system for decision making functions in the Bank, including management indices and the measurement of organizational performance. The project began in 2010.
2. CRM – A number of projects the aim of which is customer relations management. A "connected" system has been developed, presenting in an effective and friendly manner the image of the customer and supports the management of the sales processes to customers of the Bank.
3. Direct channels – the development of all the direct channels continued in 2014, with a focus on the Internet channel and cellular phone applications. Investment in development will continue also in the following years, with a view of providing advanced services in the various channels to customers of the Bank.
4. Credit system – the start of a process for the replacement of existing systems by one system providing a response for new business and regulatory requirements regarding everything involving the management of credit at the Bank.
5. Projects designed for compliance with regulatory requirements, such as prohibition of money laundering, FATCA, new bills.

The Bank's budget for 2015 in respect of projects for the development of information systems, including for information system development projects, amounts to NIS 268 million. This, compared with NIS 231 million in 2014.

The contents of the above section constitutes a forward-looking information based on past experience in everything related to system development and technological abilities, the investment required for the development of new systems and adaptation of existing systems in order for them to comply with regulatory demands and the Bank's business requirements. The above is also based on regulatory provisions existing at date of publication of the Annual Report (even though they have not as yet become effective) and provisions expected by the Bank to apply, based, inter alia, on drafts published by the various Regulators. The above is also based on the Bank's development programs existing at date of publication of the Annual Report, and on business intentions, the realization of which would require the development of supportive computer systems.

Legislative and regulatory changes unknown at the date of publication of the reports, including changes in the details of existing initiatives and drafts, technological developments and/or activities of competitors bringing about changes in customer demands and expectations, as well as macro developments in Israel and in the world, may bring about changes in the assessments or in the ability to carryout the Bank's plans at date of publication of the reports.

INVESTMENTS AND EXPENSES IN RESPECT OF THE INFORMATION TECHNOLOGY SYSTEM

Expenditure in respect of the information technology system includes payroll and related expenses, outsourcing, acquisitions or right of use licenses, depreciation of equipment and buildings and other expenses – communication expenses, buildings and equipment maintenance expenses etc. The total expenditure is presented divided between software, hardware and other – including administration, maintenance and computer services, data protection expenses etc.

The balance of the information technology system assets is presented divided between software, hardware and other – mostly buildings used by the information technology system.

The allocation of payroll and related costs is based upon attribution to subunits, allocation of building depreciation and maintenance costs is based on area proportions. For details regarding the accounting policy applied with respect to the capitalization of software costs, see Note 1D(12) to the financial statements.

It should be noted that the allocation of acquisition and right of use license costs is based on an estimate, as software components, required for the operations of hardware systems, are integrated within them. It should also be noted that the allocation of indirect and other expenses related to the main components (software, hardware and other) was also based upon an estimate.

	December 31, 2014				December 31, 2013*			
	Consolidated							
	Software	Hardware	Other	Total	Software	Hardware	Other	Total
	in NIS millions							
:Expenses in respect of the information technology system, as included in the income statement								
Payroll and related expenses	167	126	47	340	169	95	24	288
Acquisitions or license fees not capitalized to assets	103	4	-	107	102	5	-	107
Outsourcing expenses	26	18	7	51	43	14	3	60
Depreciation expenses	369	80	9	458	399	87	9	495
Other expenses	45	32	83	160	39	23	78	140
Total	**710**	**260**	**146**	**1,116**	**752**	**224**	**114**	**1,090**
Additions to assets in respect of information technology system not charged as an expense:								
Salaries and related expenses cost	92	-	-	92	78	-	-	78
Outsourcing costs	123	-	-	123	143	-	-	143
Acquisition or license fee costs	47	1	4	52	27	-	4	31
Equipment, buildings and real estate costs	33	31	3	67	18	58	5	81
Total	**295**	**32**	**7**	**334**	**266**	**58**	**9**	**333**
Balances of assets in respect of the information technology system:								
Total amortized cost	**843**	**215**	**150**	**1,208**	**918**	**248**	**154**	**1,320**
Of which: in respect of salaries and related expenses	586	-	-	586	676	-	-	676

INTANGIBLE ASSETS

Trade marks and brand names. The Bank has exclusive intellectual property rights in the following trademarks that are duly registered with the Registrar of Trademarks, and in the label accompanying each of them: "Israel Discount Bank Ltd.", "Discount Bank", "Discount" and "Israel Discount Bank", which include the Bank's logo. In addition, the Bank registers from time to time, for the purpose of its business and marketing operations, names of services and products such as: "Key", "Discount key", the trademark of the key chart and slogans such as "People oriented banking", etc.

Following the commencement of competition in the VISA credit card field, ICC started to develop a distinct symbol in order to differentiate it from the other VISA issuers, using the brand name "ICC" or "Cal". Furthermore, ICC owns many registered trade marks in Israel, including "ICC", "Cal" "Cal Choice", "WWW.Card", Paycal and "Cal fix".

Furthermore, the Bank's subsidiary companies own trade marks, related brand names and slogans registered for the purpose of their business and marketing operations.

Licenses and franchises. The Bank and ICC have the status of a "principal member" in the International VISA Organization, which grants them the license to use the trade marks of VISA as well as the right to issue and clear credit cards under this brand name in Israel. The Bank and ICC have the status of a "principal member" in the MasterCard Worldwide organization, which has granted them licenses to use the "MasterCard", "Cirrus" and "Maestro" trade marks in Israel as well as issuance and clearing licenses for credit cards under these brands in Israel.

The International Diners Organization has granted Diners in Israel the exclusive franchise for the use of the brand "Diners" trade mark and for operating issuance and clearing services for Diners credit cards in Israel. Diners and Diners International signed agreements in March 2007 granting Diners the license to make use of trade marks and to issue credit cards, to open accounts and the exclusivity to provide services to customers in Israel until the year 2017. The said agreements are renewable for periods of five years each at the discretion of Diners International.

ICC has a conditional, non-exclusive license for the clearing of credit cards of the "IsraCard" brand.

Software. The Bank also has intellectual property rights in designated software systems and various modules used in its business, which the Bank develops and/or acquires in the course of its ongoing operations for its own use and/or the use of subsidiaries and affiliates.

Data bases. The Bank and its subsidiaries have data bases regarding their various fields of operations relating mostly to their customers and employees. Thus, among other things, ICC holds three data bases of registered customers holding VISA, Diners (through Diners) and MasterCard credit cards, as well as of traders accepting these cards.

TAXATION

GENERAL

The Bank and most of its subsidiaries in Israel are considered a financial institution under the Value Added Tax Law, 1975, and as such are chargeable to payroll tax and to profit tax at the rate of 18.0% of the payroll expense and of the profit, respectively.

TAX ASPECTS OF THE DIRECTIVE REGARDING IMPAIRED DEBTS

An agreement was signed with the Tax Authority in February 2012, regarding the timing of the recognition for tax purposes of credit loss expenses recognized in the books in accordance with the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowances for credit losses".

Among other things, the agreement states that with respect to large debts (over NIS 1 million), the allowance will be allowed as an expense, and in the event of a collection being made settling of accounts will be done with the tax authorities. With respect to small debts, the allowance will not be recognized as an expense, although actual writeoffs will be recognized in the two years following the year in which the allowance was made. It was also determined, that allowances in respect of "retail debts" made until December 31, 2010, and not yet recognized under the previous agreement, shall be deductible tax wise, in five equal yearly amounts, starting with the tax year 2011. It was also determined that allowances for credit losses recorded upon the initial implementation of the directives of the Supervisor of Banks and taken directly to retained earnings as of January 1, 2011, shall be deductible tax wise in five equal yearly amounts, starting with the tax year 2011.

A QUALIFIED INTERMEDIARY (Q.I.) STATUS

The Bank has been granted the status of Qualified Intermediary (QI), as defined by the U.S. Tax Authorities. The significance of this is that the Bank has entered into an agreement with the U.S. Tax Authorities, whereby it is entitled to withhold tax with regards to its customers' securities transactions.

For additional details regarding "taxation", see Note 29 to the financial statements.

CHANGES IN GLOBAL LEGISLATION REGARDING THE PREVENTION OF TAX OFFENCES

CHANGES IN THE U.S. TAX LEGISLATION

Following the publication in March 2010, of the FATCA legislation (Foreign Account Tax Compliance Act) in the United States, the Bank, with the assistance of a U.S. law firm, has formed a policy and procedures required in this matter.

Furthermore, the Bank and the relevant subsidiaries in the Group, with the assistance of external consultants, have begun extensive preparations and implementation activity of the instructions of FATCA. This work is in advanced stages towards its completion, in accordance with milestones defined by FATCA. In accordance with the above, as from February 2012, new U.S. customers (U.S. persons) are required to sign a W-9 Form as well as sign a declaration of compliance with reporting requirements and a letter waiving confidentiality in this respect. At the same time, the process of identifying and obtaining the signature of existing U.S. customers on the said documents continues.

The registration of the Bank and of the relevant companies in the Discount Group in the designated on-line portal of the U.S. Internal Revenue Services was completed in March 2014.

On April 6, 2014, towards the entry into effect of the FATCA instructions, the Supervisor of Banks issued a letter in the matter of the preparations for the implementation of the FATCA instructions, which required the banking corporations to continue and prepare for the implementation of the instructions, including the appointment of an officer in charge, the establishment of a designated work team coordinating the implementation of the instructions, directly responsible to a member of Management, and the determination of policy, including procedures, regarding the manner of implementation of the FATCA instructions, which should be approved by the Board of Directors, while taking into consideration the Bank's duties towards its customers and following a careful examination of the circumstances. It was further noted that the refusal to open a new account and/or provide banking services in the case of an existing account, which expose the banking corporation to the risk of being considered a collaborator of the customer for the purpose of evading the FATCA instructions, shall be considered a reasonable refusal for the purpose of the instructions of the Banking Act (Customer service). It was also recommended to adopt measures that increase awareness to the FATCA instructions and their possible implications on customers, in particular customers being financial institutions to which the FATCA instructions apply.

An interstate agreement was signed on June 30, 2014, between the Government of Israel and the Government of the United States, regarding the implementation of the FATCA instructions. On that date, the Supervisor of Banks issued a guideline in the matter of the opening of new accounts in view of the FATCA instructions, according to which, bank accounts that would be opened as from July 1, 2014, would be prima facie subject to the account opening procedures stated in the instructions, subject to the implementation of alternative procedures as detailed in the interstate agreement.

Preparations of the Group for implementation of the instructions. As stated, the Bank and the relevant subsidiaries in the Group are acting according to the FATCA instructions, in line with the time schedule detailed in the inter-state agreement, including the determination of policy and procedures, preparation of computer systems and devising guidelines for activity with customers.

EXPOSURE TO CROSS-BORDER RISKS IN RESPECT OF THE ACTIVITIES OF FOREIGN RESIDENT CUSTOMERS

GENERAL

The Bank operates in an environment of changing global regulation. As part of these changes, and among other things, an increase occurred in the exterritorial enforcement operations with respect to reporting duties and the payment of taxes of taxable persons who manage their accounts outside their country of residence.

In view of this global trend, the Bank is preparing for the management of the risks involved in maintaining accounts of foreign residents, generally, with a focus on the risk involved in tax evasion, in particular.

As of the present time, the principal enforcement actions are conducted by the U.S. authorities, however, in view of the interest shown by the media in these actions, and as detailed below, the possibility exists that tax authorities and regulators in additional countries will take action of a similar nature.

EXCHANGE OF INFORMATION BETWEEN COUNTRIES

On January 29, 2014, the Official Gazette published a Government Income Tax Ordinance Amendment Bill, proposing the addition of a fourth Chapter in the matter of exchange of information according to an international agreement, authorizing the State to forward information to the tax authorities of another country, whether at the request of that tax authority or at the initiative of the Israel Tax Authority.

The Ministry of Finance published on April 13, 2014, a Memorandum for the Income Tax Ordinance Amendment Bill (which was amended on May 19, 2014), which proposes that financial institution will have the duty to obtain details of entities holding the rights to accounts opened with them, and as regards U.S. entities, the fact of them being a "U.S. person" in accordance with the FATCA agreement. It is also proposed, that the Regulations will include the requirement of identifying details of whoever holds rights to an account with a financial institution, as well as the manner of forwarding information from the financial institutions to the Israel Tax Authority. The Memorandum proposes to impose monetary sanctions in respect of the non-identification of details of account holders and/or failure to forward the information to the Commissioner, in accordance with the instruction of the Act. It is also proposed in the Memorandum to authorize the inclusion in Regulations to be enacted under the Act, reference to the clarification of the tax liability country of customers of the financial institution and the forwarding of such information to the Tax Authority.

On April 6, 2014, a multilateral declaration regarding tax evasion was published, including the bilateral exchange of information between OECD countries. According to an announcement of the Ministry of Finance, Israel is expected to sign agreements with respect to the automatic exchange of information with OECD countries and other countries, and everything subject to the Act that will be passed in the matter.

The Ministry of Finance announced on October 27, the adoption of the OECD procedure for the automatic exchange of information regarding financial accounts, until the end of 2018.

THE BANK'S POLICY WITH RESPECT TO ACCOUNTS OF FOREIGN RESIDENTS

With the aim of managing the said risk, and in accordance with that stated above, and among other things, in continuation of the Bank's actions regarding the implementation of the FATCA instructions, the Bank`s Board of Directors has adopted a policy with respect to compliance of foreign residents (of the states mentioned in the policy document) with the provisions of foreign legislation regarding the payment of taxes and the reporting of accounts. Further to the adoption of the policy, rules have been determined is designed to establish rules for the opening of bank accounts of foreign residents and for the acceptance of monies and securities in favor of foreign resident accounts, in a manner that would satisfy the Bank as regards fulfillment of the duties applying to the relevant foreign resident

customers with respect to the payment of taxes and reporting their accounts, as required by the provisions of foreign legislation applying to them. The policy also states that, to the extent that the regulation in Israel and abroad with respect to foreign residents and their accounts would be updated, the Bank shall act accordingly.
In July 2014, the Board of Directors of MDB adopted a policy based on the Bank's policy.

INTERNAL AUDIT IN THE MATTER OF EXPOSURE TO RISKS INVOLVED IN THE ACTIVITY OF FOREIGN RESIDENTS

On September 28, 2014, the Supervisor of Banks approached the Bank with a demand that the Bank will perform an audit that would evaluate the level of exposure of the Bank and the Bank Group to cross border risks relating to activities of foreign resident customers, and would examine the manner in which these are being managed. The audit should include the gathering of quantitative data regarding foreign resident customers as well as an examination of the risk management appropriateness, the procedures, the policy, the controls and the performance of the corporate governance in everything relating to the activities of foreign resident customers. The audit has not yet been completed.

DRAFT CIRCULAR OF THE SUPERVISOR OF BANKS IN THE MATTER OF "BANKING OPERATIONS BY FOREIGN RESIDENTS"

The Supervisor of Banks issued on November 19, 2014, a draft circular in the matter of "banking operations by foreign residents". The draft contains different guidelines for banking corporations with respect to everything relating to dealings with foreign residents and details of actions that have to be taken in order to reduce exposure to cross border compliance risks. According to the draft, it is required, among other things, to obtain a declaration regarding the payment of taxes according to the law with respect to funds held in the bank account, to examine the tax liability countries of the customer, and to obtain the waiver of confidentiality as regards foreign authorities.
The draft was discussed at the meeting of the Advisory Committee on December 29, 2014, though a final version thereof has not yet been published.

EXPOSURE TO CROSS BORDER RISKS RELATING TO ACTIVITIES OF U.S. CUSTOMERS

Changes in enforcement actions of the U.S. authorities have taken place in recent years with respect to enforcement of tax liabilities of U.S. customers maintaining accounts with foreign banks outside the U.S.. Such changes are, among other things, expressed in the publication of several programs for voluntary disclosure by taxable U.S. citizens, in intensified enforcement actions against foreign banks conducting accounts for U.S. customers, which are suspected of collaboration with such customers in hiding their assets from the U.S. tax authorities, and in the imposition of different sanctions, including fines in high amounts imposed on such banks. These changes have an effect on the operating environment of the Bank, being a provider of services, among others, also to U.S. customers.
It has been publicized recently, that Israeli banks find themselves in various stages of examination and investigation processes on the part of the U.S. authorities.
It was published on December 22, that the Bank Leumi Group had reached an arrangement of the "Deferred Prosecution Agreement" type with the U.S. Department of Justice, and also reached an additional arrangement with the Financial Services Authority of the State of New York (hereinafter – "the Leumi arrangement"). According to the arrangement, Bank Leumi admitted conducting a series of operations, the aim of which, according to the publication, was assisting tax evasion by its U.S. customers. According to the arrangement, the U.S. Department of Justice agreed to defer the filing of an indictment against the Bank Leumi Group for a period of twenty-four months, during which Bank Leumi is required to abide by the commitments detailed in the agreement. Moreover, various sanctions have been imposed on the Bank Leumi Group, including the payment of a fine in the amount of US$400 million.

The Bank Leumi arrangement has been presented and discussed at the Bank following its publication. This arrangement is based on specific facts dealing with many and continuous operations attributed to different companies in the Bank Leumi Group and as far as can be discerned from the publications, the agreement had been prepared and formed over a long period of time, with considerable investment of resources and of work time of consultants, the data itself remaining undisclosed. The agreement does not detail the formula for the fine, which determines the amounts that the Bank Leumi Group has agreed to pay, except with respect to the operations of Leumi in Switzerland. It would seem that in part, the amount of the fine had been based on agreements as to the amounts of tax evasion by customers, deriving from and in respect of activities attributed to the Bank Leumi Group.

The Bank has no knowledge of investigative actions taken against the Bank or against any of its extensions by the U.S. authorities, as regards U.S. customers who had not complied with their obligations according to U.S. tax laws. Furthermore, as published, IDB (Swiss) Bank is not one of the corporations included in the category No. 1 of the Swiss program (namely, banks under investigation, which, therefore, may not participate in the Swiss program).

As detailed below, the Bank is adopting a series of measures for the management of the risk involved in its operations with its U.S. customers. However, in view of the said enforcement actions and due to the uncertainty existing in this matter, it is not possible to assess to assess the risk involved in these operations.

ACTION TAKEN BY THE BANK IN RESPECT OF OPERATIONS BY U.S. CUSTOMERS

In the ordinary course of business, the Bank is involved with many customers, including customers who are U.S. citizens and/or U.S. residents. As part of its activity, the Bank manages the risks and exposure deriving from operations of the Bank's foreign customers, including customers who are U.S. citizens and U.S. residents, as well as risks deriving from the application of foreign legislation to the Bank's operations. Management of the exposures and risks is conducted by means of policy, procedures and controls.

The Bank's policy and procedures prohibit Bank employees to conduct transactions with respect to accounts of U.S. customers, which might expose the Bank to regulatory risks. In this respect, the Bank does not permit its employees to hold meetings with customers in the U.S., prohibits the providing of tax advisory services to U.S. customers and advising customers on how to evade the payment of taxes, prohibits referring customers for the purpose of obtaining advice the aim of which is tax evasion and does not permit any assistance leading to the violation of any law.

As detailed in the Item "Operations in the capital market", the Bank adopted in March 2010, a policy terminating the provision of securities services to customers (whether new or existing) having affinity to the U.S., and which also forbids use of U.S. communication means for the purpose of providing securities services to persons staying in the U.S..

As discussed above, the Bank implements the FATCA legislation in accordance with the milestones stated therein and even advances these dates. In consequence of the implementation of the FATCA legislation, new U.S. customers (U.S. persons) are required, as from February 2012, to sign a W-9 Form as well as a declaration of their compliance with reporting requirements and also a waiver of confidentiality letter in respect thereof. At the same time, the Bank is in the midst of a process of identification of existing U.S. customers and obtaining their signature on the said documents.

The full implementation of these procedures will lead to a situation whereby U.S. customers, as defined by the FATCA provisions, would be identified and reported as required by this legislation. According to the requirements, all details of U.S. customers would be reported periodically to the Ministry of Finance in accordance with FATCA. The first report is to be conducted as of September 30, 2015.

It is further noted that, as stated in the financial statements for the relevant years, IDB New York reached an agreement on December 15, 2005, with the prosecution authorities in the U.S., terminating the investigation proceedings conducted against it in matters relating to money laundering prohibition. According to the arrangement, IDB New York paid a fine. Furthermore, instruction briefs have been issued, in which IDB New York was required to rectify the deficiencies that had been found, strengthen control and supervision procedures, determine enforcement plans and improve the procedures relating to these matters, and everything in the manner and according to dates determined by the U.S. authorities. IDB New York had operated under instruction briefs for a period of about three and a half years, until June 2009.

Operations under these instruction briefs and the process rectifying the deficiencies have resulted in the improvement of work procedures at IDB New York, including work with additional factors in the Group, and in the investment of considerable resources in the compliance field.
Concurrently, as detailed above, and in accordance with the requirements of the Supervisor of Banks, the Bank is in the midst of an audit aimed at assessing the level of exposure of the Bank and the Bank Group to cross border risks relating to the activity of foreign resident customers, and to examine the manner in which such activity is being conducted.

IDB (SWISS) BANK

As stated in Note 19 C (15) to the financial statements, IDB (Swiss) Bank has elected not to participate in the Swiss program. Notwithstanding the above, the bank reviewed in the first quarter of 2014, towards the publication of its financial statements for the year 2013, the above mentioned theoretical exposure in accordance with Category No. 2 of the Swiss program. The review was performed with the assistance of an external consultant. Presently, IDB (Swiss) Bank completed an additional comprehensive review verifying the completeness of the identification of accounts of U.S. persons, and the collection and safe keeping of the data.
Had IDB (Swiss) Bank joined the program under Category No. 2, than the maximum fine computed in accordance with the approach detailed in the Swiss program with respect to all accounts of U.S. persons held by it, would have been reduced in relation to accounts that would have been recognized under the program as tax compliant, or as such which joined the voluntary disclosure program with the encouragement of IDB (Swiss) Bank, or as such that are out of scope of the program.
In accordance with an examination made by IDB (Swiss), with the assistance of external consultants, and considering the deductions detailed above, the worst case scenario does not amount to a material sum to the Bank, this according to the Bank's disclosure policy with respect to contingent liabilities (less than 1% of the Bank's equity capital; see Note 17D in the matter).
It is emphasized that in any event, the result of the said review is considered a crude assessment only, due to the fact that the formula in question is not a simple one but a formula requiring specific and complex discussions with the U.S. Justice Department, mostly due to the fact that different reliefs exist under the program, the effect of which is difficult to assess beforehand.

HUMAN RESOURCES

MANAGEMENT OF THE HUMAN RESOURCE - GENERAL

PRINCIPAL ACTIVITIES IN 2014

Reduction in the labor force. The reduction in the labor force has been declared as one of the central goals of the strategic plan for the years 2015-2019. In 2014, the plan for the early retirement of employees was completed successfully, within the framework of which 395 employees signed a retirement agreement, of whom 381 employees have actually retired by December 31, 2014 (see below and Note 16 to the financial statements). The employees who signed the retirement agreements, all of whom are tenured employees, comprise approx. 8.9% of the tenured employees labor force as at December 31, 2013 (4,408).
Implementation of a wage agreement. Completion of the wage increase move ("selective wage addition") based on an evaluation of employees, their contribution, the position they hold and their existing and anticipated wage level.
Installation of time-clocks. A collective agreement was signed in March 2014, in the matter of recording presence at work and overtime compensation. Following several months of preparations during the second half of 2014, time-clocks were installed for the first time on January 1, 2015, for all employees of the Bank (with the exclusion of a small number of exceptions). Installation of the time-clock has brought about a significant change in the organizational culture at the Bank.

CHALLENGES FOR 2015

Effective management of the labor force and its cost. The central challenge for 2015 is the strict and restraining management of the labor force and its cost, in a manner that would ensure the preservation of the achievements of the retirement plan of 2014 on the one hand, and the utilization of the natural retirement potential in 2015 and thereafter on the other hand. All this, with the aim of ensuring the attainment of goals, as defined in the strategic plan, for the reduction in the labor force, and respectively, creating significant efficiency.

Providing supporting tools to the Bank's units. Providing supporting tools as regards locating, placement and supplementing knowhow, as a supplemental move of the move for the reduction in the labor force, with the aim of enabling the Bank's units to adjust to the reduction in the labor force, while making optimal use of employee mobility among the different units.

Assisting the efficiency move at the branches. Assisting moves for the downsizing, merger or shutting down of branches, from the different human resources aspects, including the providing of a supporting and respecting cover for employees and managers expected to experience the change.

CHANGES IN THE ORGANIZATIONAL STRUCTURE

In a meeting of the Board of Directors held on July 27, 2014, decided to approve the following organizational changes: the Operations Division, which includes the properties and construction department and the operational departments shall be split, and its units will merge with existing other divisions/groups. The properties and construction department will be merged with the Human Resources Group creating one division named "The Resources Division", which will be headed by Ms. Yafir Gariani (the name of the division has been changed at a later date to "Human Resources and Properties Division"). The operational departments will be merged with the Technologies Division, which will be called now "Technologies and Operations Division", which will be headed by Mr. Levy Halevy.

As a result of the aforesaid, the number of Divisions at the Bank has been reduced.

LABOR FORCE AND PAYROLL COSTS

There were 5,491 employees in full-time positions in the Bank in Israel (not including the Bank's branches abroad) at the end of 2014, compared with 6,155 at the end of 2013, a decrease of 10.8%. The average monthly number of employees, based on full-time positions, in the Bank in Israel (not including overseas branches) dropped in 2014 and amounted to 5,918, as compared to 6,060 in 2013, a decrease of 2.3%.

There were 9,215 full-time positions in the Group in Israel and abroad at the end of 2014, compared with 9,877 at the end of 2013, a decrease of 6.7%. The average monthly number of employees in full-time positions in the Group, both in Israel and abroad, at the end of 2014, was 9,646, compared with 9,834 at the end of 2013, a decrease of 1.9%.

Following are the labor force data of the Group and the Bank, in terms of positions[(1)]:

	As of December 31		Monthly average in	
	2014	2013	2014	2013
The Bank in Israel	5,491	6,155	5,918	6,060
Domestic subsidiaries	2,936	2,938	2,937	2,980
Group total in Israel	**8,427**	**9,093**	**8,855**	**9,040**
Overseas branches	26	34	32	34
Overseas subsidiaries	762	750	759	760
Group total overseas	**788**	**784**	**791**	**794**
Group total overseas and Israel	**9,215**	**9,877**	**9,646**	**9,834**

(1) The number of positions includes conversion into overtime positions with the addition of positions of software house employees who provide services to the Bank and after deduction of positions payroll cost in their respect has been capitalized to fixed assets.

As seen from the above Table, as of December 31, 2014, the number of positioned in the Group decreased by 662 positions. On the other hand, the average monthly number of positions in 2014, decrease by only 188 positions. The difference arises from the fact that employees retiring under the retirement plan did so at the end of 2014, therefore, their retirement is not yet reflected in the average monthly position data.

Following are details of the cost per position, in NIS thousands[(1)], on the basis of costs reported in practice:

	2014	2013	Change in%
The annual average direct cost per employee position in the Bank in Israel	239	253	(5.5)
The total annual average cost per employee position in the Bank in Israel	442	396	11.6
The average annual overall payroll cost per employee of the Group in Israel and abroad	413	368	12.2

(1) The payroll costs also include the cost of software house employees, as stated in the footnote to the preceding Table, less payroll costs capitalized to fixed assets.

The average annual cost of the direct wage in respect of an employee position at the Bank in Israel, decreased in 2014 by a rate of 5.5% (see Table above). The reduction results mostly from the fact that the data for 2013 includes the payment of awards, while the awards for 2014 where in an immaterial amount. Eliminating the awards, as stated, the average annual cost of the direct wage in respect of an employee position at the Bank in Israel, increased in 2014 by a rate of 3.0% (se Table below).

The total average annual cost of an employee position at the Bank in Israel, increased in 2014 by a rate of 11.0% (see Table above). The said increase results mostly from the fact that the data for 2014 include the net impact of the retirement scheme on the provision for severance pay. Eliminating the cost of the retirement scheme, as stated, the total average annual cost of an employee position at the Bank in Israel, increased in 2014 by 0.5% only (see Table below).

Following are details of the cost per position, in NIS thousands[(1)], eliminating certain components:

	2014	2013	Change in%
The annual average direct cost per employee position in the Bank in Israel - Disregarding awards	238	231	3.0
The total annual average cost per employee position in the Bank in Israel - Disregarding awards	372	370	0.5
The average annual overall payroll cost per employee of the Group in Israel and abroad - Disregarding awards	360	345	4.3

(1) The payroll costs also include the cost of software house employees, as stated in the footnote to the preceding Table, less payroll costs capitalized to fixed assets.

As seen from the said Tables, the increase in the average payroll costs derives mainly from changes in the provision for severance pay and in the provision for awards.

HUMAN RESOURCES ACCORDING TO SEGMENTS OF OPERATION

The positions stated according to segments of operation include positions of direct employees of the segment and positions of head office staff of various levels, the cost of their employment had been allocated to the segment. The calculation of the number of positions, as stated, is based on a model for the allocation of costs used by the Bank, as adjusted in the circumstances and on the basis of assessments.

Human resources according to segments of operation:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial Non-Financial Companies	Financial management	Total
	For the year ended December 31, 2014							
Average number of positions in the segment	4,581	1,555	1,141	773	634	10	952	9,646
Of which: Management positions	819	266	304	171	144	4	236	1,944
	For the year ended December 31, 2013							
Average number of positions in the segment	4,578	1,648	1,234	726	607	8	1,033	9,834
Of which: Management positions	(1)808	(1)272	(1)314	(1)169	132	4	232	1,931

Footnote:

(1) Amended following a subsidiary.

LABOR RELATIONS

General. Labor Relations at the Bank are based on the Labor Charter, collective labor agreements and employment arrangements that are consummated mainly in negotiations between the Bank's management and the employees' representatives.

Labor Charter. "Labor Charter for the Employees of Israel Discount Bank Ltd. ", which was signed in 1974 (hereinafter: "the Labor Charter") constitutes a wide base outlining and incorporating employment conditions, disciplinary provisions, arbitration procedures and additional procedures and regulations. During the last decades, dozens of collective labor agreements were consummated in addition to the Labor Charter. These other agreements include wage and other agreements intended to supplement and expand the Labor Charter, to change the Labor Charter or to cancel certain provisions of the Labor Charter.

Within the framework of the collective labor agreements, signed in June 2011, the validity of the Labor Charter was extended until December 31, 2016, and it has been agreed that unless otherwise informed by one of the parties to the other party by notice in writing of up to three months prior to the said date, the validity of the Labor Charter will be extended for one additional year, being repeated in each year.

Rights of association. The Bank's tenured employees are organized within the framework of the national Employees' Representative Committee. The Representative Committee is divided internally in such a way that employees at the clerical level are included in the Clerks' Committee and authorized signatories and managers are organized under the Managers' Representative Committee. Most of the issues are agreed and signed between the Bank's management and the Employees' Representative Committee. A retirees' Committee also exists, under which the Bank's retirees are organized. The Bank assists the retirees' committee and allows it to conduct activities at the Bank premises in Jerusalem, Tel Aviv-Jaffa and Haifa.

Bank participation in the budget of the Employees' Representative Committee. The Bank contributes monthly to the budget of the Employees' Representative Committee, in an amount double the monthly amount contributed by the employees. Five out of the 21 Committee members are officers of the Committee engaged on the Committee on a fulltime basis and receiving a full salary. The other members of the Committee fulfill various positions in the Bank and serve as Committee members in addition to their regular work. In addition, the Bank provides office premises for the Committee's use and covers the maintenance costs thereof.

PRINCIPAL CATEGORIES WITH RESPECT TO EMPLOYMENT CONDITIONS

The Bank's employees are classified into three main categories for purposes of employment conditions:

Tenured employees. The employment terms of tenured employees are arranged, as stated, in accordance with the Labor Charter, special collective labor agreements and other employment arrangements. The item in the collective labor agreement of June 2011, relating to the updating of grading and stages, changed certain of the employment terms of new employees engaged as regular employees as from January 1, 2012.

On December 31, 2014, there were 4,027 tenured employees in the Bank (December 31, 2013: 4,408 tenured employees). The majority of the Bank's tenured employees are permanent employees, while a minority constitutes new employees on a trial period.

As of December 31, 2014, the Bank`s tenured employees numbered 548, employed under a new employment agreement in accordance with the collective agreement of June 2011 (December 31, 2013: 471 employees).

Temporary employees. The engagement terms of temporary employees are mainly regulated in a number of special collective labor agreements, which specify their terms of employment. In the labor agreement of June 2011 in the matter of the extension of the validity of the Labor Charter, the maximum temporary engagement period was shortened from five years (with the possibility of extension of even up to seven years in special cases), to two years (this excluding employees engaged as tellers, concept branch and direct banking employees, whose maximum employment period remained five years). In an agreement dated September 12, 2013, the temporary employment period of these employees has been extended by one additional year, and it now amounts to three years (the agreement is valid for five years).

Temporary employment may be terminated at any time, at the discretion of management. On December 31, 2014, there were 1,493 temporary employees in the Bank (December 31, 2013: 1,685 temporary employees), of which, 322 employees engaged by the Bank (December 31, 2013: 411 employees) and known as "computer temporaries". These employees are engaged in the IT field, and in accordance with an agreement dated 2002 between the Bank's Management and the representative committee of employees, may be engaged in a temporary status for a period of up to seven years. The item in the collective labor agreement of June 2011, regarding the engagement of computer employees, increased the quota of temporary computer employees which the Bank may engage, from the previous number of 350 to 750 employees.

According to the collective labor agreements to which the Bank is a party, the total number of temporary employees (excluding cleaning staff and temporary computer employees) is limited to 30% of the total number of the Bank's regular employees, as the number may be from time to time, starting with January 1, 2012.

Personal employment contracts. Employees engaged under personal employment contracts sign, prior to their engagement with the Bank, a personal contract, which precludes the Labor Charter and the collective labor agreements for these employees. Employees engaged under a personal contract include members of the Bank's management, part of the information technology staff and a defined and specified agreed list of position holders, mainly senior personnel. As of December 31, 2014, the Bank employed 88 personnel (including members of management) under personal employment agreements (December 31, 2013: 93 employees engaged under personal contracts).

In addition, the Bank acquires services of manpower company employees and software houses. As of December 31, 2014, no manpower company personnel were employed by the Bank (as of December 31, 2013: 8 manpower company personnel). As of December 31, 2014, some 301 software house personnel were employed in the Bank. These employees are engaged mainly in software development tasks (as of December 31, 2013: 283 software house personnel).

Following is a summary of employment data in the Bank in the various categories and the changes therein:

	As of December 31,			Change	
Employees	2014	2013	2012	2014 compared to 2013	2013 compared to 2012
Tenured employees under personal contracts and members of management	4,115	4,501	4,427	(386)	74
Temporary employees	1,493	1,685	1,733	(192)	(48)
Manpower companies employees	-	8	38	(8)	(30)
Software house	301	283	391	18	(108)
Total	**5,909**	**6,477**	**6,589**	**(568)**	**(112)**
Addition - employees on unpaid leave of absence and maternity leave	186	180	188	-	-
Total	**6,095**	**6,657**	**6,777**	**(562)**	**(120)**
Positions					
Tenured employees under personal contracts and members of management	4,156	4,533	4,470	(377)	63
Temporary employees	1,532	1,734	1,789	(202)	(55)
Manpower companies employees	-	5	26	(5)	(21)
Software house	302	284	368	18	(84)
Total	**5,990**	**6,556**	**6,653**	**(566)**	**(97)**
Of which positions of Bank employees the cost of which has been capitalized to fixed assets	226	226	256	-	-
Of which positions of software house employees of which has been capitalized to fixed assets	273	175	243	-	-

DEVELOPMENTS IN LABOR RELATIONS

Negotiations regarding wage agreements. The negotiations regarding the wage agreements were concluded on March 28, 2014, with the signing of a collective agreement according to which an average wage increase at an overall rate of 4.5% had been agreed upon, composed of a supplement to the selective advance for the years 2011 and 2012 at the rate of 0.25%, a selective wage increase for 2013 at the rate of 3.25%, as well as a selective advance for the year 2014 at the rate of 1%. It has been further stipulated in the agreement that the wage negotiations in respect of 2014 shall begin on April 1, 2015 and until then, industrial peace is to be maintained at the Bank in the matter of the selective wage addition for 2014.

Labor dispute. The labor dispute declared on April 25, 2013, was concluded on March 28, 2014, with the signature of two collective agreements in the matters of a selective salary addition, the recording of attendance at work and overtime compensation.

NEW COLLECTIVE LABOR AGREEMENTS

Agreements signed in 2011. Seven collective labor agreements were signed in 2011, among which:

- **An agreement regarding the updating of grades and stages and the determination of maximum wage** for new employees enrolled or employees granted the status of regular employees, beginning January 1, 2012, for the clerical and managerial levels, including a change of part of the employment terms of existing employees of the "regular" status (including the cancellation of certain components, such as jubilee award, tuition fees for children of employees, refund of health insurance payments, etc.).
- **Agreement in the matter of the application of a pension arrangement** to new employees, as defined herein, which include temporary staff being employed by the Bank at date of signature of this agreement, as well as to permanent employees and employees during their trial period who choose this arrangement of their own free will.
- **Extension of the validity of the labor code** until December 31, 2016. The agreement has also determined the shortening of the process for settling disputes between the parties to the labor code, and if not settled by the parties, submission of the dispute to an

agreed arbitrator. The agreement further states that as from January 1, 2012, the employment period for employees of a "temporary" status shall be shortened to two years, and the trial period for employees of a "regular" status shall be shortened to one year, with an option for extension for an additional year subject to consent of the employees' representative committee.

- **An agreement regarding temporary computer employees** that allowed the increase of the quota for employees engaged as temporary computer employees from 350 to 750.

Agreements signed in 2012. The following agreements were, among others, signed in 2012: a collective labor agreement was signed on July 17, 2012, with respect to the absorption and placement of twenty-three employees of the former Discount Mortgage Bank, who belonged to the managerial echelon of that bank. According to the agreement, the said employees will be employed by the Bank according to personal employment agreements.

An agreement with respect to the transfer of the permanent staff of DMB to the Bank. An agreement was signed on May 3, 2012, between the Bank, DMB, and the DMB's employee committee and the New Federation of Labor. The agreement states that following the merger, the permanent employees of DMB would be absorbed at the Bank as tenured employees. The Bank's Management is to offer beneficial retirement terms to tenured employees preferring not to be transferred to the Bank. Furthermore, the agreement states that employment of temporary staff of DMB will terminate upon the merger, though a small number of such employees will be absorbed at the Bank as temporary staff.

The agreement prescribes, inter alia, that the basic salary (as defined in the agreement) of a permanent employee of DMB, who is transferred to the Bank, will be adjusted to the salary table of a Bank employee (as defined in the agreement), subject to the terms specified in the agreement.

Agreements signed in 2013. Among others, the following agreement was signed in 2013: an agreement was signed on September 12, 2013, concerning the extension of the temporary period of employment of temporary employees engaged by the Bank as from January 2012 and thereafter, from 24 months to 36 months (the agreement is valid for five years).

Agreements signed in 2014. The following agreements were signed in 2014:

- A collective agreement was signed on March 28, 2014, in respect of pay rises (see "Labor dispute" above);
- A collective agreement was signed on June 30, 2014, with the employees' representative committee in the matter of the update of the salary table for entitled employees of DMB. In accordance with the agreement, with respect to entitled employees as stated in the agreement (78 employees), a one-off updating of the salary table will be made, at a flat rate of 3.0%. The update shall be based on the December 2012 salary and shall be paid in effect as from January 1, 2013, onwards. It has been further agreed that each Bank employee who had been classified in the past to any grading group, shall receive from the Human Resources Group a letter stating the grading group to which he belongs and the top salary level applying to this group;
- The representative committee of the employees signed on September 2, 2014, a collective agreement with the Bank, according to which the Bank is entitled to employ in minor positions, in the properties and construction department and in the operations department, up to five persons under personal employment agreements.

Agreement signed in 2015. A collective agreement was signed on February 8, 2015, in the matter of extension of employment of workers employed by the project for the support of the community, within the framework of which, the temporary employment of handicapped workers, employed at the Bank in terms of this project, and whose employment was due to terminate in the years 2015-2016, was extended by three additional years.

RETIREMENT OF EMPLOYEES

Following are details regarding the number of employees who retired from the Bank in the years 2013-2014:

The year	The total number of retired employees (including early retirement)	The number of employees who has elected early retirement*
2014	488	390
2013	94	8

*Nine employees in 2014 and eight employees in 2013 retired prematurely, not within the framework of the plan encouraging retirement.

REDUCTION IN THE LABOR FORCE

Retirement Plan. For details regarding retirement plan at the Bank and at MDB, see Note 16 L and M to the financial statements. 395 employees signed a retirement agreement, of whom 381 employees have actually retired until December 31, 2014.

It should be noted that, during 2015-2019, it is anticipated that 470 tenured employees will retire due to natural retirement (viz., due to their age).

EMPLOYEE REMUNERATION

The principal salary components include the basic salary which includes a seniority increment, representation and signature fees to each employee in accordance with his seniority and position.

The basic salary constitutes the basis for salary increments and for the payment of split working hours’ remuneration at the rate of 2.5% of the salary (to entitled employees only), shift remuneration (to entitled employees only), overtime, 13th month salary and long term service award. Likewise, there exists an additional payment at the rate of 5% for managers and 6% for clerks effective from January 2014, payable to those entitled to split-time payment. Part of the employee’s remuneration is linked to the CPI. in cases where the change in the CPI is a negative figure, the employees' wages are not reduced and the drop in the CPI is setoff against the rise in the CPI in following months. Employees are also entitled to various additional benefits. Bank employees are promoted by grades only and are also entitled to a long-service bonus equal to several monthly salaries plus additional vacation days, at the end of 20, 30 and 40 years of service in the Bank. A collective labor agreement dated November 22, 2007 specified that new employees shall not be entitled to "Jubilee vacation" as well as wage components in respect of nursery school and summer camp. The item in the collective labor agreement of June 2011, regarding the updating of grading and stages, changed the components and terms mentioned above, applying to regular employees engaged or converted to this status as from January 1, 2012. In addition, certain components have been cancelled in their respect and maximum salaries have been determined according to position and grading.

For some employees, payable overtime is subject to a prior approval by the employee’s authorized superior. Starting January 1, 2015, the Bank began the reporting of employee attendance by means of a time clock machine (excluding exceptional cases).

Most of the Bank’s employees are entitled to convalescence in an amount significantly higher than the amounts provided by law. Employees are also entitled to accepted provident and further education funds contributions.

For the purpose of severance pay and provident fund contributions, the Bank includes employee’s basic salary, global overtime payment (according to rank), 1/12 of the employee’s 13th month salary and other additional benefits.

Bank employees are also entitled to certain benefits after their retirement, which are similar to those to which regular employees are entitled.

The Bank is prepared in accordance with the required changes in provisions for severance compensation under the Expansion Order regarding the establishment of compulsory pension for every employee and under Amendment No. 3 to the Provident Fund Law, which are effective January 1, 2008.

According to the Expansion Order, the Bank is required to contribute for severance compensation on a personal basis and up to a maximum rate (as from January 1, 2014 onwards) of 6% of the employee's salary or of the average wage in the economy, whichever is lower. According to the Amendment to the Provident Fund Law, the Bank's contributions for severance compensation cannot be deposited in a central severance pay fund, as hitherto was the practice, starting January 1, 2008 in respect of new employees and starting January 1, 2011 in respect of other employees.

In accordance with the agreement from June 2011, the Bank provides for employee pension, as follows: employer contributions – 6% of the employees' salary (including loss of ability to work where the employee elected executive insurance), minimum contributions by the employee – 5.5%, as well as a provision in the entire amount of severance pay at the rate of 8.33%, including the finality of the provision (according to Section 14 of the Severance Pay Act, concerning new employees – employees engaged as from June 2, 2011 - and existing employees, who chose this alternative, as from the date of choosing it). The Agreement further specified that each new employee shall be entitled to pension insurance starting with the first month of his employment, and also that existing employees (regular) will be entitled to change to the pension insurance arrangement, if they so decide.

Employee award (2012). No awards have been paid to employees in respect of the year 2012.

Employee award (2013). In accordance with the business results for 2013, the Bank has decided to grant to its employees an award of an average amount of one and one third monthly salary. The financial statements as of December 31, 2013, included an adequate provision in respect of the said award in accordance with Management' estimations.

SPECIAL REMUNERATION TO MANAGERIAL PERSONNEL

Part of the managerial personnel is entitled to global overtime payment.

A managerial rank employee who has been promoted is entitled to a 5% salary increase (provided that at least 12 months have elapsed since the date of his last entitlement to such increase due to promotion and/or transfer). A managerial rank employee who has been transferred to another position is entitled to an increase of 2% to 7% of the salary according to the salary table, at management's discretion, taking into account the additional responsibility and/or the special managerial effort required for adaptation to the new position following the transfer, and provided that at least 12 months have elapsed since the date of his last entitlement to such increase due to promotion and/or transfer.

The item in the collective labor agreement of June 2011, regarding the updating of grading and stages, includes changes in some of the employment terms applying to new regular employees becoming Bank employees of this status as from January 1, 2012. In this connection, the average transfer payment has been reduced to 3% and maximum salaries have been determined according to classes in line with the accepted administrative grades at the Bank.

Staff members of the three most senior ranks at the Bank (Senior Executive, Assistant to the President & CEO, Senior Assistant to the President & CEO), are entitled to receive from the Bank a motor vehicle and a full funding of a home telephone line at that senior staff member's residence.

As at December 31, 2014, the staff of the managerial grade numbered 1,243 (December 31, 2013: 1,346 employees).

OFFICERS AND SENIOR MANAGEMENT MEMBERS GROUP OF THE CORPORATION

Members of this group of employees are subject to an advance notice period longer than the period set by the law, and to the period of the occupational limitation (between two to twelve months), in respect of which they are entitled to an adaptation grant (2-12 monthly salaries).

For details regarding a stock option plan for the Bank's senior officers, see Note 13 D to the financial statements.

REMUNERATION PLAN FOR MEMBERS OF THE BANK'S MANAGEMENT

The Bank approved an awards plan for Officers for the years 2015-2016, which reflect the challenges and goals derived from the strategic plan approved on August 20, 2014 (See Note 16 K to the financial statements).

For details regarding the remuneration plan for members of the Bank's management (2011-2013), see Note 16 I to the financial statements.

For details regarding the waiver by officers of the Group, of the award in respect of the year 2012, see Note 16 I 6 and Note 22 G 3 to the financial statements. The waiver by the officers, as stated, is estimated at NIS 18.6 million. (The said estimate assumes in certain of the cases that the qualitative index is similar to that of 2011, and that in other cases the quantitative indices had been weighted without the qualitative index).

For details regarding an award for the year 2013 and a long-term award in respect of the years 2011-2013, see Note 16 I 7 and 8 and Note 22 G 4 to the financial statements.

AWARDS TO OFFICERS IN 2014

In view of the strategic plan formulated for the Discount Group and the efficiency measures required at the Bank and at the Group, and in view of the desire that the remuneration plans that are to be formed would be in agreement and in accordance with the strategic plan and the goals deriving there from, the Bank's Board of Directors has decided that no awards would be paid to Bank Officers in respect of the year 2014. For the same reasons, the boards of directors of ICC and of MDB have decided that no awards will be paid in 2014 to officers of ICC and of MDB.

WORK ON THE DAY OF REST

The Bank's personnel on duty at the computer center and security personnel work on rest days as defined in the Work and Rest Hours Law, 1951. The work of computer workers on duty on such days requires a special permit obtained by the Bank and which is extended from time to time. The work of security personnel is performed in accordance with a general permit.

LABOR RELATIONS OF THE PRINCIPAL SUBSIDIARIES

ICC. On December 21, 2011, ICC, the New General Federation of Labor and the national committee of ICC employees signed a special collective labor agreement, which specifies the terms of employment and the rights and duties of company employees (excluding certain employees to whom the agreement does not apply). Among other things, the agreement determines the right to long-service bonuses (Jubilee Bonuses) and to a onetime signing bonus.

Among other things, the agreement provides for a selective annual increase in salary at an average rate of 3.5% for each of the years 2012, 2013 and 2014.

The agreement remained valid until December 31, 2014. The Management of ICC and the committee of ICC employees are in the midst of negotiations for the renewal of the labor agreement and its terms.

MDB. Labor relations with employees of this bank, except for those having a personal employment agreement, are principally based on a basic labor agreement - "labor statute" - and complementary collective agreements. These agreements determine, among other things, that wage terms, work and related terms shall be linked to those of Bank Leumi Le'Israel B.M.. The previous agreement remained in effect until the end of 2013.

On July 8, 2014, updated labor agreements were signed according to which, among other thing: the validity of the previous agreement was extended for a further two-year period, through December 31, 2015. At the end of that period, the validity of the agreement will automatically be extended for a further two years, unless an advance notice is given by one of the parties, within a period of time of at least 60 days prior to the date of expiry of the agreement, as to the detailed suggestions for its amendment; The status of the non-permanent employees has been formalized, including their spheres of employment, their salary terms and the length of time during which they are to be employed at MDB; the size of the potential population of managers that may be employed in the future under personal employment agreements has been enlarged. A wage agreement was signed on January 29, 2015, between Bank Leumi and its employees, which will be effective for a period of four years as from the year 2015 ("the agreement"). As stated, the employment terms at MDB are linked to those prevailing at Bank Leumi. MDB is studying the details of the agreement and is examining to what extent do the different components contained therein match the labor agreements in effect at MDB.

PROMOTING THE EMPLOYMENT OF ULTRA ORTHODOX JEWISH WOMEN AND ENCOURAGEMENT OF EMPLOYMENT IN PERIPHERAL AREAS

ICC operates a service and sales call center in Modiin Illit, which employs approx. 170 ultra orthodox Jewish women and constitutes an integral part of the Service Department. The call center is suited to the needs of ultra orthodox Jewish women who live in the region. The call center was examined and is meeting business targets and measures, and combines in an integrative manner between the business needs of the organization and the customers and the personal needs of the center's female employees.
A new service and sales center was opened in Ashdod in 2014, which constitutes career anchor for residents of the area.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND ARRANGEMENTS

General. In addition to the labor charter, the various collective agreements existing from time to time, the Bank operates within the framework of laws and regulations applying to all entities in the economy. A short description of the principal restrictions applying to the Bank with respect to its labor relations is given hereunder.
Improvement of enforcement of labor laws. On June 19, 2012, the Intensification of Enforcement of Labor laws Act, 2011, came into effect, the aim of which is "to intensify enforcement of labor laws and making it more efficient". The Act specified an administrative enforcement mechanism, which includes warnings and the imposition of monetary sanctions on employers who violate labor laws, which will serve as an alternative for criminal indictments by power of labor laws. The law imposes extensive liability on employers with respect to their direct employees, as well as purchasers of services with respect to enforcement and securing the rights of personnel engaged on their premises in guard, security, cleaning and catering duties. The Act prohibits the engagement by entities ordering services and contractors supplying such services, in agreements which do not provide for basic wage terms for the personnel involved. The Bank is preparing in accordance with the requirements of the provisions of the law. In 2013 the Bank intensified the supervision over the outsourcing companies and hired the services of an independent accountant, who performs a monthly test audit as required by law, and deficiencies, if found, are being attended to accordingly.
Amendment 24 to the wage protection law, 1958. Amendment 24 to the Wage Protection Law came into effect on February 1, 2009, according to which an employer is required to provide his employees a monthly pay slip detailing the payment made to the employee. The amendment requires the pay slip to include certain details concerning the composition of wages. It is also required to state the number of days on which the employee actually worked, as well as the number of hours actually worked, including overtime, in accordance with the record keeping alternatives provided by the Law. The amendment set forth criminal sanctions and civil remedies.
Following the demand made by the Bank for a change in the manner of recording the attendance of employees at the Bank, as required by law, intensive negotiations have taken place with representatives of the employees, with a view of forming a collective agreement that would regulate the calculation of employee attendance in accordance with the provisions of the Hours of Work and Rest Act, including Amendment 24 to the Wage Protection Act. The negotiations in the matter were concluded in signing a collective agreement in the matter of recording attendance at work and overtime compensation. The agreement signed in the matter with the employee representative committee on March 28, 2014 took effect in respect of all the Bank employees (excluding limited exceptions determined in the agreement) on January 1, 2015, this, following a pilot project of several months, conducted at several units of the Bank having different types of operations for testing the implementation in practice of the agreement and settling all matters that require attention as a result thereof.

Ruling in the matter of forced retirement on grounds of age. In December 2012, the National Labor Court issued an innovative ruling with respect to the duty of employers to consider approaches made by employees facing retirement on grounds of age (67 years), who are interested in continuing their employment. In accordance with the said ruling, employers must consider approaches made by employees based on the personal circumstances of each employee and not only on the requirements of the employer. In actual fact, a part of the employees apply for the continuation of their employment, and the Bank acts in accordance with the procedures required by the said ruling of the Court.

A new extension Order regarding cleaning services. A new extension Order regarding cleaning services entered into effect on March 1, 2014. This Order expands the collective agreement signed on July 11, 2013, between the Federation of Labor and the Cleaning Companies Organization in Israel. Expanding the agreement by way of the Order has also made the agreement effective in accordance with the determination of the parties thereof. Cleaning companies providing cleaning services to the Bank, are members of the said organization, and as such are subject to the provisions of the said agreement. The agreement improves the terms of engagement of cleaning workers employed by cleaning contractors and thus increases engagement costs. Accordingly, the Bank is preparing for the updating of engagement agreements with the cleaning companies, including the updating of the price paid to these companies in respect of cleaning staff employment, as well as the continuing supervision and control over compliance with the provisions of the collective agreement as regards employees of cleaning contractors, as required by the intensified enforcement legislation.

A new Extension Order in the security and protection sector. On November 1, 2014, a new Extension Order regarding the security and protection sector entered into effect, which extends the collective agreement signed on July 22, 2014, between the Federation of Labor and the Israel Security Association. The extension of this agreement by Order has also made the agreement effective, in accordance with the determination by the parties thereto. The agreement improves the employment conditions of guard and security personnel employed by companies and increases the cost of employment. In accordance therewith, the Bank is preparing to update the engagement agreements, including the rates of payments made to security and guard companies in respect of the engagement of their employees, as well as the continuation of supervision and control over compliance with the provisions of the collective agreement in respect of employees of security and guard companies, as required by the Intensification of Enforcement of Labor Laws Act.

Collective agreement in the matter of proper representation in the workplace of handicapped persons. A collective agreement was signed on June 25, 2014, by the Business Associations Board, the Manufacturers Association in Israel, Federation of Israeli Chambers of Commerce (FICC) and other organizations with the Federation of Labor, which states that an employer, who employs over 100 employees, must provide for the proper representation of handicapped persons. The parties have defined that "proper representation" at the end of the first year since the agreement became effective, would be 2% of the total number of employees employed by an employer, and 3% at the end of the following year. It has also been agreed that an employer has to appoint a person on his behalf as "responsible for the employment of handicapped persons".

The agreement became effective on October 5, 2014, upon the publication by the Minister of the Economy of the Extension Order. The Bank is preparing for the implementation of the provisions of the collective agreement, including the appointment of a "responsible officer", as stated.

Minimum wage (Increasing the minimum wage amounts – provisional instruction), 2015. On January 25, 2015, the provisional instruction for the updating of the minimum wage in the market took effect in several stages: on April 1, 2015 - to NIS 4,650, on July 1, 2016 – NIS 4,825 and on January 1, 2017 – to NIS 5,000.

Amendment of the Equal Opportunities at Work Act. On December 4, 2014, an amendment to the said Act was published in the Official Gazette, which prohibits an employer to discriminate between his employees or between job seekers on grounds of place of residence, except in cases where the differentiation on the basis of the place of residence is inevitable due to the type or substance of the office or position.

Amendment to the Notice to Employee Act (Work conditions). On January 30, 2015, the Amendment to the said Act took effect, which states that, an employer has the duty of notifying in writing a job applicant participating in sorting processes for a job, as to the progress of the sorting processes – at least once every two months from date of participation of the candidate in the sorting process, as well as to notify a candidate who was not accepted no later than fourteen days from the date on which another person had been accepted for the job in respect of which the sorting processes had been held. The appointment department of the Human Resources Group is preparing for the implementation of the Amendment to the Act.

REMUNERATION POLICY IN A BANKING CORPORATION

A new instruction in the matter of the remuneration policy of a banking corporation. The Supervisor of Banks issued on November 19, 2013, a new Proper Conduct of Banking Business Directive in the matter of remuneration in a banking corporation (hereunder: "The Directive"). The issue of the Directive is in line with the growing trend of supervisory authorities around the world, following the global financial crisis, and which stems from the acknowledgement that the subject of remuneration is an integral part of proper corporate governance of financial institutions, and that it must be ensured that remuneration does not encourage acceptance of exceptional risks that might endanger stability of banks and the financial system as a whole. The instruction replaced the letter of the Supervisor of Banks of April 4, 2009, in the matter of the remuneration policy of a banking corporation.

The Directive is intended to fortify corporate governance and control and documentation mechanisms in relation to the remuneration policy and ensure that remuneration arrangements are consistent with risk management framework and the long-term goals of the banking corporation.

In accordance with the instruction, the Bank's Board of Directors has to approve, at least once in every three years, a remuneration policy, which has to be formed by the remuneration committee, as well as determine principles for a Group remuneration policy. The remuneration policy shall apply to all employees of the banking corporation and to all types of remuneration, while focusing on the remuneration mechanism for key-employees (as defined in the instruction). Included in the class of key-employees, are all those employees whose activity may have a material effect on the Bank's risk profile, and among other, subject to certain exceptions, senior officers as defined in the instruction, managers who report directly to managers who report directly to the President & CEO, an employee, the total remuneration attributed to him by the Bank in the passing year or in the year preceding it, exceeded NIS 1,500,000, and a class of employees subject to the same remuneration arrangements, and which may, together, expose the Bank to a material risk. Among the exceptions, as stated, to the definition of key-employees, are included employees (who are not officers) all the remuneration of whom is determined by a collective labor agreement. The instruction prescribes many provisions as to everything relating to the principles required with respect to the remuneration of key-employees, with a focus on the variable remuneration and remuneration in respect of the termination of employment. The instruction further states provisions regarding the involvement of risk management, control and audit functions in the development of the remuneration mechanism and in examining the consistency of the remuneration policy with the Bank's risk management framework.

Special emphasis is given in the Directive to the variable component of the remuneration:

- The Remuneration Committee of the Board shall have to determine in advance the adequate ratio of the variable remuneration and the fixed remuneration in respect of different groups of employees;
- The maximum variable remuneration shall not exceed 100% of the fixed remuneration, excluding exceptional cases;
- It is required to defer the payment of at least 50% of the variable component of the remuneration in respect of key employees over a period of not less than three years;
- It is stated that the granting of variable remuneration, which is not performance based, should be avoided, other than in exceptional cases.

The instruction states that, no later than June 30, 2014, banks have to approve a remuneration plan complying with the requirements of the instruction, and which would apply to all employees of the banking corporation and to all classes of remuneration.

It has been further determined that the provisions of the Directive shall apply to an individual remuneration agreement of a key-employee, including an extension or change of an existing remuneration agreement, as well as to a remuneration agreement that has been approved since the date of publication of the draft Directive (June 3, 2013). As regards an agreement that had been approved prior to June 3, 2013, it has been determined that it should be adjusted to agree with the provisions of the Directive no later than December 31, 2016.

The provisions of the Directive shall not apply to rights of a key employee, as defined by the Directive, accumulated until date of publication of the Directive.

Remuneration policy for Officers of the Bank. In accordance with the instruction and with Amendment No. 20 to the Companies Act (see "Legislation and supervision" above), the Bank's general meeting of shareholder approved in February 2014, a remuneration policy for officers, in accordance with Section 267A of the Companies Act, 1999.

The remuneration Committee and the Board have resolved that the existing terms of office and employment of the Chairman of the Board and of the former President & CEO (see Note 13 D (1) and Note 22 F, G and I to the financial statements) shall continue to apply until the end of the respective period. The remuneration Committee and the Board of Directors also decided that the existing award plan in respect of Officers (who are not the Chairman of the Board or the President & CEO; see Note 16 I to the financial statements) shall apply in respect of the payment of the annual award for 2013 and the long-term award for the years 2011 to 2013, subject to certain determined principles.

For additional details regarding the remuneration policy for officers see the immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-066526 and 2014-01-040990), the information contained therein is presented here by way of reference (see also Note 16L).

It should be noted that there is no material difference between the proposed remuneration policy and the remuneration terms for Officers in their present format, as described in the Note.

For additional details regarding the terms of engagement and office of the Chairman of the Board, the President & CEO and members of the Bank's Management, see Note 16 I and K, and Note 22 F, G and H.

It is noted, that the remuneration plans in respect of the Chairman of the Board of the Bank and the former President & CEO (see Note 22F, G and I to the financial statements) and the remuneration plan for members of the Bank's Management for the years 2011 until 2013 (see Note 16I) had been prepared in accordance with the principles of the remuneration policy in effect at the Bank at date of their approval. Also the remuneration plans determined in 2011 by ICC and by MDB, had been prepared in accordance with the principles of the remuneration policy in effect at that time at the said subsidiaries.

The Bank approved in June 2014, following the approval of the remuneration policy for officers, a remuneration policy for all employees of the Bank has been approved, including in respect of central employees, as well as the principals of group remuneration policy, the remuneration policy for officers, as approved by the general meeting of shareholders comprising a part thereof.

Employees remuneration policy. As part of the employees remuneration policy, restrictions have been set that apply to the variable remuneration of employees and provisions have been prescribed with regard to the fixed and variable remuneration of key employees, as well as reference to supplementary procedures regularizing the distribution of responsibility in respect of the relevant functions at the Bank engaged in the remuneration mechanism. Moreover, within the framework of the Group remuneration policy, principles have been prescribed regarding the fixed and variable remuneration of officers of controlled corporations.

In his letter dated March 18, 2014, the Supervisor of Banks deferred the date of implementing the requirement to approve a remuneration policy applying to the subsidiary companies in Israel, until September 30, 2014. Accordingly, in September, the subsidiary companies in Israel, which are subject to the directives of the Supervisor of Banks (ICC, MDB and DCMI) approved a remuneration policy complying with the provisions of the instruction, based upon the principles of the Group remuneration policy that had been approved by the Bank.

Questions and Answers file for the implementation of Proper Conduct of Banking Business Directive in the matter of "compensation policy in a banking remuneration". On October 29, 2014, the Supervisor of Banks issued a questions and answers file, intended to summarize the position of the Supervisor on various issues relating to the implementation of the instruction regarding the remuneration policy.

Additional details as regards the remuneration plan are presented in Part "C" of the document "Additional disclosure according to the Third Pillar of Basel", Table No. 15.

For details regarding the Remuneration for Officers of Financial Corporations Bill, see “Legislation and Supervision” above.

DEVELOPMENT OF HUMAN RESOURCES

Development of human resources at the Bank derived from the strategic focuses and the Bank's organizational culture. Thus reinforcing the Bank’s ability to address successfully its business and organizational challenges.

MANAGEMENT AND LEADERSHIP

Establishing, cultivating and strengthening the managerial backbone, throughout its extent, by developing managerial leadership that supports strategy, focusing on the customer and contributing to business performance (performance, profitability and value maximization) and guidance towards the cultivating and development of the human capital.

Long-term manpower planning

Managerial continuity ("bench depth"). An organizational process intended to secure a managerial cadre for the manning of key positions at the Bank and thus reducing the level of risk in the manning of key positions. The present risk level regarding key positions at the Bank was updated in 2014, potential replacements were mapped, and operational recommendations were formed.

Development of acting managers – construction and maximum use of the workforce

Academic enrichment for senior management of the Bank and of subsidiaries in the Discount Group as leaders of strategic subjects.

"An executive training room". Practical-implemental training, subject focused, for the maximization of the variety managerial skills and qualifications of the Bank's managers;

Development of an organic team. Development programs at the organic level were launched in 2014 for the development of a team, strengthening of the managerial role concept and the development of management expertise and apprenticeship among the medium level managerial echelon. Development plans included professional and administrative guidance, consultation assistance and a "consulting colleagues" forum.

Reserves – formation of the future managerial cadre

Training and classifying the reserves towards appointment for a role. "Management reserve" (junior management) and "reserve for branch management" (middle management). Classifying and qualifying trainings, which include behavioral training for managerial concept of duty, which is grade adjusted, and a level for completion of banking-professional knowledge.

"Advanced banking". A classifying development lane for the formation of a cadre having the potential for managerial roles at the branches. The third class of studies was completed in 2014 and preparations have begun for examination of the participation of the graduates in the training towards the first managerial position.

"Horizons". A development and training, three year course for candidates for the position of branch manager. Graduates of the course serve in managerial positions at branches (segment managers). Together with assisting them in their duties, their performance is being evaluated as a background for the examination of their suitability for qualifying as branch managers.

Personal development

Personal development serves as a central layer of the management reinforcement, and is performed through a variety of methods for improvement of qualifications, evaluation and feedback.

Assisting and advising managers when assuming new duties and/or on the job managerial training. Assisting new branch managers upon their entry into office was performed according to an integrative guidance and assistance layout, for intensifying the role concept of a branch manager as the business manager, with a focus on the continuity of study from the managerial reserve until the end of one year in office.

The mentoring of managers and units undergoing change. Organizational diagnosis, development plans and consulting assistance to units in view of processes of change at the unit.

Program for the development of team leaders. A development program which includes behavioral managerial training, consulting colleagues group and specific consulting.

Developing organic teams. In 2014 the intervention was carried out in several units.

TRAINING

Learning is viewed by the Bank as a principal value. It supports the availability of qualified human capital for the realization of the Bank's business strategy and the advancement of its goals, while stressing the maximum and exhaustive use of available internal capabilities, and constant improvement. In 2014, the staff at the Bank received a widespread response to their professional requirements by means of extensive training and instruction towards the core position (qualification), improvement of business performance (proficiency) and elimination of performance gaps, in accordance with the mapping of core duties and professional core abilities and according to the identification of needs conducted at the various divisions. Among other things, a solution has been provided for development and training needs derived from regulatory instructions that have effect on the banking industry and/or consumer instructions such as: updating of commission tracks, opening an account via the Internet, administrative enforcement, prohibition of money laundering and more.

Efforts were made in 2014 in the development of applicable short training classes of a diverse mix, including "distance learning". Certain of the studies were delivered by means of "computer mediated communication", distinct in its quick delivery to the office desk of the employee, as well as presenting a uniform and clear message to an especially large population.

Customer focus concept. Construction and absorption of a new sales concept, provision of skills and sales and service tools (including a new sales system) for the managerial level and to bank officers of the service teams all over the branch layout as well as among sales managers and sales training staff.

Profitability. Training for segment managers and branch managers regarding the subject of profitability - A unique training solution, within the framework of which managers chose the study subjects, studying in small study groups (according to their choice). A professional panel assembled at the end of the meeting, which summed up all study subjects discussed at the round tables. An information booklet on the subject of profitability has been published for the students, which documented the oral rules into an orderly codex. In 2014, the move was completed among all the managerial staff in all branches of the Bank.

Reinforcement of professionalism of functionaries in the credit field. Designated instruction improving the office concept and professionalism of all credit coordinators; instruction improving professionalism of branch managers and their deputies regarding the subject of credit; Strengthening the skills of business bankers of the Corporate Division in managing professional and focused relations with customers; designated and comprehensive qualification for new economists, including upgraded knowhow for officiating economists.

Training of mortgage representatives. Instruction for service teams that serve also as mortgage consultants as well as instruction for the managerial teams at branches having a mortgage station.

Compliance. Training and invigorating compliance officers, including a designated survey examining the professional service. In addition, training has been provided for compliance trustees, managers and officers responsible for regional control. In order to integrate compliance at the Bank and strengthen the organizational awareness to the subject, a preventive communication process was put into action, which, among other things, included the distribution of a quarterly electronic newsletter in the subject for all Bank employees.

Risk management. A knowledge matrix for risk management has been devised, which defines the training subjects for core business officers, in accordance with risk levels. Requirements for knowhow management in respect of risk management have been defined, an SAS risk management system has been absorbed, and a communication program for the absorption of a risk management culture has been formed.

Strengthening the orientation towards the Bank and the banking industry. The improvement of knowledge and familiarity of employees making their first steps at the Bank, with the world of banking contents in general and with Discount Bank in particular.

Accessibility. An on-line training for all Bank employees, strengthening awareness to the subject. Preparations for experience providing seminar training to all Bank employees, who provide service to outside customers.

Scope of training

The number of training days in 2014 reached 25,370 compared with 34,600 training days in 2013, a decrease of approx. 26.5% The decline in the number of training days was the result of the "Protective Edge" Operation, of a specific strike at the Bank and the increasing use of computer communication learning. The data regarding the number of training days relate to actual training days on the College premises, and it does not express the development, enrichment and extensive self study activities conducted in a variety of subjects and areas. Thus, some 27,082 employees actually studied in 2014 through self computer communication learning – an activity, which as estimated, would require additional 13,540 training days (2013 – approx. 12,170 days of training).

Investment in training and development of employees

The Bank's investments in developing its human resources, in the training and shaping of an organizational culture amounted to NIS 10 million in 2014, compared with NIS 11.5 million in 2013, a decrease of approx. 13%. The said decline derived from the process of the reexamination of operations and the modification thereof to the goals of the Strategic plan. The above mentioned amounts include the training of employees in various subjects (development and providing training and training advice), professional qualification expenses, study seminars, etc. The amount does not include expenses in respect of academic studies for the Bank's employees and also not indirect costs regarding the wage of instruction staff, rental and building maintenance costs. The amount does not also include the relative part of employee payroll in respect of the participation of the staff in providing training courses, in the Bank's training framework, in self study by means of the distant learning computer systems and participation in outside training frameworks.

Furthermore, for the purpose of conducting the training, the Bank appoints mentors and training partners who are Bank employees and who, in addition to their regular work, assist in apprenticing training and in the preparation of training material. The cost in this respect is not included in the above amount.

CHANGE MANAGEMENT

Implementation of a multi-subject approach for the integration of change and its management in cross-organization strategic projects, while focusing on the human capital. Comprehensive assistance, based on the "made to measure" principle; namely, a collection of development activities (such as: assistance to and development of the managerial staff, position concept, the structuring of teams, processes and interfaces), training (development and providing training) and inter-organizational communication from the organizational and personal aspects, tailored to the unique requirements of the project and of designated professional teams and/or professional groups (in accordance with engagement and/or hierarchy level).

A management method was put into operation in 2014, supporting the professional challenges of the risk management group and its structure.

KNOWLEDGE MANAGEMENT

Knowledge management constitutes an important layer in the management of employee professionalism and the quality of service at the Bank supports employee performance by means of identifying and collecting professional knowhow; turning hidden knowledge into open knowledge; real-time validating and updating of information, the preservation and recycled use thereof; participation in professional knowhow; directing the required knowhow to the user in the shortest possible time and accessibility of the information by different means to the benefit of work and learning processes. The organizational portal on the Intranet system at Discount Bank comprises a central tool in Knowledge management.

Sharepoint. Upon reaching the decision to transfer all the business/organizational applications to the Sharepoint platform, the policy, operational concept and the functional characterization of the knowhow management using the system were formed. Managers of the knowhow communities have undergone instruction for obtaining familiarity with the concept and the system, and the manner of establishing sites on the platform. In the meantime, a process has begun for the mapping, characterization and construction of specific sites in the system.

Knowhow preservation. A methodology has been established for the capture of functional knowhow held by those having unique knowhow critical to the Bank. Units having a large number of retiring employees as well as employees due for retirement have been identified, and measures to preserve the knowhow held in such units have been taken.

Drawing conclusions. Within the framework of promoting organizational learning and integrating risk management concept, the Bank cultivates a culture of drawing conclusions in order to expand organizational knowledge, information sharing, duplicating success and avoiding failure. The move for assimilation among officers and units of the Bank of the concept and process of drawing conclusions continued in 2014. In addition, the subject has been integrated into banking instruction sessions, professional conventions and in the organizational portal.

ORGANIZATIONAL CULTURE

In 2014, the focus was placed on the design of a change supporting organizational culture, with an emphasis on performance and service.

Facebank. A new organizational portal was launched in 2014, in the format of news sites prevalent on the Internet. This allows updating on news and current updates at the Bank, and invites an open dialogue with senior Management on subjects that are the center of discussion in the organization. Since its establishment, the Facebank provided, among other things, a current updates of the employees regarding the new strategic plan, cross-organizational projects operated within the framework of which, the early retirement plan, the work time recorder put into operation on January 1, 2015, and more.

The Discount code of ethics. The year 2014 has been dedicated to the raising of the ethical standards at the Bank. Moreover, a move for the updating of the Code of Ethics has started and also a preliminary outline of the updated code was formed.

Internal communication. The Bank is investing in the development of open and two-sided communication with its employees, while strengthening their relations and commitment to the strategy and goals of the Bank, as well as to the community and the environment.

With a view of broadening employees' knowledge and understanding as to the Bank's total activities and to promote performance, a variety of communication lines were also used during 2014, including: Senior Forum - a quarterly meeting led by the President & CEO; "Morning magazine" - a weekly television newscast presenting subjects standing at the core of the Bank's endeavor; Employee portal (Intranet); "Personal angle" – a quarterly Internet newsletter, which includes news and updates concerning various subjects of interest to employees; "Talking strategy" – "attachment" of managers to strategic and organizational processes in the Discount Group, as agents for communicating knowledge and its meanings; "Talking about results" - communication of business results and their implications to the management chain; "Pertinent angle" – publication of ad-hoc updates on subjects in focus.

In order to feel the mood, challenges and questions of employees, the Bank holds meetings at various levels, discussion groups and feedback processes, including:

- "Round tables" – "face to face" meetings of the President & CEO or of one of the management members with managers and employees;
- "Management in the field" - monthly tours of management members at branches and field units accompanied by senior managers from their head offices;
- "Ethics Café" – meetings led by a member of the Management, enriching the ways of facing ethical dilemmas.

MEASUREMENT AND EVALUATION

The measurement and assessment tools were improved in 2014, with a view of creating an infrastructure for the strengthening of a culture of attaining goals and performance directed, and the objective and relative measurement of output, which creates true differentiation and promotes action – with a focus on transparency.

Performance evaluation and feedback. Combining the process of evaluation and feedback, the uniqueness thereof is the positioning of the employee in the center, as a basis for improving performance and strengthening the linkage between evaluation and performance and remuneration. Following the drawing of conclusions from instigating the process in 2013, an improved process was initiated in 2014. The findings of this process constitute an infrastructure for the identification of strengths and challenges, as a basis for the formation of development programs. In addition, half-yearly evaluations of non-permanent Bank employees have been made.

Internal organization reviews. These serve as a tool for decision makers. Identification of areas of operation for improving performance; measurement of the satisfaction of the target population/ the customers from the learning experience in training activities, absorption and development of employees; and the identification of trends and preferences among the Bank employees.

Internal service review – a platform for interface improvement between the Bank's units, with a view of providing prime service to the internal and external customer. In the preceding year, the Bank began the mapping of services and customers at the professional staff units and at the business staff units positioned on the critical route for business activity, towards performance of the review in 2015.

AN INVITING AND HEALTHY WORK ENVIRONMENT, RESPECTING ALL CIRCLES OF LIFE OF THE EMPLOYEE

The Bank acts towards the implementation of driving, initiation, personal consulting and assistance programs, in routine daily life and in periods of distress and crisis, by means of professional units operating at the Bank, including: the welfare unit and the medical officer of the Bank. Included in the above may be mentioned the following moves:

- Implementation of ergonomic principles upon renewal and/or establishment of units.
- A move for the absorption of an organizational health program at the branch layout was completed in 2014. The program focused on physical fitness and proper nutrition, led by the managerial level presenting a personal example. Furthermore, the program included intensive intervention among employees, when identified as population in risk situation.
- "Protective Edge" Operation – During the fighting in the south, the Bank operated personal and group involvement in support of Bank employees. Current assistance of heads of units and their staff, individual treatment (where required), and support for employees and their family members who were called for military reserve service.

IMPROVEMENT OF SERVICE

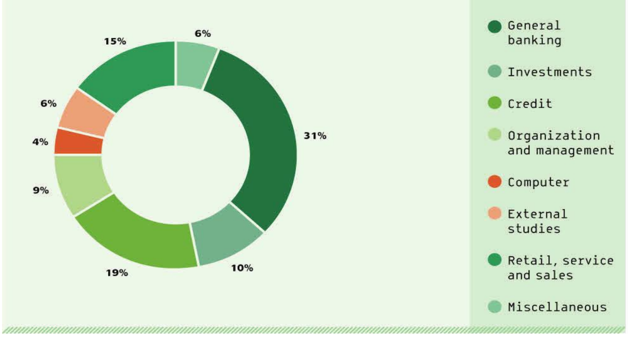
The service concept of Discount Bank sees in the customer an individual who provides the Bank and its employees significance, work and a living. The Bank aspires to create for its customers a personal service experience, causing them to continue and choose it as their bank.

Measurement of the customer's experience. Measurement of the customer's multi-lane experience continued also in 2014 at the branches and investment centers. Measurement data is provided to the managers of the business units as soon as the findings are received and which constitute an infrastructure for the drawing of conclusions and analysis of strengths and weaknesses in providing response to customers. In cases where immediate intervention is required, the unit manager addresses the customer in providing a personal response. In addition, the response standard through direct banking has been updated, both in respect of the customer addressing the Bank by telephone and in returning a call to the customer who had contacted the Bank branches.

Handling complaints. The reduction in the number of complaints and the number of justified complaints were defined as a system objective also in 2014.

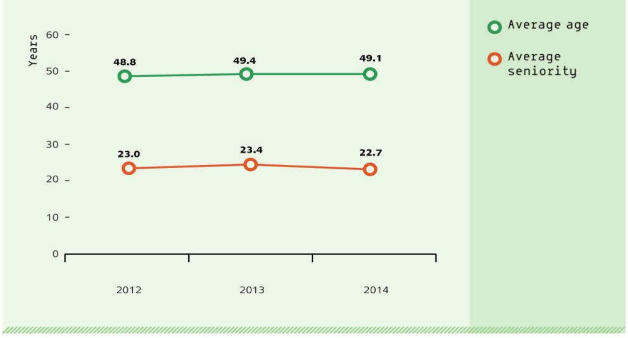
The number of complaints received through the bank-customer relations department of the Supervisor of Banks at the Bank of Israel increased, from 278 complaints in 2013, to 346 complaints in 2014, a 24% rise. The rate of complaints found justified in 2014, decreased from 15.1% in 2013, to 14.5% in 2014. The grade awarded to the Bank by the Supervisor of Banks regarding the quality of complaint handling was 98.7 % in 2014, compared to 99.3% in 2013.

Training days



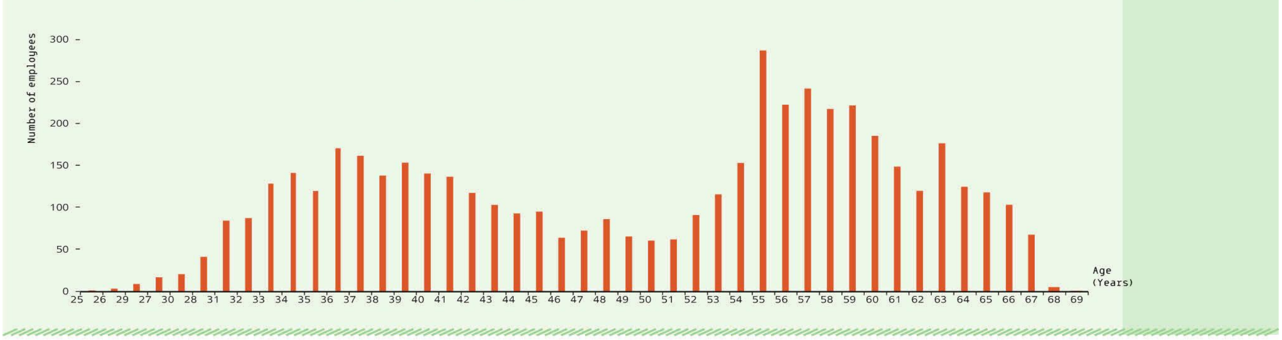
Number of positions at the Bank

Average seniority and average age

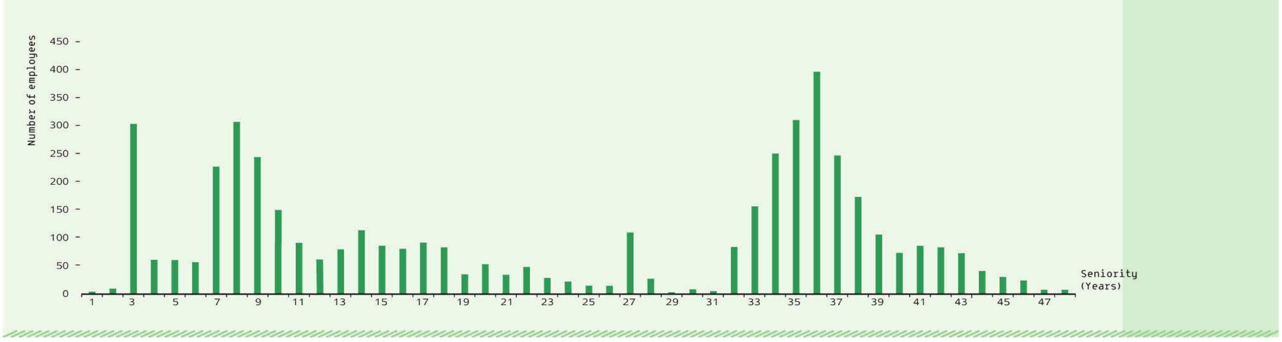


The rate of university graduates according to grade

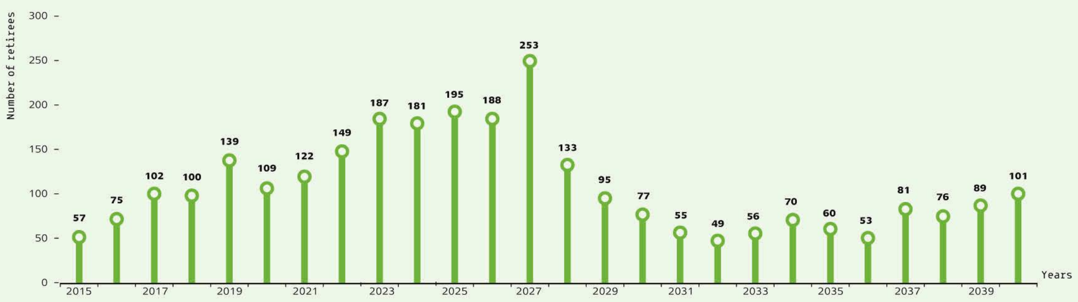
Distribution of tenured employees by age - work force 12/14



Distribution of tenured employees by seniority - work force 12/14



Natural Retirement by Years (tenured employees)



CONTROL OF THE BANK

CONTROL OF THE BANK UNTIL DECEMBER 3, 2013

Until December 3, 2013, the Bronfman-Schron Group was a controlling shareholder of the Bank and held 265,164,841 of the Bank`s "A" ordinary shares of NIS 0.1 par value each (hereinafter : "ordinary shares") comprising 25.16% of the Bank`s issued share capital and voting rights.

The Bronfman Group's holdings in the Bank, through the limited partnership Treetops Acquisition Group LP (hereinafter : "Treetops"), comprised 15.1% of the equity and voting rights.

Mr. Rubin Schron's holdings in the Bank, through the limited partnership Treetops Acquisition Group II LP (hereinafter : "Treetops II"), comprised 10.06% of the issued share capital and voting rights.

The ultimate controlling shareholders of the Bank were Messrs: the late Edgar M. Bronfman, Matthew Bronfman, Adam R. Bronfman, Holly B. Lev, Michael Rubinoff, Philip Milstein and Rubin Schron.

The 2012 annual report contained an extensive description of the permit granted by the Governor of the Bank of Israel for the control and the holding of means of control in the Bank as well as the arrangements between the entities comprising the Bronfman-Schron Group.

A TRANSACTION FOR THE SALE OF SHARES DATED DECEMBER 3, 2013

According to information provided to the Bank, Treetops and Treetops II sold on December 3, 2013, some 44,262,511 ordinary shares by Treetops and 29,508,340 ordinary shares by Treetops II. The sale was made off the market at a price of NIS 6.679 per share, as detailed in the immediate report dated December 3, 2013 (Ref. No. 2013-01-213078).

Upon the consummation of the transaction, the permit by the Governor of the Bank of Israel dated December 1, 2013, for the holdings of means of control in the Bank (hereinafter: "the holding permit") which is designed to enable the decentralization of the core controlling interest of a bank in a gradual manner, as detailed in the immediate report dated December 12, 2013, (Ref. No. 2013-01-095539), entered into effect. At date of entering into effect of the holding permit, the permit granted on January 29, 2006, to the Bronfman-Schron Group for the holding of the control and means of control in the Bank was abolished.

In accordance with the above, the Bronfman-Schron Group ceased to be in control of the Bank and the Bank turned into a bank having no core controlling interest.

On February 9, 2014, the Governor of the Bank of Israel signed the amendment to the holding permit, revised following the passing away of the late Edgar M. Bronfman on December 21, 2013. As detailed in the immediate report dated February 10, 2014 (Ref. No. 2014-01-036505) (hereinafter: "the amended holding permit").
All the said immediate reports are presented hereby by way of reference.
For details regarding instructions for the appointment of directors in a banking corporation having no core controlling interest, as prescribed in the Banking Act (Licensing) (Legislative amendments), 2012, see above "Legislation and Supervision".

ADDITIONAL TRANSACTIONS FOR THE SALE OF SHARES IN THE COURSE OF 2014

As has been reported to the Bank, Treetops Acquisition Group II LP ("Treetops II"), through which Mr. Schron held means of control in the Bank, sold on April 8, 2014, in an off-market transaction, 38,278,798 ordinary shares of the Bank at a price of NIS 6.157 per share, everything as detailed in an immediate report dated April 8, 2014 (Ref. No. 2014-01-041775), presented here by way of reference. The total consideration in respect of the transaction amounted to NIS 236 million. Following the said sale, Treetops II held 38,278,799 shares of the Bank amounting to 3.63% of its share capital.
As related to the Bank, Treetops II entered on August 26, 2014, into an agreement for the sale of 38,278,799 ordinary shares of the Bank, in an off-market transaction, at a price of NIS 5.82 per share. The transaction was consummated on August 31, 2014, and the total consideration in respect thereof amounted to NIS 223 million. Following the consummation of the said transaction, Treetops II is no longer a shareholder of the Bank. All this as detailed in immediate reports dated August 27 and 31, 2014 (Ref. Nos. 2014-01-143082 and 2014-01-147765, respectively).
As related to the Bank, Treetops Acquisition Group ("Treetops"), through which the Bronfman Group holds means of control of the Bank, entered on September 3, 2014, into an agreement for the sale of 62,353,702 ordinary shares of the Bank, in an off-market transaction, at a price of NIS 5.831 per share, for a total consideration of NIS 364 million, all as detailed in an immediate report dated September 4, 2014 (Ref. No. 2014-01-150984). The transaction was consummated on September 4, following which, Treetops holdings in the Bank have decreased to 4.98%, all as detailed in an immediate report dated September 4, 2014 (Ref. No. 2014-01-151503). Following the said sale, Treetops is no longer an interested party in the Bank, though it is still defined as a "significant shareholder" and as a "related person" (within its meaning in Proper Conduct of Banking Business Directive No. 312).
As related to the Bank, on December 3, 2014, Treetops sold 49,104,433 ordinary shares of the Bank, in an off-market transaction, at a price of NIS 6.089 per share, for a total consideration of NIS 299 million. Following the transaction, Treetops holdings in the Bank have decreased to approx. 3.2%, all as detailed in the immediate reports dated December 3, 2014 (Ref. No. 2014-01-213015 and 2014-01-213552). All the said immediate reports are presented hereby by way of reference.

PERMIT BY THE GOVERNOR OF THE BANK OF ISRAEL FOR THE HOLDING OF MEANS OF CONTROL IN THE BANK

The holding permit is in effect until the end of the transition period (as defined hereunder), however, if the transition period shall terminate before the end of six months from its inception date, then item 3(a) below will be in effect until the end of six months from inception of the transition period or until the end of the extended period according to the decision of the Supervisor of Banks in accordance with this item. Item 8 below will be in effect until the end of one year from date of termination of the transition period.
Following are the principle terms of the holding permit:

1. During the transitional period, the Bronfman Group and Mr. Schron (hereinafter : "the holders") are permitted only to sell means of control in the Bank and may not purchase such means at all.
   "Transitional period" – the period beginning with the first transfer of means of control in the Bank (namely: the sale of shares consummated on December 3, 2013, as described above; hereunder: "the initial transfer of means of control in the Bank") and ending on the earlier date of the following: the end of two years from date of the first transfer of means of control in the Bank, or

the date on which both the Bronfman Group shall not hold more than 5% of any class of means of control and Mr. Schron shall not hold more than 5% of any class of means of control in the Bank. The Supervisor of Banks is empowered to extend the transitional period by one additional year.

2. (a) The Bronfman Group may hold any class of means of control in the Bank, but no more than the ratio held by it immediately following the first transfer of means of control in the Bank; the said holding shall be by means of the entities detailed in the Addendum to the holding permit and according to the ratios detailed in that Addendum;

   Treetops may directly hold any class of means of control in the Bank, but not more than the ratio held by it immediately following the first transfer of means of control in the Bank.

   (b) Mr. Schron may hold any class of means of control in the Bank, but no more than the ratio held by him immediately following the first transfer of means of control in the Bank; the said holding shall be by means of the entities detailed in the Addendum to the holding permit and according to the ratios detailed in that Addendum;

   Treetops II may directly hold any class of means of control in the Bank, but not more than the ratio held by it immediately following the first transfer of means of control in the Bank.

   (c) The following restrictions shall apply to all the corporations and trusteeships detailed in the Addendum to the holding permit (hereinafter : "the entities"):

   (1) 100% of the balance sheet assets of each of the entities shall be financed by equity; notwithstanding the above, each of Treetops or Treetops II shall be permitted to obtain credit on condition that no more than 5% of each class of means of control in the Bank is pledged as collateral thereof, as stated in subsection (d) hereunder.

   (2) The said entities shall not engage in any business except for the holding of means of control in the Bank, in accordance with the Addendum to the holding permit.

   (d) The holders shall not pledge the means of control in the Bank or in any of the said entities. Notwithstanding the above, the restriction on the pledge shall not apply to 5% of any class of means of control in the Bank held separately by the Bronfman Group or by Mr. Schron.

   (e) (1) The holders shall not agree, either explicitly or by implication, to a foreclosure of the means of control in the Bank or in any of the above entities; the holders shall refrain from any other action which may lead in fact to a change in ownership rights over these means of control or over the rights embedded therein and which are specified in the definition of "means of control" in Section 1 of the Banking Act (Licensing), 1981, except for the sale thereof in accordance with this permit.

   (2) Where, despite the above, the means of control held by a holder, as stated in subsection (1) above, had been foreclosed, such holder shall do the utmost, in any way available to him, to immediately remove the foreclosure.

3. The holders shall act and vote by power of their holdings of the means of control in the Bank, as follows:

   (a) To terminate the office of directors, who have had or are having any connection to any of the holders, as determined by the Supervisor of Banks, within six months from the beginning of the transitional period, including by the submission of a demand to the Bank`s Board of Directors requesting the convening of a general meeting of shareholders having on its agenda a motion as above and the support of such motion by power of all their holdings in the means of control in the Bank. The Supervisor of Banks may extend the said period with respect to one or more directors, at his discretion.

   (b) To demand from the Bank`s Board of Directors, soon after the beginning of the transitional period, to convene a meeting of shareholders with the agenda of increasing the Bank`s registered share capital by a rate of 15%, and to support such a motion (an increase as above was approved by a general meeting of shareholders held on February 17, 2014 – see Note 13 C 3 to the financial statements).

4. Cooperation between the holders:

   (a) The Bronfman Group and Mr. Schron shall be permitted to cooperate only in the matter of the sale of the means of control held by them, as well as in whatever is required for acting and voting by power of their total holdings in the Bank, as stated in item (3) above.

(b) At the end of six months since the beginning of the transitional period, the Bronfman Group shall not vote by the power of their voting rights that exceed 5% of the means of control of the Bank and Mr. Schron shall not vote by power of his voting rights that exceed 5% of the means of control of the Bank, and everything excluding the matters stated in item (3) above, in respect of which the Bronfman Group and Mr. Schron will vote by power of their total holdings in the means of control of the Bank.

It has been clarified that during the first six months of the transitional period, the holders are allowed to vote also on matters that are not detailed in item (3) above, under power of all the means of control held by them, on condition that the Bronfman Group and Mr. Schron do not correlate the mode of their voting on such matters.

(c) Without derogating from that stated in subsection (b) above, the members of the Bronfman Group holding together the means of control of the Bank through Treetop, are permitted to cooperate between them and correlate the mode of voting under the voting rights held by them.

5. In the event that during the process of sale, the holdings of the Bronfman Group or of Mr. Schron in the means of control of the Bank would drop to a level of 5% or below, which does not require obtaining a holding permit (hereinafter: "Partner A"), while the holdings of the other holder (the Bronfman Group or Mr. Schron, as the case may be, hereinafter : "partner B") have not yet dropped to that level, then with respect to partner "A", the conditions of the permit stated in item 2 above and in item 7 below will be abolished. The above stated shall apply also with respect to partner "B" on the date on which his holdings in means of control of the Bank drop to a level of 5% or below, which does not require a holding permit.

   It is clarified that the holding permit, together, shall still be in effect and shall enable the holders to continue acting according to its terms, including coordinating the continuation of the sale of the means of control of the Bank as well as acting and voting in accordance with the terms detailed in item 3 above.

6. The holders and the entities through which the means of control are being held, as stated in item 2 above and in the Addendum to the permit, are permitted to continue and act in accordance with the cooperation agreement (Summary of Principal Terms) which was appended as Appendix "B" to the investors' agreement of January 25, 2006, which had been approved in advance and in writing by the Supervisor of Banks, subject to the condition that the terms set in the holding permit are not violated.

7. The means of control of the Bank held directly by Treetop and Treetop II, shall continue to be deposited with the Trustee – Ubank Trust Company Ltd., in accordance with the amended version of the trust agreement, including, in accordance with Addendum III to the trust agreement, as approved by the Supervisor of Banks on December 3, 2012, or shall be deposited with another trustee, whose identity, letter of trusteeship and the instructions given to him in the trust agreement shall be subject to the prior approval in writing of the Supervisor of Banks.

8. During the transitional period and during one year thereafter (hereinafter: "the cooling off period") the holders shall not be entitled to propose candidates for office as directors of the Bank and shall not be entitled to be involved in any way whatsoever in the proposal of candidates for office as directors and shall not be entitled to propose the termination of office of a director, except as stated in item 3(a) above.

   Notwithstanding the above, it was clarified that the holders shall be entitled to vote in the matter of appointment or termination of office of directors, not proposed by the holders, subject to the terms specified in item 4(b) above.

9. (a) During the transitional period and in the absence of a prior approval in writing by the Supervisor of banks, the holders or any of them, or corporations under their control, shall not be permitted to engage in any business in Israel involving the receipt of deposits – even from less than thirty persons, or involving the granting of credit or any other financial occupation in Israel, which might be considered as competing with the Bank`s business.

   (b) During the transitional period and in the absence of a prior approval in writing by the Supervisor of banks, the holders or any of them, or corporations under their control, may not be considered interested parties in and hold office as directors or senior executives of corporations engaged in any of the business operations mentioned in subsection (a) above; in this respect, "interested party" - anyone who holds 5% or more of any class of means of control.

For details regarding the instructions set in the holding permit, regarding transactions between the holders and the Bank, see Note 22E (2) to the financial statements. The holding permit states also that during the cooling-off period the holders are deemed to be related parties and controlling shareholders for the purpose of Proper Conduct of Banking Business Directive in the matter of a banking corporation business with related parties (Directive No. 312).

A letter of the Supervisor of Banks dated December 1, 2013, appended to the holding permit, as stated, clarifies, among other things, the matter of external directors, as follows:

(1) In view of the fact that during the transitional period the Bank will convert to a status of a bank having no core controlling interest, the rules of the Banking Law (Licensing), 1981, applicable to the connection of external directors of a bank having no core controlling interest shall apply. These rules include an absence of connection to whoever holds over 2.5% of the means of control of the bank.

(2) The office of external directors of a bank (meaning external directors under the Companies Act and external directors under Proper Conduct of Banking Business Directive No. 301 in the matter of the board of directors) shall not be terminated following the decentralization of control of the bank.

In view of the sale of the shares during 2014, the transitional period has terminated, though the provisions of item 8 above shall continue to apply until the end of the cooling off period.

CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

GENERAL

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements) and according to instructions and guidelines of the Supervisor of Banks.

The level of regulation regarding the financial reporting of banking corporations is among the highest in the financial reporting field in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and sometimes even dictate the wording to be used by banking corporations. Nonetheless, there are areas where application of the accounting policy involves a high level of evaluation and assessment performed by Management of the banking corporation in the course of preparation of the financial statements.

Application by Management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, requires sometime various assumptions, evaluations and assessments that affect the reported amounts of assets and liabilities, including contingent liabilities, as well as the financial results reported by the Bank. It is possible that when the evaluations and assessments materialize in the future, their results may be different than those anticipated at the time the financial statements were prepared.

Certain of the evaluations and assessments applied involve uncertainty or sensitivity to various variables to a large extent. Such evaluations and assessments, changes in which might have a considerable effect on the reported financial results, are considered evaluations and assessments of "critical" matters.

Management believes that the evaluations and assessments used in the preparation of the financial statements are fair and were made in accordance with the best of its information and professional judgment.

Following is a summary review of evaluations and assessments made as regards "critical" matters.

ALLOWANCES FOR CREDIT LOSSES

The Bank implements the Directive regarding "measurement and disclosure of impaired debts, credit risk and allowance for credit losses".

The allowances for credit losses include a specific allowance - an allowance for credit losses in respect of debts that had been examined on a specific basis and found to be impaired and in respect of troubled debts under restructurings, and a group allowance - an allowance for credit losses in respect of small and homogeneous debts, in respect of debts examined on a specific basis and not classified as impaired, and allowances in respect of housing loans. The said allowances reflect Management's assessment of the loss inherent in the credit portfolio in accordance with rules determined by the Supervisor of Banks and based on evaluations and assessments.

Once in each quarter, the Bank's Management examines the credit portfolio with a view of assessing the possible loss inherent therein. The process of assessing the possible loss related to the credit portfolio includes three stages:

- Identification of customers whose ability to honor their obligations towards the Bank has changed, and their reclassification as a result, into classes determined in the instructions of the Supervisor of Banks and according to criteria determined in these instructions, as "impaired debts", "substandard debts" and "debts under special mention";
- Creation of allowances reflecting the anticipated loss inherent in the credit portfolio.

  In determining the allowances on a specific basis, the Bank's Management assesses the difference between the recorded amount of the debt and the fair value of the related collateral (as assessed by it), in respect of impaired debts secured by collateral, or of the difference between the recorded amount of the debt and the value of the discounted amount of repayments anticipated to be received on account of the debt, in respect of other debts.

  In determining the allowance on a group basis, the Bank's Management estimates the rate of unidentified losses inherent in the loan portfolio, based on the rate of net accounting write-offs in the various economic sectors, differentiating between problematic and non problematic credit. In addition to calculating the range of the loss rate in the various economic sectors, as stated, the Bank allots weight to additional data in order to arrive at an appropriate allowance rate. Among other things, the Bank examines the overall credit scope and the open credit scope in each sector, the loss rates in the last year, the risk level and its trend, the effect of changes in credit concentration as well as macro-economic data and additional environmental factors. The allowance in respect of credit to private individuals (which is not housing credit) is at a rate not lower than 0.75% of the outstanding balance of non-problematic credit.

  The allowance according to the extent of arrears regarding housing loans is computed at increasing rates, starting with 8% of the balance of the debt, in respect of debts, the extent of arrears thereof exceeds six months, and up to 80% of the balance of the debt, where the extent of arrears exceeds thirty-three months. Where, in the opinion of the Management, the said allowances are insufficient, considering the assessed value of the pledged asset, an allowance in excess of that required according to the extent of arrears, is recorded. Moreover, a group allowance is calculated, which is not less than 0.35% of the outstanding balance of housing credit in respect of which an allowance according to the extent of arrears is not required;
- Examination of the overall adequacy of allowance for credit losses.

The process of evaluating the loss inherent in the credit portfolio, as described above, is based on significant assessments involving uncertainty and on subjective evaluations.

Changes in assessments or evaluations as described above, may have a material effect upon the allowance for credit losses reflected in the Bank's financial statements.

For details regarding the accounting policy, see Note 1 D 4 to the financial statements. For details regarding the credit and its quality, see Note 4 B 3 to the financial statements. For details regarding the overall credit risk for which the Group is responsible in respect of problematic borrowers, see above under "Developments of assets and liabilities". For details regarding the credit risk management at the Bank, see under "Exposure to risks and risk management" above.

CONTINGENT LIABILITIES

Against the Bank and against other banks and companies in the Group are pending legal actions on various issues, including class action suits and requests for approval of actions as class action suits.

The accounting treatment of contingencies is implemented in accordance with the U.S. Standard FAS 5 - "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of "Accounting for Contingencies". In assessing the required allowance, it is necessary to examine the probability of a loss and to assess its amount. These evaluations affect both the duty itself of creating a allowance in respect of the claim and the mode and scope of the disclosure in the financial statements.

The U.S. Standard rules that if the loss cannot be assessed, no allowance should be created in respect thereof, but the matter should be disclosed if it might be significant. For the purpose of assessing possible losses as a result of actions filed against the Bank, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels representing them in these matters. In the nature of things, such opinions are subjective and face objective evaluation difficulties. Such difficulties grow immensely in cases of class action suits, due to the following reasons.

According to Israeli law, a plea for the approval of a class action constitutes in fact a preliminary procedure in which the Court examines several prerequisites in order to decide the plea. Inter-alia the Court examines whether the claimant is appropriate and fitting, whether he is in good faith, whether a class action is the fair and appropriate way of dealing with the matter, whether the action reveals joint questions of fact and law, and the Court assesses also the prospects of the action. The Court further determines in the same decision the nature of the group that the claimant would be entitled to represent and on grounds of what cause the action will be filed. It is understood from the above that most of the parameters are exogenous to the prospects of the action itself, and they are generally clarified in the course of the proceedings (which may continue over several years).

When the Court’s decision in the matter is given, a request for permission to appeal is usually submitted, which is also dealt with over a long period. Only afterwards, if the request for appeal is dismissed, the class action begins to be heard subject to limitations determined in the preliminary procedure.

The accounting principle adopted by the banking corporations in Israel is indeed the U.S. principle, however it is vital to bring into account in this respect the difference in the characteristics of the U.S. reality compared to Israeli reality, and the difficulties that arise as a result.

The U.S. has experience of many years (several decades) regarding the issue of class action suits and there is recognized and tested data, including the rate of compromise agreements and the amounts paid in compromise settlements. Such an experience is completely lacking as regards the law and practice in Israel. Also the legal procedures in the U.S. are different than those in Israel, allowing each party to interrogate the witnesses of the other party before the case is heard in Court, thus making it possible to evaluate the prospects of the action at an earlier stage. The issues discussed above create special difficulties in everything related to class action suits and motions for approval of class actions.

As stated, the Bank's Management and the managements of other banks and companies in the Group rely on opinions of Counsels. Such opinions are subjective and face objective evaluation difficulties. Accordingly, it is possible that the actual results of certain of the actions would be different from those estimated based on the opinions of Counsels. In view of the volume of actions pending against the Bank, other banks and companies in the Group, it may transpire that the non-materialization of such estimates would have a material effect on the financial results of the Discount Group.

The Bank's Management and its Counsels, as well as the managements and counsels of other banks and companies in the Group, examine once every quarter the pending actions and update, where necessary, the provisions created therewith in the light of developments.

It has been determined in the public reporting directive in the matter of "The accounting treatment of contingent claims" that in evaluating the outstanding legal actions, the management of a banking corporation is to rely upon legal opinions of Counsel, which should determine the probability of the exposure to the risk involved in such actions materializing. Claims have been classified according to the probability range for a risk exposure materializing, as described in Note 1 D 17 to the financial statements. The financial statements include appropriate provisions for claims in respect of which realization of the related risk exposure as "probable".

The financial statements include disclosure of material legal proceedings conducted against the Bank and Group companies, based on the criteria described in Note 1 D 17 to the financial statements. In addition, Note 19 C to the financial statements describes the disclosure regarding the total exposure in respect of claims that have been assessed, in whole or in part (in respect of the relevant part), as "reasonably possible". It should be noted that where the Bank is one of the defendants in an action, and the claimants have not attributed an amount to each of the defendants, the evaluation of the claim amount relevant to the Bank has been made to the best of ability, taking into account that consideration of the total amount might mislead and is incorrect in the circumstances, and that the evaluation does not necessarily represent the allocation as finally determined by the Court.

See Note 19 C to the financial statements for details of material legal actions pending against the Bank and against other companies in the Group. For details as to additional proceedings and claims settled during the year, see "Legal proceedings" hereunder.

IMPAIRMENT OF AVAILABLE FOR SALE SECURITIES

According to directives and guidelines issued by the Supervisor of Banks and to accepted accounting principles applying to banking corporations, unrealized gains or losses on adjustment to fair value of available for sale securities, net of the tax effect, are directly recorded as a separate item in equity within the framework of other comprehensive income, and are taken to the income statement in certain cases, including upon realization of the securities. Unrealized losses recorded as a separate item in equity within the framework of other comprehensive income, are losses of a temporary nature only. Other than temporary losses (OTTI) are taken directly to the statement of income.

The Bank's management is therefore required to examine and evaluate the nature of losses accumulated in respect of the said securities.

For the purpose of determining the nature of losses accumulated in respect of securities as above, managements of the Bank and/or of the relevant subsidiaries, base themselves on the security's various characteristics on which losses have been accumulated and on the company that had issued this security, such as: The loss rate in relation to cost/amortized cost, the period in which the fair value of the security was lower than its cost, the credit rating of the security and changes that had taken place in its rating and attributing impairment to the deterioration in the financial condition of the issuer or to market conditions as a whole, etc. For further details, and including the criteria, the fulfillment of which would require recognition of impairment other than temporary, see Note 1 D 5.7 to the financial statements.

The said characteristics and assessments are to a large extent subject to subjective judgment and accordingly changes in assessments and the assumptions and features upon which they are based may have a significant effect upon the financial statements.

Loss on impairment of the investment in shares of FIBI. For details regarding a loss on other than temporary impairment (OTTI) in respect of the part of the shares in FIBI which were sold in February 2015, in the amount of NIS 47 million, see Note 6 D (7) to the financial statements.

MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO THEIR FAIR VALUE

Directives of the Supervisor of Banks. The Bank implements the directive of the Supervisor of Banks regarding Measurement of fair value based on the U.S. financial accounting standard FAS 157. Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

FAS 157 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable.

These types of inputs create a fair value grading according to levels: 1, 2, and 3. For additional details, see Note 1 D 7.

The Bank implements accounting standard ASU 2011-04, "Measurement of fair value". The update introduces amendments to FAS 157 (ASC 820) required for the uniform definition for the measurement of fair value in generally accepted accounting principles in the U.S. (U.S. GAAP) and in international financial reporting standards (IFRS).

According to the update the basic assumption of "in-use" is not implemented with respect to financial instruments. Nevertheless, financial assets and financial liabilities held and managed within the framework of a portfolio, are measured, under certain circumstances, according to fair value, using a price that would have been received or paid had a net position in groups of financial assets or financial liabilities as above, been sold or transferred.

In addition, according to the update, the measurement of fair value of financial instruments is made without taking into account the blockage factor both as regards financial instruments assessed according to all levels.

Furthermore, consistently with the measurement of fair value of financial liabilities, the fair value of items classified to capital is measured using quoted prices of such items (or of similar instruments) which are traded as assets.

Determination of the fair value of financial instruments of level 2 and level 3, is based upon estimates and assumptions relying, among other things, on subjective considerations. Accordingly, a possible deviation in the said estimates and assumptions may change the fair value of the financial instruments.

For additional details regarding the distribution of the fair value of financial assets and financial liabilities measured at fair value, based on the scale of quality determined in the Standard see Note 21 to the financial statements.

The assumptions, according to which the Bank had classified assets and liabilities to the various quality groups, as detailed above, included:

- In the highest quality group (Level 1) are included financial instruments and derivative financial instruments, traded on an active market (typified by a large number of participants and by a high trading turnover), the prices quoted thereon reflect actual market price;
- In the medium quality group (Level 2) are included financial instruments that are not traded on an active market, the fair value of which is based on quotations received from independent entities (hereinafter: Instruments, the fair value of which is determined by "pricing services"), and assessment models, all significant data used therein are observable in the market and are supported by observable market inputs. The financial instruments (including derivative instruments) the fair value of which is determined using "pricing services" include non-marketable securities denominated in Israeli currency and bonds of foreign financial institutions and governments;
- In the lowest quality group (Level 3) are included derivative financial instruments, the fair value of which is determined based on significant unobservable inputs included in the assessment model.

For details regarding transfers between levels of fair value hierarchies, see Note 21 G to the financial statements.

As seen from the data presented in Note 21 E 1 to the financial statements, the ratio of instruments classified to Level 3, to the total of assets and liabilities in respect of derivative financial instruments, was 13.9% at December 31, 2014, compared with 13.7% at December 31, 2013.

The income from assets and liabilities, measured recurrently on the basis of fair value, included in level 3 in Note 21 F (1), amounted to NIS 542 million in 2014, compared to NIS 427 million for 2013.

Estimate of fair value of securities. Securities, excluding bonds held to maturity, are stated in the balance sheet at fair value, except for shares and option warrants in respect of which fair value is not readily available, which are stated at cost. Differences between the fair value and the stated cost of securities available for sale, are recognized in a capital reserve.

The market value of securities traded on an active market and which have a market price, represents their fair value. The stated fair value relating to securities which are not traded on an active market and which do not have a market price, is a calculated fair value as explained hereunder.

The fair value of bonds issued by foreign financial institutions and governments is based on price quotations by international providers of securities prices that are independent of the Bank, and independent of the issuing entities as well as the marketing entities. These providers are leading international companies that provide price quotation and evaluation services to hundreds of leading financial institutions around the world. For control purposes the Middle Office performs crosschecks of securities prices, as received from the provider with those published by the Bloomberg system (financial data system) and with quotations by brokers that are not the issuers of the securities, which comprise an indication of the price for the execution of the transaction. Whenever differences arise between the valuation of the provider and prices quoted by brokers, the matter is brought before the control committee, which decides as to the fair value of the security.

Calculation of fair value of Israeli currency non-marketable securities is performed by the present value of future cash flows method, on the basis of the discount interest rate obtained from a quotation company (elected by the Capital Market, Insurance and Savings Division at the Ministry of Finance). For control purposes, the Middle Office performs, to the extent possible, tests which compare the resultant fair value amount with prices of other marketable securities of the same issuer or similar securities traded on the market. Furthermore, an examination is performed of the reasonableness of changes in fair value, including in relation to quotations of recent known transactions.

Estimate of fair value of derivative financial instruments. The Bank is active to a considerable extent in the derivative financial instruments field, which are presented in the financial statements on a fair value basis as different from the accrual basis. Where the derivative financial instruments are traded on an active market and have a market value, then the market value represents their fair value.

Where the derivative financial instruments are not traded on an active market and do not have a market value, fair value is assessed by means of accepted models for the pricing and revaluation, which take into account the risks inherent in the instrument, such as: the present value of future cash flows expected to be received from the instrument, the Black and Scholes model, etc.

The calculation of the fair value of derivative financial instruments, in respect of their foreign currency component, is based on interest rates and prices prevailing in the international money markets, and with respect to their Israel currency component, on non-linked interest rates and linked interest rates, determined by the Bank's asset and liability management department and through the Bank’s dealing room, as the case may be, taking into consideration market prices, liquidity and the existing trading level in the local market. The margin between the sales interest rate and the purchase interest rate comprises a subjective factor, which affects the computation of the fair value of derivative financial instruments.

The fair value of options is based, for the most part, upon the Black and Scholes Model, and it is being affected by the volatility inherent (standard deviations) in exchange rates, interest rates and by the indices relevant to the option bought or written by the Bank. The volatility data of the foreign currency to Shekel exchange rate and of foreign currency to foreign currency exchange rate are determined by the Bank’s dealing room in accordance with the money markets and are supervised by the Middle Office, being compared with several sources of information.

Establishing the model to be used in computing the fair value of derivative financial instruments, the pricing methodology and the computation of fair value amount, is the responsibility of the Middle Office, serving as a factor independent of the business units that execute the transactions (hereinafter: "the factor responsible for determining fair value"), by using designated systems (hereinafter: "process of determining fair value"). For derivative financial instruments the volume of transactions therein is material, the process of determining fair value is validated and verified by the department in charge of evaluation of market and liquidity risks at the Risk Management Department, which functions at a suitable professional level and serves as a factor independent of the factor responsible for determining fair value. Validating the said process includes an examination of the compatibility of the model to the type of instrument in question, the fairness and reasonableness of the parameters used in determining fair value, the reasonableness of the resultant fair value amounts, sample examinations of the computations, etc.

Validating the models used for the computation of fair value is performed at least once a year, or whenever a material change takes place in the process of determining fair value. The validation process, which mostly includes the reasonableness tests and the sample computation tests, is performed once in every quarter. In addition to the verification and validation process, control measures are being adopted by the Accounting Group in order to secure the appropriateness and fairness of the fair value of all derivative financial instruments.

An interface exists for the transfer of the results of the validation and verification between the Middle Office and the Liquidity and Market Risks Evaluation Department. In case of disagreements between the said factors, the matter will be brought for discussion in the Control Committee (a committee in the Risk Management Group, in which a representative of the Accounting Group also takes part).

In addition, the Bank performs on a current basis an assessment and examination of the risk pertaining to the process of determining fair value. Within the framework of the same program, the Bank has defined a limitation whereby it would not enter into a transaction involving a new type of financial instrument in a material amount, and would not increase the amount of an existing type of instrument, unless a structured process exists in respect thereof for determining fair value at a reasonable level of assurance (hereinafter: "the exceptional instruments"). It is noted that, in general, the Bank does not engage in transactions involving instruments in respect of which there is insufficient liquidity in the market, except for back-to-back transactions.

Note 20 and 21 to the financial statements includes comprehensive data regarding the Bank's derivative financial instruments activity and information regarding fair value of these instruments, according to the type of instrument.

The credit risk. In measuring the fair value of a debt, including derivative instruments that had been issued by the Bank and are measured at fair value, the Bank reflects credit risk and non-performance risk. For additional details regarding the manner of assessing credit risk, see Note 1D 7 to the financial statements.

Where in respect of the exposure, satisfactory liquid collateral exists that specifically secures the derivative instrument at a high level of legal certainty, the Bank assumes a zero inherent credit risk, and does not make adjustments to fair value in respect of the credit quality of the counterparty.

The Bank conducts reasonableness tests with respect to assessments of credit risk, which include also the testing of exceptional ratios.

The adjustment of credit risk relating to liabilities in respect of derivative instruments led, in 2014, to a loss of NIS 5 million, compared to a loss of NIS 9 million in 2013.

Following are details regarding the adjustment of the assets and liabilities in respect of derivative instruments, as stated above:

	December 31, 2014	December 31, 2013
	in NIS millions	
Assets in respect of derivative instruments	4,623	4,131
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(11)	(10)
Liabilities in respect of derivative instruments	4,510	4,913
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(6)	(10)

In addition, the Bank performs reasonableness tests of the results obtained from the internal evaluation of changes in market spreads, and perform the necessary adjustments, as the case may be.

EMPLOYEE RIGHTS

The accounting policy applied until the report as of December 31, 2014

Liability for employee severance pay. According to the guidelines of the Supervisor of Banks in the matter of "guidelines and clarifications regarding the strengthening of internal control over financial reporting of employee rights", a banking corporation that anticipates the payment to groups of employees of benefits in excess of contractual obligations, has to take into account in its actuarial computations the ratio of employees who are expected to retire (including employees expected to retire under voluntary retirement plan or upon obtaining other beneficial terms) and the benefits to which they will be entitled to upon retirement. The guidelines include quantitative yardsticks, which, where these exist, the banking corporation is required to take into account the additional cost in this respect, based on an actuarial computation. The liability for payment of severance pay to such group of employees shall be presented in the financial statements at the higher of the amount of liability based on an actuarial computation, taking into account the additional cost expected in respect of the said benefits, and the amount of liability computed by multiplying the monthly salary of the employee by the number of years of employment, as required by Opinion No. 20 of the Institute of Certified Public Accountants in Israel.

The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management.

The limitations determined by the Management, which have been implemented as from the financial statements as of June 30, 2011, are detailed in Note 1 D 15.3 to the financial statements. The limits set by the Bank's Management, which are being implemented with effect from the financial statements as of June 30, 2014, are detailed in Note 1 D 15.3 to the financial statements.

The actuarial computation is based on several parameters, including: life expectancy, retirement age, the rate of employee retirement prior to the prescribed retirement date, the rate of increase in salary anticipated – 1.8% per year (until June 30, 2014 – 2.5% per year, see hereunder) and the discount rate. These parameters were determined, inter-alia, in a temporary instruction of the Bank of Israel, based on forecasts prepared by the actuary and the experience accumulated in the Bank. In accordance with the instructions of the Supervisor of Banks, the actuarial computation was based on a discount rate of 4%. The computation is based also on the average retirement rates, according to age groups, in accordance with the actual retirement rates in the past. It has been assumed that the voluntary retirement rates for the years 2017-2028 will amount to 2% per year at the most.

Change in assessment. For details regarding the change in assessment of the expected rate of increase in payroll, for the purpose of computing the actuarial liability in respect of employee rights, see Note 1 C 4.2 to the financial statements.

Long service (Jubilee) awards and post retirement benefits. Some employees of the Bank and of Mercantile Discount Bank Ltd. are entitled to long-service bonuses ("Jubilee Bonuses") comprising several monthly salaries and additional paid vacation days, at the end of 20, 30 and 40 years of employment with the Bank. Bank employees are also entitled to certain benefits subsequent to their retirement from the Bank. These liabilities depend on several conditions that have to materialize in the future.

The Supervisor of Bank requires the Bank to base the provision for these liabilities on an actuarial computation and to present it at discounted value. The actuarial computation is based on several parameters mentioned above.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[3] is available for perusal on the MAGNA website of the Israeli Securities Authority and on the MAYA website of the Tel Aviv Stock Exchange Ltd. together with the Bank's 2014 Annual Report (This Report).

The discount rate used in actuarial computations. Within the framework of the said actuarial computations, use is made of a 4% discount rate, in accordance with a provisional instruction of the Supervisor of Banks with respect to "The discount rate for computing reserves covering employee rights". In accordance with the new instructions being implemented as from January 1, 2015, the format for the determination of the discount rate used in actuarial computations has changed (see below).

[3] The English translation of the Opinion is available for perusal at the Bank's website.

The accounting policy as from January 1, 2015 and thereafter

Change in accounting treatment. For details regarding the Directive in the matter of the adoption of U.S. accounting principles relating to employee rights, and the anticipated impacts of its implementation, see Note 1 E 1.

Question of whether a "deep market" exists in corporate bonds. A public-professional discussion has developed in the last year as to whether a "deep market" in corporate bonds exists in Israel. It should be noted that the significance of this question is with regard to the discount rate that is used in accordance with section 83 of International Accounting Standard No. 19 ("the Standard").

On September 1, 2014, the Israel Securities Authority published an accounting position of the staff in the question of the existence of a "deep market" with respect to high quality corporate bonds in Israel, for the purpose of determining the discount rate, in accordance with the Standard, according to which, the staff of the Authority is of the opinion that a "deep market" exists in Israel for good quality CPI-linked corporate bonds. The position is based upon the opinion provided by an expert, as well as on reasonableness tests and validation performed by the staff of the Authority.

The new Directive notes that the Supervisor of Banks has reached the conclusion that a deep market for high quality corporate bonds does not exist in Israel. Accordingly, the discount rate in respect of employee benefits shall be computed on the basis of the return on Israeli government bonds with the addition of an average spread on AA and above (international) rating of corporate bonds at date of reporting. For practical reasons, it has been determined that the spread shall be fixed according to the difference between the rates of return to maturity, according to periods to maturity, on corporate bonds in the U.S. with an AA and above rating, and the rates of return to maturity, for the same periods to maturity, on U.S. government bonds, and all at date of reporting.

Certain aspects regarding the implementation of the new accounting policy. As stated, the use of actuarial computations requires use of statistical tool and assessments as regard the future and it is affected by the parameters stated above (in relation to the policy applied by the Bank until December 31, 2014).

Furthermore, implementation of the new accounting policy involves assessments and judgment with respect to the following matters:

- The definition of return to maturity of Israeli government bonds, relevant to the determination of the discount rate, taking into consideration, among other things, the average period to maturity of the liabilities in respect of which the actuarial computation is made;
- Definition of the spread added to the basic return, as stated, being an assessment of the risk rate, based on relevant U.S. securities data, as defined in the instruction (see above);
- In each year, it is required to assess the forecasted return on assets of the plan for the coming year. The difference between the computations based on the most recent assumption of return and those based on the actual return in the reported period, shall be included in other comprehensive income and taken to the statement of income in accordance with the assessed average period of service. (It is noted in this respect, that the format of this treatment may result in certain fluctuations in the reported annual income, including in respect of changes in the assessment of the average service period).

Possible impact of changes in parameters and in assumptions. Presented below is the impact of changes, as stated, in respect of the obligation for severance pay and the obligation for payment of jubilee award and post retirement payments. It is noted that these computations have been prepared on the basis of anticipated data in accordance with the new accounting policy, in view of the absence of relevancy to data on the basis of the old policy.

Following is the possible effect of changes in parameters and assumptions standing at the base of the actuarial assessment, in respect of the liability for payment of severance pay as of December 31, 2014, at the Bank and at MDB:

	Increase (decrease) in liability
	in NIS millions
Increase of 1% in retirement rate of employees	40
Increase of 10% in paid retirement rate	48
Increase of 0.5% in the real-term annual wage	128
Decrease of 0.5% in the real-term annual wage	(120)
Decrease of 0.1% in the capitalization rate	24

Following is the possible effect of changes in parameters and assumptions standing at the base of the actuarial assessment, in respect of the liability for payment of "Long service (Jubilee) awards and post retirement payments"- as of December 31, 2014:

	Increase (decrease) in liability
	in NIS millions
Increase of 1% in retirement rate of employees	(13)
Increase of 0.5% in the real-term annual wage	20
Decrease of 0.5% in the real-term annual wage	(19)
Decrease of 0.1% in the capitalization rate	11

DEFERRED TAXES

Deferred taxes are recorded in respect of temporary differences between the value of assets and liabilities in the balance sheet and their value for tax purposes.
Deferred tax assets in respect of timing differences are recorded only if it is probable that tax savings will accrue upon reversal of the difference and deferred tax assets in respect of carry forward losses for tax purposes are recorded only if the realization of the tax asset in the foreseeable future is more likely than not.
Accordingly, when deferred tax assets are being recorded, the Bank is required to perform assessments and estimates as to the probability and timing of realization of these assets in the future. For further details see Note 1 D 18 and Note 29 to the financial statements.

EXAMINATION OF IMPAIRMENT IN VALUE OF NON-FINANCIAL ASSETS

The Bank's Management examines from time to time whether circumstances exist requiring provisions for impairment of non-financial assets owned by the Bank. The said evaluation, by its nature, involves assumptions and estimates which retroactively might appear biased.
Impairment of costs of internal development of computer software. In addition to the signs for examining the existence of impairment specified in IAS 36, "impairment of assets", examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States.
For additional details regarding the said indicators, see Note 1 D 13.
The written down balance of in-house software development costs amounted at December 31, 2014 to NIS 709 million (December 31, 2013: NIS 831 million). It should be noted that the major part of the said amount represents investments in the core system ("Ofek") that is anticipated to have a long-term use of several decades.

RATING THE LIABILITIES OF THE BANK AND SOME OF ITS SUBSIDIARIES

Details regarding the rating determined for the Bank and some of its subsidiaries by different rating agencies are presented hereunder:

Rating given by	Subject of rating	Rating	Rating horizon	Date of rating/ ratification of rating
	Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA	Stable	December 24, 2014
	Subordinate capital notes(1)	il AA-	Stable	December 24, 2014
	Upper tier 2 capital (Series 1)	il A	Stable	December 24, 2014
	Hybrid tier 1 capital (Series "A")	il BBB+	Stable	December 24, 2014
Midroog	Long-term deposits	Aa2	Stable	March 4, 2014
	Short-term deposits	P-1		March 4, 2014
	Subordinate capital notes(1)	Aa3	Negative	March 4, 2014
	Subordinate capital notes (tier 1 capital)	A-2	Negative	March 4, 2014
The international rating agency S&P	Issuer rating Short-term	A-3	Positive	December 24, 2014
	Issuer rating Long-term	BBB-	Positive	December 24, 2014
The international rating agency Moody's	Long-term foreign currency deposits	Baa1(4)	Negative	January 15, 2015
	Bank Financial Strength Rating	D+ (BFSR)	Negative	January 15, 2015
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA	Stable	December 24, 2014 (2)
	Subordinate capital notes	il AA-	Stable	December 24, 2014
	Discount Bank Latin America			
The international rating agency S&P	Issuer rating (including deposits)	BB+(3)	Stable	June 18, 2014

Footnotes:

(1) The rating also relates to subordinate capital notes (lower tier 2 capital) issued by Manpikim.

(2) Mercantile Discount Bank has been defined as a "core company" of the Discount Group. This determination creates a unique affinity between the Bank's rating and the rating of Mercantile Discount Bank.

(3) According to the announcement of S&P, the raising of the rating was on the background of changes in the evaluation of the risks applying to the banking sector in Uruguay.

(4) For details as to the lowering of the rating, see the immediate report of January 18, 2015 (Ref. No. 2015-01-013213).

For comparison purposes, hereunder are the international rating data for the State of Israel (long-term for bonds issued in foreign currency)*:

Rating given by	Foreign currency - long-term	Rating horizon
The international rating agency Moody's	A-1	Stable
The international rating agency S&P	A+	Stable
The international rating agency Fitch	A	Positive

* The data are taken from the website of the Accountant General at the Ministry of Finance.

LEGAL PROCEEDINGS

OUTSTANDING CLAIMS AGAINST THE BANK

Various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and pleas to approve actions as class action, brought against them by customers of the Bank and of its consolidated subsidiaries, past customers as well as allegations with regard to various third parties, who consider themselves harmed or damaged by the actions of the Bank and its consolidated subsidiaries in the ordinary course of their business. Among other things, these actions raise allegations with regard to the unlawful debiting of interest and/or not in accordance with agreements, subjecting one service to another, the failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties as regards assets of debtors held, as alleged by them, with the bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, requests for injunction orders instructing the Bank to refrain from paying out of bank guarantees or documentary credit, as well as to provident funds, securities, construction loans, and applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. The Bank's Management believes, based inter-alia on Counsel's opinion and on the opinions of the managements of the consolidated subsidiaries of the Bank, which are also based on counsel's opinion, as the case may be, respectively, that adequate provisions have been included in the financial statements, if required.

Material claims outstanding against the Bank and its consolidated subsidiaries are described in Note 19 C to the financial statements.

DEBT RECOVERIES PROCEDURES

As part of the Bank's and its consolidated subsidiaries debt collection policy, legal procedures are instituted in the ordinary course of business for the recovery of debts from the borrowers or from guarantors for such debts, including the realization of collateral provided by the borrowers or by any third parties. Included in such procedures are procedures for receiverships, liquidations, the foreclosure of pledged assets, etc.

ADDITIONAL LEGAL PROCEEDINGS

Legal proceedings against IDB (Swiss) Bank. On November 4, 2011, a former Vice President and Risk manager of IDB (Swiss) Bank, submitted to the Labor Court in Geneva a claim in the amount of SFR 2 million against IDB (Swiss) Bank. The claim raises various arguments against the bank concerning his dismissal from office and his rights in this respect. IDB (Swiss) Bank filed a defense brief as well as a counterclaim. The legal proceedings between the parties are being continued.

As background to the case, it should be noted that in October 2010, the Claimant, while still a Vice President of IDB (Swiss) Bank, submitted a report that included various findings, among which are findings that prima-facie indicate violations of the law and procedures. The said findings have been submitted for an independent examination by KPMG (Swiss), and except for violations of the bank's procedures, no violations of the law, as claimed, have been found. Appropriate reports have been submitted to the Swiss authorities.

The Claimant in the said claim filed with the Tel Aviv District Court on May 6, 2013, a claim by way of an originating summons against the Bank and against IDB (Swiss) Bank. The matter of the claim is a motion for a declarative relief order, according to which the Court declares the validity of the compromise agreement, which as alleged by the Plaintiff had been reached with the Bank in October 2011, as part of mediation proceedings. The Plaintiff claims that the agreement binds the Bank and IDB (Swiss) to all intents and purposes. The Bank has motioned for the dismissal in limine of the claim. A hearing of the motion was held in January 2014, and a decision will be given following the submission by the parties of summation briefs. On May 15, 2014, the Tel Aviv District Court ruled for the dismissal in limine of the claim. An appeal against the said decision was filed with the Supreme Court on June 19, 2014.

Motion for approval of a class action by employees who had elected early retirement. A claim against the Bank and others was filed with the Regional Labor Court on March 24, 2013, together with a motion for approval of the claim as a class action suit against the Bank and Mercantile Discount Bank.

The Court is requested to define the group in whose name the motion for a class action suit was filed, as all permanent employees who had voluntarily elected early retirement.

The Claimant argues that there are four salary components (health insurance, reimbursement of medical expenses, taxable excess further education fund contributions and over the maximum provident fund contributions) that had been paid regularly as part of the monthly salary voucher during the period in which employer/employee relations existed. He further argues that the said components comprise under the law, components of the salary amount that serves as a basis for the computation of the severance pay amount payable, and accordingly should also be part of the salary amount serving as a basis for computing the remuneration paid upon voluntary early retirement.

The amount of the claim in respect of the whole group members is estimated by the Claimant at NIS 40 million.

On July 15, 2013, the Bank submitted its response to the motion for approval of the suit as a class action suit. Mercantile Discount Bank filed on July 15, 2013, a motion for an in limine dismissal of the motion for approval of a class action.

A hearing was held on October 27, 2013, before the Regional Labor Court, at the end of which a ruling was given whereby the Appellant has to submit supplemental arguments on his part.

On October 30, 2013, instead of submitting the said supplemental arguments, the Appellant submitted a motion for the amendment of the motion for approval of the suit as a class action suit, as well as other requests, including a request to postpone the date for submission of the supplemental arguments until after submission of the said motion.

In its ruling of July 16, 2014, the Labor Court dismissed the motion imposing the payment of expenses on the Appellant. The ruling also stated that the Appellant has to submit the supplemental arguments by August 31, 2014, and that the Bank has to respond within forty-five days.

On August 31, 2014, the Appellant filed a motion for an extension for submission of supplementary arguments on his part. The Court admitted the motion of the Appellant, and fixed a date for the submission by the Appellant of supplementary arguments, as well as a date for submission of the Bank's response. On November 3, 2014, the Appellant submitted his supplementary arguments, and on December 21, 2014, the Bank filed complementary arguments on its part. The parties are awaiting the decision in the matter of the motion for approval of the claim as a class action suit.

Approach according to Section 194 of the Companies Law. On June 11, 2014, the Bank received an approach in terms of Section 194 of the Companies Act, 1999, directed at the Bank's Chairman of the Board and the Chairman of the Board of ICC, according to which, the Bank and ICC are requested to file a claim against officers and employees whose acts or neglect had led, as alleged by that factor submitting the approach, to fines being imposed in the years 2008-2009, by VISA Europe and MasterCard in respect of the operations of ICC International (subsidiary of ICC, since merged with and into ICC). The factor submitting the approach demands that as part of the claim that would be submitted, the Bank and/or ICC would motion for compensation in respect of the direct and indirect damage allegedly caused to the Bank and/or ICC and/or ICC International including the payment of fines and monetary sanction that had been imposed on ICC by the Bank of Israel in respect of violations of the Prohibition of Money Laundering Order, the legal expenses borne by these companies and the damage to the reputation of the Bank and ICC. On August 31, 2014, the Bank responded to the approach and dismissed the demand for the filing of a lawsuit, as stated.

SIGNIFICANT LEGAL PROCEEDINGS SETTLED IN 2014

1) On July 19, 2012, a law suit together with a motion for approval of the suit as a class action suit was filed with the Jerusalem District Court against Discount Mortgage Bank Ltd. (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The Claimants alleged that DMB had concealed from its customers the existence of a "transaction permit" (under religious law) thus causing them financial damage. It was also claimed that loans and credit granted by DMB carry interest that includes a punitive component in contradiction to the interest applying under the "transaction permit". The Claimants fixed the amount of the claim in respect all group members at NIS 538.7 million.
   On January 15, 2014, a verdict was given approving the withdrawal of the Appellants from the motion for approval of the claim as a class action suit.
2) On August 16, 2012, a claim was received together with a motion for approval of the suit as a class action suit that were filed with the Jerusalem District Court. The Claimants alleged that the Bank had concealed from its customers the existence of a "transaction permit" (under religious law) thus causing them financial damage. It was also argued that loans and credit granted by the Bank carry interest that includes a punitive component in contradiction to the interest applying under the "transaction permit". The Claimant fixed the amount of the claim in respect of all group members at NIS 6,042 million.
   On January 15, 2014, a verdict was given approving the withdrawal of the Appellants from the motion for approval of the claim as a class action suit.
3) A claim was filed on March 7, 2012, with the Tel Aviv District Court together with a motion for approval of the claim as a class action suit, against the Bank, ABS, Bank Hapoalim, FIBI, Bank Leumi, Bank Mizrahi-Tefahot, Casponet, Israel credit cards, and other claimants. The Claimant assessed the amount of the claim at NIS 2.3 billion in respect of all Defendants. In his claim brief, the Claimant argued that the restriction imposed on the amount of cash that may be drawn from the automatic teller machines operated by ABS and Casponet, cause monetary damage to customers wishing to draw amounts higher than the allowed maximum amounts.
   On January 21, 2014, the Court admitted the motion for withdrawal by the Appellant, and dismissed the motion for approval of the claim as a class action suit.
4) On October 31, 2012 a claim brief and a motion for approval of the claim as a class action suit, were filed with the Central Region District Court, were received. The claim was filed against Israel Credit Cards, against Diners Club and against two additional companies. The Claimant alleged that the manner in which the Respondents provided revolving credit to customers through their "YOU" credit card was misleading and misrepresented. The Claimants argued that the Respondents provide revolving credit to holders of "YOU" credit cards charging especially exorbitant interest rates as compared with the accepted interest rates in the case of bank credit, and this without disclosing to the customer the fact that they are granting him credit not asked for, and/or the rate of interest that is being charged in respect for such credit. The Claimant stated the amount of the claim for all group members at NIS 119.5 million.
   In January 2014, the Court approved the notice of the parties for the withdrawal of the motion as a whole, in view of the clarifications provided by ICC regarding the manner of marketing the credit card. The notice of withdrawal was given in consideration for payment of a negligible amount in compensation of the Appellant and his representatives.
5) In November 1999 a former customer of the Bank submitted to the Tel-Aviv District Court a claim against the Bank in the amount of NIS 456 million. The plaintiff claimed the Bank exploited his mental and physical condition, and made use of his account and the accounts of his family members as if they belonged to the Bank, while opening dozens of additional accounts without permission, concealing information, forging signatures, taking out loans in the name of the plaintiff, buying and selling securities fictitiously and embezzling funds.
   On September 25, 2011, the Court dismissed the claim. On December 15, 2011, the Claimant filed an appeal against the decision of the Court. On February 2, 2014, a verdict was given by the Supreme Court dismissing the appeal by the Claimant.

6) On June 2, 2009, a lawsuit was filed with the Tel Aviv District Court against DMB together with a motion to approve the suit as a class action suit (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The cause for the claim was the charge of an early redemption commission in the case of death of one of the borrowers, as a result of exercising the life insurance policy for the settlement of the balance of the loan. The claimant requested the Court to instruct DMB to refund early repayment charges collected over the past seven years on loans where one of the borrowers had passed away. The total amount of this claim, as assessed by the claimant, totalled not less than NIS 75 million.

   On May 1, 2012, the Court ruled for the dismissal of the claim and the motion. The Court ruled that the charging of an early repayment commission bears no relation to the reason for the early repayment, therefore, the argument of the Claimant that a commission may not be charged in the case of an involuntary repayment, is not admitted. On June 17, 2012, the Claimant appealed the decision to the Supreme Court. The Supreme Court ruled on June 10, 2014, for the dismissal of the appeal.

7) On July 13, 2011, a claim was filed with the Tel Aviv District Court together with a motion for approval of the claim as a class action suit against the Bank, Automatic Banking Services Ltd. ("ABS"), Bank Hapoalim, Bank Leumi, and the First International Bank. The Claimants argued that a customer who wishes to use the ATM machines operated by ABS is required to pay a commission as stated on the monitor of the machine, and in addition is charged by the banks with a commission for a direct banking transaction, without ABS notifying the customer of the extra commission and without providing fair disclosure of this fact. The damage claimed in respect of the group as a whole was assessed by the Claimants at NIS 153 million.

   Mediation proceedings had been conducted between ABS and the Claimants, which were concluded in an arrangement. The Bank's part in the arrangement amounts to a payment of NIS 200 thousand, which would be granted as a donation. On July 1, 2014, the Court approved the compromise arrangement granting it the power of a court verdict. The identity of the associations to which the donation is to be allocated, has not as yet been decided.

8) On September 1, 2004, a suit in a sum of NIS 500 million was brought by the liquidators of a company against forty defendants, one of which was the Bank, to the Tel Aviv District Court. The suit against the Bank turned on three causes only, which relate to alleged injury valued at US$4 million in respect of the sale of an asset mortgaged to the Bank, which was sold for less than its true value; alleged injury valued at US$3 million in respect of the release of the shareholders of one of the companies in the group from their guarantees in relation to the debts of the company to the Bank; and alleged injury valued at US$9 million in respect of the return of deferred payment orders to the company in liquidation without the items passing through the company's bank account.

   On July 3, 2014, the Court granted the settlement agreement the validity of a court ruling, according to which the Bank is to pay an amount of NIS 5.6 million for the withdrawal of the claim.

For details regarding the ruling handed on February 10, 2015, within the framework of which, the Court approved the arrangement for the removal of the motion for approval of a suit as a class action suit against ICC, in which the collection of excess payments for the refueling of vehicles had been argued, see Note 19C, item 12.13.

For details regarding a ruling dated February 18, 2015, in which the Court approved a withdrawal arrangement as regards the motion for approval of a lawsuit against MDB as a class action suit in the matter of the granting of loans backed by Government guarantees, see Note 19 C, item 12.11.

PROCEEDINGS REGARDING AUTHORITIES

1) For details regarding various proceedings conducted by the Antitrust Commissioner and concerning the Group's activities in the credit card field, see Note 34 B 1 to the financial statements and "Credit card operations" under "Further details as to activity in certain products".
2) For details regarding the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, according to which the Commissioner states that binding arrangements had existed between the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank and the First International Bank ("FIBI") regarding the communication of information, and for details regarding an agreed Order, for the conclusion of the process, that had been approved by the Antitrust Tribunal, see Note 19 C 14 to the financial statements.
3) For details regarding the terms determined by the Supervisor of Banks and the Antitrust Commissioner in their approval granted to the agreement between the Bank and FIBI Holdings in the matter of the Bank's holdings in FIBI, see Note 6 D (1) to the financial statements.
4) For details regarding the police investigation and the seizure of documents, and the transfer of the investigation file to the State Attorney Office, see Note 34 C to the financial statements.
5) For details regarding the agreement between the Government of Switzerland and the U.S. Department of Justice and its possible implications on IDB (Swiss), see Note 19 C 15 to the financial statements.
6) For details regarding an audit by the Bank of Israel in Discount Bank in the matter of prohibition of money laundering, see "Compliance risks" under "Exposure to risks and risk management", above.
7) For details regarding the internal audit in the matter of exposure to risks involved in the activity of foreign residents, in accordance with the requirements of the Supervisor of Banks, see "Exposure to cross-border risks in respect of the activities of foreign resident costumers".
8) On February 3, 2015, the Israel Securities Authority, by the power vested in it under Section 36F (1) of the Securities Act, 1968, ordered the Bank to submit information regarding "exposure to fines in respect of tax evasion by U.S. customers". On February 24, 2015, the Israel Securities Authority, by the power vested in it under Section 36 of the Securities Act, 1968, ordered the Bank to include in its 2014 annual report (this report) details regarding this matter.

MATERIAL AGREEMENTS

Hereunder is presented a summary description of agreements, entered into outside the ordinary course of business, that might be considered material, to which the Bank is a party, or which according to its best knowledge, the Bank is a beneficiary in terms thereof, including agreements that were valid in the period covered by this annual report, or which affected the Bank’s operations during such period.

AN AGREEMENT WITH FIBI HOLDINGS - 2010

The Bank and FIBI Holdings signed an agreement on March 28, 2010, which, among other things, limited the period in which Discount Bank shall have the right by which FIBI Holdings shall continue to support the appointment of one quarter of the directors of the First International Bank from among candidates recommended by Discount Bank. For details regarding the highlights of the agreement and regarding the approvals of the Supervisor of Banks and the Antitrust Commissioner with respect to the agreement, including the timetable determined by the Antitrust Commissioner for the reduction in the interest held by Discount Bank in the First International Bank, see Note 6 D (1) to the financial statements.

OBLIGATIONS OF THE BANK WITH RESPECT TO CAPITAL MARKET OPERATIONS

In October 1983, within the framework of the "bank shares arrangement", the Bank informed the Minister of Finance and the Governor of the Bank of Israel that, among other things, it would not initiate, either directly or indirectly, orders for the purchase or sale of securities within the orders submitted to the Stock Exchange prior to the beginning of trading ("Leaders"), or as part of the setoff of purchase or sale orders prior to the beginning of trading.

The Bank further confirmed that it would prevent, either directly or indirectly, any transaction in securities issued or which would be issued by banks or bank holding corporations, unless such transactions are on behalf of its customers, including provident and mutual funds.

However, the Bank noted that nothing in the above would avoid transactions effected in the ordinary course of business.

EXEMPTIONS OF INDEMNIFICATION TO DIRECTORS OR FORMER DIRECTORS IN THE BANK OR INVESTEE COMPANIES OF THE BANK

The previous version of the Articles of Association of the Bank, which was amended in March 2002, included provisions regarding the indemnification of whoever acts or has acted, at the Bank's request, as director in another company, in which the Bank has an interest, as detailed in Note 19 C 8 a to the financial statements. Accordingly the Bank had issued at that time letters of indemnification, unlimited in amount, to the acting directors or who have acted at the Bank's request in other companies owned by it. For details regarding exemption in advance and indemnification of Directors and other Officers of the Bank, see Note 19 C 8 l to the financial statements.

AGREEMENTS WITH FIBI AS TO THE HOLDING OF MEANS OF CONTROL IN ICC

On December 10, 2006, alongside the consummation of the agreement for the purchase of the shares in ICC held by Fishman, the Bank and FIBI signed an agreement securing the understandings between them and regularizing the rights and obligations towards one another as shareholders of ICC. The said agreement amends a previous agreement between the parties dated September 29, 2000. The arrangements determined in the agreement apply, respectively, also to the shares purchased from Harel.

For details regarding the letter of understanding between the shareholders of ICC, see above "Israel Credit Cards Company Ltd." under "Main Investee Companies".

LABOR CHARTER

The labor charter for Israel Discount Bank Ltd. employees was signed in 1974 and it incorporates employment terms, instructions regarding discipline, etc. For details see "Labor relations" under "Human resources" above. Over the years, dozens of collective agreements have been signed, usually to supplement the contents of the Labor Charter. Within this overall context, the “update, stages and determination of salary ceilings for new employees” agreement was signed in 2011. See “Developments in labor relations” under "Human resources” above.

AN AGREEMENT FOR THE GRANTING OF LOANS AND SERVICES TO STATE EMPLOYEES

On May 10, 2007, the Bank signed an agreement for the granting of loans, overdraft and banking services to State employees. For further details see "Retails banking sector - household segment" in the Chapter "Activity of the Group according to principal segments of operating" and Note 19 C 17 to the financial statements.

AGREEMENT FOR THE SALE OF THE OPERATIONS OF DBLA

On December 18, 2014, an agreement was signed for the sale of the operations of Discount Bank Latin America (DBLA). For additional details, see Note 8A to the financial statements.

ISSUES REGARDING CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE FOR THE DISCOUNT GROUP

The corporate governance code approved by the Bank's Board of Directors on October 28, 2009, reflects the implementation of a "best practice" policy in the corporate governance field. The code is based on the provisions of the law and various regulations applying to the Bank in the corporate governance field, including the Basel II guidelines and the recommendations of the Goshen Committee established by the Israel Securities Authority. The corporate governance code was discussed in January 2014, by the corporate governance committee, and it has been decided to update it. In September of 2014, the Board of Directors discussed the Code and updates to the document were approved.

Within the framework of the implementation of the corporate governance program, the Bank's Board of Directors approved in January 2012 a work procedure vis-à-vis the subsidiary companies, which is designed to regulate the interfaces between the Bank and its subsidiaries, with a view of preparing an infrastructure for management on a group level, and determine a work format for the supervision and control over the activities of subsidiary companies by the parent company. Within the framework of the work procedure vis-à-vis the subsidiary companies, supervision and control mechanisms have been set, which are designed to assure the proper and effective operation of the Discount group including with respect to the following items: activity and transactions with related parties; supervision by the Bank's Board of Directors over companies in the Group; reorganization and structural changes; the formation of a group risk management policy regarding various areas.

INTERESTED PARTY TRANSACTIONS APPROVAL PROCEDURE

The Bank's Board of Directors adopted a legal opinion rendered by a prominent legal expert, according to which transactions between interested parties in the Bank and its subsidiary companies shall be approved in accordance with procedures determined by the Israeli Law with respect to approval of transactions with the Bank itself.

On March 17, 2013, the Board of Directors approved the interested party transactions approval procedure, within the framework of which, the said opinion in the matter of approval of transactions with interested parties, has been implemented. The procedure is designed to regulate the manner of identifying, approving and reporting transactions between controlling shareholders and/or officers of the Bank and the Bank and subsidiary companies in the Group, which require special approval under the Companies Act. Implementation of the procedure is based on criteria that had been approved by the Audit Committee with respect to exceptional transactions with interested parties, for the purpose of having them approved according to the provisions of the law applying to them.

The procedure was updated in February 2014. The update referred mainly, to the regulation of the transaction approval mechanism between officers of the Bank and the subsidiary companies.

CORPORATE GOVERNANCE QUESTIONNAIRE

As part of the project for the improvement of financial statements, the Israeli Securities Authority published in September 2012, a guideline in terms of Item 36A(b) of the Securities Act, 1968, according to which, public companies were required, in the periodic report for the year 2012, to submit a "corporate governance questionnaire" in the format stated in the guideline. The effect of the guideline issued under Section 36A(b) of the Securities Act is limited to one year, though, with the approval of the Minister of Finance, it may be extended for one additional year. The Authority decided to establish this guideline in Regulations, as part of the project for the improvement and shortening of the reports, and therefore the validity of the guideline has not been extended, and accordingly, it is no longer valid. As of date of publication of the report, the draft Regulations to which the questionnaire is attached have also not yet become effective. Accordingly, no binding instruction in this matter applies to the 2013 and 2014 annual reports (the questionnaire was presented in 2013, in the format specified in the guideline).

The Bank has decided to voluntarily submit in 2014 a corporate governance questionnaire in the updated format.

The Bank's corporate governance questionnaire is available for perusal at the MAGNA website of the Israeli Securities Authority[4] and at the MAYA website of the Tel Aviv Stock Exchange Ltd., as well as at the Bank's website.

GROUP MANAGEMENT

Proper Conduct of Banking Business Directives regulate, among other things, the Group conduct of the banking corporation as regards various issues.

Within the framework of an amendment to Proper Conduct of Banking Business Directive No. 301 ("the New Directive"), which entered into effect on January 1, 2012 (see "Legislation and supervision" below), instructions have been prescribed with regard to group management, according to which the Board of Directors is required to determine the overall strategic goals of a banking corporation and of corporations controlled by it, including its domestic and foreign extensions, including the fundamental operating guidelines and the risk appetite. In addition, it stipulates that the Board of Directors shall determine general guidelines regarding the structure of corporate governance in such controlled corporations, in a manner that would contribute to efficient supervision over the Group.

The new Directive includes reference to the framework of considerations of the controlled corporation, and requires that the Board of Directors of the controlled corporation must take into consideration the overall strategic goals of the Group, the overall risk management policy of the group and the overall guidelines of the group regarding the supervision and control mechanisms over controlled corporations, determined, respectively, by the Board of Directors of the controlling banking corporation, in as much as they agree with the interests of the controlled banking corporation and with the provisions of Section 11 of the Companies Law, regarding the purpose of the company.

The Board of Directors formed principles for group management, taking into consideration the circumstances of each subsidiary company, its field of operation and size. Within this framework it was determined, among other things, that in certain of the areas – strategy, accounting group, risk management, internal audit, legal advisory and information systems – the relevant units at the Bank will guide the subsidiaries by way of a "binding professional guideline". In certain matters, particularly with respect to administrative matters, administration will be performed by a "central management" format, with a view of increasing efficiency and utilizing synergic advantages.

In January 2012, the Board of Directors approved the work procedure vis a vis the subsidiary companies, the aim of which is to regularize the interfaces between the Bank and the subsidiary companies, with a view of creating a management infrastructure on a group basis and to enable the Bank to supervise the activities of the subsidiary companies. Among other things, the procedure regularizes the basic principles for group management, and the areas to be managed on a group basis, including: strategy, capital planning and risk management. In addition, the procedure regularizes the supervision and control framework over the subsidiary companies through audit and control functions that are responsible for risk management on a group basis within the area of their responsibility. Furthermore, the procedure framework established reporting mechanisms by the subsidiary companies to the bank, as well as rules regarding transactions requiring the Bank's approval prior to their being approved by the subsidiary companies. The Bank is acting to integrate the procedure, and to form the work interfaces between the subsidiaries and the various parties responsible for the business and supervisory aspects of the subsidiaries' activities.

[4] The English translation of the questionnaire is available for perusal at the Bank's website.

For details regarding the group risk management, see "Principles for risk management" under "Exposure to risk and risk management" above. For details regarding the duty to set a policy with respect to employment and retirement terms at subsidiary companies, see "Remuneration policy in a banking corporation" under "Human resources" above.

THE INTERNAL AUDIT IN THE GROUP IN 2014

Details of the Internal Auditor. The Bank's Internal Auditor is Mr. Nir Abel, CPA (Isr.), who assumed office on May 18, 2011. The Internal Auditor is not an interested party in the Bank, is not an officer of the Bank, is not related to any of these persons and is not the Bank's external auditor or acting on his behalf.

The Internal Auditor complies with the provisions of Section 146(B) of the Companies Law and of Section 8 of the Banking Rules (Internal Audit) and the staff of the internal audit department comply with the provisions of Section 8 of the Banking Rules (Internal Audit).

In addition, as from May 18, 2011, Mr. Abel serves also as the Internal Auditor of ICC.

The manner of appointment. The appointment of the Internal Auditor was approved by the audit committee in its meeting on November 29, 2010 and by the Board of Directors in its meeting of December 12, 2010. The appointment of Mr. Abel was approved in light of his qualifications, education and long-term professional experience in the field of internal audit and in the role of chief internal auditor in the banking system. Until his appointment, Mr. Abel, a certified public accountant and economist, served as Head Internal Auditor of the First International Bank Group from August 2006 until March 2011, and as the Chief Internal Auditor of Otzar Hahayal Bank as from November 2000 and until March 2011.

Letter of appointment. The Audit Committee of the Board and the Board of Directors approved in January 2012 the letter of appointment of the Internal Auditor, and in January 2013, they approved an update of the letter of appointment.

The organ in charge of the Internal Auditor. The Chairman of the Board of Directors is the organizational entity in charge of the Internal Auditor.

Work plan. The internal audit operates according to the annual work plan derived from a multi-annual work plan (the multi-annual work plan covers a period of four years). The annual and multi-annual work plans (hereinafter: "the work plan") are prepared in according to the Internal Audit Law, 1992 and according to Proper Bank Management Directives.

The work plan was designed on the basis of an overall risk survey, conducted according to new and accepted methodologies, and was influenced by local and international guidelines (including Basel II, COSO, SOX and Proper Conduct of Banking Business Directive No. 307 regarding the internal audit function).

Prior to the work plan being submitted for approval, it is forwarded to the Bank’s independent auditors, to the chairman of the Board of Directors, to the Chairman of the Board’s Audit Committee and to the Bank’s President & CEO for lodging comments and elucidations. The Board of Director’s Audit Committee discusses the work plan and on the basis of its recommendations the plan is brought before the Board for approval.

A deviation from the work plan is brought for approval of the Audit Committee.

The Board of Directors and the Audit Committee, which had examined the work plan of the internal audit and the actual performance thereof, are of the opinion that the Bank`s internal audit fulfills the requirements determined by professional standards and by the instructions of the Supervisor of Banks.

Audit of investee corporations in Israel and abroad. The internal audit work plan also relates to the Bank’s investee companies in Israel and abroad. The planned work programs for the subsidiaries, at which the Bank’s Internal Auditor or his deputy serves also as their Internal Auditor, are combined with the annual work program for the Bank's internal audit, while addressing each subsidiary separately. The scope of the work program for each subsidiary as above, is discussed by the audit committee of each subsidiary, and/or by the Board of Directors.

Where the Bank's Internal Auditor does not perform audits of investee companies, control of such companies is performed as required by Section 1(A)(3) of Banking Rules.

In addition, the Bank’s Internal Auditor coordinates in advance with the Internal Auditor of the investee company as to the matters which would be audited by the Internal Auditor of the investee.

Scope of employment. The Internal Auditor is engaged in a full time position and the average number of staff working under him in the Group in the reported period numbered 106.7 positions (including overheads; not including 1.8 outsourcing positions), of which, 33.2 positions in corporations that engage an independent Internal Auditor (MDB, IDB New York, Discount Bank Latin America and IDB (Swiss)). The number of positions in the Internal Audit Group is derived from the requirements of the work plan as approved by the Board of Directors.

Following are details of the average number of positions in 2014 engaged in internal audit at the Bank and in investee companies in Israel and abroad:

	Group employees	Outsourcing employees
The Bank	60.5	0.8
Investee companies in Israel audited by the Bank's internal auditor(1)	10.5	0.5
In overseas extensions	2.5	-
Investee companies in Israel where the audit is performed by an independent internal auditor(2)	18.0	0.3
Investee companies abroad where the audit is performed by an independent internal audito(3)	15.2	0.2
Total	**106.7**	**1.8**

Notes:

(1) Of which, 6.5 positions in ICC.

(2) Of which, the internal auditor. Not including 1.9 positions of costumer complaints.

(3) Of which, 9.75 auditors of IDB New-York, 5 auditors of DBLA, 0.2 positions in IDB (Swiss) Bank.

Performance of the audit. The internal audit is carried out according to the provisions of the Internal Audit Law, 1992 and according to the professional standards of the Institute of Internal Auditors in Israel. Starting from July 1, 2012, the internal audit operates also in accordance with Proper Conduct of Banking Business Directive No. 307.

No material transactions were entered into during the reported period (within the meaning of the term in Proper Conduct of Banking Business Directives).

Access to information. All information and documentation required by the Internal Auditor is handed over to him and is granted permanent and direct access to the Bank's information systems and of investee corporations in Israel and abroad, including financial data.

Reports by the Internal Auditor. All audit reports are submitted in writing and presented to the Chairman of the Board, the Chairman of the Audit Committee, the President & CEO, the Chief Risk Manager, the independent auditors and relevant members of the Management. The audit reports are graded on the basis of the audit findings.

A monthly summary report is presented to the Chairman of the Board, the Chairman of the Audit Committee, the independent auditors and the Bank's Management.

The internal auditor submits periodic activity reports, as follows: a quarterly report concerning all the internal audit work performed in Israel and abroad, detailing the material findings reported in the individual reports submitted during the reviewed quarter, a concise response to the findings by the audited entities, as well as follow-ups of previous quarterly reports and prior issues that had not yet been resolved.

The auditor submits also a semi-annual report and an annual report in the format required by Proper Conduct of Banking Business Instruction No. 307 in the matter of internal audit.

The activity reports are addressed to the Chairman of the Board, the Chairman of the Boards' Audit Committee, the President & CEO, the Chief Risk Manager and to the Independent Auditors. These reports are being discussed by the Management and thereafter by the Boards' Audit Committee. The annual report is being discussed also by the Board of Directors.

In addition, the audit committee of the board discusses specific audit reports regarding the Bank's units, and material reports regarding the Bank's subsidiaries, in cases where the chairman of the audit committee or the Internal Auditor consider that the findings in these reports or the significant issues which they raise require special attention.

The periodic reports were submitted and discussed as follows:

- Report on the activities of the internal audit in the fourth quarter of 2013, submitted on January 19, 2014, and discussed by the Audit Committee on February 4 and February 25, 2014;
- Annual report on the activities of the internal audit in 2013, submitted on March 25, 2014, and discussed by the Audit Committee on April 1, 2014 and by the Board of Directors on April 24, 2014;
- The quarterly report on the activities of the internal audit in the first quarter of 2014 was submitted April 27, 2014, and discussed by the Audit Committee on July 1, 2014;
- The report on the activities of the internal audit in the first half of 2014 was submitted on July 24, 2014, and discussed by the Audit Committee on August 26, 2014;
- The quarterly report on the activities of the internal audit in the third quarter of 2014 was submitted on October 22, 2014, and discussed by the Audit Committee on November 4, 2014;
- Report on the activities of the internal audit in the fourth quarter of 2014, submitted on January 26, 2015 and is yet to be discussed by the Audit Committee.

The annual report regarding the activities of Internal Audit in 2014 is being submitted these days.

Valuation by the Board of Directors of the Internal Auditor's performance. In the opinion of the Board of Directors and of the Audit Committee, the scope, nature and continuity of the operations of the Internal Auditor and his work plan are reasonable under the circumstances and attain the goals setout for internal audit at the Bank.

Remuneration. Details of the payments to the Internal Auditor and of the components thereof are given hereunder. In the opinion of the Board of Directors, such payments have no effect upon the Internal Auditor's professional judgment.

General details			Remuneration* for services							
year	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total salary, awards, employer's provisions and benefits	Share based payment	Total	Loans granted under regular terms
			in NIS thousands							
2014	100%	-	994	-	285	158	1,437	-	1,437	-
2013	100%	-	985	(3)904	85	164	2,138	-	2,138	-

* The amounts of the remuneration do not include payroll tax.

(1) Including severance pay, retirement award, provident fund, further education fund, vacation pay, National Insurance contributions, loss of ability to work insurance and the supplementing of provisions due to changes in salary. Furthermore, the data for 2013 include an update of the adaptation awards in accordance with the grades in the employment agreements and adjustments of provisions due to changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) The award includes an annual award in respect of the year 2013 and a long-term award in respect of the years 2011-2013, see Note 16 I to the financial statements.

Mr. Abel is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Abel is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Mr. Abels' salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Abel is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Abel is entitled to severance payment in accordance with the law and also to a retirement award in an amount equal to four monthly salaries.

Mr. Abel was entitled to participate in the remuneration plan to members of the Bank's management (2011-2013), as detailed in Note 16 I to the financial statements. Mr. Abel is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 16 K to the financial statements).

INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management conception, according to which, activities beneficial to the community form part of a business, social and cultural obligation. The volunteer activity within the framework of the "Lema'an" Project continued during 2014 - Discount Employees for the Community, in the framework of which, volunteer Bank employees contribute their time and compassion. The volunteer activity is varied and provides assistance and support to a wide range of components of the population in Israel: children and youth, students, servicemen, disadvantaged sectors, elderly, handicapped, infirm and such like.

In addition to the activities of "Lema'an" - Discount Employees for the Community project, described hereunder, the following activities were also conducted in 2014 in the culture and arts field, providing sponsorship and donations.

In 2014, the Bank continued the trend of supporting children and youth in various states of distress.

MONETARY SCOPE OF ACTIVITY

Following are data regarding the scope of expenditure of the Discount Group in respect of the activities:

	In the year	
	2014	2013[4]
	In NIS thousands	
Direct expense including the "Lema'an" project activities	6,135	5,960
Direct current cost of operating the Hezelilienblum Museum[1]	5,964	6,934
Indirect expenses - payroll[2]	3,784	3,233
Miscellaneous expenses[3]	529	396
Total[5]	**16,412**	**16,525**

Footnotes:

(1) Guidance team payroll and building maintenance.

(2) Staff of the social responsibility unit and certain other factors who were directly engaged in social responsibility matters as part of their regular working hours.

(3) Mostly expenses relating to the preparation of various social and environmental responsibility reports, and participation of the Banks' Management in financing the travel to Poland.

(4) The data for 2013 has been restated following a re-examination of the data.

(5) The data does not include the cost of the financial education project.

DONATIONS

Donations are directed mainly to associations, clubs, education establishments, health organizations and others, that focus on children and personal welfare. Among the donations granted in 2014, noteworthy are those granted to following associations: Yad Sarah, Zichron Menachem, Tel Hashomer, Ramon Foundation, "Meirutz Lashir" Association, Association for the Wellbeing of Israel's Soldiers, "Hope" (Tikva) initiative, Association for Advancement of Education in Jaffa, Reuth Medical Center and more.

THE "LEMA'AN" PROJECT - DISCOUNT EMPLOYEES FOR THE COMMUNITY

The varied activity continued in 2013, while focusing on voluntary activities in the framework of various associations acting in aid of youth at risk and in distress and various associations. During 2013, branches and new units joined the Bank's volunteer circle.
The following projects conducted in 2013 deserve special mention:

Adoption of Regiment 405. At the beginning of 2011, DMB committed to adopt Regiment 405 of the Artillery Corp for an additional period of three years. Upon consummation of the merger between DMB and the Bank, the latter has also taken over this commitment.

Adoption of Squadron 916. In 2012, the Bank committed to adopt Squadron 916 of the Israeli Navy for an additional period of three years in continuation to six years of adoption of that squadron (within the framework of the "Adopt a combat soldier" project of the Association of Friends of the IDF).

Operation of the Bank during the "Protective Edge" Operation. Gift parcels have been sent to families of Bank employees called for active service during the "Protective Edge" Operation, as well as to employees whose next of kin were called for active service.
At the same time, after examining the needs with the competent factors in the military units, products have been purchased for the soldiers of Squadron 916 and for and the soldiers of Regiment 405.

"Discount Fund" at the "Ezra LeMarpe" Association. The Bank continued its support of the Fund, whose goal is to offer financial assistance, for the fifth year running. Approaches in the matter of health received by the Bank are referred to the Association for examination of the case and its various aspects. Where the case is found deserving of assistance it is awarded out of the Fund.

"Social responsibility in business" day. June 10, 2014 has been declared in Israel as "Social responsibility in business" day, led by "Maala" Organization.
The Bank has elected to focus its activity on this day on broadening the circle of volunteers for community activities. The "Morning Magazine" transmitted to employees included a report intended to encourage Bank employees to broaden the circle of volunteers. The Chairman of the Board appeared on the "Magazine" and stressed the importance of this issue and expressed his appreciation of the volunteer Bank employees.

"Our Children's Horizon" Project. During the summer months (July-August) the Bank employed youth with eye defects, who are active at the "Our Children's Horizon" Association. For the seventh year running, the Bank is an active member in the training provided for such youth as preparation for work at the Bank. The participants together with their coordinators from the Association came to the Discount College, where they were given instruction on the subject of work qualification and skills.

Ramon Foundation. In 2013, the Bank joined the "Ramon Award" program, the mark of quality, excellence and leadership, in memory of Ilan and Asaf Ramon. Within the framework of the program, eight young persons excelling in their studies and especially outstanding in their community volunteer work, as leaders of social change. The aim of the program is to encourage excellence and leadership among youth in Israel, in the image of Ilan and Asaf Ramon, who represent a personal example in their personality, deeds and achievements. The eight elected youth are to undergo a several months' course increasing their proficiency and skills, within the framework of which they would be qualified to lead varied projects for the reduction of various differences and social advancement in Israel.

The "Hope" enterprise. In 2013, the Bank joined the "Hope" Enterprise together with: Ananey Communications, Ness Technologies, Joint Israel, Altshuler Shaham, The Friendship Foundation, ORT Israel and Orange. This enterprise will be the first social Internet "Google" enterprise in Israel, which would connect anyone who is willing to give with anyone who requires help, and would coordinate all the information about rights and laws in the State of Israel – social and civic work and the various possibilities for volunteer work.

Varied voluntary activities. Employees of the Bank engage in voluntary activities at various centers, including: children clubs, senior citizen clubs, schools, shelters for molested women, drug rehabilitation centers, "Ma'as" (center for adults with special needs), children with special needs, hospitals, etc.

Purim events at volunteering venues. Bank employees conducted Purim parties at centers in which they work as volunteers; children clubs, senior citizen clubs, schools, a shelter for battered women, drug rehabilitation center, Chimes - Rehabilitation Work Centers (adult population having special needs), children with special needs, hospitals etc.

Assistance to needy families towards the Passover holiday. In line with the Bank's tradition, the Bank rallied once again to assist needy families. The Bank has contributed an amount of NIS 72,000 to the "Warmth" Association, which assists in delivering food parcels to families in need.

Bazaar for the sale of products made by persons with special needs. Towards the Passover and the Jewish New Year holiday, the Bank has assisted in setting up a bazaar (on Bank premises) in which Bank employees could buy items made by handicapped individuals. Income from sales was contributed towards the continued activities of associations employing the handicapped. The products were produced by persons having special needs working under the auspices of the following associations: ENOSH Rishon Le'Tzion (the Israeli Mental Health Association), "Beit Miriam" (ILAN) and "Ohel Sarah".

Discount employees in aid of ELEM. Some thirty Discount employees participated in the ELEM race, all income thereof were dedicated to youth at risk.

The Minister of Immigration and Absorption Plaque granted to the IT and Planning Division. In January 2014, the said Plaque was granted to the Bank`s IT and Planning Division, in appreciation of the voluntary work of the Division's employee at the children house "A Place in the Heart" for children from Ethiopia at the Jaffa community center.

The "A Place in the Heart" project had been started by employees of Discount Mortgage Bank. Some two years ago, in connection with the merger of DMB with and into the Bank, management of the IT and Planning Division decided to adopt the project and even expand the activity in respect thereof.

The "For the Community" website. The "For the community" website operates on the employee Intranet site. The site includes up-to-date contents regarding the Bank's activities in aid of the community, details regarding volunteer work performed by the Bank's various units as well as details regarding additional areas of volunteer work which may be joined.

"SPRINT FOR THE FUTURE" – DISCOUNT BANK'S FLAG SHIP PROJECT

In 2005 Israel Discount Bank joined forces with "Sprint for the Future" Association adopting the program focused on school age children from peripheral regions with difficulties in their studies. The program's objective is to provide assistance to school children so that they will be able to graduate high school, attaining a full matriculation certificate, enabling them to continue with higher education. The name of the program is "Discount Start Up".

The Bank is a party to both the financial support of the Association as well as to promoting and advancing its activities. Representatives of the Bank's management are members of the executive board of the Association, and employees of the Bank have started voluntary activity in the framework of the Association's programs, among other things, in the form of the adoption by nearby Bank branches and Banks units of schools participating in the project.

CORPORATE RESPONSIBILITY REPORT – SOCIAL RESPONSIBILITY REPORT NO. 3

On the background of developments regarding the issue of corporate responsibility reporting, and in view of the importance that the Supervisor of Banks attributes to the activity of banking corporations in this respect, the Supervisor of Banks issued on October 3, 2011, a circular, according to which banking corporations heading the banking groups will be required to publish reports for a period of up to two years concerning corporate responsibility, including: ethics in business, corporate governance, commitment to the environment, involvement in the community, etc. The first report in this framework was presented in 2014.

Social Responsibility Report No. 3. Social Responsibility Report No. 3, for the years 2012-2013, is available for perusal on the Bank's website (in Hebrew) and on the Investor Relations website (in English).

The report was drawn up in accordance with the reporting standard of the GRI (Global Reporting Initiative), a non-governmental organization that cooperates with the United Nations and organizations worldwide in order to develop and assimilate global social reporting measures within organizations throughout the world. The report has been drawn up in accordance with the GRI (G3.1) reporting standard, which contains all the indicators specified in the sectoral schedules for the financial industry.

The Bank's social responsibility report was subjected to an assurance process by an objective external body – the Corporate Social Responsibility and Sustainability Group of the consulting firm, BDO Ziv-Haft, which determined that the Bank meets the GRI requirements for reporting at level A, the highest level of reporting transparency. In light of having been subjected to an assurance process, the report has been granted an A+ reporting level.

Corporations which wish to do so may submit their social responsibility report for review by the GRI. The Bank submitted the Report for a methodological review of the GRI. The GRI has examined the report and has found it attains the highest application level (A+) concerning completeness of compliance with the indices.

GLOBAL COMPACT

The Bank joined the Global Compact initiative of the United Nations in 2010. Social Responsibility Report No. 3 (see above) also constitutes the annual update for this initiative with respect to 2013.

The Global Compact comprises a United Nation initiative, which the Bank joined in September 2010.

The Report is available to the public at the website of the Organization: http://staging.unglobalcompact.org/COPs/advanced/ 21421 and at the Bank's website.

ENVIRONMENTAL RESPONSIBILITY - FILING DATA TO THE CDP

In September 2014 the Bank has completed filing its data to the CDP, for the third year running. The CDP (Carbon Disclosure Project) is an independent non-for-profit international organization, located in London, which acts towards the reduction in emission of greenhouse gases by corporations, organizations and cities all over the world, through a voluntary reporting and transparency mechanism. The Organization serves as a source of information for investors, corporations and governments when coming to examine environmental operations of corporations and cities, as well as the future risks to which they might be exposed. The reporting organizations may elect not to reveal to the Organization their full report but only the final grading granted to it, though this lowers the level of transparency presented by the reporting organization.

Among the reporting banks presenting their reports to the public are leading banks around the world, such as: the Royal Bank of Scotland and Bank of America. Discount Bank is the only Bank in Israel that has elected to report to the CDP.

INVOLVEMENT IN AND CONTRIBUTION TO THE COMMUNITY BY THE PRINCIPAL SUBSIDIARIES

Following are descriptions of several prominent projects carried out by the principal subsidiaries:

"Cal desire and dream". This project was started in 2014 together with the "Yeladim – Fair Chance for Children" Association, with the aim of realizing the dreams and necessities of children of the Association living in boarding houses all over the country. Employees of the company met with children of the Association, deciding together on the dream that would be realized for these children, thus making the children believe that sometimes dreams come true.

"Another lesson". ICC takes part in a project of "A Different Lesson" association, which lanes the wealth of knowledge found among the public into enriching and enhancing the educational system, by inviting citizens from the business and public sectors, who are professionals in various fields, to come into the schools and give inspiring enrichment courses. Company employees joined this association's voluntary setup within the educational system and invited school children to the Company's offices for an inspirational day to experience the world of finance and credit.

A start-up project in the Arab sector. In 2014, MDB continued the educational project launched in 2008, jointly with "Sprint for the Future" Association, within the framework of which this bank granted this year 72 scholarships for studies at academic institutions to Arab sector students who were found deserving of these scholarships, in return for their commitment to contribute time to community work The cost of this project amounted to NIS 0.6 million in 2014.

Participation in an educational project. MDB Bank has been participating also in 2014 in a project conducted by "Yad Eliezer" Association, within the framework of which this bank has granted 166 scholarships to Yeshiva students, at a total cost of NIS 0.2 million, in consideration for their commitment to serve as tutors to children of disadvantaged families in the ultra-orthodox sector.
"Computer for every child". Support for the operations of the project (sponsored by the Government of Israel), within the framework of which, Mercantile Discount Bank participated by contributing approx. 125 computer sets to children of deprived families at a cost of approx. NIS 0.2 million.

"THE MARCH OF THE LIVING"

In April 2014, a delegation of Discount Bank employees participated, for the twelfth time, in the "March of the Living" from Auschwitz to Birkenau that takes place every year on the Memorial Day for the Holocaust and Heroism. The delegation numbered 70 of the Bank's staff and ICC's staff. This continued a tradition started on 2003, of participation of a Discount Group delegation in the "March of the Living", the Bank and the Employee Union participating in the cost thereof.

EMPLOYMENT OF HANDICAPPED PERSONNEL

As part of its personnel recruitment policy, the Bank offers disabled persons, who generally are not accepted by employers, the opportunity of being integrated into positions at the Bank suitable to their ability and according to the Bank's requirements. This offers such persons the opportunity to function as regular citizens who provide for themselves with self respect. In addition, this measure will shape the organizational culture of the Bank, as an organization that is open-minded toward those who are different. In light of the aforesaid, the employment of handicapped personnel has been defined as a primary focal point in the Bank's communal activity.
As of December 31, 2014, some 65 handicapped personnel are employed at the Bank (December 31, 2013: some 63 personnel).

"HERZELILINBLUM" - BANKING AND TEL AVIV NOSTALGIA MUSEUM

The Herzelilinblum Museum of Banking and Tel Aviv Nostalgia. The museum provides the possibility of a close study of the history and economics of Israel since the beginning of the last century. The Museum is located in a one hundred and five year old preserved building, one of the first houses of Ahuzat Bait.
Visitors. Since its opening in May 2009, the Museum hosted some 240 thousand visitors of various populations: organized groups, business corporations, young people, servicemen, students and more. In 2014, the Museum hosted some 15 thousand visitors, within the framework of some 650 tours, seminars and events of different kinds.
It is noted, that extensive technological improvements were made in the Museum during April and May, which disrupted the electrical and media systems and caused a reduction in activity and in the scope of tours of the Museum. Many tours and events were cancelled during the months of July and August due to the "Protective Edge" Operation.
Tours and seminars. During the academic year, some 50 tours per quarter on an average were conducted for school children of seventh to twelfth grade.
About 200 tours for children and their families were conducted during the school vacation, including: "Money workshop for young economists" tour, designed for ages 6-12, and the "Money road" tour designed for teenagers of 13-17.
Cooperation with the Ministry of Education. Since the establishment of the Museum, thousands of students have visited it, pupils from seventh to twelfth grades from all over the country, each age group being allotted a tour plan. Also held in the Museum are conventions and study seminars for teachers and supervisors.
The unique study programs of the Museum are: The Stock Exchange – educated investment; the monetary policy in Israel – the Bank of Israel; independence and might; meetings with the social-economic world in Israel: the social-democratic approach vis-à-vis the neo-liberal approach.

Conferences and events. The museum hosts conferences and various events initiated by the Bank: events for the Bank`s units and the Bank`s customers, as well as events and unique tours for corporations, forums and business organizations.

The central exhibition: "Adorned – Pioneers and Dreamers". The exhibition opened in April 2013, and in view of public demand, continued exhibiting at the Museum until June 2014. The singularity of the exhibition was in the presentation for the first time of a group of ladies, each of them, amazing in her achievements and contribution to the Israeli society, in different occupational fields and world of contents: art, literature, science, justice, theatre, statesmanship, cinema, fashion and more.

Many events have been held within the framework of the exhibition (some twenty events in the first five months of 2014 alone), the closing event of the exhibition being in honor of generations of the Israel Prize laureates, held in June 2014. Participating in this moving event, the first of its king held up to now in Israel, were the Israel Prize laureates and their family members. Also present and praising the laureates were the chairperson of the Knesset committee for the promotion of female position, the Bank's President & CEO, and others.

The exhibition was moved to Haifa in January 2015, being open for one month at the lobby of the Auditorium, following which it was moved to its permanent location at the "Madatech" in Haifa.

OUTSTANDING EVENTS AND ADDITIONAL EXHIBITIONS

Fundraising event for the "Spirit of Israel" Association, held in September 2014, where works of art donated by artists have been sold in aid of the Association and its activity in aid of children at risk. Over 300 persons participated in the event and more than one half of the exhibits have been sold. The works of art had been on show at the Museum for two months prior to the event.

Fridays at the Museum – a series of bi-weekly events initiated by the Museum, open to the public at large and to Bank employees. Each of these events includes a tour outside of the Museum, a tour of the Museum and a lecture. The series commenced in November 2014, and is planned to continue also in the first half of 2015.

"Paporisch" – an exhibition of the works of the artist Ruth Weinstein Paporisch, opened in November 2014, and was open until the middle of February 2015. Ruth Weinstein Paporisch presented in the exhibition thirty of her works created in the last two years, and which depict the legacy of her father, the well known geographer Dr. Yehoyakim Paporisch, one of the founders of "Tichon Hadash" High School in Tel Aviv, and who became known mostly due to his great contribution to education and to the teaching of Geography in Israel.

"MAALA" RATING FOR 2014

In June 2014, "Maala" published its rating for 2014. A new rating category was added as of 2012 – Platinum Plus (awarded to companies with an absolute score of over 90). The Bank has been rated in the Platinum Plus category. The rating is based on criteria detailed in six central areas of corporate responsibility: environmental protection, business ethics, human rights and work environment, involvement with the community, corporate governance and social environmental reporting. The rating by Maala covers the largest public and private corporations operating in the market, and allows them to be included in the Maala rating and in the Maala Index on the Tel Aviv Stock Exchange.

ARTS

Discount's art collection contains some 2,200 original works and about 4,200 lithographs of the best of Israeli artists, representing a fascinating and varied assortment of making over more than fifty years and includes sculptures, paintings, tapestries, video art and photographs. The Bank's art collection is considered one of the quality collections of Israeli art.

Lending works of art. Cooperation with various museums continued in 2014. Within this framework the Bank lent works from its art collection. The Bank loaned three works of the artist Ron Amir to the exhibition "Jisr-al-Zarqa, Back and Forth" at the Haifa Art Museum. A work of art by Tsibi Gevawas lent to a solo exhibition of the artist at the Macro Testacciot Gallery in Rome; Four works of the artist Elham Rokni were loaned to the "Until You Get Out Of My Voice" exhibition at the Ashdod Museum; Works of the artist Elham Rokni were loaned to the Ashdod Museum of Art until the end of 2014 to the exhibition "Until You Get Out Of My Voice".

"From photography to printing" Exhibition. Six engravings taken from the Discount Art Album No. 16, were on show in July at the exhibition held at the Negev Museum.

The work "Energy" by the artist Benni Efrat, from the Discount Bank art collection, had been restored and put on show in the lobby of the Discount Tower.

Cooperation with Mercantile Discount Bank. The donation to the Um-el-Fahem Gallery of the "Discount 16" Album on behalf of Mercantile Discount Bank, on occasion of a sale event and the raising of funds towards the transition from a gallery to a museum in Um-el-Fahem.

Exhibition of the artist David Mey-Tal. An event held on January 22, 2014, at the Tirosh Gallery for customers of the Banking Division, launching an exhibition of the works of the artist David Mey-Tal. Participating in the event were customers of the Tel Aviv regional administration and of the Tel Aviv business center.

The Streichman Estate. The launching and initial exposure of works of art belonging to the Streichman estate that were transferred to the collection of the Bank by the Streichman family, was held on February 21, 2014. Among the items was an unfinished work by Streichman that had been completed by the artist Yair Garbuz, as well as twenty-five clay statutes made by Streichman.

Event at the Nahariyah Hospital. The event included an art gallery exhibited in the corridors of the wards. The lithographies have been donated by the Bank.

A stage for the artist. The project "A stage for the artist" is intended to provide exposure to artists within the premises of the Bank's branches. In this framework, an opening event was held on May 14, 2014, for the exhibition of works of the artist Lihi Talmor. This is an exhibition of photographs taken in the Ladakh Region of Northern India. Present in the event were the Deputy Ambassador of India, the Head of the Trade Department and the Secretary for Cultural Affairs and Communication of the Indian Embassy in Israel, as well as many guests from among the customers of the branch. In addition, a paintings exhibition of the artist Magda Ganor was opened on October 22, 2014, at the Rabin Square Branch, in the presence of the regional manager and customers of the branch.

Guided public tours. Guided tours of the Bank's art collection, open to the public, are conducted on Friday mornings at the Discount Tower. Some 50 tours were made during 2014, in which some 1,300 visitors have participated.

The Discount Museum website. The Bank attributes great importance to the maintenance and cultivation of its art collection and is proud to exhibit a selection of the works included therein to the public at large through the Discount Museum website. The works selected for presentation are arranged according to themes in a manner that enables the public to learn about the structure of the collection and the Bank's contribution to cultural and community life in Israel. The address of the site is: http://www.discountbank.co.il/museum.

SPONSORSHIPS

During 2014, the Bank granted sponsorship to entities and activities promoting goals in areas of community, activities in aid of weak populations, health, sporting, cultural, artistic and educational, environmental protection, science, energy and business.

AUDITORS' REMUNERATION(1)(2)

Below are particulars of the remuneration that was paid to the auditors (in NIS thousand):

	Consolidated		The Bank	
	For the year ended December 31,			
	2014	2013	2014	2013
For Auditing(3):				
To the joint auditors	15,464	17,530	7,151	7,277
For Other Services:				
Audit related services(4):				
To the joint auditors	3,611	2,439	3,566	2,376
Taxation Services(5):				
To the joint auditors	3,517	3,299	1,413	1,440
Other Services:				
To the joint auditors	2,018	2,176	1,676	1,833
To other auditors	148	238	-	-
Total	**9,294**	**8,152**	**6,655**	**5,649**
Total Auditors' Remuneration	**24,758**	**25,682**	**13,806**	**12,926**

Footnotes:

(1) The auditors' remuneration includes payments to partnerships and corporations under their control and also includes payments pursuant to the VAT law.

(2) Includes remuneration that has been paid and remuneration that has been accrued.

(3) Auditing annual financial statements and reviewing interim financial statements. Also includes audit - internal control over financial reporting (SOX 404).

(4) Includes mainly audit work and special examinations.

(5) Including mainly annual tax reconciliation statements paid for as part of the audit fees and attributed to tax services based on estimate, tax assessments and tax consultations.

REMUNERATION OF INTERESTED PARTIES AND SENIOR OFFICERS

REMUNERATION OF SENIOR OFFICERS

Year 2014

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions[1]	Benefits and grossing-up[2]	Total salary, awards, employer's provisions and benefits	Share based payment[3]	Total	Loans granted under regular terms
				in NIS thousands							
Dr. Joseph Bachar	Chairman of the Board	100%	[4]- -	1,967	-	713	315	2,995	(1,280)	1,715	-
Ms. Lilach Asher Topilsky[5]	President & CEO of the Bank	100%	-	2,031	[10]500	[11]2,061	239	4,831	-	4,831	-
Mr. Ehud Arnon	CEO of IDB New York	100%	-	2,214	389	270	78	2,951	-	2,951	-
Ms. Lissa Baum	Executive Vice President and Chief Lending Officer of IDB New York	100%	-	1,837	311	455	7	2,610	-	2,610	-
Mr. Mauricio Pelta[6]	CEO of Discount Bank Latin America	100%	-	1,298	-	764	191	2,253	-	2,253	-
Ms. Yafit Gariani[8]	Executive Vice President, Head of Human Resources and Properties Division	100%	-	909	-	[12]1,206	107	2,222	-	2,222	-
Mr. Levy Halevy[7]	Executive Vice President, Head of the Technologies and Operations Division	100%	-	662	[10]300	[12]814	102	1,878	-	1,878	-
Mr. Uri Levin[9]	Senior Executive Vice President, Head of Planning, Strategy and Finance Division	100%	-	707	-	[12]783	102	1,592	-	1,592	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,099	-	294	177	1,570	-	1,570	-

* The amounts of the remuneration do not include payroll tax.

(1) Includes severance pay, provident pay, further education fund, vacation pay, National Insurance contributions, loss of work ability insurance and adjustment of provisions following changes in salary.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) In respect of splitting over future periods the benefits relating to "Phantom" option plans. At each reporting date the benefit is adjusted to fair value.

(4) Dr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.

(5) Ms. Asher Topilsky started her office as the Bank's president and CEO on February 19, 2014.

(6) Mr. Pelta started his office as the President and CEO of Discount Bank Latin America on January 11, 2014.

(7) Mr. Halevy started his office as the Head of the Technologies and Operations Division on June 1, 2014.

(9) Mr. Levin started his office as the Head of Planning, strategy and finance Division on May 7, 2014.

(10) Sign-On award.

(11) Including a provision for adaptation award, most of its effect is in the first year of employment, in amount of NIS 1,332 thousand.

(12) Including a provision in respect of adaptation award and prior notice, most of the effect of which is in the first year of employment.

Year 2013

Details of the recipient				Remuneration* for services							
Name	Position	Extent of position	Rate of holdings in corporation's capital	Salary	Awards	Employer's payments and provisions(1)	Benefits and grossing-up(2)	Total payroll, awards and employer's provisions	Share based payment(3)	Total	Loans granted under regular terms
				in NIS thousands							
Dr. Joseph Bachar	Chairman of the Board	100%	(4)-	1,951	(9)-	839	139	2,929	(1,020)	1,909	-
Mr. Reuven Spiegel(5)	President and CEO of the Bank	100%	-	2,147	2,888	826	144	6,005	(1,659)	4,346	-
Mr. Jorge Perez(6)	President and CEO of Discount Bank Latin America	100%	-	2,552	-	2,663	43	5,258	-	5,258	-
Mr. Doron Sapir	President and CEO of ICC	100%	-	1,259	692	1,448	62	3,461	-	3,461	34
Mr. Ehud Arnon	President and CEO of IDB New York	100%	-	2,201	900	227	63	3,391	-	3,391	-
Mr. Shlomo Avidan(7)	Executive Vice President, Head of Operations and Logistics Division	100%	-	1,080	(8)934	680	175	2,869	-	2,869	1
Mr. Joseph Beressi	Senior Executive Vice President, Chief Accountant	100%	-	1,109	(8)1,028	254	181	2,572	-	2,572	-
Mr. Yair Avidan	Executive Vice President, Chief Risk Manager and Head of Risk Management group	100%	-	1,070	(8)1,009	229	164	2,472	-	2,472	-
Mr. Yuval Gavish	Senior Executive Vice President, Head of Banking Division	100%	-	1,088	(8)1,007	100	194	2,389	-	2,389	-

* The amounts of the remuneration do not include payroll tax.

(1) Including severance pay, retirement award, provident payments, further education fund, vacation pay, National Insurance contributions, loss of ability to work insurance and the supplementing of provisions due to changes in salary. Furthermore, it includes the updating of amounts of adaptation awards in accordance with grades specified in the employment agreements.

(2) Includes value of use of vehicle and of mobile phone, various benefits and their grossing up.

(3) In respect of splitting over future periods the benefits relating to "Phantom" option plans. At each reporting date the benefit is adjusted to fair value.

(4) Dr. Bachar owns shares in the Bank in a negligible par value amount of NIS 29,640.

(5) Mr. Spiegel terminated his office as President and CEO of the Bank on February 19, 2014.

(6) Mr. Perez terminated his office as CEO of the Discount Bank Latin America on January 10, 2014.

(7) Mr. Avidan terminated his office as Head of Operations and Logistics Division on April 13, 2014.

(8) The award includes an annual award in respect of the year 2013 and a long-term award in respect of the years 2011-2013, see note 16J to the financial statements.

(9) Dr. Bachar waived in June 2014, the award in respect of 2013. The data for 2013 have been amended accordingly. For additional details, see Note 22G to the financial statements.

Dr. Yossi Bachar - serves as Chairman of the Board of Directors since January 3, 2010. For details regarding the terms of engagement of Dr. Bachar, see Note 22 F and G to the financial statements. For details regarding the phantom option plan granted to Dr. Bachar, see Note 13 D 1 to the financial statements.

Ms. Lilach Asher-Topilsky, acts as President & CEO of the Bank from February 19, 2014. For details regarding the terms of engagement of Ms. Asher-Topilsky, see Note 22 F and h to the financial statements. Ms. Asher-Topilsky informed of the waiver of the award to which she was entitled in respect of the year 2014, in the amount of NIS 785 thousand.

Mr. Ehud Arnon, President & CEO of IDB New York, is employed by the subsidiary under a personal agreement. The engagement period has no specified termination date, unless any of the parties informs the other of his wish to terminate the engagement by a prior notice of four months. Upon termination of his employment, Mr. Arnon will be entitled to a payment equal to a salary in an amount equal to six to eight monthly salaries. Mr. Arnon's monthly salary is reviewed by IDB New York every year. Mr. Arnon is entitled to social benefits (National Insurance contributions and pension within the framework of the pension plans in effect at the subsidiary), as well as to life assurance, medical care and loss of work ability insurance. IDB New York provides Mr. Arnon with an appropriate motor vehicle and is also entitled to an annual home leave in Israel.

Ms. Lissa Baum, Executive Vice President and Chief Lending Officer of IDB New York, is employed by the subsidiary as an "employee at will." Ms. Baum's salary and remuneration are reviewed and approved annually by IDB New York's Remuneration Committee of the Board of Directors. Ms. Baum is entitled to health insurance, life assurance, loss of ability to work insurance, retirement benefits and various tax payments.

Mr. Mauricio Pelta, acts as President and CEO of DBLA since January 11, 2014, engaged by DBLA in accordance with an agreement, which may be terminated by any of the parties at any time. The salary of Mr. Plata is reviewed once in each year by the board of directors of DBLA, which may increase it in accordance with the rise in the CPI in Uruguay. Mr. Plata is entitled to social benefits (National insurance contributions, State pension, life assurance, health insurance and loss of ability to work insurance). As accepted in Uruguay, Mr. Plata is entitled to a bonus in an amount equal to two monthly salaries. DBLA puts at the disposal of Mr. Plata a vehicle of an appropriate level.

Ms. Yafit Gariani employed by the Bank as Executive Vice President, Head of the Human Resources and Properties Division. Ms. Gariani is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of 4 months. According to the agreement, Ms. Gariani is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. Her salary is linked to the CPI, and in the event of the CPI falling, her salary will not change until such time that the rise in the CPI offsets the rate of the fall. Ms. Gariani is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Ms. Gariani is entitled to severance payment in accordance with the law, as well as to a retirement award equal to an amount of six salaries, if the termination of office occurs within the period of two years from date of beginning of office, and to an amount of four salaries if the termination of office occurs after that period. Ms. Gariani is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 16 K to the financial statements).

Mr. Levi Halevi employed by the Bank as Executive Vice President, Head of the Technologies and Operations Division. Mr. Halevi is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of 4 months. According to the agreement, Mr. Halevi is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Halevi is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Halevi is entitled to severance payment in accordance with the law, as well as to a retirement award equal to an amount of six salaries, if the termination of office occurs within the period of two years from date of beginning of office, and to an amount of four salaries if the termination of office occurs after that period. Mr. Halevi is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 16 K to the financial statements).

Mr. Uri Levin, employed by the Bank as Senior Executive Vice President, Head of the Planning, Strategy and Finance Division. Mr. Levin is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Levin is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Levin is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Levin is entitled to severance payment in accordance with the law, as well as to a retirement award equal to an amount of six salaries, if the termination of office occurs within the period of two years from date of beginning of office, and to an amount of four salaries if the termination of office occurs after that period.

Mr. Levin is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 16 K to the financial statements).

Mr. Yuval Gavish, employed by the Bank as Senior Executive Vice President, Head of the Banking Division. Mr. Gavish is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of 4 months. According to the agreement, Mr. Gavish is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Gavish is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Gavish is entitled to severance payment in accordance with the law and also to a retirement award in an amount equal to four monthly salaries. Mr. Gavish was entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements. Mr. Gavish is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 16 K to the financial statements).

Mr. Yair Avidan, employed by the Bank as Executive Vice President, Chief Risk Officer and head of Risk Management Group. Mr. Avidan is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Avidan is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Avidan is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Avidan is entitled to severance payment in accordance with the law as well as to a retirement award in an amount equal to 4 monthly salaries. Mr. Avidan was entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements.

Mr. Reuven Spiegel, Mr. Spiegel acted as President & CEO of the Bank in the period from January 1, 2011 to February 19, 2014. For details regarding the terms of engagement of Mr. Spiegel, see Note 22 G and I to the financial statements. For details regarding the phantom option plan granted to Mr. Spiegel, see Note 13 D 1 to the financial statements.

Mr. Jorge Perez was the President and CEO of Discount Bank (Latin America) ("DBLA"), and was employed by DBLA as an "employee at will." Mr. Perez retired effective January 10, 2014. Mr. Perez enjoyed the customary benefits granted to all members of DBLA's senior management. Year-end 2013 employer's payments and provisions related to Mr. Perez include a severance accrual of $550,000 payable upon retirement.

Mr. Doron Sapir, acts as CEO of ICC since January 15, 2013. His engagement is subject to a personal labor agreement for a determinate period as from January 15, 2013 and until January 14, 2018. Thereafter, the agreement continues for an indeterminate period. In addition to his monthly salary, Mr. Sapir is entitled to paid vacation, paid sick leave, recreation pay, a suitable motorcar, social benefits (severance pay in accordance with the law, provident fund contributions, loss of work ability insurance and further education fund contributions) as well as other benefits. Upon termination of office, Mr. Sapir is entitled according to the agreement to severance pay in accordance with the law. In addition, Mr. Sapir is entitled to an adaptation award as follows: If, in accordance with the decision of the company, Mr. Sapir's period of engagement is terminated during the determinable period and before the end of two years from the start thereof, then he would be entitled to an award equal to nine monthly salaries; if, at the wish of any of the parties, the period of engagement will terminate after the end of two years from the start of the engagement, including after the end of the determinate period, then Mr. Sapir will be entitled to an award equal to six monthly salaries. The non-competition period is six month from date of termination of employment, unless the parties otherwise agree. Mr. Sapir is entitled to an annual award composed of an amount computed according to a formula based on attainment of the indices of ICC, and of an additional award determined at the discretion of the Board of Directors of ICC (hereinafter : "the additional award"). In a year of award, in respect of which Mr. Sapir shall not be entitled to the award computed on the basis of attainment of goals, he would also not be entitled to the additional award. The payment of the annual award in respect of an award year shall be made in three installments. If in a certain award year all threshold terms are not fulfilled, then all the deferred installments that would have been paid on date of payment of the annual award in respect of that year, shall be cancelled and not paid.

Mr. Shlomo Avidan, was employed by the Bank as Executive Vice President, Head of the Operations and Logistics Division. Mr. Avidan's office terminated on April 13, 2014. Mr. Avidan was employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. Mr. Avidan was prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed. His salary was linked to the CPI. Mr. Avidan was entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance pay in accordance with the law, provident fund contributions, loss of work ability insurance and further education fund contributions) as well as other benefits. Upon termination of office, Mr. Avidan was entitled to severance pay in accordance with the law, as well as to a retirement award in an amount equal to 9 monthly salaries. Mr. Avidan was entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements.

Mr. Joseph Beressi, employed by the Bank as Senior Executive Vice President, Chief Accountant and head of the Accounting Group. Mr. Beressi is employed under a personal employment agreement for an indeterminate period, which either of the parties may terminate giving a prior notice of four months. According to the agreement, Mr. Beressi is prohibited from competing against the Bank for a period of six months following the termination of employment, unless otherwise agreed by the parties. His salary is linked to the CPI, and in the event of the CPI falling, his salary will not change until such time that the rise in the CPI offsets the rate of the fall. Mr. Beressi is entitled to annual vacation, sick leave, recreation pay, appropriate motor vehicle, social benefits (severance benefits, provident payments, loss of ability to work insurance and further education fund) as well as other benefits. Upon retirement from office, Mr. Beressi is entitled to severance payment in accordance with the law as well as to a retirement award in an amount equal to 8 monthly salaries. Mr. Beressi was entitled to participate in the remuneration plan to members of the Bank's management, as detailed in Note 16 I to the financial statements. Mr. Beressi is entitled to participate in the remuneration plan for members of the Bank's Management and for the Internal Auditor, for the years 2015-2016 (see Note 16 K to the financial statements).

Members of the Board of Directors. Directors of the Bank are entitled to annual remuneration and to participation remuneration, payable under the regulations of the Companies Act (Regulations regarding remuneration and expenses payable to external directors), 2000. The Chairman of the Board is not entitled to annual remuneration and to participation remuneration. The cost of remuneration in respect of all the Directors, excluding the Chairman of the Board, amounted in 2014, to NIS 4,982 thousand (2013: NIS 5,860 thousand).

Remuneration policy for Officers of the Bank. For details respecting the remuneration policy for officers of the Bank, see "Remuneration policy" under "Human resources" above, and Note 16K to the financial statements.

For details regarding the Remuneration for Officers of Financial Corporations Bill, see “Legislation and Supervision” above.

TRANSACTIONS WITH CONTROLLING SHAREHOLDERS - NEGLIGIBLE TRANSACTIONS

The Israel Securities Authority had in the past guided the Bank with respect to the disclosure format regarding transactions with controlling shareholders, which are not considered exceptional transactions.

For the purpose of implementing the guideline of the Securities Authority, as stated above, the Bank is required to determine criteria for the definition of a "negligible transaction" - with respect to non-banking transactions, "exceptional transaction" - with respect to banking transactions and "market terms", as well as to the manner of approval and disclosure of debt transactions to which Proper Conduct of Banking Business Directive No. 231 does not apply.

In earlier annual reports, and recently in the 2013 annual report (pp. 273-278) the disclosure and reporting outline, as stated, were extensively discussed, as well as the details required to be disclosed in accordance therewith. As detailed in the item "Control of the Bank" above, as from December 3, 2013, the Bronfman-Schron Group ceased to be in control of the Bank and the Bank turned into a bank having no core controlling interest. Accordingly, beginning with the 2014 annual report (the present report) the said details are no longer presented.

TRANSACTIONS WITH INTERESTED PARTIES

**Approval of the terms of office and employment of the Bank`s incoming President & CEO.** A special meeting of shareholders, held on February 17, 2014, resolved to approve the terms of office and employment of the Bank`s incoming President & CEO, as detailed in the immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-006526 and 2014-01-040990, respectively). See also Note 22 F and H to the financial statements.

Amendment of the terms of office and employment of the Chairman of the Board of Directors in the matter of the grossing-up of tax in respect of a motor vehicle. A special meeting of shareholders, held on February 17, 2014, resolved to approve the arrangement whereby the Bank will bear the charge of the grossed-up tax in respect of the cost of use and maintenance of the motor vehicle put at the disposal of the Chairman of the Board as from September 1, 2013, as detailed in the immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-006526 and 2014-01-040990, respectively).

An award to the Chairman of the Board for 2013. A proposal for the approval of the annual award to the Chairman of the Board in respect of the year 2013, in the amount of NIS 2,160 thousand, was included in the Agenda of a special meeting of the Bank`s shareholders, convened for June 18, 2014, following its approval by the Remuneration Committee and by the Board of Directors, as detailed in an immediate report dated May 13, 2014 (Ref No. 2014-01-062172), the information contained therein in this matter is presented here by way of reference (see also Note 22 to the financial statements as of December 31, 2013, pp. 496-499). In June 2014, the Chairman of the Board announced his waiver of the annual award for the year 2013. All this is detailed in immediate reports of June 15, 17 and 24, 2014 (Ref. Nos. 2014-01-091356, 2014-01-092280 and 2014-01-098121, respectively).

Terms of office and engagement of the Chairman of the Board. As described in Note 22F to the financial statements, the engagement agreement with the Chairman of the Board was about to expire on January 3, 2015. The Bank's annual meeting of shareholders held on October 2, 2014, approved the terms of office and employment of the Chairman of the Board, as detailed in immediate reports dated September 21 and October 2, 2014 (Ref. Nos. 2014-01-161718 and 2014-01-169593, respectively). For Additional detail, see Note 22 F and G to the financial statements.

The data detailed in the all the abovementioned immediate reports is presented here by way of reference.

CONTROLS AND PROCEDURES

Disclosure controls and procedures. In the spirit of Section 302 of the Sarbanes-Oxley Act of 2002 and the instructions published in accordance therewith by the SEC in the United States, the Supervisor of Banks issued a directive regarding a declaration as to disclosure in quarterly and annual reports of banking corporations.

In order to establish these declarations, the Bank, engaging outside assistance, has examined the principal processes of production and delivery of information related to the financial statements by the Bank's various units, as well as the controls applying to these processes. As part of this review, the processes of data communication have been mapped and documented in detail, including the controls implemented in these processes. Additional new controls have been formed, and absorbed in the work processes.

Proper Conduct of Banking Business Directive No. 309. On September 28, 2008, the Bank of Israel issued Proper Conduct of Banking Business Directive No. 309, in the spirit of Section 404 of the Sarbanes-Oxley Act of 2002, which requires bank managements to comply with the following requirements: assuring the establishment of controls and procedures regarding disclosure and internal control over financial reporting; evaluation of the effectiveness of the controls and procedures as to disclosure at the end of each quarter; evaluation of the internal control on the financial reporting at the end of each year, as well as evaluation at the end of each quarter of the changes that have occurred in internal control during the quarter, which have had or might have had a material effect on the internal control over financial reporting.

During 2014, the Bank conducted a process of validation and updating of existing processes and addition of new processes and effectiveness examinations to the internal control layout over financial reporting, by means of the SOX unit established within the Accounting Group. Based on the findings of the said examination of the effectiveness of internal control, the Bank's Management together with the President & CEO and the Bank's Chief Accountant have assessed the effectiveness of controls in the reported period over the Bank's financial reporting. On the basis of this assessment, the Bank's President & CEO and the Chief Accountant arrived to the conclusion that as of the end of the reported period, the controls and procedures regarding financial reporting are effective in order to: record, process, conclude and report the information included in the annual financial statements, in accordance with the public reporting directives of the Supervisor of Banks and on the date prescribed by these directives.

Change of the COSO model. Internal control over financial reporting is based on criteria formulated within the integrated framework of the COSO of 1992. In December 2014, the COSO model was updated to the COSO 2013 model.

The Bank has not yet adopted the new model. It should be noted that a mapping performed by the Bank shows that the anticipated differences that would arise from the implementation of the new model, relate mostly to the manner of documentation, and not to the internal control mechanisms over financial reporting.

CHANGES IN INTERNAL CONTROL

During the fourth quarter ended on December 31, 2014, no change has occurred in the Bank's internal control over financial reporting, which materially affected, or is reasonably expected to materially affect, the Bank's internal control over financial reporting, with the exception of the initial implementation of the instructions in the matter of the adoption of U.S. accounting principles regarding the measurement of interest income (FAS 91), as detailed in Note 1 D 25 to the financial statements and with the exception of the integration of a computer system for housing loan operations at MDB.

Initial implementation of the instructions in the matter of the adoption of U.S. accounting principles regarding the measurement of interest income (FAS 91). For the purpose of implementation of these instructions, a local information system was integrated during the reported period at the Bank and at Mercantile Discount Bank, which applies the new measurement rules. Integration of the system required material changes in work procedures related to measurement and reporting of interest income and credit setting-up commission income. In the course of developing and integrating the system, the Bank and Mercantile Discount Bank have installed control measures designed to secure the proper integration of the system. Furthermore, in view of the fact that the integration of the system required changes in work procedures, control mechanism have been included in the new work procedures designed to secure the appropriateness of the information produced by the new system.

The integration of a computer system for housing loan operations at the Mercantile Discount Bank. Towards the end of 2012, the Management of MDB decided to prepare for the execution of the project that includes conversion of work processes and data bases relating to the housing loans field from the local information system that had been in operation at MDB, to the central computer system in operation in this field at Discount Bank (hereinafter: "the central computer system"). The actual preparations for the carrying out of the project began during 2013, the main component of which being concluded in the reported period, with the conversion of the loan portfolio to the central computer system.

In view of the wide scope of this project, MDB adopted control means designed to ensure the proper integration of the information system and ensure the appropriateness of the information produced by the system. Notwithstanding, the integration process of the system has been accompanied by various failures resulting from defaults in certain credit characteristics and in interfaces with other information systems as MDB.

Most of the failures have been rectified upon identification thereof, while others have been solved by means of not fully mechanized tools. MDB is acting for the early solution of failures not yet corrected.

MISCELLANEOUS

ENVIRONMENTAL QUALITY

The Bank is a financial corporation providing various financial services to its customers, and as such, the direct environmental influences on its existing "production processes" are very limited, if any at all. This differs, for example, from industrial plants that could deal with the problems of gas emissions, sewage, toxic waste removal, etc.

Most of the Bank's environmental effects are indirect effects stemming from the use of "administrative" resources, such as: energy, water, paper and such like. These indirect environmental effects do not expose the Bank to environmental risks (within the meaning of the term in the Securities Regulations), which have or might have a material effect upon the Bank.

One of the Bank’s targets as regards the environment is to reduce the indirect effect, as stated.

Details regarding the actions taken by the Bank to reduce the said indirect effect, as stated (including: reduced use of paper, recycling of paper and plastic bottles, reducing the use of water, energy and more) are reported in the social responsibility reports issued by the Bank from time to time. For details regarding environmental risks within their meaning in Directives of the Supervisor of Banks, see "Environmental risks" under "Exposure to risks and risk management" above.

BOARD OF DIRECTORS AND MANAGEMENT

GENERAL

A list of the members of the Board of Directors and a list of the Bank’s executive officers and their areas of responsibility appear on page 4 of this report. These lists are correct as at the date hereof.

DETAILS REGARDING MEMBERS OF THE BOARD OF DIRECTORS[5]

[5]Notes:
- The details given in this Chapter, constitute also a report regarding the Directors who are considered by the Bank as having accounting and financial expertise for the purpose of compliance with the minimum number determined by the Board of Directors, as described in the item "Report on Directors having accounting and financial expertise", and the factual background in respect of which the Bank considers them as having accounting and financial expertise.
- A director having professional qualifications is one who fulfills one of the conditions stated in Regulation No. 2 to the Companies Regulations (Terms and tests for directors having accounting and financial expertise and directors having professional qualifications), 2005.

Directors name	Dr. Yossi Bachar, Chairman of the Board of Directors	Arie Orlev	Ilan Biran	Linda Benshoshan
Date on which the term of office as Director began	January 1, 2010 As Chairman of the Board since January 3, 2010	December 2, 2014	October 29, 2008 Second term of office - October 29, 2011, Third tenure of office – October 29, 2014	November 28, 2014
I.D.	053548905	005685433	006900997	059279224
Birth date	August 3, 1955	February 7, 1946	October 3, 1946	May 26, 1965
Address of addressing court of law papers	Tel Aviv, 23 Yehuda Halevi Street	13, Bar-Ilan Street, Ra'anana 4370011	Tel Aviv, 40/14 Shay Agnon Street	16, Gefen Street, Maccabim 7179901
Nationality	Israeli	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Chairman of the Computer Committee; Chairman of the Credit Committee; Chairman of the Manpower committee; Chairman of the Coordination Committee; Strategy Committee	Computer Committee; Risk Management Committee	Chairman of the remuneration committee; Audit Committee; Risk Management Committee; Strategy Committee; Coordination committee	Credit Committee; Risk Management Committee; Corporate Governance Committee
External Director as defined in the Companies Act	No	No	Yes	No
Independent Director as defined in the Companies Act	No	Yes	Yes	Yes
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	No	Yes	Yes	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Yes	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No	No
Education	Academic education Ph.D. in Business Administration (specializing in finance) from University of California, Berkley; Master of Business Administration (specializing in finance), University of California, Berkley; Bachelor of Economics and Accounting, Hebrew University, Jerusalem	Academic education Master of Business Administration (Finance), Bar-Ilan University; Master of Physical Chemistry, the Technion; Bachelor of Chemistry, the Technion	Academic education Bachelors in Economics and Business Administration from Bar-Ilan University	Academic education Master of Business Administration (Finance and Banking), the Hebrew University, Jerusalem; Bachelor of Economics and Sociology, the Hebrew University, Jerusalem
Professional diploma	Israeli Certified Public Accountant	A programming course for academics ("MAMRAM"); command and staff course of the Israeli Air Force	IDF Command and Staff College course; Command and Global Strategy Diploma of the United States Marines Corps; Diploma/strategic studies in strategy and economics from Georgetown University, Washington DC; Honorary Doctorate from the Technion (awarded in 2013)	
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	Chairman of the Board of Directors of Israel Discount Bank Ltd.; Director of Visa Europe (the appointment is for a period between May 1, 2013 and April 30, 2015); CEO and Chairman of the Board of Amiad Av. Ltd.(since July 2007); Chairman of the Board of Yossi Bachar entrepreneurship and investments (previously, Bachar Yossi, Certified Public Accountants) (since June 2002); Chairman of the Board of Directors of Israel Credit Cards Ltd.	An outside member of the rating committee of Midroog Ltd. (2005-December 1, 2014)	Director of Israel Shipyards Ltd. (since October 2013); Director of Itamar Medical Ltd. (since May 2013);Owner and Director of Ilan Biran Nihul Yizum Ltd. (since 2004); Chairman of the Board of Centrition Ltd.(July 2003-June 17, 2014); Chairman of the Management Committee, Kinneret College on the Sea of Galilee (R.A.) (sonce 2009); Chairman of the Board of Rafael Advanced Defense Systems Ltd. (June 2007 - May 2013); Director of R.D.C Rafael Development	Director in the Advisory Committee of the Alto Fund (since January, 2015); Director and Chairperson of the Audit Committee of the Management Company of Administration of the Further Education Fund for Administrative and Service Employees Ltd. (February 22, 2015); Lecturer on long-term savings and the capital market being a part of the Bachelor Degree studies at the Department of Finance of the College of Management Academic Studies (since October 2014); External

	(March 2012-June 2013); Director and Deputy Chairman of the Board of Israel Discount Bank of New York (January, 2010–December 2012); Director of Discount Bancorp Inc. (January, 2010–December 2012); Chairman of the Board of Directors of Mercantile Discount Bank Ltd. ("MDB") (as Director January, 2010-February, 2012, Chairman January 25, 2010–February 2012); Chairman of the Executive Board of the Haifa University (October 2007-January 2011)		Corporation Ltd. (2008-2013); Chairman of the Board of Controp Precision Technologies Ltd. (January 2012 - May 2013); Chairman of the Board of Sync-RX Ltd. (January 2011 - November 2012, Director November 2010 - November 2012)	director; Chairperson of the investments committee, the audit committee and chairperson of the SOX committee of Rom – Further Education Fund of Local authorities' Employees (2009-November 28, 2014); President & CEO of Aluminum Construction Pro Ltd. (April 2013-July 2014, under an employment agreement valid until April 2015); lecturer in courses and seminars on long-term savings and the capital market being a part of the Bachelor and Master Degrees studies at the Department of Finance of the College of Management Academic Studies (2009-2013); External director and chairperson of the investments committee of Agur – Further Education Fund of High School Teachers (February 2012-June 2013); external director and chairperson of the marketing committee, the audit committee and the financial reserves management committee of the Tel Aviv Stock Exchange Ltd. (2009-March 2014); Independent director and member of the Committee for the review of the financial statements of Alony Hetz Properties and Investments Ltd. (January, 2012-May 2013)
Additional experience attest to accounting and financial expertise as well as professional qualifications	Director General of the Ministry of Finance (November 2003 - January 2007); Head of the Tax Authority (provisional appointment) (January 2007 - April 2007); Partner and manager of Luboshitz Kasierer Accounting Firm (formerly Arthur Andersen and later Ernst & Young) (April 1995 - November 2003)	Owner and CEO of O.C.S. - Orlev Consulting Services Ltd. (2005-2008); Senior VP, Member of Management and Head of the Information and Communication Group of Mizrahi Bank (1990-2004); Chairman of the board of Machish Computer Services Ltd., the computer company of Mizrahi Bank (2000-2004); Director of Tefahot Bank (2000-2004); Member of the Audit Committee and Chairman of the Board's Computer Committee of Tefahot Bank (2000-2004); Director of Bank Clearing Center Ltd. (2000-2004); Director of Automatic Bank Services Ltd. (2000-2004); CEO and member of the Board of Machish Computer Services Ltd. (CEO – 1988-2000, Director – 1990-2000); Commander of the computer unit of the Israeli Air Force (rank of colonel) (1985-1988); Variety of management and command duties in the field of development, management and support of large computer systems of the Israeli Air Force (ranks of lieutenant to lieutenant-colonel) (1970-1985)	Director in Delta Three Israel Ltd. (2004 - November 2008); Chairman of the Board of Beit Shemesh Engines Holdings (1997) Ltd. (2005-2007); Director and Chairman of the Strategic Research and Development Committee of Israel Aircraft Industries Ltd. (2005-2007); Director of Massad Bank Ltd. (2005-2007); Director and member of the Audit Committee and the Finance Committee of Netafim Ltd. (2004-2007); Director General of the Ministry of Defense (1996-1999); Director General of BEZEQ the Israeli Communication Company Ltd. (1999-2003); Chairman of the Board of DBS Satellite Services (1998) Ltd. (2004-2005)	Partner, President & CEO of the Hadas Arazim Group Ltd. and Chairperson of Hadas Arazim Ltd. (December 2007-January 2009); Senior VP, member of Management and head of the Customer Division at Israel Discount Bank Ltd. (March 2003-July 2007); CEO of Discount Provident Fund Management (September 1998-March 2003); Chairperson of the board of Discount Trust Ltd. (2003-July 2007); Chairperson of the board of Ilanot-Discount Mutual Funds Management Company Ltd. (2003-July 2007); Chairperson of the board of Discount Provident funds Ltd. (2005-July 2007); Director of Harel Insurance in Investments Ltd. (August, 2005-November, 2006)
"Family member" of another "Interested party" in the corporation	No	No	No	
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	Yes	

Directors name	Eli Eliezer Gonen	Ilan Cohen	Baruch Lederman	Yehuda Levi
Date on which the term of office as Director began	November 10, 2010	November 10, 2010 Additional term of office -November 10, 2013	November 27, 2014	November 27, 2014
I.D.	030029177	055494736	51619757	051258325
Birth date	October 5, 1949	September 16, 1958	August 27, 1952	October 22, 1952
Address of addressing court of law papers	Mevaseret-Zion, 16/2 Zamir Street 90805	Tel Aviv, Azrieli Towers, the round tower, 38th floor	2, Esther Ha'malkah Street, Herzliyah 4685302	48, Kosovsky Street, Tel Aviv 62917
Nationality	Israeli	Israeli	Israeli	Israeli
Membership in the Board of Directors Committees	Chairman of the Corporate Governance Committee; Human Resources Committee; Strategy Committee; Coordination Committee	Chairman of the Strategy Committee; Computer Committee; Coordination Committee; Manpower Committee	Chairman of the Risk Management Committee; Audit Committee; Remuneration Committee; Credit Committee; Coordination Committee	Audit Committee; Remuneration Committee; Computer Committee
External Director as defined in the Companies Act	No	No	Yes	Yes
Independent Director as defined in the Companies Act	No	No	Yes	Yes
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	No	Yes	Yes	Yes
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Yes	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No	No
Education	Academic education Master of Business Administration from the Hebrew University, Jerusalem; Bachelor of Economics and complementary studies from the Hebrew University, Jerusalem; One year of advanced studies at the University of California, Berkeley, U.S.A.	Academic education Master of business administration (summa cum laude) from INSEAD, Fontainebleau France; Bachelor of economics and management (summa cum laude) from Tel Aviv University	Academic education Master of Economics, Tel Aviv University; Bachelor of Economics, Tel Aviv University	Academic education Master of Business Administration (Finance), Baruch College N.Y.C; Bachelor of Industrial Engineering and Management, the Technion
Professional diploma				
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	Chairman of the Board of Go Alpha Ltd. a company owned by him (since April 2009); Chairman of the Board of Co-Op Israel – Supermarket Chain Ltd. (as from September 2012); partner, director and joint general manager of Terra Holdings, Management and Investments in Hotels Ltd. (since September 2009); President of the Israel Hotel Association (2000 - December 2010 and since December 18,2013); Director of the Jerusalem Variety Center Association (since 2007); Director of Kenes International Organization of Congresses Ltd. (July 2010-December 31, 2014); Director of the Jerusalem International Convention Center - Binyaney Haooma Ltd. (since 1998); Chairman of the Board of Ma'ale Hachamisha	Director of Alon USA Energy Inc (since May 2, 2014); Member of the Association and member of the executive board of the Arik – Ariel Sharon Leadership Association (since September 2014); Chairman of the Board of Mikveh Israel Alliance Israelite (since 2010); Director of Hadaka Hatishim Ltd (since 1998); Director of Edmond de Rothschild Investment Services Ltd. ("Edris") (as from June 2012); Director of P.O.C. Investment Company (1999) Ltd.; Director (voluntary) of Masa: The Project for the Encouragement of long term Programs in Israel for Jewish Young Adults Ltd.; Director of P.O.C. Capital Investments Ltd. (since August 1994); Member of the Board of Directors of Or Yarok Association of a Change in Driving	Deputy President & CEO, member of Management and head of the Banking Division of Bank Leumi le-Israel B.M. (October 2007-December 2012); Chairman of the board of LeumiCard Ltd. (October 2007-December 2012)	Owner and CEO of Renaissance City Park Ltd. (entrepreneurial company) (2014 to date); Founder and CEO of HSBC Bank PLC Tel-Aviv (2001-2013)

	Hotel (February 2011 – September 2012); Chairman of the Board of the Ghetto Fighters House - Itzhak Katzenelson Holocaust and Jewish Resistance Heritage Museum (July 2008-January 2013); Director of the Hapoel Jerusalem – Management Company Ltd. (up to September 2012)	Culture in Israel (R.A) (since 2008); CEO of Ilan Cohen Investment and Entrepreneurships Ltd.; CEO of Yield-Investment Advisors Ltd.; member of the Executive Board (voluntary) of the Lin and Ted Arison Israel Conservatory of Music in Tel Aviv (since October 2011); Chairman of the Board of Insuline Medical Ltd. (until January 1, 2014); Director and Deputy Chairman of the Board of Edmond de Rothschild Private Equity Management Ltd. (September 2009 to March 2012)		
Additional experience attest to accounting and financial expertise as well as professional qualifications	CEO of the Sheraton-Moriah Israel hotel chain (1999-2009); Director of Tambour Ltd. (2002 - 2007); Director of Crystal Machinery and Electrical Appliances Ltd. (2004 - 2006); Director of Yahav Bank for State Employees Ltd. (1989-1992); Director of Massad Bank Ltd. (1987-1989); Director of Granite Hacarmel Investments Ltd. (during the eighties); General Manager of Koor Tourism Ltd. (1998-1999); General Manager of Histour Altiv (1996-1997); General Manager of the Ministry of Tourism (1992-1996); Held various executive positions at the Hebrew University, Jerusalem, the last of which was Director General of the University (1975-1992)	Director General of the Prime Minister's Office (2004-2006)	President & CEO, member of the board and chairman of the board of the subsidiary companies of Bank Leumi Britain in the Isle of Jersey and in Britain (June 2004-September 2007); Senior VP, member of Management and head of the Corporate Division of Bank Leumi le-Israel B.M. (September 2000-April 2004)	VP of FIBI (1986-2000); VP of Republic National Bank of N.Y (1981-1986)
"Family member" of another "Interested party" in the corporation	No	No	No	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	Yes	Yes

Directors name	David Levinson	Edith Lusky	Shaul Kobrinsky	Richard Morris Roberts
Date on which the term of office as Director began	March 21, 2012	March 25, 2009 Additional term of office - March 25, 2012	December 11, 2014	November 10, 2010
I.D.	07994361	50163567	051638484	069433522
Birth date	February 21, 1964	August 16, 1950	November 7, 1952	April 21, 1941
Address of addressing court of law papers	Ramat Hasharon, 27 Nakhshon Street 47301	Tel Aviv, 6 Kehilat Kovna Street, 6940065	25, Pesakh Yifhar Street, Herzliyah 4641513	Tel Aviv, 4 Berkovich Street
Nationality	Israeli	Israeli	Israeli	Israeli and U.S.
Membership in the Board of Directors Committees	Risk Management Committee; Credit Committee; Corporate Governance Committee; Ad-hoc Committee in the matter of discussion of the demand for the filing of a derivative lawsuit	Chairperson of the Audit Committee; Remuneration Committee; Risk Management Committee; Strategy) Committee; Coordination Committee	Credit Committee; Human Resources Committee	Audit Committee; Corporate Governance Committee; Chairman of the Ad-hoc Committee discussing the demand for the filing of a derivative suit
External Director as defined in the Companies Act	No	Yes	No	No
Independent Director as defined in the Companies Act	Yes	Yes	No	No
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	Yes	Yes	Yes	No
Accounting and financial expertise as well as professional qualifications	Yes	Yes	Yes	Has professional qualifications
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No	No	No	No
Education	Academic education Master of business administration from the Tel Aviv University; Bachelor of economics and statistics from the Hebrew University, Jerusalem	Academic education Master of Economics from Tel Aviv University; Bachelor of Economics and Statistics (summa cum laude) from Tel Aviv University	Academic education Bachelor of Economics, Tel Aviv University; MA studies in Economics (no graduation), Tel Aviv University	Academic education Bachelor of Law from the Hebrew University, Jerusalem
Professional diploma				lawyer
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	External Director of Gav-Yam Ltd. (since May 2006); External Director of Excellence-Nessuah Brokerage Services Ltd. (2010 to February 2013); Director of Otzar Hachayal Bank Ltd. (2006-March 21, 2012); external director of Direct Investments House (Mutual Trust Funds) (December 2006 - June 2010); Financial and business consultant to corporations and Private Equity funds (2006-August 2011); Consultant to the "Hamashbir Latzarchan" Group (2006-October 2011); CEO and Owner of D.L. Nachshon Ltd. (since April 2006)	Director of Israel Railways Ltd. (since November 24, 2014); Director of Cellcom Israel Ltd. (March 2011-September 21, 2014); Director of Netvision Ltd. (July 2011-December 2011); CEO of Edith L - Consulting Ltd.	Active Chairman of the board of Novolog (Pharm-Up 1966) Ltd. (since 2010); Active Chairman of the board of Trialog – Clinical Trials Ltd. (Since 2010); Chairman of the antitrust committee of the Manufacturers Association of Israel (MAI) (2005 to date); director of Shachar-Haguy Holdings (2003) Ltd. (Since 2003); Director of Shachar-Haguy Ltd. (since 1999); VP mergers and acquisitions at Alagem Capital Group (2003-2010); Member of the Antitrust Tribunal (as public representative) (2006-2009); External director, Chairman of the Committee for the review of the financial statements and Chairman of the Audit Committee of Magal Security Systems Ltd. (2006-October 2, 2014); Director of Whitepoint Investments Israel Ltd. (2003-August 23, 2014); Director of Whitepoint Investments LLC (2003-August 23, 2014); Director of Whitepoint Partners LLC (2003-August 23, 2014)	Founding partner of Shibolet & Co. (in 1973) and since then serves as managing partner of the Firm; Director of Global Dynamic Businesses Ltd. (since June 2013); Director of Sharo Trustees Ltd. (since 1973); Director of Sharo Services Ltd. (since 1973); Director of Shyryz Trust Company Ltd. (since 1993); Director of Shibolet Trustees Ltd. (since July 2012); Director and Owner of Richard Roberts Law Company (1997) Ltd. (since 1997); Director of the Interdisciplinary Center Herzliya Projects Ltd. (since 1998); Director of Ed Value Ltd. (since 2001); Director of Hillel - The Israel Center for Jewish Campus Life (PBC) (since June 2012); Chairman of the executive board of A Different Lesson Association (RA) (since 2006); Member of the Executive Board of Docuaviv - Promotion of Documentary Films Association (RA) (2008-October 2014); Director of Simda Ltd. (1990-2010); Director of Elevator Venture Capital

				Investments Ltd. (September 2011 - May 2013)
Additional experience attest to accounting and financial expertise as well as professional qualifications	General Manager of FIBI Bank (UK) plc. (2002-February, 2006); General Manager of Maritime Bank of Israel Ltd. (1996-2002); General Manager of Granit Hacarmel Holdings Ltd. (1994-1996); Has fulfilled different roles at Bank Hapoalim and/or on its behalf (1974-1994), including Senior Assistant to the CEO in charge of the overseas operations of Bank Hapoalim, CEO of Israel Continental Bank, in charge of all credit departments at Head Office, manager of the Head Office foreign currency department and manager of the London City Branch; Banker at the Corporate Finance department of Japhet Charterhouse (a London investment bank) (1972-1974); Economist at the Industrialization of Development Areas Company (1970-1972)	Senior VP and member of Management of Union Bank of Israel Ltd., in the retail, customer assets and consulting fields (July 2007-December 2008) and in the retail banking and risk management fields (February 2004-June 2007); Director of Igud Leasing Ltd. (March 2007 - December 2008); Director of Igudim Insurance Agency (1995) Ltd. (September 2005 - December 2008); Director of Igudim Ltd. (September 2005 - December 2008); Director of Livluv Insurance Agency (1993) Ltd. (February 2004 - December 2008); CEO and director of Bitan – Investments and Mortgages Ltd. (March 2001-February 2004); CEO and director of Finance and Mortgages Ltd. (March 2001-February 2004); President & CEO of Mishcan Bank, a subsidiary of Bank Hapoalim Ltd. (2001-2004); Manager of the direct banking wing at Bank Hapoalim Ltd. in which her responsibilities were: establishment and marketing the Bank's internet sites, establishment and management of "Poalim Direct" - the bank's telephone centers, responsibility for selfservice machines and automatic branches (November 1995 - March 2001); Member of the Board of Directors of American-Israeli Bank (May 1998-July 1999)	External director and member of the Committee for the review of the financial statements of Scope Metals Group Ltd. (2005-2008); CEO of Urdan Industries (Inrom at present) (1997-2002); CEO of Cargal Ltd. (1989-1997); Deputy CEO of Clal Industries Ltd. (1984-1989); chief economist at Clal Industries (1981-1984); economist at the Manufacturers Association of Israel (MAI) (1976-1980)	
"Family member" of another "Interested party" in the corporation	No	No	No	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes	Yes	Yes	No

Directors name	Yali Sheffi
Date on which the term of office as Director began	November 10, 2010 Additional term of office -November 10, 2013
I.D.	50331008
Birth date	March 19, 1951
Address of addressing court of law papers	Hod HaSharon, 31 Anshei Bereshit Street 45267
Nationality	Israeli
Membership in the Board of Directors Committees	Audit Committee; Credit Committee; Remuneration Committee; Strategy Committee; Computer Committee; Ad-hoc Committee discussing the demand for the filing of a derivative suit
External Director as defined in the Companies Act	No
Independent Director as defined in the Companies Act	Yes
External Director according to Directive No. 301 to Proper Conduct of Banking Business Directives	Yes
Accounting and financial expertise as well as professional qualifications	Yes
Employee of the Bank, a subsidiary, related company or of an interested party of the Bank	No
Education	Academic education Bachelor of economics and complementary studies in statistics and mathematics (summa cum laude) from the Hebrew University, Jerusalem; Diploma in Accounting for degree holders from Tel Aviv University (outstanding seminary work); Direct PhD. Studies in mathematical economics, the Hebrew University, Jerusalem (not completed)
Professional diploma	Israeli Certified Public Accountant
Occupation in the last 5 years and details of the corporations in which he/she serves as Director	Independent director of Extell Limited (since June 19, 2014); Director of Mysupermarket Israel (MSI) Ltd. (since 2012); External Director of Keshet Broadcasting Ltd. (since June 2013); CEO and Director of a private company owned by him, engaged in business consulting (Yaheli Shefi (company with unlimited liability)) (since June 2009) (between 2002 and 2009 the company was inactive); Owner and Director of Yaheli Properties Ltd. (since 2003); Consultant for Bylinks International Relations Ltd. (2010-2014)
Additional experience attest to accounting and financial expertise as well as professional qualifications	President & CEO of Phoenix Insurance Company Ltd. (2005-2009); President & CEO of Phoenix Holdings Ltd. (2005-2009); Member of the Barnea Committee (2000-2001); Served in several roles with Almagor & Co. CPA's :Partner (1983-1987), Managing Partner (1987-1999); Managing Partner of Delloite - Briteman Almagor & Co. CPA's (1999-2004); Member of the Accounting Principles Committee of the Institute of Certified Public Accountants in Israel (1995-1998); Member of the Accounting Standards Institute founded by the Institute of Certified Public Accountants in Israel and the Israeli Securities Authority (1998-2001)
"Family member" of another "Interested party" in the corporation	No
Having accounting and financial expertise according to item 92(A)(12) to the Companies Act	Yes

DETAILS REGARDING MEMBERS OF MANAGEMENT

Member of Management	Lilach AsherTopilsky, President & CEO	Joseph Beressi	Yuval Gavish	Esther Deutsch
Date on which the term of office as Director began	February 19, 2014	April 1, 2000	January 11, 2011	June 1, 2006
I.D.	024934861	53393260	55441315	056346299
Birth date	March 19, 1970	May 21, 1955	August 22, 1958	February 6, 1960
Office he/she holds at the corporation	The Bank`s President & CEO	Senior Executive Vice President, Comptroller - Chief Accounting Officer and Head of the Bank's Accounting Group	Senior Executive Vice President, Head of the Banking Division	Senior Executive Vice President, Chief Legal Adviser and Head of the Bank's Legal Advisory Group
Office he/she holds at a subsidiary, a related company of the corporation or of an interested party of the corporation	Chairperson of the Board of Mercantile Discount Bank Ltd. (since March 3, 2014); Chairperson of the Board of Discount Bancorp Inc. (since March 25, 2014); Director of Israel Discount Bank of New York (since March 25, 2014)	Director of Mercantile Discount Bank Ltd. (since July 2012); Director of Badal Computer and Management Services Ltd. (since February 2002); Director of Nidbach Real Estate and Investments Ltd. (since November 2002); Director of Discount Reinsurance International Limited, Guernsey (since March 2008); Director of Diners Club Israel Ltd. (since July 2011)	Chairman of the Board of Israel Credit Cards Ltd. (since June 17, 2013)	Director of Israel Discount Capital Markets and Investments Ltd. (since August 2013); Director of IDB (Swiss) Bank Ltd. (since March 13, 2014)
Interested party of the corporation	Yes	No	No	No
"Family member" of another executive officer or of an "Interested party" in the corporation	No	No	No	No
Education	Academic education; Master of Business Administration from the Northwestern University, U.S.A; Bachelors in Economics and Management from Tel Aviv University	Academic education; Bachelor of Accounting and Economics from Tel Aviv University	Academic education; Bachelor of Humanities and Social Sciences from the Open University	Academic education; LL.B. Degree from the Hebrew University, Jerusalem
Professional diploma		Israeli Certified Public Accountant		lawyer
Business experience in the last 5 years	Deputy CEO and Head of Retail Banking, Bank Hapoalim B.M. (2009 – October 31, 2013); Deputy CEO and Head of Corporate Strategy Bank Hapoalim B.M. (December 2007 - September 2009); Chairperson of the Board of Poalim Mortgage Insurance Agency (2005) Ltd (2011 – 31 October 2013); Chairperson of the Board of Poalim Horizons Ltd. (2011 - October 2013); Director of Isracard Ltd. (2003 - October 2013); Director of Europay (Eurocard) Israel Ltd. (2003 - October 2013); Chairperson of the Board of Teuda Hevra Finansit Ltd. (2010 - 2011)	Director of Israel Credit Cards Ltd. (June 2010 – June 2011); Director of Israel Discount Capital Markets and Investments Ltd. (DCMI) (September 1999 – June 2012)	Chairman of the Board of Discount Mortgage Bank Ltd. ("DMB") (March 2011 – June 28, 2012); Chairman of the Board of Diners Club Israel (January 2012 - June, 2013); Chairman of the Board of Ace Auto Depot (September 2009 - December 2010)	Alternate Director of a Director on behalf of the Bank acting on the Board of the Tel Aviv Stock Exchange Ltd. (since July 1, 2013); Chairperson of the Board of Discount Trust Ltd. (Chairperson February 2008 – October 2011 Director January 2008 – October 2011)

Member of Management	Ori Levin	Ran Oz	Yair Avidan	Orit Alster
Date on which the term of office as Director began	May 7, 2014	January 20, 2015	June 9, 2010	March 21, 2011
I.D.	029508835	022832588	056131618	059618587
Birth date	August 5, 1972	December 13, 1966	December 5, 1959	April 4, 1965
Office he/she holds at the corporation	Senior Executive Vice President; head of the Bank's Planning, Strategy and Finance Division	Senior Executive Vice President; Head of the Bank's Financial Markets Division	Executive Vice President; Chief Risk Manager and Head of the Risk Management Group	Executive Vice President, Head of the Corporate Division
Office he/she holds at a subsidiary, a related company of the corporation or of an interested party of the corporation		Chairman of the Board of Discount Manpikim Ltd. (since January 20, 2015); Chairman of the Board of Israel Discount Bank Nominee Company Ltd. (since January 20, 2015); Director of Israel Discount Capital Markets and Investments Ltd. (DCMI) (since February 25, 2015)		Director of Discount Bancorp Inc. (since December 2012); Director of Israel Discount Bank of New York (since February 2013)
Interested party of the corporation	No	No	No	No
"Family member" of another executive officer or of an "Interested party" in the corporation	No	No	No	No
Education	Academic education Master of Business Administration (Finance) (summa cum laude), London Business School; Bachelor of Electrical and Electronics Engineering and Computer Science (summa cum laude), Tel Aviv University	Academic education Master of Business Administration (specializing in Finance) and Economics (majoring in Micro-Economics and Game Theory) (summa cum laude), the Hebrew University, Jerusalem; Bachelor of Economics and Accounting (summa cum laude), the Hebrew University, Jerusalem	Academic education; Master of Administration and Leadership in Education (summa cum laude), Tel Aviv University; Master of Business Administration, Tel Aviv University; Bachelor of Economics and Statistics (summa cum laude), Tel Aviv University	Academic education; Master of business administration, Tel Aviv University (specializing in finance and accounting); Bachelor of law (summa cum laude), Tel Aviv University; Bachelor of economics, Tel Aviv University
Professional diploma		Israeli Certified Public Accountant		Lawyer
Business experience in the last 5 years	CEO of ISP Group Switzerland and Israel (2010-May 2014); Member of management of the corporate division, marketing, business development and strategy manager at Bank Hapoalim Ltd. (2008-2010); Owner and director of Uri Levin Management and Holdings Ltd.	Director at the Tel Aviv Stock Exchange Ltd. (as from January 20, 2015); Partner in Viola Credit Fund (January 2014-December 2014); Member of Management and Deputy CEO, in charge of the Finance Division - CFO of Bank Hapoalim (2009-2013); Director in IsraCard (2009-December 2014); Director in EuroPay (2009-2014); Dierctor of Poalim Express (2009-2014); Acting Chairman of the Board of Poalim Capital Markets (2009-2013); Acting Chairman of the Board of Poalim Capital Markets - Investment House (2009-2013); Acting Chairman of the Board of Poalim Capital Markets and Investment - Holdings (2009-2013); Director in Shur Ha (2009-2013); Chairman of the Board of Poalim Trust Services (2012-2013); Chairman of the Board of Diur B.P. (2009-2013); Director and owner of Ran Oz Investments Ltd. (since 2013)	Director of DMB (1998 - August, 2010); Deputy Head of the Corporate Division at Israel Discount Bank Ltd. (January, 2008-2010)	Manager of the large corporations department at Israel Discount Bank Ltd. (January 2007 - March 2011)

Member of Management	Yafit Gariani	Levy Halevy	Avraham (Avi) Levi	Nir Abel
Date on which the term of office as Director began	April 13, 2014	June 1, 2014	August 28, 2011	May 18, 2011
I.D.	023608763	024811770	22649644	056220106
Birth date	May 3, 1968	February 17, 1970	November 9, 1966	June 5, 1960
Office he/she holds at the corporation	Executive Vice President; Head of the Human Resources and Properties Division	Executive Vice President, Head of the Bank's Technologies and Operations Division	Executive Vice President; Head of the Customer Asset Division	Executive Vice President; Internal Auditor of the Bank
Office he/she holds at a subsidiary, a related company of the corporation or of an interested party of the corporation	Chairman of the board of Discount Gemel Ltd. (since May 4, 2014); Chairman of the board of Nidbach Real Estate and Investments Ltd. (since May 15, 2014); Chairman of the board of Har Levy Properties Ltd. (since May 15, 2014); Director of Badal Computer and Management Services Ltd. (since May 15, 2014)	Chairman of the board of Badal Computer and Management Services Ltd. (since August 13, 2014); Director of Discount Gemel Ltd. (since June 5, 2014)	Chairman of the Board of Discount Trust Ltd. (since February 2012, Director since October 2011); Chairman of the Board of IDB (Swiss) Bank Ltd. (since March 13, 2014, Director since March 2012)	Internal Auditor of certain of the Bank's subsidiaries
Interested party of the corporation	No	No	No	No
"Family member" of another executive officer or of an "Interested party" in the corporation	No	No	No	No
Education	Academic education Master of Business Administration (Finance), Bar Ilan University; Bachelor of Statistics and Operations Research (summa cum laude), Tel Aviv University; Bachelor of Economics (summa cum laude), Tel Aviv University	Academic education Master of Business Administration, Bar-Ilan University; Bachelor of Law, the Interdisciplinary Center in Herzliya	Academic education; Master of business administration from the Bar-Ilan University; Bachelor of economics from Tel Aviv University	Academic education; Bachelor of economics and accounting from the Hebrew University, Jerusalem.
Professional diploma			Professional courses: a course for the training of senior managers and a course for derivative products consultation (Bank Hapoalim)	Israeli Certified Public Accountant
Business experience in the last 5 years	Manager of the large corporations department at Israel Discount Bank Ltd. (February 2011-April 2014); Business manager at Israel Discount Bank Ltd. (June 2003-March 2011)	Deputy CEO, Manager of the data systems and technology department at Menora Mivtachim Ltd. (2011-2014); Manager of the development department at Bank Hapoalim Ltd. (2009-2011); Owner and director of S.L. Halevy Holdings Ltd. (inactive company)	Chairman of the Board of IDB Registration Company Ltd. (March 2012 – August 2013); Manager of the London Branch of Bank Hapoalim (2007 - June 2011); Director of BHI Jersey (2007 - June 2011); Director of Hapoalim International N.V. (2007 - June 2011); Director of British-Israel Chamber of Commerce (2009 to June 2011)	Chief Internal Auditor of the First International Bank (August 2006 - March 2011)

REPORT ON DIRECTORS HAVING ACCOUNTING AND FINANCIAL EXPERTISE

According to the Companies Act, the Board of Directors has to determine the required minimum number of Directors that have accounting and financial expertise, within the meaning of this term in Section 240 of the Companies Act. Accordingly, the Bank's Board of Directors has determined that three is the minimum number of its Directors having accounting and financial expertise, and that the minimum number of Directors having accounting and financial expertise in the Audit Committee of the Board is one.
Subsequent to the dates of the said resolutions of the Board of Directors, Directive No. 301 of Proper Conduct of Banking Business Directives has been updated, stating that at least one fifth of the members of a board of directors and at least two directors from among the members of an audit committee must have accounting and financial expertise, and the Bank is acting accordingly.
At date of reporting, the number of Directors having accounting and financial expertise is twelve (out of thirteen) and the number of Directors having accounting and financial expertise who are members of the audit committee of the Board is five (out of six).
Details of Directors having accounting and financial expertise and the factual background on the basis of which they may be considered as having such expertise, are included above under "Details regarding members of the Board of Directors".

AMENDMENT OF THE BANK'S ARTICLES - INSTRUCTIONS REGARDING THE APPOINTMENT OF DIRECTORS

Following the Bank turning into a bank having no core controlling interest, the Supervisor of Banks approached the Bank in the matter of amending the Bank's articles. According to the Bank`s articles, at date of approach by the Supervisor of Banks, the period of office of a Director, who is not an external Director, terminated on the date of the next general meeting of shareholders. In the circumstances of the Bank being a bank having no core controlling interest, frequent changes of members of the Board of Directors might impair the effectiveness of its performance, and due to the complexity of the operations of a banking corporation, the Supervisor of Banks was of the opinion that there is room for consideration that the term of office of a Director, who is not an external Director, should be three years.
In continuation thereof, a special general meeting of the Bank`s shareholders approved on June 29, 2014, the amendment of the Bank's articles with respect to appointment, acting in office and termination of office of members of the Bank's Board of Directors, as detailed in an immediate reports dated May 13, 2014 and June 29, 2014 (Ref No. 2014-01-062172, 2014-01-101508 and 2014-01-101550, respectively), the information contained therein in this matter is presented here by way of reference.
The amendment states that the period of office of a Director would be three years from date of appointment, instead of an annual appointment. Concurrently, it has been determined, that the provisions of the amended regulation shall not apply to Directors officiating at the Bank immediately prior to its becoming a banking corporation having no core controlling interest. The amendment also states that notwithstanding anything stated in any rule of the Bank's articles and subject to any legislation, no more than one half of the Board members who officiated immediately subsequent to a prior general meeting of shareholders may be replaced in a general meeting of shareholders, unless the approval of the Supervisor of Banks is obtained in respect thereof.

ANNOUNCEMENT AND APPROACH TO THE PUBLIC BY THE COMMITTEE FOR THE APPOINTMENT OF DIRECTORS IN BANKING CORPORATIONS

The Banking Act (Licensing), 1981, states that the Governor shall appoint a committee for the appointment of directors in banking corporations, among the duties of which, is the recommendation of candidates for the office of director in a banking corporation having no core controlling interest. (For additional details, see the 2013 annual report, p.191).
On May 13, 2014, the Committee issued a notice to the public in the matter of Discount Bank regarding the possibility of submitting until May 29, 2014, applications for candidacy for office of director of the Bank.

The annual general meeting has been asked to elect eight directors out of ten candidates proposed by the Committee for Appointment of Directors in banking Corporations. For details regarding the elected Directors, see "Changes in the Board of Directors" below.

GUIDELINES OF THE SUPERVISOR OF BANKS

In his letter of June 25, 2014, the Supervisor of Banks informed the Bank that he is approving, by virtue of his powers under Section 11E(a)(5) of the Banking Ordinance, 1941, the replacement – at the forthcoming annual meeting of the shareholders (2014) – of more than half of the directors serving at a proximate date subsequent to the preceding annual meeting, whereby the number of vacant positions for service on the Bank's Board of Directors will be eight (including the addition of a director – see "Amendment of Proper Conduct of Banking Business Directive No. 301 – the Board of Directors" under "Legislation and Supervision" above).

CHANGES IN THE BOARD OF DIRECTORS

Appointment of Directors. The Bank's annual general meeting of shareholders held on October 2, 2014, adopted the following resolutions regarding appointment of Directors:

- to appoint Ms. Edith Lusky and Messrs. Ilan Biran, Baruch Lederman and Yehuda Levi as external directors, within the meaning of the term in the Companies Act, 1999;
- to appoint Ms. Linda Benshoshan and Messrs. Arie Orlev, David Levinson and Shaul Kobrinsky as external directors, within the meaning of the term in Proper Conduct of Banking Business Directive No. 301.

The said directors have been chosen from among candidates suggested by the Committee for Appointment of Directors in Banking Corporations (see above). For details regarding the dates on which the elected Directors took office, see the item "Details regarding members of the Board of Directors", above.

In the matter of Mr. Yehuda Levi – Prof. Itzhak Swary, who serves as the chairman of the Allied Group, is the brother-in-law of Mr. Levi. Whereas the Allied Group has business relations with the Discount Group, this fact might create a "relationship" within the meaning of Section 240(b) of the Companies Act. In conclusion of the discussions held by the Audit Committee and the Board of Directors, and considering the overall circumstances of the case, it has been decided that the business relations between the Allied Group and the Bank Group are negligible, both from the aspect of the candidate and from the aspect of the Bank.

In the matter of Mr. Shaul kobrinsky – the daughter-in-law of Mr. Kobrinsky is being employed for some two years as a temporary employee in the direct channels department of the Bank. This fact might create a "relationship" within the definition of the term in Section 11E(e) to the Banking Ordinance, unless the Audit Committee determines that such relationship is of negligible importance. In conclusion of the discussions held by the Audit Committee, and considering the overall circumstances of the case, it has been decided that the labor relations between Mr. Kobrinsky's daughter-in-law and the Bank are negligible relations, both from the aspect of the candidate and from the aspect of the Bank.

All as detailed in immediate reports dated September 21, 2014, and October 2, 2014 (Ref. Nos. 2014-01-161718 and 2014-01-169593, respectively).

Termination of office as Directors. The office as Directors of Ms. Aliza Rotbard and Mr. Jorge Zafran was terminated on October 2, 2014, and Mr. Ilan Aish's office was terminated on November 1, 2014, all as detailed in immediate reports dated August 26 (Ref. Nos. 2014-01-142917, 2014-01-142911 and 2014-01-142923, respectively).

The Chairman of the Board, the Board of Directors and the President & CEO thank Messrs. Zafran and Aish and Ms. Rotbard for their activity and contribution during their period of office at the Bank, and wish success to the new Directors appointed to office at the Bank.

The detailed information provided in all immediate reports mentioned above in this item, is included herewith by way of reference.

THE BANK'S PRESIDENT & CEO

Ms. Lilach Asher-Topilsky started her office as the Bank's President & CEO on February 19, 2014, and replaced Mr. Reuven Spiegel, whose tenure of office terminated on that date. Everything as detailed in immediate reports dated August 21, 2013 (Ref No. 2013-01-123042), October 17, 2013 (Ref. No. 2013-01-168351) and February 19, 2014 (Ref No. 2014-01-42298). The information included in the immediate reports mentioned above in this item, is presented here by way of reference.

CHANGES IN MANAGEMENT

Ms. Yafit Gariani began on April 13, 2014, her office as member of Management, with the title of Executive Vice President, heading the Operations and Logistics Division. Ms. Gariani replaced Mr. Shlomo Avidan, who retired from office on the same date, everything as detailed in immediate reports dated April 13, 2014 (Ref. Nos. 2014-01-045255 and 2014-01-045288) and March 4, 2013 (Ref. No. 2014-01-004530).

Mr. Uri Levin took office as member of Management on May 7, 2014, with the title of Senior Executive Vice President, heading the Planning, Strategy and Finance Division (formerly: Strategy, Marketing and Service Division), everything as detailed in the immediate reports dated March 31, 2014 (Ref. No. 2014-01-032238) and May 5, 2014 (Ref. No. 2014-01-057390).

Mr. Levy Halevy started his office as member of Management on June 1, 2014, with the title of Executive Vice President, head of the IT Division. Mr. Halevy replaced Mr. Shai Vardi, who ended his term of office on that date, everything as stated in the immediate reports dated January 1, 2014 (Ref. No. 2014-01-080736 and 2014-01-080715) and dated April 7, 2014 (Ref. No. 2014-01-041484).

At the meeting of the Board of Directors held on July 27, 2014, it was announced that Mr. Yosi Perets, Executive Vice President, Head of Human Resources Group, had decided to resign from the Bank, and that the termination of his service would be on August 1, 2014, all as detailed in the immediate report dated July 28, 2014 (reference no. 2014-01-121707). On August 1, 2014, Mr. Perets terminated his service, as described in the immediate report dated August 3, 2014 (reference no. 2014-01-125175). Concurrently, Ms. Yafit Gariani has been appointed Head of the Human Resources and Properties Division. For additional details, see "Changes in the organizational structure" under "Human resources" above.

On December 9, 2014, Mr. Yigal Ronay, Executive Vice President and Head of the Financial Markets Division, announced his decision to retire from office in the Bank. As detailed in the immediate report dated December 9, 2014 (Ref. No. 2014-01-218286). Mr. Ronay retired from office on January 20, 2015, as detailed in an immediate report dated January 19, 2015 (Ref No. 2015-01-014800). The Board of Directors in its meeting of December 22, 2014, decided to approve the appointment of Mr. Ran Oz as a member of management with the title of Senior Executive Vice President, to the position of Head of Financial Markets Division. Mr. Oz took office on January 20, 2015, all as detailed in immediate reports dated December 22, 2014 and January 19, 2015 (Ref Nos. 2014-01-227628 and 2015-01-014803).

The detailed information provided in the immediate reports mentioned in this item, is included herewith by way of reference.

The Chairman of the Board, the Board of Directors and the President & CEO thank the members of Management who retired from office, for their work and contribution during their term of office at the Bank and wish success to the new members of Management.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In 2014, the Board of Directors held 36 meetings. In addition, 106 meetings of committees of the Board of Directors were held.

The Board of Directors wishes to thank the President & CEO, the members of Management, the Bank's employees and employees of the Group's companies and their management for their work towards the advancement of the Bank and the Group.

March 9, 2015	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer

ANNEX TO THE REPORT OF THE BOARD OF DIRECTORS

PART "A": ADDITIONAL DETAILS - SECURITIES PORTFOLIO

1. AVAILABLE FOR SALE BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding to the distribution of bonds in the available-for-sale portfolio according to economic sectors:

	December 31, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non government bonds				
Various sectors*	857	868	18	7
Financial services[(1)]	10,233	10,239	94	88
Total non government bonds	**11,090**	**11,107**	**112**	**95**
Government bonds				
Israel Government	14,223	14,637	420	6
Other Governments	1,536	1,538	3	1
Total government bonds	**15,759**	**16,175**	**423**	**7**
Total bond in the available-for-sale portfolio	**26,849**	**27,282**	**535**	**102**
	December 31, 2013			
Total non governmental bonds and bills	**11,082**	**10,845**	**125**	**362**
Total government bonds and bills	**19,858**	**20,263**	**419**	**14**
Total available-for-sale bonds	**30,940**	**31,108**	**544**	**376**

*There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 398 million.

(1) see next page.

1. AVAILABLE FOR SALE BONDS - DATA ACCORDING TO ECONOMIC SECTORS (CONTINUED)

(1) Following are details regarding bonds in the financial services sector in the available-for-sale portfolio:

	December 31, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[2]	2,320	2,357	43	6
Insurance and provident funds	83	85	2	-
Ginnie Mae	3,530	3,515	20	35
Freddie Mac	1,220	1,213	8	15
Fannie Mae	2,650	2,639	18	29
Other*	430	430	3	3
Total financial services	**10,233**	**10,239**	**94**	**88**

* In the said group there is no investment in bonds which exceeds NIS 59 million.

(2) Following are details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio:

North America[3]	53	55	2	-
Western Europe[4]	1,621	1,648	33	6
Israel	434	438	4	-
Australia	210	214	4	-
Other	2	2	-	-
Total banks and banking holding companies	**2,320**	**2,357**	**43**	**6**

(3) Following are details by rating of investment in bonds of banks and banking holding companies in the available-for-sale portfolio in North America:

Rating				
AA	34	36	2	-
A+ to A-	19	19	-	-
Total	**53**	**55**	**2**	**-**

(4) Following are details by countries of investment in bonds of banks and bank holding companies in the available-for-sale portfolio in Western Europe:

England	538	552	18	4
Switzerland	235	238	3	-
Sweden	82	83	1	-
France	337	342	5	-
Netherlands	177	182	5	-
Other*	252	251	1	2
Total	**1,621**	**1,648**	**33**	**6**

* Fair value amounts lower than NIS 100 million per country.

2. HELD-TO-MATURITY SECURITIES - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding the distribution of bonds in the held-to-maturity securities portfolio according to economic sectors:

	December 31, 2014			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors	68	68	-	-
Public and community services	*1,928	2,030	105	3
Financial services(1)	1,490	1,495	25	20
Total non government bonds	**3,486**	**3,593**	**130**	**23**
Total Government bonds	**3,495**	**3,859**	**364**	**-**
Total held-to-maturity bonds	**6,981**	**7,452**	**494**	**23**
	December 31, 2013			
Total non governmental bonds and bills	**3,436**	**3,408**	**87**	**115**
Total government bonds and bills	**3,738**	**4,016**	**278**	**-**
Total held-to-maturity bonds	**7,174**	**7,424**	**365**	**115**
(1) Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	432	433	7	6
Freddie Mac	509	505	2	6
Fannie Mae	244	238	-	6
Other Government Agencies	99	98	-	1
Other**	206	221	16	1
Total financial services	**1,490**	**1,495**	**25**	**20**

*Most of this amount represents the investment of IDB New York in the U.S.A. municipal bonds. Of which, the three largest investments are in the amount of NIS 230-184 million, each, in municipal bonds of New York City, in bonds of the water corporation of New York city and in bonds of the state of New York.

**In the said group there is no bond whose fair value exceeds NIS 93 million.

3. TRADING BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding the distribution of bonds in the trading securities portfolio according to economic sectors:

	December 31, 2014			
	Amortized cost	Fair value	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value
	In NIS millions			
Non government bonds				
Various sectors[(1)]	52	52	-	-
Financial services	68	68	-	-
Total non government bonds	**120**	**120**	**-**	**-**
Total government bonds	**1,262**	**1,278**	**19**	**3**
Total bonds in the trading portfolio	**1,382**	**1,398**	**19**	**3**
	December 31, 2013			
Total non governmental bonds	**157**	**155**	**1**	**3**
Total government bonds	**2,024**	**2,023**	**2**	**3**
Total trading bonds in the trading portfolio	**2,181**	**2,178**	**3**	**6**

(1) There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 26 million.

4. EXPOSURE TO COMMERCIAL MORTGAGE BACKED SECURITIES (CMBS)

IDB New York holds commercial mortgage backed securities (CMBS) with a total balance sheet exposure of NIS 64 million as of December 31, 2014, similar to December 31, 2013. The bonds are classified to the "held to maturity" portfolio, except for one bond that is classified to the "available-for-sale" portfolio. These securities are classified to the financial services sector. The collateral pertaining to these securities is all located in the United States.

As of December 31, 2014, there is no provision for impairment of value due to the said securities.

The securitization exposure included in the following table does not include mortgage backed securities of the U.S. government agencies (GNMA, FNMA and FHLMC) due to the fact that all layers of the said securities reflect identical credit risk.

Following are details regarding CMBS Exposure:

	As at December 31,2014			As at December 31,2013		
Maturity Date	Amortized cost	Fair Value	Book Value	Amortized cost	Fair Value	Book Value
	in NIS millions					
2039-2040	10	11	10	8	10	8
2045-2047	5	5	5	5	5	5
2049-2051	50	51	49	51	57	51
Total	**65**	**67**	**64**	**64**	**72**	**64**

PART "B": TABLE RELATING THE DISCLOSURE REQUIREMENTS ACCORDING TO THE THIRD PILLAR TO THE DATA PRESENTED IN THE REPORT

With a view of grouping together the information required by the provisional instruction, banking corporations have been required to include in the report a table relating the disclosure requirements stated in the instruction to the sections in the Directors' report or to the Notes to the financial statements in which the information required to be presented in the annual report is included. The required information as above is reflected in the following table.

Table No.	Topic	Location*	Page No.
Table 1	Scope of implementation	Basel II - The implementation in Israel of the Basel committee recommendations	138-142
Table 2	Capital structure – qualitative and quantitative disclosure	Capital resources Note 14(4) to the financial statements Internet document – parts "A" and "B"	37-41 423
Table 3a	Capital adequacy - qualitative disclosure	Capital resources	37-41
Table 3b,d,e,f	Capital adequacy - quantitative disclosure	Capital resources Note 14(2) to the financial statements Internet document – part "C"	41 430
Table 3g,h,i	Capital adequacy - quantitative disclosure	Capital resources Note 14(1), 14(3) to the financial statements	41 430-431
Section 824	General qualitative disclosure	Risk management policy and objectives, The structure and organization of the risk management function, factors involved in risk management	127-142
Table 4a	Credit risk - qualitative disclosure	Credit risk management	142-158
Table 4b	Credit risk - exposure according to main exposure types	Credit risk management - Quantitative disclosure regarding credit risk	151
Table 4c	Credit risk - main geographic distribution of exposures	Management review - Schedule "F"	328-331
Table 4d	Credit risk - Counterparty type distribution of exposures	Internet document – part "C"	
Table 4e	Credit risk - Residual contractual maturity breakdown of the whole portfolio	Internet document – part "C"	
Table 4f	Credit risk - problematic debts	Management review - Schedule "E"	326-327
Table 4g	Credit risk - problematic debts classified according to main geographical areas	Management review - Schedule "F"	328-331
Table 4h	Credit risk – change in the balance of allowance for credit losses	Note 4 A to the financial statements	395-398

* Unless stated otherwise, the location is under "Exposure to Risks and Risks management" or as a Note to the Financial Statements.

PART "B": TABLE RELATING THE DISCLOSURE REQUIREMENTS ACCORDING TO THE THIRD PILLAR TO THE DATA PRESENTED IN THE REPORT (CONTINUED)

Table No.	Topic	Location*	Page No.
Table 5	Credit risk - disclosure as to credit files managed according to the standard approach	Internet document – part "C"	
Table 7	Credit risk mitigation	Internet document – part "C"	
Table 8	General disclosure for exposure related to counterparty credit risk	Credit risk management - General disclosure regarding exposure related to credit risk of a counterparty Internet document – part "C"	151-153
Table 9	Securitization exposure	Credit risk management – Securitization exposure Internet document – part "C"	153
Table 10	Market risk	Management of market and liquidity risks	159-173
Table 12	Operational risks	Operational risks	173-178
Table 13	Share positions in the banking book	Internet document – part "C"	
Table 14	Interest rate risk in the banking book	Management of market and liquidity risks	159-173
Table 15	Remuneration – disclosure in respect of remuneration at the Bank	Internet document – part "C"	

* Unless stated otherwise, the location is under "Exposure to Risks and Risks management" or as a Note to the Financial Statements.

PART "C": ADDITIONAL DETAILS

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

Credit risk involved in financial instruments. The Bank's activity in derivative financial instruments involves special risk factors including credit risks. The uniqueness of the credit risk in such transactions stems from the fact that the stated amount of the transaction does not necessarily reflect its entailed credit risk. For further details see "General disclosure regarding exposure related to credit risk of a counterparty" under "Credit risk management".

Note 20 to the financial statements presents details of operations in derivative instruments - scope, credit risk and maturities. Part 2 of the aforementioned Note presents details of credit risk with respect to derivatives by counter party, on a consolidated basis. Following are further details regarding data presented in part 2 of the aforementioned Note.

PART "C": ADDITIONAL DETAILS (CONTINUED)

(1) Following are details according to rating of balances of assets derived from transactions in derivative instruments where the counterparty is a bank:

	As of December 31, 2014	As of December 31, 2013
	In NIS million	
Balance-sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	407	446
With an A+ rating	193	36
With an A rating	817	921
With an A- rating	466	182
With a BBB+ rating	243	160
With a BBB rating	-	1
With a BBB- rating	32	-
Not rated	18	18
Total against foreign banks	**2,176**	**1,764**
Total against Israeli banks	**1,232**	**1,093**
Total Balance-sheet balances of assets deriving from transactions in derivative instruments	**3,408**	**2,857**

(2) Following are details according to rating of off balance sheet credit risk in respect of transactions in derivative instruments where the counterparty is a bank:

	As of December 31, 2014	As of December 31, 2013
	In NIS million	
Off balance sheet balances of assets deriving from derivative instruments against foreign banks		
With an AA- rating	19	105
With an A+ rating	18	6
With an A rating	90	134
With an A- rating	11	15
With an BBB+ rating	16	19
With an BBB rating	6	3
Not rated	-	1
Total against foreign banks	**160**	**283**
Total against Israeli banks	**79**	**50**
Total Off Balance-sheet balances of assets deriving from transactions in derivative instruments	**239**	**333**

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Following are details of the column "Other" in Note 20 B to the financial statements according to the overall credit to the public risk per economic sectors:

	As of December 31, 2014		As of December 31, 2013	
	in NIS million			
Agriculture		2		2
Industry:				
Machines, electrical and electronic equipment	200		18	
Mining, chemical industry and oil products	67		101	
Other	26		38	
Total industry		293		157
Construction and real estate:				
Acquisition of real estate for construction	71		55	
Real estate holdings	6		39	
Other	9		11	
Total Construction and real estate		87		105
Electricity and water		143		417
Commerce		45		67
Hotels, hotel services and food		2		1
Transportation and storage		55		53
Communications and computer services		55		10
Financial services:				
Financial institution (excluding banks)	193		263	
Private customers active on the capital market	105		405	
Financial holding institutions	220		183	
Insurance and provident fund services	201		185	
Total financial services		718		1,036
Business and other services		33		77
Public and community services		20		3
Private individuals - housing loans		-		-
Private individuals - other		66		27
Total		**1,520**		**1,955**
Credit risk mitigation in respect of financial instruments and in respect of a cash collateral received		(458)		(444)
Total credit risk in respect of derivative instruments		**1,062**		**1,511**

2. CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

Following are data regarding credit risk pertaining to leveraged finance. Disclosure is focused on exposure in respect of the acquisition of means of control, each of which exceeds NIS 50 million.

The Bank's exposure to leveraged finance according to economic sector of the acquired corporation:

	Balance sheet credit as of	
	December 31, 2014	December 31, 2013
Sector	In NIS millions	
Industry	919	*1,383
Construction and real estate	806	1,364
Electricity and water	-	26
Commerce	349	510
Transportation and storage	134	194
Communications and computer services	282	134
Financial services	137	*317
Total	**2,627**	**3,928**

* Reclassified in respect of a reclassification of exposure in different sectors.

Exposure to leveraged finance as of December 31, 2014 amounted to NIS 2,627 million, compared to NIS 3,928 million at the end of 2013, a decrease of 33.1%.

The balance of exposure presented in the table above, is net of accounting write-offs in accordance with the directive regarding impaired debts.

The off-balance sheet exposure in respect of leverage finance transactions as of December 31, 2014, amounted to NIS 499 million (December 31, 2013 – NIS 541 million).

3. CREDIT LEVELS IN EXCESS OF NIS 800 MILLION - ADDITIONAL DETAILS

Note 4 D presents details regarding composition of credit to the public and off-balance-sheet credit risk, by size of credit to individual borrower, in accordance with public reporting instructions published by the Supervisor of Banks.

Following are general details regarding the largest borrowers included in the upper levels (over NIS 800 million) of the said Note[1] (Consolidated):

	As at December 31	
	2014	2013
	in NIS thousands	
Field of activity of the burrower:		
Financial services[3]	3,975,550	2,026,158
Electricity and water[2]	3,012,921	3,116,267
Financial services[2][3]	2,900,447	3,944,944
Financial services[3]	1,735,684	2,037,272
Real estate	1,263,138	1,208,772
Financial services	840,036	-
Financial services	601,462	1,232,928
Chemical Industry	195,083	978,151

Footnotes:
(1) The above data represent "indebtedness" data (also including unutilized credit facilities) and before allowance for credit losses.
(2) One of- 2 borrowers in the two upper levels in 2013
(3) Including mortgage backed securities issued by GNMA, FNMA and FHLMC.

4. THE MAIN DIFFERENCES BETWEEN THE MANAGERIAL REPORTING FORMAT AND THE PUBLIC REPORTING FORMAT

The segment reporting presented in the financial statements and in the Directors' report have been prepared in accordance with the instructions and guidelines of the Supervisor of Banks in this matter. Certain differences exist between the managerial reports presented to the Bank's Management and the segment data and format presented in the financial statements.

The reports to the Bank's Management include, at this stage, a report of the Corporate Division's data and the Banking Division's data at the Bank level, up to the "earnings before tax" line. The Banking Division's data include the household segment customers, the small business segment and the middle market banking segment. The data for the Corporate Division include the corporate banking segment and the data for the Customer Assets Division include the private banking segment.

As stated, there are several principal differences between the reports to Management and the segment reporting in the financial statements:

- The report to Management does not address the allocation of profits from the severance pay fund as is the case in segment reporting according to the public reporting instructions;
- The financial activity segment includes both the activity of the Bank's "Nostro" management and risk management, which is subject to the responsibility of the Finance Division, as well as the investments in non-financial companies, which is not managed by that Division, and as stated, the activity of this segment is not presented in the said reports to Management;
- In the segment reporting according to the instructions of the Supervisor of Banks, Tier 1 and Tier 2 capital are allocated to each segment in accordance with each segment's risk assets, at the expense of the financial segment.

4. THE MAIN DIFFERENCES BETWEEN THE MANAGERIAL REPORTING FORMAT AND THE PUBLIC REPORTING FORMAT (CONTINUED)

Following is the quantification of the main differences between the formats of managerial reporting and the reporting format dictated by the public reporting instructions:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial Management	Total Consolidated
	in NIS millions						
	For the year ended December 31,2014						
Reported net income (loss)	(178)	192	370	153	(25)	84	596
Net income (loss) for Management reports	(191)	188	380	156	(26)	89	596
Difference	**13**	**4**	**(10)**	**(3)**	**1**	**(5)**	**-**
Following is the composition of the differences:							
Income (loss) from Interest income, net before credit loss expenses	(25)	(5)	(55)	(11)	(1)	97	-
Profit from severance pay funds	45	11	13	6	3	(78)	-
Total income that was transferred	20	6	(42)	(5)	2	19	-
Provision for taxes (tax savings)	7	2	(32)	(2)	1	24	-
Difference	**13**	**4**	**(10)**	**(3)**	**1**	**(5)**	**-**
	For the year ended December 31,2013						
Reported net income (loss)	(20)	202	278	170	(13)	257	874
Net income (loss) for Management reports	(67)	187	261	161	(16)	348	874
Difference	**47**	**15**	**17**	**9**	**3**	**(91)**	**-**
Following is the composition of the differences:							
Income (loss) from Interest income, net before credit loss expenses	4	6	4	6	-	(20)	-
Profit from severance pay funds	69	18	22	8	5	(122)	-
Total Income that was transferred	73	24	26	14	5	(142)	-
Provision for taxes (tax savings)	26	9	9	5	2	(51)	-
Difference	**47**	**15**	**17**	**9**	**3**	**(91)**	**-**

5. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 3 to the financial statements includes, among other things, details regarding investments in government bonds included in the "held to maturity" portfolio, the "available-for-sale" portfolio and the "trading" portfolio, divided into bonds and loans of the Government of Israel and bonds and loans of foreign governments.

Following are details divided by governments with respect to the total securities portfolio:

	December 31, 2014		December 31, 2013	
	Book value	Fair value[1]	Book value	Fair value[1]
	In NIS millions			
Of the Israeli Government	19,391	19,755	25,689	25,967
U.S. government	1,166	1,166	159	159
Other governments	391	[2]391	176	[2]176
Total	**20,948**	**21,312**	**26,024**	**26,302**

Footnotes:

(1) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(2) Among the other governments, there is not one government the investment in bonds and loans thereof exceeds NIS 115 million as of December 31, 2014 (NIS 51 million as of December 31,2013).

MANAGEMENT REVIEW

SCHEDULE "A" - CONSOLIDATED BALANCE SHEET - MULTI-PERIOD DATA

	As at December 31				
	2014	2013	2012	2011	2010
	In NIS millions				
Assets					
Cash and deposits with banks	31,694	25,319	24,100	30,329	18,187
Securities	37,353	41,325	46,001	42,898	37,176
Securities borrowed or purchased under resale agreements	466	102	387	145	45
Credit to the public	122,172	117,993	119,696	118,358	124,902
Provision for credit loss	(2,049)	(2,134)	(2,085)	(1,975)	(6,236)
Credit to the public, net	120,123	115,859	117,611	116,383	118,666
Credit to Governments	1,533	1,835	1,696	1,640	1,556
Investments in affiliated companies	142	1,668	1,724	1,591	1,660
Buildings and equipment	2,500	2,696	2,962	3,080	3,125
Intangible assets and goodwill	142	142	142	152	163
Assets in respect of derivative instruments	4,596	4,080	3,727	3,114	2,039
Other assets	3,505	3,277	2,662	3,132	2,937
Noncurrent assets held for sale	4,892	4,204	-	8	13
Total Assets	**206,946**	**200,507**	**201,012**	**202,472**	**185,567**

SCHEDULE "A" - CONSOLIDATED BALANCE SHEET - MULTI-PERIOD DATA (CONTINUED)

	As at December 31				
	2014	2013	2012	2011	2010
	In NIS millions				
Liabilities and Equity					
Deposits from the public	152,903	148,928	151,935	153,368	138,011
Deposits from banks	5,547	4,213	3,720	4,249	3,387
Deposits from the Government	872	972	1,005	925	461
Securities loaned or sold under buy-back arrangements	3,984	3,644	5,452	6,700	7,227
Subordinated capital notes	10,638	11,664	12,284	12,239	12,294
Liabilities in respect of derivative instruments	4,475	4,898	4,708	4,432	3,215
Other liabilities	10,235	9,719	9,774	9,538	9,829
Liabilities held for sale	4,651	3,931	-	-	-
Total liabilities	193,305	187,969	188,878	191,451	174,424
Equity capital attributed to the Bank's shareholders	13,243	12,233	11,838	10,702	10,815
Non-controlling rights in consolidated companies	398	305	296	319	328
Total equity	13,641	12,538	12,134	11,021	11,143
Total Liabilities and Equity	**206,946**	**200,507**	**201,012**	**202,472**	**185,567**

SCHEDULE "B" – CONSOLIDATED STATEMENT OF INCOME – MULTI-PERIOD DATA

	As at December 31				
	2014	2013	2012	2011	2010
	in NIS millions				
Interest income[(2)]	5,736	6,822	7,847	8,413	7,400
Interest expenses	1,518	2,572	3,388	3,796	2,849
Interest income, net	4,218	4,250	4,459	4,617	4,551
Credit loss expenses	164	580	726	778	821
Net interest income after credit loss expenses	**4,054**	**3,670**	**3,733**	**3,839**	**3,730**
Non-interest Income					
Non-interest financing income	549	632	352	98	172
Commissions[(2)]	2,586	2,704	2,685	2,670	2,725
Other income	119	183	220	169	99
Total non-interest income	**3,254**	**3,519**	**3,257**	**2,937**	**2,996**
Operating and other Expenses					
Salaries and related expenses	3,988	3,619	3,444	3,466	3,218
Maintenance and depreciation of buildings and equipment	1,212	1,247	1,248	1,201	1,185
Amortization and impairment of intangible assets and goodwill	-	-	10	11	48
Other expenses	1,171	1,152	1,124	1,167	1,208
Total operating and other expenses	**6,371**	**6,018**	**5,826**	**5,845**	**5,659**
Income before taxes	937	1,171	1,164	931	1,067
Provision for taxes on income	324	305	407	114	479
Income after taxes	613	866	757	817	588
Bank's share in income of affiliated companies, net of tax effect	[(1)(3)]27	[(1)]45	[(1)]104	101	172
Net income:					
Before attribution to non-controlling rights holders	640	911	861	918	760
Attributed to the non-controlling rights holders	(44)	(37)	(59)	(71)	(70)
Net income attributed to bank's shareholders	**596**	**874**	**802**	**847**	**690**
Earnings per share of NIS 0.1 (in NIS):					
Total earnings per share attributed to Bank's shareholders	**0.57**	**0.83**	**0.76**	**0.80**	**0.69**
Total number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869	1,053,869	997,578

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 D (3) the financial statements.

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the financial statements.

(3) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, see Note 6 D (4) to the financial statements.

SCHEDULE "C" - RATES OF FINANCIAL INCOME AND EXPENSES AND ANALYSIS OF THE CHANGES IN INTEREST AND EXPENSES - CONSOLIDATED(1)

Part "A" - Average balances and interest rates - assets

	2014			2013			2012		
	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income	Average balance(2)	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:									
Credit to the public:(3)									
In Israel	92,791	4,059	4.37	93,094	4,754	5.11	95,134	5,260	5.53
Outside Israel	19,307	685	3.55	17,626	618	3.51	17,747	677	3.81
Total credit to the public	**112,098**	***4,744**	**4.23**	**110,720**	***5,372**	**4.85**	**112,881**	***5,937**	**5.26**
Credit to the Government:									
In Israel	1,686	13	0.77	1,738	38	2.19	1,633	24	1.47
Outside Israel	48	2	4.17	68	3	4.41	50	2	4.00
Total credit to the Government	**1,734**	**15**	**0.87**	**1,806**	**41**	**2.27**	**1,683**	**26**	**1.54**
Deposits with banks:									
In Israel	2,696	11	0.41	2,533	27	1.07	2,226	33	1.48
Outside Israel	2,498	25	1.00	2,145	26	1.21	2,392	31	1.30
Total deposits with banks	**5,194**	**36**	**0.69**	**4,678**	**53**	**1.13**	**4,618**	**64**	**1.39**
Deposits with central banks:									
In Israel	14,043	84	0.60	12,263	170	1.39	17,418	410	2.35
Outside Israel	1,381	4	0.29	1,458	5	0.34	1,099	5	0.45
Total deposits with central banks	**15,424**	**88**	**0.57**	**13,721**	**175**	**1.28**	**18,517**	**415**	**2.24**
Securities borrowed or purchased under resale agreements:									
In Israel	589	2	0.34	371	4	1.08	353	7	1.98
Total securities borrowed or purchased under resale agreements	**589**	**2**	**0.34**	**371**	**4**	**1.08**	**353**	**7**	**1.98**
Bonds held for redemption and available for sale:(4)									
In Israel	23,316	448	1.92	27,087	726	2.68	24,676	825	3.34
Outside Israel	14,086	354	2.51	16,075	340	2.12	17,906	454	2.54
Total bonds held for redemption and available for sale	**37,402**	**802**	**2.14**	**43,162**	**1,066**	**2.47**	**42,582**	**1,279**	**3.00**
Trading bonds:(4)									
In Israel	2,116	22	1.04	3,004	76	2.53	1,819	76	4.18
Outside Israel	51	1	1.96	53	1	1.89	201	5	2.49
Total trading bonds	**2,167**	**23**	**1.06**	**3,057**	**77**	**2.52**	**2,020**	**81**	**4.01**
Other assets:									
In Israel	-	(9)5	-	-	(9)15	-	-	(9)13	-
Outside Israel	622	21	3.38	614	19	3.09	637	25	3.92
Total other assets	**622**	**26**	**4.18**	**614**	**34**	**5.54**	**637**	**38**	**5.97**
Total interest bearing assets	**175,230**	**5,736**	**3.27**	**178,129**	**6,822**	**3.83**	**183,291**	**7,847**	**4.28**
Debtors in respect of credit card operations	5,612			5,577			5,452		
Other non-interest bearing assets(5)	16,570			15,461			14,458		
Total assets	**197,412**			**199,167**			**203,201**		
Of which: Total interest bearing assets attributable to operations outside Israel	37,993	1,092	2.87	38,039	1,012	2.66	40,032	1,199	3.00
* Commissions included in interest income from credit to the public(10)		289			164			118	

For footnotes see page 321.

SCHEDULE "C" - RATES OF FINANCIAL INCOME AND EXPENSES AND ANALYSIS OF THE CHANGES IN INTEREST AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "B" - Average balances and interest rates - liabilities and equity

	2014			2013			2012		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:									
Deposits from the public:									
In Israel - On call	17,287	15	0.09	14,794	41	0.28	12,718	71	0.56
In Israel - Time deposits	85,008	626	0.74	95,038	1,348	1.42	103,629	2,024	1.95
Total deposits from the public in Israel	**102,295**	**641**	**0.63**	**109,832**	**1,389**	**1.26**	**116,347**	**2,095**	**1.80**
Outside Israel - On call	12,573	59	0.47	13,349	54	0.40	12,052	50	0.41
Outside Israel - Time deposits	9,557	65	0.68	7,956	79	0.99	9,350	109	1.17
Total deposits from the public outside Israel	**22,130**	**124**	**0.56**	**21,305**	**133**	**0.62**	**21,402**	**159**	**0.74**
Total deposits from the public	**124,425**	**765**	**0.61**	**131,137**	**1,522**	**1.16**	**137,749**	**2,254**	**1.64**
Deposits from the Government:									
In Israel	361	4	1.11	374	5	1.34	385	6	1.56
Outside Israel	600	4	0.67	647	5	0.77	618	5	0.81
Total deposits from the Government	**961**	**8**	**0.83**	**1,021**	**10**	**0.98**	**1,003**	**11**	**1.10**
Deposits from banks:									
In Israel	2,909	28	0.96	2,483	44	1.77	2,514	69	2.74
Outside Israel	1,284	18	1.40	1,472	22	1.49	1,746	29	1.66
Total deposits from banks	**4,193**	**46**	**1.10**	**3,955**	**66**	**1.67**	**4,260**	**98**	**2.30**
Securities loaned or sold under repurchase agreements:									
Outside Israel	3,739	143	3.82	4,628	164	3.54	6,282	227	3.61
Total securities loaned or sold under repurchase agreements	**3,739**	**143**	**3.82**	**4,628**	**164**	**3.54**	**6,282**	**227**	**3.61**
Subordinated debt notes:									
In Israel	10,993	552	5.02	12,055	802	6.65	12,376	789	6.38
Total Subordinated debt notes	**10,993**	**552**	**5.02**	**12,055**	**802**	**6.65**	**12,376**	**789**	**6.38**
Other liabilities:									
In Israel	134	[9]4	2.99	154	[9]8	5.19	148	[9]9	6.08
Total other liabilities	**134**	**4**	**2.99**	**154**	**8**	**5.19**	**148**	**9**	**6.08**
Total interest bearing liabilities	**144,445**	**1,518**	**1.05**	**152,950**	**2,572**	**1.68**	**161,818**	**3,388**	**2.09**
Non-interest bearing deposits from the public	25,552			19,808			15,781		
Creditors in respect of credit card operations	6,167			6,125			6,007		
Other non-interest bearing liabilities[6]	8,592			8,214			8,114		
Total liabilities	**184,756**			**187,097**			**191,720**		
Total capital resources	**12,656**			**12,070**			**11,481**		
Total liabilities and capital resources	**197,412**			**199,167**			**203,201**		
Interest margin		**4,218**	**2.22**		**4,250**	**2.15**		**4,459**	**2.19**
Net return on interest bearing assets:[7]									
In Israel	137,237	3,415	2.49	140,090	3,562	2.54	143,259	3,680	2.57
Outside Israel	37,993	803	2.11	38,039	688	1.81	40,032	779	1.95
Total net return on interest bearing assets	**175,230**	**4,218**	**2.41**	**178,129**	**4,250**	**2.39**	**183,291**	**4,459**	**2.43**
Of which: Total interest bearing liabilities attributable to operations outside Israel	27,753	289	1.04	28,052	324	1.15	30,048	420	1.40

For footnotes see page 321.

SCHEDULE "C" - RATES OF FINANCIAL INCOME AND EXPENSES AND ANALYSIS OF THE CHANGES IN INTEREST AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "C" - Average balances and interest rates - additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	2014			2013			2012		
	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)	Average balance[2]	Interest income (expense)	Rate of income (expense)
	In NIS millions		In %	In NIS millions		In %	In NIS millions		In %
Non-linked shekels:									
Total interest bearing assets	99,165	3,547	3.58	98,846	4,051	4.10	97,820	4,811	4.92
Total interest bearing liabilities	(79,329)	(581)	(0.73)	(82,658)	(1,079)	(1.31)	(85,190)	(1,728)	(2.03)
Interest margin		**2,966**	**2.85**		**2,972**	**2.79**		**3,083**	**2.89**
CPI-linked shekels:									
Total interest bearing assets	23,109	671	2.90	24,790	1,289	5.20	25,856	1,216	4.70
Total interest bearing liabilities	(18,029)	(555)	(3.08)	(19,976)	(1,036)	(5.19)	(20,592)	(991)	(4.81)
Interest margin		**116**	**(0.18)**		**253**	**0.01**		**225**	**(0.11)**
Foreign Currency (including foreign currency-linked shekels):									
Total interest bearing assets	14,963	426	2.85	16,454	470	2.86	19,583	621	3.17
Total interest bearing liabilities	(19,334)	(93)	(0.48)	(22,264)	(133)	(0.60)	(25,988)	(249)	(0.96)
Interest margin		**333**	**2.37**		**337**	**2.26**		**372**	**2.21**
Total operations in Israel:									
Total interest bearing assets	137,237	4,644	3.38	140,090	5,810	4.15	143,259	6,648	4.64
Total interest bearing liabilities	(116,692)	(1,229)	(1.05)	(124,898)	(2,248)	(1.80)	(131,770)	(2,968)	(2.25)
Interest margin		**3,415**	**2.33**		**3,562**	**2.35**		**3,680**	**2.39**

For footnotes see next page.

SCHEDULE "C" - RATES OF FINANCIAL INCOME AND EXPENSES AND ANALYSIS OF THE CHANGES IN INTEREST AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "D" - Analysis of changes in interest income and expenses

	2014 Compared to 2013			2013 Compared to 2012		
	Increase (decrease) due to change[8]			Increase (decrease) due to change[8]		
	Quantity	Price	Net change	Quantity	Price	Net change
	In NIS millions					
Interest bearing assets:						
Credit to the public:						
In Israel	(13)	(682)	(695)	(104)	(402)	(506)
Outside Israel	60	7	67	(4)	(55)	(59)
Total credit to the public	**47**	**(675)**	**(628)**	**(108)**	**(457)**	**(565)**
Other interest bearing assets:						
In Israel	(34)	(437)	(471)	(25)	(307)	(332)
Outside Israel	(38)	51	13	(36)	(92)	(128)
Total other interest bearing assets	**(72)**	**(386)**	**(458)**	**(61)**	**(399)**	**(460)**
Total interest income	**(25)**	**(1,061)**	**(1,086)**	**(169)**	**(856)**	**(1,025)**
Interest bearing liabilities:						
Deposits from the public:						
In Israel	(47)	(701)	(748)	(82)	(624)	(706)
Outside Israel	5	(14)	(9)	(1)	(25)	(26)
Total deposits from the public	**(42)**	**(715)**	**(757)**	**(83)**	**(649)**	**(732)**
Other interest bearing liabilities:						
In Israel	(27)	(244)	(271)	(20)	6	(14)
Outside Israel	(33)	7	(26)	(54)	(16)	(70)
Total other interest bearing liabilities	**(60)**	**(237)**	**(297)**	**(74)**	**(10)**	**(84)**
Total interest expenses	**(102)**	**(952)**	**(1,054)**	**(157)**	**(659)**	**(816)**
Interest income, net	**77**	**(109)**	**(32)**	**(12)**	**(197)**	**(209)**

Footnotes:

(1) The data is presented after the effect of hedge derivative instruments.

(2) Based on monthly opening balances, except for the non-linked shekels segment in respect of which the average balances are based on daily data.

(3) Before deduction of the average stated balance of allowances for credit losses. Including impaired debts that do not accrue interest income.

(4) From the average balance of trading bonds and of available-for-sale bonds was deducted (added) the average balance of non-realized gains (losses) from adjustment to fair value of trading bonds as well as gains (losses) in respect of available-for-sale bonds included in shareholders' equity as part of accumulated other comprehensive income, in the item "Adjustments in respect of available-for-sale securities according to fair value" in the amount of NIS 9 million and NIS 426 million, respectively; 2013 – NIS (6) million and NIS 287 million respectively; 2012 – NIS (12) million and NIS 123 million respectively.

(5) Including derivative instruments and other assets that do not carry interest and net of allowance for credit losses.

(6) Including derivative instruments.

(7) Net return – net interest income divided by total interest bearing assets.

(8) The quantitative impact has been computed by multiplying the interest margin by the change in the average balance between the periods. The price impact has been calculated by multiplying the average balance for the corresponding period last year by the change in the interest margin between the periods.

(9) Interest income on other assets and interest expenses on other liabilities include income tax interest income and expenses, respectively.

(10) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the financial statements.

SCHEDULE "D" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED

	As at December 31, 2014				
	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
	in NIS millions				
Non linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets(1)	92,197	9,163	6,011	3,050	2,394
Derivative financial instruments (except for options)	15,654	27,136	13,669	11,867	7,290
Options (in terms of base assets)	284	581	1,151	55	32
Total fair value	**108,135**	**36,880**	**20,831**	**14,972**	**9,716**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities(1)	75,161	8,789	9,421	4,675	1,294
Derivative financial instruments (except for options)	21,361	29,329	19,886	11,681	7,225
Options (in terms of base assets)	297	488	1,137	29	-
Off-balance sheet financial instruments	1	1	5	1	-
Total fair value	**96,820**	**38,607**	**30,449**	**16,386**	**8,519**
Financial instruments, net					
Exposure to changes in interest rates in the segment	11,315	(1,727)	(9,618)	(1,414)	1,197
Cumulative exposure in the segment	**11,315**	**9,588**	**(30)**	**(1,444)**	**(247)**
CPI linked Israeli currency					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets(1)	1,946	619	3,148	6,734	5,258
Derivative financial instruments (except for options)	19	926	776	963	483
Options (in terms of base assets)	-	6	10	27	-
Total fair value	**1,965**	**1,551**	**3,934**	**7,724**	**5,741**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities(1)	563	845	2,975	5,401	2,464
Derivative financial instruments (except for options)	122	608	1,597	846	804
Options (in terms of base assets)	-	2	5	8	-
Off-balance sheet financial instruments	-	1	4	1	-
Total fair value	**685**	**1,456**	**4,581**	**6,256**	**3,268**
Financial instruments, net					
Exposure to changes in interest rates in the segment	1,280	95	(647)	1,468	2,473
Cumulative exposure in the segment	**1,280**	**1,375**	**728**	**2,196**	**4,669**

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.

	As at December 31, 2014							As at December 31, 2013		
	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
	in NIS millions									
	2,342	703	33	389	116,282	2.65%	0.45	109,194	3.46%	0.61
	3,730	69	-	-	79,415		1.12	91,339		1.31
	25	2	-	-	2,130		0.01	1,501		0.01
	6,097	**774**	**33**	**389**	**197,827**		**(2)0.72**	**202,034**		**(2)0.93**
	429	167	-	-	99,936	0.31%	0.26	98,157	0.95%	0.26
	3,987	58	-	-	93,527		1.05	98,993		1.30
	-	-	-	-	1,951		0.01	1,127		0.01
	-	-	-	-	8		0.01	8		0.01
	4,416	**225**	**-**	**-**	**195,422**		**(2)0.76**	**198,285**		**(2)0.76**
	1,681	549	33	389	2,405			3,749		
	1,434	**1,983**	**2,016**	**2,405**						
	3,757	869	55	23	22,409	1.61%	3.39	25,682	2.09%	3.38
	559	6	-	-	3,732		2.57	3,162		3.09
	-	-	-	-	43		0.01	17		0.01
	4,316	**875**	**55**	**23**	**26,184**		**(2)3.26**	**28,861**		**(2)3.35**
	5,864	437	-	-	18,549	0.82%	3.53	21,860	0.98%	3.54
	547	-	-	-	4,524		2.05	6,814		1.72
	-	-	-	-	15		0.01	57		0.01
	-	-	-	-	6		0.73	7		0.64
	6,411	**437**	**-**	**-**	**23,094**		**(2)3.24**	**28,738**		**(2)3.10**
	(2,095)	438	55	23	3,090			123		
	2,574	**3,012**	**3,067**	**3,090**						

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see "Management and measurement of market risks" under "Exposure to risks and risk management".

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 21 a-c.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

(d) Full data as the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

SCHEDULE "D" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED (CONTINUED)

	As at December 31, 2014				
	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years
	in NIS millions				
Foreign currency[4]					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1]	29,515	8,057	5,447	5,024	3,252
Derivative financial instruments (except for options)	29,636	23,785	22,646	4,577	3,092
Options (in terms of base assets)	2,110	2,304	2,953	209	-
Total fair value	**61,261**	**34,146**	**31,046**	**9,810**	**6,344**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	46,955	6,941	9,411	4,691	2,019
Derivative financial instruments (except for options)	21,551	21,224	16,470	4,373	3,402
Options (in terms of base assets)	2,040	2,399	2,963	248	27
Off-balance sheet financial instruments	-	-	1	-	-
Total fair value	**70,546**	**30,564**	**28,845**	**9,312**	**5,448**
Financial instruments, net					
Exposure to changes in interest rates in the segment	(9,285)	3,582	2,201	498	896
Cumulative exposure in the segment	**(9,285)**	**(5,703)**	**(3,502)**	**(3,004)**	**(2,108)**
Total exposure to changes in interest rates					
Financial assets and amounts receivable in respect of derivative instruments					
Financial assets[1],[3]	123,667	17,839	14,606	14,808	10,904
Derivative financial instruments (except for options)	45,309	51,847	37,091	17,407	10,865
Options (in terms of base assets)	2,394	2,891	4,114	291	32
Total fair value	**171,370**	**72,577**	**55,811**	**32,506**	**21,801**
Financial liabilities and amounts payable in respect of derivative instruments					
Financial liabilities[1]	122,688	16,575	21,807	14,767	5,777
Derivative financial instruments (except for options)	43,034	51,161	37,953	16,900	11,431
Options (in terms of base assets)	2,337	2,889	4,105	285	27
Off-balance sheet financial instruments	1	2	57	2	-
Total fair value	**168,060**	**70,627**	**63,922**	**31,954**	**17,235**
Financial instruments, net					
Exposure to changes in interest rates in the segment	3,310	1,950	(8,111)	552	4,566
Cumulative exposure in the segment	**3,310**	**5,260**	**(2,851)**	**(2,299)**	**2,267**

Notes:

(1) Not including balances of derivative financial instruments and fair value of off-balance sheet financial instruments.

(2) Weighted average by fair value of average effective duration.

(3) Including shares listed under "No fixed maturity".

(4) Including Israeli currency linked to foreign currency.

	As at December 31, 2014							As at December 31, 2013		
	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	No fixed maturity date	Total fair value	Internal rate of return In %	Effective average duration In years	Total fair value	Internal rate of return In %	Effective average duration In years
	in NIS millions									
	5,101	1,990	-	426	58,812	2.25%	1.43	55,381	2.75%	1.56
	3,458	65	-	-	87,259		0.70	75,625		0.59
	-	-	-	-	7,576		0.01	6,418		0.01
	8,559	**2,055**	**-**	**426**	**153,647**		**(2)0.94**	**137,424**		**(2)0.95**
	852	64	-	-	70,933	0.56%	0.44	63,514	0.56%	0.48
	5,189	6	-	-	72,215		0.94	65,154		0.80
	22	1	-	1	7,701		0.01	6,698		0.01
	-	-	-	-	1		0.67	1		0.67
	6,063	**71**	**-**	**1**	**150,850**		**(2)0.66**	**135,367**		**(2)0.61**
	2,496	1,984	-	425	2,797			2,057		
	388	**2,372**	**2,372**	**2,797**						
	11,200	3,562	88	2,530	199,204	2.41%	1.08	191,125	3.07%	1.26
	7,747	140	-	-	170,406		0.94	170,126		1.02
	25	2	-	-	9,749		0.01	7,936		0.01
	18,972	**3,704**	**88**	**2,530**	**379,359**		**(2)0.99**	**369,187**		**(2)1.13**
	7,145	668	-	-	189,427	0.45%	0.65	183,534	0.82%	0.73
	9,723	64	-	-	170,266		1.03	170,961		1.13
	22	1	-	1	9,667		0.01	7,882		0.01
	-	-	-	-	62		0.08	83		0.06
	16,890	**733**	**-**	**1**	**369,422**		**(2)0.81**	**362,460**		**(2)0.90**
	2,082	2,971	88	2,529	9,937			6,727		
	4,349	**7,320**	**7,408**	**9,937**						

General notes:

(a) Data by period in this table represent the present value of future cash flows for each financial instrument, discounted at such interest rate as to discount them to the fair value included in the financial instrument, in a manner consistent with assumptions used in calculation of the fair value of said financial instrument. For details regarding the assumptions used in calculating the fair value of financial instruments, see "Management and measurement of market risks" under "Exposure to risks and risk management".

(b) The internal rate of return is the interest rate used to discount the expected cash flows from a financial instrument to its fair value, as included in Note 21 a.

(c) The average effective duration of a group of financial instruments is an approximation of the change, in percentage, in fair value of said group of financial instruments resulting from a small change (0.1% increase) in the internal rate of return of each of the financial instruments.

(d) Full data as the exposure to changes in interest rates in each segment according to the various balance sheet items, is available on request.

SCHEDULE "E" - CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS

	December 31, 2014									
	Total Credit Risk[1]			Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
								Credit Losses[4]		
	Total[9]	Credit Performance Rating[10]	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Periodic Credit Loss Expenses	Net Accounting Write-Offs Recognized during the period	Balance of Allowance for Credit Losses
										in NIS millions
Lending Activity in Israel										
Agriculture	1,125	1,084	27	1,123	884	27	15	(3)	(1)	20
Industry	15,931	14,670	1,179	15,600	10,203	1,178	464	(5)	92	312
Construction and Real Estate - Construction	[6]14,443	13,908	460	[6]14,424	5,608	459	125	(56)	(38)	143
Construction and Real Estate - Real Estate Activity	11,064	10,468	578	11,007	9,310	570	471	24	30	141
Electricity and Water	3,382	3,342	9	2,838	1,946	9	9	1	1	5
Commerce	15,234	14,090	1,075	15,111	12,110	1,075	298	29	14	302
Hotels, Hotel Services and Food	1,902	1,547	241	1,886	1,595	240	231	2	3	16
Transportation and Storage	3,243	3,027	197	3,184	2,532	184	135	28	9	53
Communication and Computer Services	2,317	1,604	707	2,133	1,531	707	118	(20)	(18)	37
Financial Services	8,434	8,114	314	7,063	5,666	314	169	(6)	1	124
Other Business Services	6,329	6,134	98	6,298	4,554	98	53	5	11	73
Public and Community Services	2,611	2,576	18	2,605	1,755	17	8	(2)	-	10
Total Commercial	**86,015**	**80,564**	**4,903**	**83,272**	**57,694**	**4,878**	**2,096**	**(3)**	**104**	**1,236**
Private Individuals - Housing Loans	21,873	21,281	458	21,873	20,308	458	-	19	11	262
Private Individuals - Other	41,202	40,443	344	41,141	20,350	344	82	102	49	394
Total Public	**149,090**	**142,288**	**5,705**	**146,286**	**98,352**	**5,680**	**2,178**	**118**	**164**	**1,892**
Banks in Israel	2,067	2,067	-	648	604	-	-	1	-	2
Israeli Government	21,179	21,179	-	1,770	1,510	-	-	-	-	-
Total Lending Activity in Israel	**172,336**	**165,534**	**5,705**	**148,704**	**100,466**	**5,680**	**2,178**	**119**	**164**	**1,894**
Lending Activity Outside of Israel										
Agriculture	93	93	-	93	93	-	-	(2)	-	1
Industry	7,197	7,106	91	7,094	4,151	91	-	(12)	-	44
Construction and Real Estate - Construction	694	429	264	693	644	264	264	54	94	11
Construction and Real Estate - Real Estate Activity	8,420	7,988	318	8,356	6,508	318	152	(12)	(31)	97
Electricity and Water	135	135	-	117	116	-	-	(1)	-	1
Commerce	6,450	6,423	26	6,443	4,422	26	-	(106)	(110)	57
Hotels, Hotel Services and Food	876	876	-	876	820	-	-	(3)	(1)	5
Transportation and Storage	1,215	1,201	7	1,193	928	7	7	(3)	29	10
Communication and Computer Services	299	209	90	274	203	90	87	133	123	23
Financial Services	11,985	11,822	129	2,852	1,927	129	128	(5)	16	29
Of which: Federal agencies in the U.S.[7]	8,612	8,612	-	-	-	-	-	-	-	-
Other Business Services	2,219	2,204	14	2,193	1,506	14	-	(15)	(3)	19
Public and Community Services	[8]3,113	3,112	-	1,098	1,024	-	-	5	-	12
Total Commercial	**42,696**	**41,598**	**939**	**31,282**	**22,342**	**939**	**638**	**33**	**117**	**309**
Private Individuals - Housing Loans	93	87	6	93	90	6	-	-	-	1
Private Individuals - Other	2,256	2,253	1	2,248	1,388	1	1	11	7	17
Total Public	**45,045**	**43,938**	**946**	**33,623**	**23,820**	**946**	**639**	**44**	**124**	**327**
Banks Outside of Israel	10,047	10,047	122	5,752	5,359	-	-	1	-	3
Governments Outside of Israel	2,046	2,046	30	23	23	-	-	-	-	-
Total Lending Activity Outside of Israel	**57,138**	**56,031**	**1,098**	**39,398**	**29,202**	**946**	**639**	**45**	**124**	**330**
Total	**229,474**	**221,565**	**6,803**	**188,102**	**129,668**	**6,626**	**2,817**	**164**	**288**	**2,224**
Excluding balances classified as assets and liabilities held for sale – see Note 8A	4,879	-	3	2,815	2,690	3	3	-	-	7

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, and guarantees and liabilities on account of clients in an amount of NIS 129,668, 35,661, 466, 4,596, 59,083 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Including acquisition groups in an amount of NIS 480 millions.

(7) Including mortgage backed securities in the amount of NIS 3,976 millions, issued by GNMA and in the amount of NIS 4,636 millions, issued by FNMA and FHLMC.

(8) Including mainly municipal bonds and bonds of states in the U.S.

(9) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,798 million.

(10) Credit risk, the credit rating thereof at date of reporting matches the credit rating for the granting of new credit in accordance with the Bank's policy of the Bank.

SCHEDULE "E" - CREDIT RISK CLASSIFIED BY ECONOMIC SECTORS ON A CONSOLIDATED BASIS (CONTINUED)

	December 31, 2013								
	Total Credit Risk[1]		Debts[2] and off-balance sheet Credit Risk (excluding Derivatives)[3]						
							Credit Losses[4]		
	Total[10]	Problematic[5]	Total	Of which: Debts[2]	Problematic[5]	Impaired	Annual Credit Loss Expenses	Net Accounting Write-Offs Recognized during the year	Balance of Allowance for Credit Losses
									in NIS millions
Lending Activity in Israel									
Agriculture	994	41	992	787	42	25	1	4	22
Industry	[11]15,981	1,546	[11]15,781	11,492	1,518	707	233	72	409
Construction and Real Estate - Construction	[7]13,880	618	13,860	5,696	618	332	(6)	16	162
Construction and Real Estate - Real Estate Activity	10,030	764	9,968	8,273	764	591	55	12	147
Electricity and Water	2,991	21	2,236	1,754	21	9	-	2	5
Commerce	14,382	907	14,220	11,583	907	296	160	32	288
Hotels, Hotel Services and Food	2,002	259	2,001	1,712	259	247	3	3	18
Transportation and Storage	3,172	71	3,108	2,451	64	32	23	16	31
Communication and Computer Services	2,320	354	2,142	1,647	349	195	5	3	38
Financial Services	9,836	292	7,887	6,566	291	147	(48)	(19)	131
Other Business Services	6,498	131	6,451	4,710	132	86	19	18	79
Public and Community Services	2,215	24	2,212	1,559	24	11	(1)	1	13
Total Commercial	**84,301**	**5,028**	**80,858**	**58,230**	**4,989**	**2,678**	**444**	**160**	**1,343**
Private Individuals - Housing Loans	21,045	471	21,045	19,928	471	-	31	1	254
Private Individuals - Other	38,797	347	38,770	18,802	346	95	-	41	341
Total Public	**144,143**	**5,846**	**140,673**	**96,960**	**5,806**	**2,773**	**475**	**202**	**1,938**
Banks in Israel	[11]2,500	-	[11]1,186	1,142	-	-	-	-	1
Israeli Government	28,020	-	2,195	1,806	-	-	-	-	-
Total Lending Activity in Israel	**174,663**	**5,846**	**144,054**	**99,908**	**5,806**	**2,773**	**475**	**202**	**1,939**
Lending Activity Outside of Israel									
Agriculture	185	-	185	167	-	-	-	-	2
Industry	6,899	77	6,869	3,798	77	5	(39)	1	50
Construction and Real Estate - Construction	863	361	853	814	361	360	7	104	43
Construction and Real Estate - Real Estate Activity	7,091	714	7,002	5,281	707	500	-	13	68
Electricity and Water	401	-	394	356	-	-	(1)	-	2
Commerce	5,456	136	5,454	3,725	136	136	56	114	50
Hotels, Hotel Services and Food	896	133	896	893	133	133	2	-	16
Transportation and Storage	1,017	46	1,010	802	46	46	19	-	41
Communication and Computer Services	187	25	183	127	25	25	11	-	13
Financial Services	11,668	[6]308	2,628	1,741	133	133	43	37	46
Of which: Federal agencies in the U.S. [8]	8,008	-	-	-	-	-	-	-	-
Other Business Services	1,871	76	1,855	1,316	76	26	(9)	12	29
Public and Community Services	[9]2,661	5	725	719	-	-	5	-	6
Total Commercial	**39,195**	**1,881**	**28,054**	**19,739**	**1,694**	**1,364**	**94**	**281**	**366**
Private Individuals - Housing Loans	79	6	79	79	6	-	-	-	1
Private Individuals - Other	1,813	10	1,810	1,215	10	10	13	13	13
Total Public	**41,087**	**1,897**	**29,943**	**21,033**	**1,710**	**1,374**	**107**	**294**	**380**
Banks Outside of Israel	9,923	-	6,089	5,861	-	-	(2)	-	2
Governments Outside of Israel	466	-	29	29	-	-	-	-	-
Total Lending Activity Outside of Israel	**51,476**	**1,897**	**36,061**	**26,923**	**1,710**	**1,374**	**105**	**294**	**382**
Total	**226,139**	**7,743**	**180,115**	**126,831**	**7,516**	**4,147**	**580**	**496**	**2,321**
Excluding balances classified as assets and liabilities held for sale – see Note 8A	4,131	3	2,196	2,065	3	3	-	-	5

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, and guarantees and liabilities on account of clients in an amount of NIS 126,831, 40,457, 102, 4,088, 54,661 million, respectively.

(2) Credit to the Public, Credit to Governments, deposits with banks and other debts, excluding investments in bonds and securities borrowed or purchased under resale agreements.

(3) Credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, excluding in respect of derivative instruments.

(4) Including in respect of off-balance sheet credit instruments (stated in the balance sheet under "Other liabilities").

(5) Balance sheet and off-balance sheet credit risk, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which an allowance is made according to the extent of arrears, and housing loans in respect of which no allowance is made according to the extent of arrears, and are in arrears of 90 days or more.

(6) Includes problematic credit risk due to certain bonds issued by banking holding corporations (TRUPS), which were held by a subsidiary in an amount of NIS 176 million.

(7) Including acquisition groups in an amount of NIS 760 millions.

(8) Including mortgage backed securities in the amount of NIS 2,026 millions, issued by GNMA and in the amount of NIS 5,982 millions, issued by FNMA and FHLMC.

(9) Including mainly municipal bonds and bonds of states in the U.S.

(10) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,682 million.

(11) Reclassified - improving classification in different sectors.

SCHEDULE "F" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1]

A. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of shareholders' equity, the lower of the two - 2014

	December 31, 2014		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	1,419	2,878	523
United Kingdom	-	2,596	133
Switzerland	-	795	525
PIIGS[5]	-	6	13
Other	304	4,079	2,953
Total exposure to foreign countries	**1,723**	**10,354**	**4,147**
Of which - Total exposure to LDC countries	105	863	634

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, Problematic credit risk and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collateral that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Ireland, Italy, Greece and Spain.

B. Information regarding countries the amount of exposure in respect of each amounts to between 0.75% and 1% of total consolidated assets or between 15% and 20% of shareholders' equity, whichever is lower.

As of December 31, 2014 the Bank had no such exposure. It is noted, that as of December 31, 2013, total exposure to foreign countries, includes an exposure on a consolidated basis to Switzerland, in the amount of NIS 1,894 million.

C. Information regarding exposure to foreign countries having liquidity problems, for the year ending December 31, 2014:

1. Information regarding exposure to foreign countries

As of December 31, 2014 the Bank had no such exposure.

An exposure to Ireland was presented as of December 31, 2013, in the amount of NIS 56 million. Ireland is no longer defined as a foreign country having liquidity problems, therefore no balance is presented in its respect.

2. Information regarding balance-sheet exposures that have undergone restructuring

As of December 31, 2014, the Bank had no such exposure.

December 31, 2014									
Balance sheet exposure(2)						Off-balance sheet exposure(2)(3)			
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure(2)	
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
In NIS millions									
30,050	19,945	10,105	14,925	428	131	8,044	1	4,653	167
812	49	763	3,492	269	191	31	-	2,064	665
1,308	277	1,031	2,351	17	17	72	-	1,092	228
-	-	-	19	2	2	9	-	6	13
2,315	2,314	1	7,337	55	52	622	1	4,906	2,430
34,485	**22,585**	**11,900**	**28,124**	**771**	**393**	**8,778**	**2**	**12,721**	**3,503**
-	**-**	**-**	**1,602**	**2**	**-**	**162**	**-**	**1,023**	**579**

The item "Total LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Banking Management Directive No. 315 regarding "Supplementary provision for doubtful debts".

Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.

Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount).

SCHEDULE "F" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1] (CONTINUED)

D. Information regarding the total exposure to foreign countries and to countries where the total exposure to each country amounts to over 1% of total consolidated assets or over 20% of the Bank's equity, the lower of the two - 2013

	December 31, 2013		
	Balance sheet exposure[2]		
	Across the border balance sheet exposure		
The Country	To governments[4]	To banks	To others
	In NIS millions		
United States	1,270	[7]3,055	[6]901
United Kingdom	-	2,232	121
PIIGS[5]	-	58	22
Other	287	4,701	[6]3,179
Total exposure to foreign countries	**1,557**	**10,046**	**4,223**
Of which - Total exposure to LDC countries	146	728	659

Notes:

(1) Based on the final risk, net of the effect of guarantees, liquid collateral and credit derivatives.

(2) Balance sheet and off-balance sheet credit risk, commercial criticized exposure and impaired debts are presented before the impact of the allowance for credit losses and before the impact of collaterals that are deductible for the purpose of a borrower or a group of borrowers liability.

(3) Credit risk of off-balance sheet financial instruments as computed for the purpose of borrower indebtedness limitations.

(4) Governments, official institutions and central banks.

(5) Portugal, Ireland, Italy, Greece and Spain.

(6) Reclassified – classification between countries

(7) Reclassified - classification of balances to "local residents", following classification in a subsidiary.

December 31, 2013									
Balance sheet exposure[2]						Off-balance sheet exposure[2][3]			
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country								Across the border balance sheet exposure[2]	
Balance sheet exposure before deduction of local liabilities	Deduction in respect of local liabilities	Net balance sheet exposure after deduction of local liabilities	Total balance sheet exposure	Balance sheet problematic credit risk	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet problematic credit risk	Due up to one year	Due over one year
In NIS millions									
[7]26,191	16,993	9,198	[6]14,424	642	248	[6]6,761	-	4,395	[6][7]831
836	54	782	3,135	486	486	83	-	1,612	741
-	-	-	80	-	-	15	-	36	44
3,019	2,350	669	[6]8,836	85	84	[6]1,179	4	4,464	[6]3,703
30,046	**19,397**	**10,649**	**26,475**	**1,213**	**818**	**8,038**	**4**	**10,507**	**5,319**
-	**-**	**-**	**1,533**	**-**	**-**	**190**	**-**	**1,022**	**511**

The item "Total LDC countries" includes the total exposure to countries defined as less developed countries (LDC) in Proper Banking Management Directive No. 315 regarding "Supplementary provision for doubtful debts".
Balance sheet exposure to a foreign country includes across the border balance sheet exposure and balance sheet exposure of overseas extensions of the banking corporation to local resident customers; across the border balance sheet exposure includes balance sheet exposure of the banking corporation offices in Israel to residents of a foreign country and the balance sheet exposure of the overseas extensions of the banking corporation to customers who are not residents of the country in which the extension is located.
Balance sheet exposure of extensions of the banking corporations in a foreign country to local resident customers includes the balance sheet exposure of extensions of the banking corporation in that foreign country to residents of that country, net of the extensions liabilities (the deduction is performed up to the exposure amount)

E. Information regarding the balance-sheet exposure to foreign countries having liquidity troubles for the year ended December 31, 2013

1. Changes in the amount of balance sheet exposure to foreign countries having liquidity problems

	Balance sheet balances
	For the year ended December 31, 2013
	Ireland
	In NIS millions
Amount of exposure at the beginning of year	9
Changes in remaining exposure:	-
Added exposure	51
Amounts collected	(5)
Other changes (including provisions and write-offs)	1
Amount of exposure at period end	**56**

2. Information regarding balance-sheet exposures that have undergone restructuring

As of December 31, 2013, the Bank had no such exposure.

SCHEDULE "G" - CONDENSED CONSOLIDATED BALANCE SHEET - MULTI QUARTER DATA

	2014				2013			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Assets								
Cash and deposits with banks	31,694	23,149	24,769	26,197	25,319	22,758	19,795	22,328
Securities	37,353	39,477	39,191	39,541	41,325	47,124	48,832	48,140
Securities borrowed or purchased under resale agreements	466	953	658	624	102	312	69	632
Credit to the public	122,172	121,148	117,260	118,049	117,993	118,684	117,192	118,224
Provision for credit loss	(2,049)	(2,174)	(2,099)	(2,178)	(2,134)	(2,186)	(2,071)	(2,069)
Credit to the public, net	120,123	118,974	115,161	115,871	115,859	116,498	115,121	116,155
Credit to Governments	1,533	1,495	1,870	1,833	1,835	1,856	1,824	1,705
Investments in affiliated companies	142	141	138	139	1,668	1,822	1,775	1,757
Buildings and equipment	2,500	2,546	2,591	2,642	2,696	2,762	2,824	2,887
Intangible assets and goodwill	142	142	142	142	142	142	142	142
Assets in respect of derivative instruments	4,596	5,080	3,654	3,576	4,080	3,392	3,603	3,377
Other assets	3,505	3,227	3,593	3,215	3,277	3,349	3,216	3,010
Noncurrent assets held for sale	4,892	4,596	4,273	4,216	4,204	10	6	2
Total Assets	**206,946**	**199,780**	**196,040**	**197,996**	**200,507**	**200,025**	**197,207**	**200,135**

SCHEDULE "G" - CONDENSED CONSOLIDATED BALANCE SHEET - MULTI QUARTER DATA (CONTINUED)

	2014				2013			
Quarter	4	3	2	1	4	3	2	1
	In NIS millions							
Liabilities and Equity								
Deposits from the public	152,903	145,405	145,350	147,779	148,928	152,111	149,502	151,933
Deposits from banks	5,547	5,313	3,795	3,774	4,213	3,833	4,153	3,276
Deposits from the Government	872	969	953	1,007	972	1,019	1,004	1,062
Securities loaned or sold under buy-back arrangements	3,984	3,785	3,522	3,748	3,644	4,227	4,158	4,818
Subordinated capital notes	10,638	10,839	10,892	10,825	11,664	12,089	12,025	11,928
Liabilities in respect of derivative instruments	4,475	5,218	4,249	4,124	4,898	4,381	4,595	4,550
Other liabilities	10,235	10,355	10,253	9,957	9,719	9,834	9,479	10,315
Liabilities held for sale	4,651	4,295	3,996	3,940	3,931	-	-	-
Total liabilities	193,305	186,179	183,010	185,154	187,969	187,494	184,916	187,882
Equity capital attributed to the Bank's shareholders	13,243	13,214	12,716	12,534	12,233	12,228	11,991	11,948
Non-controlling rights in consolidated companies	398	387	314	308	305	303	300	305
Total equity	13,641	13,601	13,030	12,842	12,538	12,531	12,291	12,253
Total Liabilities and Equity	**206,946**	**199,780**	**196,040**	**197,996**	**200,507**	**200,025**	**197,207**	**200,135**

SCHEDULE "H" - CONSOLIDATED STATEMENT OF INCOME FOR EACH QUARTER - MULTI QUARTER DATA

	2014			
Quarter	4	3	2	1
	In NIS millions			
Interest income[(2)]	1,352	1,479	1,581	1,324
Interest expenses	313	418	481	306
Interest income, net	1,039	1,061	1,100	1,018
Credit loss expenses (reversal expenses)	84	40	(35)	75
Net interest income after credit loss expenses	**955**	**1,021**	**1,135**	**943**
Non-interest Income				
Non-interest financing income	163	148	114	124
Commissions[(2)]	668	650	637	631
Other income	(8)	48	27	52
Total non-interest income	**823**	**846**	**778**	**807**
Operating and other Expenses				
Salaries and related expenses	1,066	914	1,072	936
Maintenance and depreciation of buildings and equipment	309	306	299	298
Other expenses	396	254	261	260
Total operating and other expenses	**1,771**	**1,474**	**1,632**	**1,494**
Income before taxes	7	393	281	256
Provision for taxes (tax savings) on income	(5)	149	83	97
Income after taxes	12	244	198	159
Bank's share in income of affiliated companies, net of tax effect	4	3	5	[(1)(3)]15
Net income:				
Before attribution to non-controlling rights holders in consolidated companies	16	247	203	174
Attributed to the non-controlling rights holders in consolidated companies	(11)	(13)	(11)	(9)
Net income attributed to bank's shareholders	**5**	**234**	**192**	**165**
Earnings per share of NIS 0.1 par value (in NIS):				
Total earnings per share attributed to Bank's shareholders	**0.01**	**0.22**	**0.18**	**0.16**
Total number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869	1,053,869

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 D (3) to the financial statements.

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25) to the financial statements.

(3) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, see Note 6 D (4) to the financial statements.

SCHEDULE "H" - CONSOLIDATED STATEMENT OF INCOME FOR EACH QUARTER - MULTI QUARTER DATA (CONTINUED)

	2013			
Quarter	4	3	2	1
	In NIS millions			
Interest income	1,531	1,865	1,758	1,668
Interest expenses	460	771	717	624
Interest income, net	1,071	1,094	1,041	1,044
Credit loss expenses	123	171	141	145
Net interest income after credit loss expenses	**948**	**923**	**900**	**899**
Non-interest Income				
Non-interest financing income	116	90	236	190
Commissions	684	684	668	668
Other income	61	65	20	37
Total non-interest income	**861**	**839**	**924**	**895**
Operating and other Expenses				
Salaries and related expenses	921	889	933	876
Maintenance and depreciation of buildings and equipment	316	321	303	307
Other expenses	320	275	268	289
Total operating and other expenses	**1,557**	**1,485**	**1,504**	**1,472**
Income before taxes	252	277	320	322
Provision for taxes on income	51	47	89	118
Income after taxes	201	230	231	204
Bank’s share in income (loss) of affiliated companies, net of tax effect	[1](121)	56	42	68
Net income:				
Before attribution to non-controlling rights holders in consolidated companies	80	286	273	272
Attributed to the non-controlling rights holders in consolidated companies	(8)	(10)	(10)	(9)
Net income attributed to bank's shareholders	**72**	**276**	**263**	**263**
Earnings per share of NIS 0.1 par value (in NIS):				
Total earnings per share attributed to Bank's shareholders	**0.07**	**0.26**	**0.25**	**0.25**
Total number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869	1,053,869

Footnote:
(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 D (3) to the financial statements

CERTIFICATION

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2014 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors, to the audit committee of the Board of Directors, and to the finance committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Lilach Asher-Topilsky,
President & Chief Executive Officer

March 9, 2015

CERTIFICATION

I, Joseph Beressi, certify that:

1. I have reviewed the annual report of Israel Discount Bank Ltd. (hereinafter: "the Bank") for 2014 (hereinafter: "the Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations, changes in shareholders' equity and cash flows of the Bank as of, and for, the periods presented in this report;
4. Other officers of the Bank providing this certification and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"), and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiaries, is made known to us by others within the Bank and those entities, particularly during the period of preparing this report;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accepted accounting principles and directives and guidelines of the Supervisor of Banks;
   (c) Evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
   (d) Disclosed in the Report any change in the Bank's internal control over financial reporting that occurred during this quarter that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting.
5. The other officers of the Bank providing this certification and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's Auditors, to the Board of Directors, to the audit committee of the Board of Directors, and to the finance committee of the Board of Directors:
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

Nothing in that stated above derogates my responsibility or the responsibility of any other person under any law.

Joseph Beressi
Senior Executive Vice President
Chief Accountant

March 9, 2015

REPORT OF THE DIRECTORS AND MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Management of Israel Discount Bank Ltd. (hereinafter - "the Bank") are responsible for establishing and maintaining effective internal control over financial reporting (as defined in the public reporting instructions regarding "Directors' Report"). The Bank's internal control system has been designed to provide reasonable assurance to the Board of Directors and Management regarding the preparation and the fair presentation of financial statements published in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks. Regardless of the quality of their level of design, all internal control systems have inherent limitations. Therefore, even if these systems are determined effective, they can provide only a reasonable degree of assurance regarding the preparation and presentation of the financial report.

Management, under the supervision of the Board of Directors, maintains a comprehensive system of controls intended to ensure that transactions are made in accordance with authorization of Management, assets are protected and the accounting records are reliable. In addition, Management, under the supervision of the Board of Directors, takes the necessary actions to ensure that communication and information lanes are effective and monitor performance, including performance of internal control procedures.

Management, under the supervision of the Board of Directors, assessed the effectiveness of the Bank's internal control over financial reporting as of December 31, 2014, based on the framework set forth in the Internal Control model of the Committee Sponsoring Organizations of the Treadway Commission (COSO) since 1992. Based on that assessment, Management believes that as of December 31, 2014, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2014 has been audited by the Bank's independent auditors, Messrs. Somekh Chaikin and Ziv Haft, Certified Public Accountants, as stated in their report presented on page 341, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as of December 31, 2014.

March 9, 2015	Dr. Yossi Bachar Chairman of the Board of Directors	Lilach Asher-Topilsky President & Chief Executive Officer	Joseph Beressi Senior Executive Vice President Chief Accountant

FINANCIAL STATEMENTS 2014

Somekh Chaikin

REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD. - IN ACCORDANCE WITH THE PUBLIC REPORTING DIRECTIVE OF THE SUPERVISOR OF BANKS REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited the internal control over financial reporting of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of internal control over financial reporting, included in the accompanying Directors' and Management's reports on internal control over the attached financial reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the United States Public Company Accounting Oversight Board (PCAOB), regarding audit of internal control over financial reporting as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

The internal control of a bank over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks. The internal control of a bank over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets (including disposal thereof); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statement in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and directives and guidelines of the Supervisor of Banks, and that the Bank's receipts and expenditures are being made only in accordance with authorizations of the Bank's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition (including disposal) of the bank's assets that could have a material effect on the financial statements.

Somekh Chaikin

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by COSO 1992.

We also have audited, in accordance with accepted auditing standards in Israel and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks, the Balance sheets – of the Bank and consolidated – as at December 31, 2014 and 2013, and the statements of Income, the Statements of Comprehensive income, the Statements of Changes in Shareholders Equity and the Statements of Cash Flows – of the Bank and consolidated – for each of the three years in the period ended December 31, 2014, and our report dated March 9, 2015, expressed an unqualified opinion on these financial statements as well as calling attention to Note 19 C items 12.15 and 13 concerning motions for the approval of certain lawsuits as class action suits and regarding other claims against the Bank and investee companies and to that stated in Note 34C(3) with respect to the notice given by the State Attorney Office, according to which, the case involving investigation of suspicions against ICC had been submitted for perusal by the State Attorney. According to the said Note, at this stage, the Managements of ICC and the Bank are unable to assess the results of the proceedings that would be instituted, if at all, and their consequences on ICC.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 9, 2015

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Somekh Chaikin

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AUDITORS' REPORT TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD. - ANNUAL FINANCIAL STATEMENTS

We have audited the financial statements of Israel Discount Bank Limited (hereinafter: "the Bank") and the consolidated financial statements of the Bank and its consolidated subsidiaries: Balance sheets as at December 31, 2014 and December 31, 2013, statements of income, statements of comprehensive income, statement of changes in shareholders' equity and statements of cash flows for the three years, the last of which ended December 31, 2014. These financial statements are the responsibility of the Bank's Board of Directors and Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including those prescribed under the Israeli Auditors' Regulations (Auditor's Mode of Performance), 1973 and certain auditing standards applied in the audit of banking corporations as determined by directives and guidelines of the Supervisor of Banks. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors and Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position - of the Bank and consolidated - as at December 31, 2014 and 2013, and the results of operations, the changes in shareholders' equity and cash flows - of the Bank and consolidated - for the three years the last of which ended December 31, 2014, according to generally accepted accounting principles in Israel (Israeli GAAP). Furthermore, in our opinion, the abovementioned financial statements were prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we call attention to the Note 19 C items 12.15 and 13 concerning motions for the approval of certain lawsuits as class action suits against the Bank and investee companies and to that stated in Note 34C(3) with respect to the notice given by the State Attorney Office, according to which, the case involving investigation of suspicions against ICC had been submitted for perusal by the State Attorney. According to the said Note, at this stage, the Managements of ICC and the Bank are unable to assess the results of the proceedings that would be instituted, if at all, and their consequences on ICC.

We have also audited in accordance with standards prescribed by the United States Public Company Accounting Oversight Board (PCAOB) regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, the internal control of the Bank over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 1992), and our report of March 9, 2015, included an unqualified opinion on the effectiveness of internal control over financial reporting of the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)

Ziv Haft
Certified Public Accountants (Isr.)

March 9, 2015

BALANCE SHEET AS AT DECEMBER 31

		Consolidated		The Bank	
	Notes	2014	2013	2014	2013
		in NIS millions			
Assets					
Cash and deposits with banks	2,15	31,694	25,319	25,266	20,196
Securities (of which: 5,099, 6,047, 4,030, 4,558 respectively, pledged to lenders)	3,15	37,353	41,325	20,891	22,612
Securities borrowed or purchased under resale agreements		466	102	466	102
Credit to the public	4	122,172	117,993	78,301	79,493
Provision for credit loss	4	(2,049)	(2,134)	(1,359)	(1,436)
Credit to the public, net		120,123	115,859	76,942	78,057
Credit to Governments	5	1,533	1,835	1,510	1,806
Investment in investee companies (consolidated – affiliated companies)	6	142	1,668	7,842	9,006
Buildings and equipment	7	2,500	2,696	1,767	1,957
Intangible assets and goodwill	7a	142	142	-	-
Assets in respect of derivative instruments	20	4,596	4,080	4,383	4,012
Other assets	8	3,505	3,277	1,997	1,724
Assets held for sale	8a	4,892	4,204	2	8
Total Assets		**206,946**	**200,507**	**141,066**	**139,480**
Liabilities and Equity					
Deposits from the public	9	152,903	148,928	110,980	111,178
Deposits from banks	10	5,547	4,213	3,473	2,337
Deposits from the Government		872	972	148	216
Securities loaned or sold under repurchase agreements		3,984	3,644	-	-
Subordinated capital notes	11	10,638	11,664	3,402	3,626
Liabilities in respect of derivative instruments	20	4,475	4,898	4,230	4,691
Other liabilities[(1)]	12	10,235	9,719	5,590	5,199
Liabilities held for sale	8a	4,651	3,931	-	-
Total liabilities		193,305	187,969	127,823	127,247
Equity capital attributed to the Bank's shareholders	13	13,243	12,233	13,243	12,233
Non-controlling rights in consolidated companies		398	305	-	-
Total equity		13,641	12,538	13,243	12,233
Total Liabilities and Equity		**206,946**	**200,507**	**141,066**	**139,480**

Footnote:

(1) Of which NIS 170 million and NIS 184 million in the consolidated, and NIS 135 million and NIS 153 million in the bank, as of December 31, 2014, and December 31, 2013, provision for credit loss in respect of off-balance sheet credit instruments, respectively.

The notes to the financial statements are an integral part thereof.

Date of approval of the financial statements:
March 9, 2015

Dr. Yossi Bachar
Chairman of the Board of Directors

Lilach Asher-Topilsky
President & Chief Executive Officer

Joseph Beressi
Senior Executive Vice President, Chief Accountant

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31

		Consolidated		
	Notes	2014	2013	2012
		in NIS millions		
Interest income[2]		5,736	6,822	7,847
Interest expenses		1,518	2,572	3,388
Interest income, net	23	4,218	4,250	4,459
Credit loss expenses	4a	164	580	726
Net interest income after credit loss expenses		**4,054**	**3,670**	**3,733**
Non-interest Income				
Non-interest financing income	24	549	632	352
Commissions[2]	25	2,586	2,704	2,685
Other income	26	119	183	220
Total non-interest income		**3,254**	**3,519**	**3,257**
Operating and other Expenses				
Salaries and related expenses	27	3,988	3,619	3,444
Maintenance and depreciation of buildings and equipment		1,212	1,247	1,248
Amortization of intangible assets		-	-	10
Other expenses	28	1,171	1,152	1,124
Total operating and other expenses		**6,371**	**6,018**	**5,826**
Income before taxes		937	1,171	1,164
Provision for taxes on income	29	324	305	407
Income after taxes		613	866	757
Bank's share in income of affiliated companies, net of tax effect	6b	[1][3]27	[1]45	[1]104
Net income:				
Before attribution to non-controlling rights holders in consolidated companies		640	911	861
Attributed to the non-controlling rights holders in consolidated companies		(44)	(37)	(59)
Net income attributed to the Bank's shareholders		**596**	**874**	**802**
Earnings per share of NIS 0.1 par value (in NIS)	13,36			
Total earnings per share attributed to the Bank's shareholders		**0.57**	**0.83**	**0.76**

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 D (3).

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25)

(3) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, see Note 6 D (4).

The notes to the financial statements form an integral part thereof.

STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31 (CONTINUED)

		The Bank		
	Notes	2014	2013	2012
		in NIS millions		
Interest income[2]		3,448	4,494	5,286
Interest expenses		1,023	1,855	2,491
Interest income, net	23	2,425	2,639	2,795
Credit loss expenses	4a	99	426	589
Net interest income after credit loss expenses		**2,326**	**2,213**	**2,206**
Non-interest Income				
Non-interest financing income	24	427	379	138
Commissions[2]	25	1,224	1,312	1,268
Other income	26	164	220	233
Total non-interest income		**1,815**	**1,911**	**1,639**
Operating and other Expenses				
Salaries and related expenses	27	2,629	2,414	2,219
Maintenance and depreciation of buildings and equipment		855	906	903
Other expenses	28	391	447	427
Total operating and other expenses		**3,875**	**3,767**	**3,549**
Income before taxes		266	357	296
Provision for taxes on income	29	105	69	121
Income after taxes		161	288	175
Bank's share in income of affiliated companies, net of tax effect	6b	[1][3]435	[1]586	[1]627
Net income attributed to bank's shareholders		**596**	**874**	**802**

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6 D (3).

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25).

(3) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, see Note 6 D (4).

The notes to the financial statements are an integral part thereof.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31[1]

	2014	2013	2012
	in NIS millions		
Net income before attribution to non-controlling rights holders in consolidated companies	640	911	861
Net income attributed to non-controlling rights holders in consolidated companies	(44)	(37)	(59)
Net income attributed to the Bank's shareholders	**596**	**874**	**802**
Other comprehensive income (loss), before taxes:			
Adjustments, net, for presentation of available-for- sale securities at fair value	190	(407)	673
Financial statements translation adjustments, net after hedge effects	336	(223)	(77)
Net income (loss) in respect of cash flows hedge	5	7	(3)
Other comprehensive income (loss), before taxes	**531**	**(623)**	**593**
Effect of attributed taxes	(109)	167	(259)
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**422**	**(456)**	**334**
Comprehensive income, before attribution to non-controlling interests holders in consolidated companies	1,062	455	1,195
Comprehensive income, attributed to non-controlling interests holders in consolidated companies	(44)	(37)	(59)
Comprehensive income, attributed to the Bank's shareholders	**1,018**	**418**	**1,136**

Footnote:

(1) See Note 33.

The notes to the financial statements are an integral part thereof.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Balance at December 31, 2011
Net Income for the year
Dividend to non-controlling rights holders in consolidated companies
Option expiration[1]
Other comprehensive income after tax effect
Balance at December 31, 2012
Net Income for the year
Provision for tax on an investment in an affiliated company in respect of items recorded in the equity
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive loss after tax effect
Balance at December 31, 2013
Net income for the year
Sale of shares in subsidiary companies to non-controlling interests holders[2]
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive income after tax effect
Balance at December 31, 2014

Footnotes:
(1) In respect of 1,438,272 expired option warrants.
(2) For details, see Note 34 A.
The notes to the financial statements are an integral part thereof.

	Capital reserves									
	Paid up share capital	Share premium	Benefit in respect of share-based payment transactions	Other	Total paid up share capital and reserves	Accumulative other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling rights holders in consolidated subsidiaries	Total equity
	in NIS millions									
	665	3,428	6	212	4,311	(10)	6,401	10,702	319	11,021
	-	-	-	-	-	-	802	802	59	861
	-	-	-	-	-	-	-	-	(82)	(82)
	-	6	(6)	-	-	-	-	-	-	-
	-	-	-	-	-	334	-	334	-	334
	665	**3,434**	**-**	**212**	**4,311**	**324**	**7,203**	**11,838**	**296**	**12,134**
	-	-	-	-	-	-	874	874	37	911
	-	-	-	-	-	-	(23)	(23)	-	(23)
	-	-	-	-	-	-	-	-	(28)	(28)
	-	-	-	-	-	(456)	-	(456)	-	(456)
	665	**3,434**	**-**	**212**	**4,311**	**(132)**	**8,054**	**12,233**	**305**	**12,538**
	-	-	-	-	-	-	596	596	44	640
	-	-	-	-	-	-	(8)	(8)	91	83
	-	-	-	-	-	-	-	-	(42)	(42)
	-	-	-	-	-	422	-	422	-	422
	665	**3,434**	**-**	**212**	**4,311**	**290**	**8,642**	**13,243**	**398**	**13,641**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
Cash Flows from Operating Activities						
Net profit before attribution to non-controlling rights holders in consolidated companies	640	911	861	596	874	802
Adjustments necessary to present cash flows from current operations:						
Bank's share in undistributed income of affiliated companies	(27)	(159)	(202)	(441)	(718)	(758)
Depreciation of buildings and equipment (including impairment in value)	579	619	590	397	449	449
Amortization of intangible assets	-	-	10	-	-	-
Provision for impairment of securities	122	33	28	67	3	-
Credit loss expenses	807	1,036	1,167	568	719	883
Loss (gain) on sale of credit portfolio	-	(30)	1	-	(28)	-
Gain on sale of available-for-sale and held to maturity securities	(388)	(511)	(399)	(297)	(327)	(219)
Realized and non realized gain from adjustment to fair value of trading securities	(37)	(10)	(32)	(32)	(7)	(27)
Provision for impairment of an investee company(1)	-	185	113	-	185	113
Gain from realization at an investment in investee companies	-	(23)	-	-	-	-
Gain on realization of buildings and equipment	(5)	-	(27)	(5)	(1)	(7)
Net deferred taxes	39	(214)	44	(23)	(110)	(21)
Severance pay – increase in excess of provision over the deposits	128	(42)	7	39	(10)	20
Net change in current assets:						
Deposits with banks	(1,127)	(401)	587	228	(143)	841
Credit to the public, net	(5,314)	496	(2,044)	426	2,309	(357)
Credit to the Government	302	(163)	(56)	296	(192)	2
Securities borrowed or purchased under resale agreements	(364)	285	(242)	(364)	285	(242)
Assets in respect of derivative instruments	(516)	(353)	(484)	(371)	(491)	(479)
Trading securities	804	773	(300)	778	756	(687)
Other assets	(1,094)	(282)	202	(182)	(416)	298
Noncurrent assets held for sale	-	(977)	-	-	-	-
Effect of changes in exchange rate on cash and cash equivalent balances	262	(185)	(44)	334	(180)	(57)
Accrual differences included in investment and financing activities	(1,218)	1,828	517	(218)	384	(14)
Net change in current liabilities:						
Deposits from banks	1,332	508	(529)	1,136	(781)	(1,273)
Deposits from the public	3,990	90	(1,528)	(183)	(1,407)	(4,352)
Deposits from the Government	(100)	(33)	80	(68)	(7)	2
Securities borrowed or purchased under resale agreements	340	(1,808)	(1,248)	-	-	-
Liabilities in respect of derivative instruments	(420)	197	143	(461)	438	79
Other liabilities	1,175	14	217	339	154	89
Adjustments in respect of exchange rate differences on current assets and liabilities	67	(73)	10	-	-	-
Net Cash Flows from Operating Activities (to operating activities)	**(23)**	**1,711**	**(2,558)**	**2,559**	**1,738**	**(4,915)**

Footnote:
(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 6D (3).
The notes to the financial statements are an integral part thereof.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31 (CONTINUED)

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
Cash Flows from Investing Activities						
Acquisition of held-to-maturity bonds	(102)	(1,125)	(1,788)	-	(480)	(407)
Proceeds from redemption of held-to-maturity bonds	579	658	976	226	-	-
Acquisition of available-for-sale securities	(12,697)	(21,960)	(23,826)	(8,219)	(11,771)	(10,551)
Proceeds from sale of available-for-sale securities	11,627	14,083	15,157	7,129	8,366	5,881
Gain on sale of credit portfolio	123	547	55	115	509	-
Proceeds from redemption of available-for-sale securities	7,157	8,819	7,107	3,783	4,316	1,707
Additional investment in investee companies	-	(24)	1	-	12	(86)
Proceeds of the sale of investments in investee companies and dividend	40	53	-	491	330	712
Acquisition of buildings and equipment	(359)	(396)	(492)	(197)	(228)	(332)
Proceeds from sale of buildings and equipment	11	4	54	11	1	16
Net Cash Flows from Investing Activities (to investing activities)	**6,379**	**659**	**(2,756)**	**3,339**	**1,055**	**(3,060)**
Cash Flows from Financing Activities						
Issuance of subordinated capital notes	-	-	440	-	-	290
Redemption of subordinated capital notes	(1,066)	(884)	(647)	(267)	(465)	(274)
Dividend to non-controlling rights holders in consolidated companies	(42)	(28)	(82)	-	-	-
Net cash flows from Financing Activities	**(1,108)**	**(912)**	**(289)**	**(267)**	**(465)**	**16**
Increase (decrease) in cash	5,248	1,458	(5,603)	5,631	2,328	(7,959)
Cash balance at beginning of period	23,765	22,265	27,910	19,338	16,830	24,732
Effect of changes in exchange rate on cash and cash equivalent balances	-	42	(42)	(334)	180	57
Cash balance at end of period	**29,013**	**23,765**	**22,265**	**24,635**	**19,338**	**16,830**
Interest and taxes paid and/or received						
Interest received	6,372	6,944	7,457	3,961	4,694	5,587
Interest paid	(2,191)	(2,763)	(3,554)	(1,546)	(2,082)	(1,912)
Dividends received	107	80	19	441	338	195
Taxes on income paid	(440)	(474)	(519)	(290)	(296)	(228)

The notes to the condensed financial statements are an integral part thereof.

ANNEX - Non-cash asset and liability activity during the reported year:

	2014	2013	2012
	in NIS millions		
The Bank:			
Purchase of fixed assets	11	25	6
Lending of securities	(7)	538	240
Consolidated:			
Purchase of fixed assets	15	28	12
Lending of securities	(121)	798	240

The notes to the financial statements are an integral part thereof.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

A. General

1) Israel Discount Bank Ltd. (hereinafter: "the Bank") is a banking corporation incorporated in Israel.
2) The financial statements are prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and in accordance with directives and guidelines of the Supervisor of Banks regarding the preparation of a banking corporation's annual financial statements.
3) The Notes to the financial statements relate to the Bank's financial statements and to the consolidated financial statements of the Bank and its subsidiaries, except where it states that the note relates to the Bank only, or to the consolidated statements only.
4) The financial statements were approved for publication by the Bank's Board of Directors on March 9, 2015.

B. Definitions

In these financial statements –

International Financial Reporting Standards (hereinafter: "IFRS") – standards and interpretations adopted by the International Accounting Standards Board (IASB) that include International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), including interpretations of such standards determined by the International Financial Reporting Interpretation Committee (IFRIC), or interpretations determined by the Standing Interpretation Committee (SIC), respectively.

Generally Accepted Accounting Principles by banks in the U.S. – Accounting principles which U.S. banks traded in the U.S. are required to adopt. These principles have been determined by the bank supervisory authorities in the U.S., the U.S. Securities and Exchange Commission, the U.S. Financial Accounting Standards Board and additional factor in the U.S., and which are being implemented according to a hierarchy determined by the U.S. Financial Accounting Standard FAS 168 (ASC 105-10), the "codification of accounting standards by the U.S. Financial Accounting Standards Board and the hierarchy of Generally Accepted Accounting Principles". In addition, the Supervisor of Banks has clarified that despite the hierarchy determined by FAS 168, any position announced publicly by the bank supervisory authorities in the U.S., or by a team of the bank supervisory authorities in the U.S., regarding the manner of implementation of generally accepted accounting principles in the U.S., shall be deemed a Generally Accepted Accounting Principle by banks in the U.S..

"Interested party" - as defined in Section 1 of the Securities Law, 1968.

"Related party" – As defined in IAS-24 regarding "Related party disclosures", excluding an interested party.

"Consolidated subsidiaries" - Companies the financial statements of which are fully consolidated, directly or indirectly, with those of the Bank.

"Affiliated companies" - companies, other than consolidated subsidiaries and including partnerships, the investment in which is included in the financial statements, either directly or indirectly, on the equity basis.

"Investee companies" - consolidated subsidiaries and affiliated companies.

"CPI" - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

"Adjusted amounts" - Amounts in nominal historical terms adjusted to the CPI of December 2003, in accordance with the provisions of Opinions Nos. 23 and 36 of the Institute of Certified Public Accountants in Israel;

"Adjusted financial reporting" - Financial reporting in adjusted values based on changes in the general purchasing power of the Israeli currency, in accordance with the provisions of Opinions of the Institute of Certified Public Accountants in Israel.

"Reported amounts" - Adjusted amounts to date of transition (December 31, 2003), together with nominal amounts which were added subsequent to date of transition, and less amounts which were deducted after that date.

"Cost" - cost in reported amounts.

"Overseas extensions " - consolidated subsidiaries and branches abroad.

"Functional currency" - the currency of the principal business environment in which the Bank operates: generally, it is the currency of the environment in which the corporation generates and spends most of the cash.

"Presentation currency" - the currency in which the financial statements are presented.

"Fair value" – the price that would have been received on the sale of an asset or the price that would have been paid upon the transfer of a liability in an orderly transaction between participants in the market at date of measurement, see also item D 7 below.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis for the preparation of the financial statements

1. Principles of financial reporting

The financial statements have been prepared according to the following principles:

- Issues within the core banking business - in accordance with the directives and guidelines of the Supervisor of Banks and in accordance with generally accepted accounting principles applying to banks in the United States that had been adopted within the framework of the public reporting directives of the Supervisor of Banks.
- Issues outside the core banking business - in accordance with generally accepted accounting principles in Israel and in accordance with certain International Financial Reporting Standards (IFRS), all according to the directives and guidelines of the Supervisor of Banks on such matters.

The international standards are being applied in accordance with the following principles:

- In cases where no specific reference exists in the Standards or in interpretations of material issues or where several alternatives exist for treating a material issue, the Bank acts according to specific implementation guidelines determined by the Supervisor of Banks;
- In cases where a material issue is not addressed in the international standards or in the implementation directives of the Supervisor, the Bank treats the matter in accordance with generally accepted accounting principles in U.S. banks that specifically apply to such issues;
- In cases where reference exists in an international standard to another international standard that has been adopted by the public reporting instructions, the Bank acts in accordance with the provisions of that other standard and the related guidelines of the Supervisor of Banks;
- In cases where reference exists in an international standard to another international standard that has not been adopted by the public reporting instructions, the Bank acts in accordance with the public reporting instructions and in accordance with generally accepted accounting principles in Israel;
- In cases where an international standard includes reference to a definition of a term that is defined in the public reporting instructions, then the reference to the definition in the instructions shall replace the original reference.

2. Functional Currency and Presentation Currency

The financial statements are presented in New Israel Shekels (NIS), which is the Bank`s functional currency, being rounded off to the nearest NIS million, except where otherwise stated. The NIS is the currency representing the principal economic environment in which the Bank operates. For details regarding the functional currencies of banking overseas extensions, see D 1.2, below.

3. Basis of measurement

The financial statements have been prepared on the basis of historical cost except for the following assets and liabilities:

- Derivative financial instruments and other financial instruments measured at fair value through profit and loss (such as: investment in securities included in the trading portfolio);
- Financial instruments classified as available for sale;
- Liabilities in respect of share based payments to be settled in cash;
- Non-current assets held for sale and a group of assets held for sale;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities in respect of employee benefits;
- Investments in affiliated companies.

The value of non-monetary assets and capital items measured by the historical cost basis, has been adjusted to changes in the CPI until December 31, 2003, since until that date the Israeli economy had been considered a hyper-inflationary economy. Beginning with January 1, 2004, the Bank prepares its financial statements in reported amounts.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Use of estimates

4.1 General. In preparing the financial statements in accordance Israeli GAAP and with directives and guidelines of the Supervisor of Banks, the Management of the Bank and of the investee companies are required to use discretion and apply estimates, evaluations and assumptions that affect the implementation of the accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from such estimates.

Upon the formation of accounting estimates applied in the preparation of financial statements, the Bank's Management is required to make assumptions with respect to circumstances and events involving significant uncertainty. When considering such estimates, the Bank's Management bases itself upon past experience, various facts, external factors and reasonable assumptions according to the circumstances applying to each estimate.

The estimates as well as the underlying assumptions are being reviewed on a current basis. Changes in accounting estimates are recognized in the period in which the estimates were changed and in each affected future period.

4.2 Change in estimate. In the second quarter of 2014, the Bank`s Management made a new assessment of the expected rate of increase in payroll for the purpose of computing the actuarial liability in respect of employee rights, so that the average rate of real-term payroll increase was estimated at 1.8% compared with 2.5% as had been estimated in the past. The assessed rate, as stated, is based upon an examination of the real-term increase in payroll in the last five years and it agrees with the expectations of the Bank's Management as to the future rate of increase in payroll. As a result of the aforesaid change, the provision for employee rights as of June 30, 2014 was reduced by NIS 111 million.

5. Initial implementation of accounting standards, updates of accounting standards and Directives of the Supervisor of Banks

As from January 1, 2014, the Bank implements accounting standards and directives as detailed hereunder:

(1) Instructions regarding "the adoption of accounting principles accepted by U.S. banks in the matter of the measurement of interest income" (see item D 25 below).

(2) Instruction in the matter of "Reporting amounts that had been reclassified out of accumulated other comprehensive income" (see item D 26 below);

Moreover, as from the 2014 annual report, the Bank applies the following instructions:

(3) Instruction in the matter of "group allowance in respect of credit to private individuals" (see item D 4.3 below);

(4) A change in the reporting to the public directives in the matter of "group allowance for credit losses" (see item D 4.4 below).

The Bank's accounting policy, as detailed in Item D below, combines the new accounting policy in respect of the implementation of the said standards and directives, and presents the manner and effect of their initial implementation, if at all.

D. Accounting policy applied in the preparation of the financial statements

1. Foreign currency and linkage

1.1 Assets (except for investments in investee companies, buildings and equipment) and liabilities are stated in the balance sheet as follows:

- Those in foreign currency or linked thereto, are presented at representative exchange rates published by the Bank of Israel at the balance sheet date, or at a different date, in accordance with the terms of the relevant transactions.
- Those linked to the CPI or to other indices, are presented in the balance sheet according to the latest known index on the balance sheet date.
- Those optionally linked, are stated in accordance with their related terms ruling on the balance sheet date.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.2 The effects of changes in foreign exchange rates:

Foreign currency transactions. Transactions in foreign currency are translated into the Bank's relevant functional currencies and its extensions on the basis of the exchange rates ruling at dates of the transactions. Financial assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency in accordance with the exchange rate ruling on that date. The exchange rate difference in respect of financial items is the difference between the amortized cost stated in the functional currency at the beginning of the year, adjusted to the effective interest and payments during the year, and the amortized cost stated in foreign currency and translated using the year-end exchange rate.

Non-financial assets and liabilities denominated in foreign currency and measured according to fair value are translated into the functional currency according to the exchange rate ruling on the date on which fair value has been determined. Non-financial items stated in foreign currency and measured according to historical cost are translated according to the exchange rate ruling at the date of the transaction.

Exchange rate differences stemming from translation to the functional currency are recognized in the statement of income, except for the following differences which are recognized in other comprehensive income, stemming from the translation of: capital financial instruments classified as available for sale (except in cases of impairment when translation differences that had been recognized in other comprehensive income are reclassified to the statement of income); hedging of cash flow, in respect of the effective part of the hedge.

Foreign activity. Assets and liabilities of foreign activities, including goodwill and adjustments to fair value made upon acquisition, are translated into NIS on the basis of the exchange rates ruling at the reporting date. Income and expenses of foreign activities are translated into NIS on the basis of exchange rates ruling at dates of the transactions.

Exchange rate differences on translation are recognized in comprehensive income and presented under "financial statements translation adjustments".

Upon the realization of a foreign operation, the cumulative amount of exchange rate differences relating to that foreign operation, which had been recognized in comprehensive income, are to be reclassified to the statement of income in the period in which the profit or loss from the realization of the foreign operation is recognized.

Foreign banking extensions. Until 1994, certain foreign banking extensions had been classified as autonomous units and exchange differences on translation of their operations had been reflected directly in the equity as part of the translation adjustments reserve. Starting with 1995, in accordance with guidelines of the Supervisor of Banks, foreign banking extensions have been classified as "long-arm operations" (foreign operations the functional currency of which is identical to the bank's functional currency).

Functional currency of the Bank`s overseas extensions. The Bank implements IAS 21, except for the guidelines of the Standard in the matter of classification of banking extensions operating abroad as a foreign operation the functional currency thereof is different from the NIS.

According to IAS 21, in order to determine the functional currency, the banking corporation has to consider, among other things, the following factors:

- The currency that mainly affects the selling price of goods and services (as a general rule, it will be the currency in which the sale prices of goods and services are denominated and settled) and the currency of the country the competitive powers and regulation of which determine mainly the sale prices of goods and services;
- The currency that principally affect payroll costs, materials and other costs required for the supply of goods or services (as a general rule, this will be the currency in which such costs are denominated and settled);
- Other factors which may provide evidence for the functional currency of the entity, such as: the currency in which funds from financing operations are produced and the currency in which generally the proceeds from current operations are being maintained;
- Relations of the extension with the banking corporation - whether the overseas operation has a significant degree of independence, whether transactions of the extension with the banking corporation comprise a high or low rate of the overseas operations, whether the cash flows from the overseas operations have a direct effect upon the cash flows of the banking corporation and are available for transfer and whether the cash flows of the overseas operations are adequate to finance existing and anticipated liabilities of the overseas extension without additional finance being provided by the banking corporation.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Based on the examination of the said criteria, it has been determined that the functional currency of certain of the overseas extensions is not identical to the Shekel. Notwithstanding, changing the classification of an overseas banking extension into an extension in which functional currency is different than the Shekel, was conditioned in a pre-ruling by the Supervisor of Banks. Until such pre-ruling is obtained, the Bank continued to treat its overseas extensions as an overseas operation which functional currency is identical to the Shekel.

On February 14, 2012, the Supervisor of Banks published a circular letter in the matter of "The functional currency of extensions operating overseas", which included criteria determined by the Supervisor of Banks designed to determine the functional currency of a bank overseas extension. In determining the functional currency that is not NIS, a banking corporation is required to verify the existence/absence of each one of the criteria detailed below and document the results:

- The principal environment in which the extension produces and expends cash is a foreign currency environment, while the shekel operations of the extension are marginal;
- Autonomous attraction of customers by the extension – business transacted by the extension with banking corporation customers and/or parties related to them and/or parties referred to the extension by the banking corporation, is insignificant;
- The activity of the extension with the banking corporation and/or with parties related to the banking corporation is insignificant. Furthermore, there is no significant dependence of the extension on financing sources provided by the banking corporation or by parties related to the banking corporation;
- In essence, the activity of the extension is independent and is self sufficient and does not expand or complement the domestic activity of the group. Furthermore, the extension transacts its business and operations having a significant level of autonomy.

Where one of the said criteria does not significantly exist (example: business of the extension transacted with the Bank's customers is significant to the extent that it constitutes the major part of the extension's business), this would indicate that the extension should be treated as a foreign operation the functional currency of which is the shekel. In other situations, the decision will have to be made based on an examination of all the criteria.

The Bank has re-examined the classification of its overseas banking extensions based on the new criteria. In light of the new examination, the banking extension Bancorp was classified as from January 1, 2012, as foreign operations the functional currency of which is different from the shekel. The change in classification was treated by way of from now onwards as a change in the functional currency of such extension, so that currency translation differences were recognized as from January 1, 2012, in other comprehensive income and presented as part of "adjustments from translation".

1.3 The following are the representative rates of exchange and the CPI and their annual rates of change:

				Annual rate of change		
	2014	2013	2012	2014	2013	2012
CPI (in points):						
Known at balance sheet month	114.0	114.1	111.9	(0.1)	1.9	1.5
Representative exchange rate (in NIS) at the balance sheet date of the:						
U.S. Dollar	3.889	3.471	3.733	12.0	(7.0)	(2.3)
Euro	4.725	4.782	4.921	(1.2)	(2.8)	(0.4)

2. Principles of consolidation and the implementation of the equity method

2.1 Business combinations. A business combination is a transaction or another event in which the purchaser acquires control of another business or over a number of businesses. The Bank applies the "acquisition method" in respect of all business combinations.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Date of acquisition is the date on which the purchaser acquires control over the purchased entity. Control is the power to determine the financial and operational policies of a corporation in order to gain benefits from its operations. The purchaser controls the purchased entity when he is exposed or has rights to inputs that vary with his involvement in the purchased entity and he has the ability to influence such inputs by means of the power of influence he holds over the purchased entity. When examining control, actual rights held by the purchaser and by others are taken into consideration.

Business combinations that have occurred prior to January 1, 2011. In accordance with guidelines of the Supervisor of Banks, the Bank has adopted the relief determined in items C4 and C5 of IFRS 1, "Initial adoption of international financial reporting standards". Accordingly, the Bank did not apply IFRS 3 (2008) retroactively in respect of business combinations, acquisition of affiliated companies and acquisition of minority interests that had occurred prior to January 1, 2011. Therefore, with respect to acquisitions made prior to January 1, 2011, recognized goodwill and excess of cost created represent the amounts recognized in accordance with generally accepted accounting principles in Israel.

Subsidiary companies. These are entities controlled by the Bank, the financial statements of which are consolidated with those of the Bank from date of obtaining control until control is discontinued.

The accounting policies of the subsidiaries were changed, where necessary, in order to adjust them to the accounting policies adopted by the Bank.

Non-controlling rights in consolidated subsidiaries. These are rights representing the equity of a subsidiary company which may not be attributed, directly or indirectly, to the parent company and which include therein additional components, to the extent existing.

Non-controlling rights comprising instruments conferring ownership rights in the present and granting the owners thereof a share in the net assets in case of a liquidation (example: ordinary shares), are measured at fair value at date of the business combination. Other instruments matching the definition of non-controlling rights in consolidated subsidiaries (such as: options for ordinary shares) are measured at fair value or in accordance with other relevant IFRS rules.

Allocation of income and other comprehensive income items to shareholders. Income or losses and any component of other comprehensive income are allocated to the owners of a subsidiary company and to the non-controlling right holders in consolidated subsidiaries therein. Total income and other comprehensive income are allocated to the owners of a subsidiary company and to the non-controlling right holders in consolidated subsidiaries therein even if, as a result, the outstanding balance of the non-controlling rights in consolidated subsidiaries will be negative.

Transactions with non-controlling right holders in consolidated subsidiaries while maintaining control. Transactions with non-controlling right holders in consolidated subsidiaries while maintaining control are being treated as capital transactions. Any difference between the consideration received or paid and the change in the non-controlling rights is reflected directly in the equity.

Furthermore, upon a change in the ratio of holdings in a subsidiary company with no loss of control, the Bank reallocates the cumulative amounts recognized in other comprehensive income between the Bank's owners and the non-controlling interests holders.

2.2 Put options granted to non-controlling rights shareholders. In accordance with a letter of the Supervisor of Banks of March 18, 2012, regarding "The treatment of put options granted to non-controlling rights shareholders", the Bank implemented the IFRS guidelines in the matter. Accordingly, put options issued to non-controlling rights shareholders settled in cash or in another financial instrument (including options issued prior to January 1, 2012) have been recognized as a liability in the amount of the present value of the exercise price. In following periods, changes in the value of the option have been recognized in the statement of income by the effective interest method. Furthermore, the share of the Group in the profits of the investee company included the share of the non-controlling rights shareholders, to whom the Group had issued the put option.

The Supervisor's letter contained a relief, whereby, for the purpose of calculating the ratio of capital to risk components, a banking corporation will include in its capital base the change in the shareholders' equity stemming from the initial implementation of the guidelines included in the letter, not later than the termination date of its existing commitments. In February 2014, the Supervisor of Banks informed ICC that it would be possible to spread the deduction from capital in respect of the PUT option until January 2018, in accordance with the treatment determined for deductions from capital by the transitional instructions of Basel III.

For details regarding the accounting treatment of non-controlling interests in Diners, see Note 34 A.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Investments in affiliated companies. Affiliated companies are entities in which the Bank has a material influence over their financial and operational policies, though not control.

Investments in affiliated companies are treated by the equity method and are initially recognized at cost. The cost of investment includes transaction costs. The consolidated financial statements include the share of the Group in income and expenses, in the income or loss and in other comprehensive income of investee entities treated by the equity method, after adjustments required to modify the accounting policy to that of the Group from date on which material influence has been obtained and until the date on which material influence no longer exist. It is clarified that the Bank does not make adjustments to accounting policies relating to core banking business issues (issues in respect of which the IFRS rules have not yet been adopted by the public reporting directives) implemented by a non-financial affiliated company, and to the accounting policy as a whole applied by a banking corporation, which until March 13, 2014, had been an affiliate of the Bank.

Loss of material influence. The bank discontinues the use of the equity method as from the date on which material influence no longer exists and treats the investment as a financial asset.

On such date, the Bank measures at fair value any investment remaining in the former affiliated company and recognizes in the item "Non-interest financing income – gains or losses on investment in shares", as part of operations that are not for trading purposes, any income or loss resulting from the difference between the fair value of any remaining investment together with any consideration received for the realization of the part of the investment in the affiliated company and the stated value of the investment at that date.

Amounts that had been recognized as capital reserves within the framework of other comprehensive income, pertaining to that affiliated company are reclassified to the Statement of income or to retained earnings, in the same manner that would have been required had the affiliated company itself realized the related assets and liabilities.

2.4 Transactions eliminated upon consolidation. Intercompany balances within the Group and unrealized income and expenses stemming from intercompany transactions, were eliminated upon consolidation of the financial statements. Unrealized profits derived from transactions with affiliated companies were eliminated against the investment according to the rights of the Group in the affiliated companies. Unrealized losses were eliminated in the same manner in which profits have been eliminated, so long as no evidence of impairment exists.

2.5 The treatment in the Bank's stand alone financial statements. In preparing the standalone financial statements, the Bank is treating investee companies by the equity method of accounting. This, in accordance with directives and guidelines of the Supervisor of Banks.

The Bank's standalone financial statements include the financial statements of property and service companies wholly owned by the Bank, and which assets are mostly used by the Bank.

3. The basis of recognition of income and expenses.

3.1 Financing income and expenses are included on an accrual basis, except for interest accrued on problematic debts classified as not occurring interest income debts is recognized on cash basis, when there is no doubt that the remaining recorded amount of the impaired debt will be collected. In cases where such doubt exists, all amounts collected serve to reduce the outstanding balance of the loan. Furthermore, interest on amounts in arrear in respect of housing loans is recognized on the basis of actual collection.

3.2 Commission income in respect of the granting of services (such as: securities and derivative instruments operations, credit cards, account management, credit handling, currency conversion and foreign trade operations) are recognized in the Statement of Income upon accrual of the Bank's entitlement to such income. Certain commissions, such as commission in respect of guarantees and certain commission relating to project financing, are recognized on a pro-rata basis over the period of the transaction.

3.3 In respect of hybrid capital instruments, which include a structured step-up redemption, the interest rates used to compute the interest cost are the interest rates in effect prior to the step-up, based on Management's evaluation that the instruments would be redeemed at date of increase in the interest rate.

3.4 With respect to securities – see sub-section 5 below; with respect to derivative financial instruments - see sub-section 6 below.

3.5 In periods following an impairment of an other than temporary nature, interest income on investments in debt instruments are recognized in the reported period based upon the anticipated surplus cash flows of the debt instrument (the base amount of a debt instrument at date of impairment of an other than temporary nature, is its fair value).

3.6 Other income and expenses are recognized on an accrual basis.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Sale and leaseback transactions are presented in the financial statements in accordance with IAS-17.

3.8 For details regarding the adoption of accounting principles accepted by U.S. banks in the matter of the measurement of interest income (FAS 91), see item 25 hereunder.

4. Impaired debts, credit risk and allowance for credit loss

4.1 General

In accordance with a Directive of the Supervisor of Banks regarding "Measurement and disclosure of impaired debts, credit risk and allowance for credit losses", the Bank applies, as from January 1, 2011, the U.S. accounting standards in this matter (ASC 310) and the positions of the bank's supervisory authorities in the U.S. as well as of the SEC, in statements of position and guidelines of the Supervisor of Banks. Furthermore, since that date, the Bank is implementing the guidelines of the Supervisor of Banks in the matter of "Dealing with problem debts". Also, since January 1, 2012, the Bank implements the instructions of the Supervisor of Banks in the matter of "Update of the disclosure regarding the credit quality of debts and the allowance for credit losses".

Credit to the public and other debt balances

The Directive is being implemented with respect to all debt balances, such as: deposits with banks, bonds, securities borrowed or purchased under resale agreements, credit to the public, credit to governments, etc. Credit to the public and other debt balances, in respect of which the public reporting instructions do not include specific rules as regards the measurement of the allowance for credit losses (such as: credit to the government, deposits with banks, etc.) are stated in the Bank's books at their recorded amount. The recorded amount of a debt is defined as the debt balance, net of accounting write-offs, but before deduction of an allowance for credit losses in respect of the said debt. The recorded amount of a debt does not include unrecognized accrued interest or accrued interest recognized in the past but reversed at a later date. As to other debt balances, to which specific rules apply regarding the measurement and recognition of the provision for impairment (such as: bonds) the Bank continues to apply the same measurement rules (see item 5.7 below).

Identification and classification of impaired debts

The Bank has established procedures for the identification of problematic credit and the classification of debts as impaired. According to these procedures the Bank classifies problematic debts and off-balance sheet credit items under the following classifications: special mention, substandard or impaired. A debt is classified as impaired when based on information and updated events, the Bank does not expect to collect all amounts due to it under the contractual terms of the debt agreement. The decision regarding the classification of a debt is based, among other things, on the arrears situation of the debt, evaluation of the financial position and repayment ability of the borrower, the existence of collateral and the state thereof, the financial position of guarantors, where applicable, and their undertaking to support the debt and the ability of the borrower to obtain finance from a third party.

A debt examined on a specific basis (see below), is classified as impaired when the principal amounts or interest in its respect are in arrears for 90 days or over, except where the debt is well secured and is in the process of collection. For this purpose, the Bank monitors the number of days in arrears in relation to the contractual repayment terms of the debt. Debts (including bonds and other assets) are in arrears when the principal amount or the interest thereon has not been paid upon their due date. In addition, current loan accounts or current accounts are reported as debts in arrears for 30 days or over, when the account exceeds the approved credit facility for a consecutive period of 30 days or over, or if during a period of 180 days, no amounts covering the debt within the framework of the credit facility, have been credited to the account. Starting with the date on which a debt is classified as impaired, it is treated as a debt that does not accrue interest income (hereinafter: "non-performing debt").

Furthermore, any debt, the terms of which had been changed within the framework of a reconstruction of a troubled debt, is classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reinstatement of an impaired debt as an unimpaired debt

An impaired debt returns to be classified as an unimpaired debt if one of the two situations exists:

- There are no principal or interest components which remain unpaid on their due date and the Bank expects the repayment in full of the remaining principal balance and of the interest due according to the terms of the agreement (including amounts which had been written off accounting wise or an allowance was made in their respect).
- The debt becomes well secured and is in the process of collection.

The rules regarding the reversal of classification as impaired credit, as stated, do not apply to debts classified as impaired as a result of a restructure of a troubled debt.

Reinstatement of an impaired debt as an impaired debt accruing interest

A debt, which has been formally reconstructed, so that after the reconstruction reasonable assurance exists that the debt would be repaid and would perform according to its new terms, is being treated again as a debt accruing interest income, on condition that the reconstruction and any accounting write-off made in relation to the debt are supported by an updated and well documented credit assessment with respect to the financial position of the borrower and a repayment forecast according to the new terms. The assessment is based on the cash and cash equivalent consecutive historical repayment performance of the borrower during a reasonable period of at least six months, and only after amounts which have materially reduced (at least 20%) the recorded amount of the debt determined following the reconstruction, have been received.

A troubled debt under restructurings

A debt that has undergone a formal troubled debt restructurings, is defined as a debt in respect of which, due to economic or legal circumstances related to financial difficulties of the borrower, the Bank has granted a waiver by way of changing the terms of the debt, so as to alleviate the burden of cash repayments in the short-term (a reduction in or deferment of cash payments due from the borrower), or by way of accepting other assets of the borrower (in full or part) as settlement of the debt.

For the purpose of determining whether a debt arrangement made by the Bank constitutes a restructuring of a troubled debt, the Bank performs a qualitative review of all the terms of the arrangement and the circumstances in which it had been reached in order to determine whether the borrower is experiencing financial difficulties and whether, within the framework of the arrangement, the Bank had granted any waiver to the borrower.

In order to determine as to whether the borrower is experiencing financial difficulties, the Bank examines whether indications for difficulties of the borrower exist at date of the arrangement or for the existence of a reasonable possibility that the borrower will encounter financial difficulties in the absence of the arrangement.

Debts, the terms of which have been changed under a reconstruction of a troubled debt, including those debts which prior to the reconstruction had been examined on a group basis, will be classified as troubled debts and will be assessed on a specific basis for the purpose of performing the allowance for credit losses or of an accounting write-off. In view of the fact that the debt that had been reconstructed as a troubled debt, would not be paid in accordance with its original contractual terms, the debt continues to be classified as an impaired debt even after the borrower returns to a repayment schedule according to the new terms.

Allowance for credit losses

The Bank has determined procedures for the classification of credit and for the measurement of the allowance for credit losses in order to maintain an allowance at a level adequate to cover anticipated credit losses in relation to its credit portfolio. In addition, the Bank has determined procedures required to maintain an allowance at a level adequate to cover anticipated losses relating to off-balance sheet credit instruments as a separate liability account (such as: commitments to grant credit, unutilized credit facilities and guarantees).

The allowance covering credit losses anticipated in relation to the credit portfolio is assessed in one of two ways: "specific allowance" or "group allowance".

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Specific allowance for credit losses. The Bank has elected to identify for the purpose of a specific examination debts the total of their contractual amount, grouped at the borrower level, is over NIS 1 million (in one consolidated company – in respect of debts exceeding NIS 50 thousand, and in a consolidated credit card company – debts in respect of credit cards exceeding NIS 500 thousand, and in respect of debts of trading houses – of any amount). A specific allowance for credit losses is recognized in respect of any debt examined on a specific basis and which is classified as impaired. Furthermore, any debt, the terms of which had been changed under a reconstruction of a troubled debt shall be classified as an impaired debt, unless prior to the reconstruction and thereafter, a minimum allowance for credit losses according to the extent of arrears method has been made in accordance with the Appendix to Proper Conduct of Banking Business Directive No. 314 regarding "Proper assessment of credit risks and proper measurement of debts".

The specific allowance for credit losses is assessed on the basis of anticipated future cash flows, capitalized using the original effective interest rate pertaining to the debt. Where the debt is collateral dependent or when foreclosure of property is expected by the Bank, the specific allowance is assessed on the basis of the fair value of the collateral pledged to secure the debt in question, after taking into account conservative and consistent coefficients reflecting, among other things the volatility of the fair value of the collateral, the time period until its actual realization and expected costs involved in the selling of the collateral.

In this respect, the Bank defines a debt as collateral dependent when repayment of the debt is anticipated to be made exclusively from the collateral pledged in favor of the Bank, or where the Bank is expected to be repaid from the asset held by the borrower, even though no specific pledge is registered on the asset, and everything in a situation where the borrower has no other significant, reliable and available resources for repayment of the debt.

Group allowance for credit losses. Computed in order to reflect allowances for impairment in respect of credit losses, that are not specifically identified inherent in large groups of small debts having similar risk characteristics, as well as in respect of debts examined on a specific basis and found unimpaired. The allowance for credit losses in respect of debts assessed on a group basis, excluding housing loans in respect of which a minimum allowance has been computed according to the extent of arrears, is computed in accordance with the rules established in ASC 450 (FAS 5) "Accounting for contingencies", according to the formula based on a range of historical loss ratios in various economic sectors, as well as on actual ratios of net accounting write-offs recorded as from January 1, 2011 divided between problematic credit and non-problematic credit. In addition to the calculation of the range of historical loss rates in various economic sectors, as stated, for the purpose of determining the fair rate of allowance, the Bank takes into account additional factors, including trends in the total volume of credit and in the volume of open credit in each sector, sectorial conditions, macro-economic data, evaluation of the overall credit quality of an economic sector, changes in volume and trend of balances in arrears and impaired balances and effect of changes in credit concentration.

For details regarding the directive in the matter of "group allowance for credit losses", see item 4.4 below.

Moreover, the Bank examines at each reporting date, whether the amount of the group allowance, computed as of that date, is not lower than the amount of the general allowance together with the supplementary allowance, computed as of that date, in accordance with Proper Conduct of Banking Business Directive No. 315 with respect to "allowance for doubtful debts", before the tax effect.

The required allowance in respect of off-balance sheet credit instruments - is assessed according to the rules determined by ASC 450 (FAS 5). The group allowance in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit (as detailed above), taking into consideration the anticipated rate of realization to credit of the off-balance sheet credit risk. The rate of realization to credit is computed by the Bank based on Credit Conversion Factors (CCF), as detailed in Proper Conduct of Banking Business directive No. 203 "Measurement and capital adequacy – credit risk – the standard approach", with certain adjustments in cases where past experience is available at the Bank indicating realization to credit rates.

Minimum allowance in respect of housing loans – is computed according to a formula determined by the Supervisor of Banks, considering the extent of arrears, in a way in which the rates of the allowance increase in proportion to the extent of arrears.

In addition, the Bank implements the provisions of Proper Conduct of Banking Business Directive No. 329 in the matter of "Restrictions on the granting of housing loans". Accordingly, the Bank has formed a policy designed to ensure that it abides by the new requirements, and that as from June 30, 2013, the balance of the group allowance for credit loss, in respect of housing loans shall not fall below a rate of 0.35% of the outstanding balance of such loans as of date of the report.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, the Bank studies the overall fairness of the allowance for credit losses. This fairness evaluation is based on the Management's discretion, which takes into account the risks inherent in the credit portfolio and evaluation methods implemented by the Bank in determining the allowance.

Accounting write-off

The Bank writes-off accounting wise each debt or part thereof examined on a specific basis and considered a debt that is uncollectible and of a low value so that leaving it as an asset is not justified, or a debt in respect thereof the Bank is conducting long-term collection efforts (in most cases defined as a period exceeding two years). With respect to debts that are collateral dependent, the Bank records immediately an accounting write-off against the allowance for credit losses, of that part of the recorded amount of the debt exceeding the fair value of the collateral. With respect to debts assessed on a group basis, the write-off rules were determined based on their period of arrears (in most cases, over 150 consecutive days in arrear) and on other problem parameters. It should be clarified that accounting write-offs do not involve a legal waiver and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

Income recognition

On date of classification of a debt as impaired, the Bank defines the debt as not accruing interest income and discontinues the accrual of interest income in respect of the debt, with the exception of that mentioned below regarding certain reconstructed debts. Furthermore, at date of classification of a debt as impaired, the Bank cancels all interest income accrued and recognized as income in the statement of income but not yet collected. The debt continues to be classified as a debt that does not accrue interest so long as its classification as impaired has not been cancelled. A debt which had formally undergone troubled debt reconstructing – see "Restatement of an impaired debt as an impaired debt accruing interest" above. For details regarding the recognition of income on a cash basis in respect of debts classified as impaired, see item 3.1 above.

The Bank does not discontinue the accrual of interest income in respect of debts examined and provided for on a group basis, which are in arrears for 90 days or over.

4.2 **Implementation of the instructions of the Supervisor of Banks in the matter of updating the disclosure of credit quality of debts and of the allowance for credit losses.** The Bank implements the instructions of the Supervisor of Banks in the matter of "updating the disclosure of credit quality of debts and of the allowance for credit losses, adopting the update of accounting standard ASU 2010-20", which requires wider disclosure regarding the balances of debts, movement in the balance of the allowance for credit losses, any material acquisition and sale of debts during the reported period and disclosure regarding the quality of credit.

Among other things, a banking corporation is required to provide quantitative disclosure regarding indication of credit quality, at least with respect to the balance of problematic debts in each group of debts. In addition, it is required to provide a disclosure with respect to the credit quality of housing loans. The new disclosure is required with respect to each of the credit segments (such as: commercial credit, private individuals – housing loans, private individuals – other, banks and governments) as well as with respect to each of the principal groups of debts as defined by the instruction, distinguishing between borrower activity in Israel and borrower activity abroad, if material.

In addition, a disclosure is required regarding restructured debts under troubled debt restructuring during the reported period, the number of contracts and the recorded amount before and after restructuring. Also with respect to failure of restructured debts during the reported period, disclosure is required as to the number of contracts and the recorded amount. The said disclosure is required for each of the credit segments as detailed above.

The initial implementation and its effect. The Bank implements the instructions by way of "from now onwards" starting with January 1, 2012. Certain of the new disclosure requirements regarding a troubled debt restructuring were implemented by the Bank since January 1, 2013. In addition, starting with the report for 2014, the Bank implements additional disclosure requirements regarding credit rating. With respect to new disclosures, as stated, the Bank is not required to include comparative data.

The initial implementation of the instructions had no impact, except for the updating of the disclosure format in Note 4 "Credit risk, credit to the public and allowance for credit losses".

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Credit to private individuals. On January 19, 2015, the Supervisor of Banks published a circular in the matter of "group allowance in respect of credit to private individuals" within the framework of which, the Reporting to the Public Directives have been amended. According to the circular, in determining the said allowance for credit losses, the banking corporations and the credit card companies have to take into consideration both past loss experience, in respect of credit to private individuals, as well as qualitative adjustments – adjustments in respect of relevant factors as to the prospects of collection of credit granted to private individuals, at a rate that should not fall below 0.75% of the outstanding balance of credit to private individuals that is not problematic credit. Of the above, credit risk deriving from debts in respect of bank credit cards bearing no interest has been excluded.

The amendments to the Reporting to the Public Directives include examples of factors that might be relevant to the assessment of qualitative adjustments of credit as above.

The initial implementation and its effect. The Bank has implemented the guidelines stated in the circular in a "from now onwards" manner. In consequence thereof, the allowance in respect of the credit for private individuals has been increased by NIS 54 million, and the balance of the allowance in respect of the related off-balance sheet credit exposure has been increased by NIS 2 million, before taxes. The amounts of increase in the said allowances were recognized in the Statement of Income.

4.4. Group allowance for credit losses. In continuation of several drafts in this matter "group allowance for credit losses" and within the framework of the amendment to the Reporting to the Public Directives described in item 4.3 above, the provisional instruction regarding "group allowance for credit losses in the years 2011-2012" has been merged into the Reporting to the Public Directives, guidelines and clarifications as to the manner of computing the rate of past losses were determined and requirements regarding the inclusion in the allowance coefficient of adjustments in respect of environmental factors were determined.

The initial implementation and its effect: in accordance with the instruction, it is to be implemented by way of a change in assessment. The Bank has begun preparations for the implementation of the instruction during 2014, at the stage when it was still in draft form. Accordingly, at date on which the instruction became effective, the implementation thereof had no material impact.

5. Securities

5.1 In accordance with directives of the Supervisor of Banks, the Bank's investments in securities are classified into three portfolios, as follows:

(a) "Held to maturity bonds" - bonds which the Bank intends and has the ability to hold until maturity, except for debentures which may be called early or otherwise disposed, such that the Bank may not cover substantially all of its recognized investment. Bonds are stated at cost with the addition of accumulated linkage differences or exchange differences and interest, as well as the premium or discount component created upon acquisition and not yet amortized, and net of a provision for impairment which is not of a temporary nature.

The transfer or sale of bonds classified to the held-to-maturity portfolio, is permitted in case of certain changes in circumstances, in which the sale or transfer will not be considered as contradicting the initial classification of the bonds, including evidence of material deterioration in the repayment ability of the bond issuer.

(b) "Trading securities" - securities which are held with the intention of selling them in the short term except for shares with no available fair value. The trading securities are presented in the balance sheet at their fair value at the reporting date. Gains or losses due to adjustments to fair value are recorded in the statement of income.

(c) "Available for sale securities" - securities not classified under the two previous categories. Securities available for sale are stated at their fair value on the balance sheet date, except for shares the fair value of which is not readily available, which are stated at cost less a provision for impairment in value not of a temporary nature which is recorded in the statement of income. Unrealized gains or losses resulting from the adjustment to fair value, net of the related tax effect, are recorded as a separate line item in the equity within the framework of other comprehensive income.

5.2 The cost of realized securities is recognized in the statement of income on a "moving average" basis.

5.3 Dividend income, accrued interest, linkage differentials, amortization of premium or discount (according to the effective interest method) as well as losses on impairment of an other than temporary nature are recognized in the income statement.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5.4 Interest income in respect of acquired beneficiary rights (such as: asset backed financial instruments of the MBS, CDO, CLO, CMO types), excluding beneficiary rights of a high credit quality, is recognized according to the prospective interest method, the rate of interest used for recognition of interest income being adjusted to changes in assessment of future cash flows. In this respect, beneficiary rights of a high credit quality comprise beneficiary rights issued with U.S. government guarantee or by U.S. government agencies, as well as asset backed securities the rating of which is at least "AA".

5.5 The Bank's investment in venture capital funds is treated at cost less losses on impairment of an other than temporary nature. Gains on investments in venture capital are recognized in the income statement upon realization of the investment.

5.6 For the treatment of transactions involving the transfer of financial assets (such as: repurchase agreements, lending of securities, etc.), see subsection 9 below. In the matter of computing fair value, see subsection 7 below.

5.7 The Bank and its relevant subsidiaries examine, in each reporting period, in accordance with generally accepted accounting principles applying to banking corporations, whether the impairment of securities classified to the available-for-sale portfolio and to the held to maturity portfolio is of an other than temporary nature.

The review is based on the following considerations:

- The ratio of loss to cost/depreciated cost (while examining developments subsequent to balance sheet date);
- The period in which the fair value of the security is lower than its cost;
- The rate of yield to redemption in the case of bonds;
- The credit rating of the security, including changes in its rating;
- In the case of shares - events of reduction due to the distribution of dividends or its cancellation;
- In the case of bonds - Events of default in the payment of periodic interest in accordance with the terms of the bond, forecast of changes in the expected cash flow from the bond.
- Relating the impairment in value to the deterioration in the financial position of the issuer, or to the change in general market condition;
- The intent and ability of the Bank and its relevant subsidiary to continue holding the securities until such time that the expected recovery of the fair value of the securities occurs.
- Relevant information regarding the financial condition of the issuer and changes therein, analysis of specific events that might affect the activities of the issuer and his profitability and an analysis of the economic sector and of the country in which the issuer operates. or until redemption thereof.

The Bank recognizes impairment of a nature other than temporary, at least in each of the following cases:

- A security, the fair value of which at the end of the reporting period and also proximate to the date of publication of the financial report for that period, was significantly lower than its cost (or written-down cost in case of bonds). This, unless the bank has objective and solid evidence as well as a careful analysis of all relevant factors, which proves at a high level of assurance that the impairment is of a temporary nature.

  "Significantly lower" –

  In the case of bonds – where their fair value is lower than the written down cost by 40% and over and the rate of return to redemption is 20% and over, unless special circumstances exist;

  In the case of shares - when their fair value is lower than cost by 20% and over and the shares are in a loss position for a period of six months and over, unless special circumstances exist;

  Special circumstances – circumstances that have been explained and documented, including: changes in market value that mostly might be attributed to a change in market interest rate, a security issued by a government (Government of Israel or government of an OECD country) in local currency, nationalization.
- A security that had been sold prior to the date of publication of the financial report for the period;

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- A security, which near the date of publication of the financial report for the period, is intended to be sold within a short period;
- A bond, the rating of which at date of publication of the financial report for the period has been significantly reduced compared to its rating on date of purchase by the bank (a significant downgrading – where the rating is lower than the investment rating, and is at least four notches lower than the rating at date of acquisition);
- A bond which following its purchase has been classified by the bank as problematic;
- A bond in respect of which there has been a payment default subsequent to its purchase;

Where impairment of an other than temporary nature occurs, the cost of the security is written down to its fair value, which serves as a new cost basis. The cumulative loss in respect of a security classified as available-for-sale, which in the past had been reflected as a separate item in equity within the framework of other comprehensive income, is reflected in the statement of income when the impairment in respect of which is of an other than temporary nature. Increase in value during consecutive reporting periods, are recognized as a separate item in equity within the framework of other comprehensive income, and are not reflected in the income statement (the new cost base).

6. Derivative financial instruments and hedge transactions

The Bank recognizes all derivatives as assets or liabilities on the balance sheet and measures them at fair value. Changes in the fair value of a derivative instrument shall be reflected in the statement of income, or shall be included in the equity as an "other comprehensive income" component, in accordance with the designation of the derivative instrument.

The change in the fair value of derivatives hedging exposure to the change in the fair value of an asset or a liability, is recognized in the statement of income on a current basis, as well as the change in value of the hedged item, which may be related to the hedged risk.

The accounting treatment of changes in the fair value of derivatives that hedge exposure to changes in the cash flow generated by an asset or a liability: the effective part of the change in the fair value of a derivative designated to hedge a cash flow risk, is initially reported in the equity (outside the statement of income) as a component of "other comprehensive income", following which, where the cash flows affect the statement of income, it is reclassified to the statement of income.

For further details see Note 20 hereunder.

7. Determination of fair value of financial instruments

As from January 1, 2011, the Bank applies the principles determined in FAS 157 (ASC 820-10), which defines fair value and determines a consistent framework for the measurement of fair value by defining techniques for the evaluation of fair value in respect of assets and liabilities, and the determination of a fair value scale and detailed implementation guidelines. Furthermore, as from January 1, 2012, the Bank implements the directive of the Supervisor of Banks in the matter of "fair value measurement", which combines in the Public Reporting Instructions the rules determined in accounting standard update ASU 2011-04 in the matter of "fair value measurement (ASU 820): amendments to achieve common fair value measurement and uniform disclosure requirements in U.S. GAAP and IFRS".

Fair value is defined as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between voluntary seller and voluntary purchaser at date of measurement. Among other things, the Standard requires that for the purpose of assessing fair value maximum use should be made, to the extent possible, of observable inputs, while reducing the use of unobservable inputs. Observable inputs reflect information available on the market, received from independent sources, while unobservable inputs reflect the assumptions of the banking corporation.

FAS 157 details the hierarchy of measurement techniques based on the question whether inputs used for the determination of fair value are observable or unobservable. These classes of inputs create a fair value grading as detailed below:

- Level 1 inputs: quoted prices (non-adjusted) on active markets for identical assets or liabilities, which are accessible to the Bank at measurement date;
- Level 2 inputs: Inputs observable, directly or indirectly, for the asset or liability and which are not quoted prices that are included in Level 1;
- Level 3 inputs: unobservable inputs for assets or liabilities.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Such hierarchy requires the use of observable inputs, where this information is available. Where possible, the Bank, when making its assessments, considers observable and relevant market inputs. The volume and frequency of the transactions the size of the bid/ask spread and the extent of the adjustment required when comparing similar transactions, are all factors being considered when determining liquidity of the markets and the relevancy of observable prices in these markets.

Securities. The fair value of trading securities and of available-for-sale securities is determined on the basis of quoted market prices on the principal market, where several markets on which the security is traded exist, the assessment is made according to the quoted price on the most active market. In such cases, the Bank's fair value of the investment in securities is the multiplication of the number of units by that quoted market price. Where no quoted market price is available, the assessment of fair value is based on the best available information while making maximum use of observable inputs, taking into consideration the risk inherent in the financial instrument (market risk, credit risk and such like).

Derivative financial instruments. Derivative financial instruments that have an active market are assessed at market value determined on the principal market, and in the absence of a principal market, according to the price quoted on the most efficient market. Derivative financial instruments that are not marketable are assessed on the basis of models that take into account the risks inherent in the derivative instrument (market risk, credit risk and such like). For further details, see below for assessment methodologies for credit risk and non-performance risk.

Additional non-derivative financial instruments. No "market price" is available in respect of most of the financial instruments in this category (such as: credit to the public, credit to the government, deposits from the public, deposits with banks, subordinate capital notes and non-marketable loans) because these are not traded on any active market. Accordingly, fair value is assessed using accepted pricing models, such as the present value of future cash flows discounted at a discount rate reflecting the risk level inherent in the financial instrument. For this purpose, future cash flows in respect of impaired debts and other debts have been computed after eliminating the effect of accounting write-offs and allowances for credit losses in respect of the debts.

Evaluation of credit risk and nonperformance risk. The Standard requires a banking corporation to reflect credit risk and nonperformance risk in measuring the fair value of a debt, including derivative instruments that were issued by it and measured according to fair value. Nonperformance risk includes the credit risk of the banking corporation but is not limited to that risk only. The Bank assesses the credit risk involved in derivative instruments in accordance with the prices of the debt instruments of the counterparty traded on an active market and with the prices of credit derivatives the basis of which is the credit quality of the counterparty, for banks and customers in respect of which credit quality indications exist through transactions on an active market, and in accordance with internal models for the forecast of the rate of credit losses in case of credit default for the rest of the population.

For further details regarding the methods and principle assumptions used for assessment of fair value of financial instruments, see note 21 below regarding balances and fair value assessments of financial instruments.

8. Offsetting assets and liabilities

The Bank implements the rules determined in the circular of the Supervisor of Banks dated December 12, 2012, which amended the Reporting to the Public Directives in the matter of "offsetting of assets and liabilities". The circular is intended to modify the Public Reporting Directives in this respect to the U.S. GAAP.

According to the circular regarding the offsetting of derivative instruments, a banking corporation shall offset assets and liabilities deriving from the same counterparty and shall present in the balance sheet their net balance, where the following accumulated conditions exist: (1) in respect of the said liabilities, the bank has a legally enforceable right of setoff of the liabilities against assets; (2) it is its intention to settle the liabilities and realize the assets on a net basis or simultaneously; (3) Both the banking corporation and the counterparty owe to one another determinable amounts.

Furthermore, under certain conditions, the banking corporation may be entitled to offset fair value amounts recognized in respect of derivative instruments and fair value amounts recognized in respect of the right to reclaim cash collateral (receivables) or in respect of the obligation to return cash collateral (payables) arising from derivative instruments executed with the same counterparty in accordance with a master netting arrangement.

With respect to repurchase transactions, a banking corporation is entitled to offset "securities purchased under repurchase agreements" against "securities sold under repurchase agreements" if certain conditions set out in this respect in U.S. GAAP, exist.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Bank offsets deposits, the repayment of which to the depositor is conditional upon the collection of the credit and the credit granted out of such deposits, where no credit loss risk to the Bank is involved.

On the background of the instruction and following its initial implementation, the Bank has decided to discontinue the offsetting of exposure in respect of derivative instruments in the balance sheet.

9. Transfers and services relating to financial assets and settlement of liabilities

The Bank applies the measurement and disclosure rules determined in the U.S. Financial Accounting Standard FAS 140 (ASC 860-10) "Transfers and servicing of financial assets and extinguishments of liabilities" as amended by FAS 166 "Transfers of financial assets" (ASC 860-10), for the accounting treatment of financial asset transfers and extinguishments of liabilities.

According to the said rules, the transfer of a financial asset shall be treated as a sale accounting wise, if and only if all the following conditions exist: (1) the transferred financial asset had been isolated from the transferor, also in the case of bankruptcy or other type of receivership; (2) any transferee of the asset (or if the transferee is an entity, the only purpose of which is to engage in securitization or in asset backed financial activity, and which is prevented from pledging or exchanging the transferred financial asset - any third party holding beneficiary rights) may pledge or exchange the transferred asset (or the beneficiary rights), and no conditions exist which also restrict the transferee (or a third party who holds the beneficiary rights) from using his right to pledge or exchange the asset and which grants the transferor a larger than just a trivial benefit; (3) the transferor, or subsidiary companies included in its financial statements, or its agents, do not retain effective control over the financial assets or over the beneficiary rights relating to such transferred assets.

Starting with January 1, 2012, the Bank implements the update of accounting standard ASU 2011-03 regarding "The re-examination of effective control in repurchase transactions", which comprises an update of the rules stated in FAS 166 (ASC 860). In accordance with the update, evaluation of the existence of effective control is focused on the contractual rights and the contractual liabilities of the transferor, therefore the following are not taken into consideration: (1) criterion requiring that the transferor will have the ability to purchase the transferred securities also in the case of default of the transferee, and (2) guidelines regarding the requirement of collateral with respect to the said criterion.

In transactions involving the transfer of financial assets, the Bank determines that effective control over the assets remains with the transferor (and therefore the transfer of assets shall be treated as a secured debt) if all the following conditions are fulfilled:

- The assets to be repurchased or redeemed are identical or identical in substance to the transferred assets;
- The agreement provides for the repurchase of the assets or for their redemption prior to the date of repayment, at a determined price or at a determinable price; and
- The agreement was signed simultaneously with the transfer.

In addition, in order for the transfer of a part of a financial asset to be considered a sale, the transferred part must fall within the definition of participating rights. Participating rights have to meet the following criteria: the right has to represent proportionate rights in relation to the total financial asset; all cash flows receivable from the asset are distributed among the participating rights proportionally to their interest in the asset; the rights are not subordinated to other rights in the asset; no right of return of the asset to the transferor or to other participating right holders exists (except in cases of misrepresentation or violation of commitments, ongoing contractual obligations for the service of the financial asset as a whole and the management of the transfer agreement, and contractual obligations to share in the setoff of any benefits received by any holder of participating rights); the transferor and also the holder of participating rights have no right to pledge or exchange the financial asset in entirety, except where all the holders of the participating rights agree to pledge or exchange the financial asset in its entirety.

In the event that the transaction meets the terms for treatment thereof as a sale transaction, the transferred financial assets are removed from the Bank's balance sheet. Where sale conditions do not exist, the transfer is treated as a collateralized debt. A sale of a part of a financial asset, which is not considered a participating right, is treated as a collateralized debt, namely, the transferred asset continue to be stated in the Bank's balance sheet and the proceeds of sale are recognized as a liability of the Bank.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In view of the above, securities sold under repurchase terms or purchased under resale terms, securities loaned or borrowed, as well as other financial instruments transferred or received by the Bank, in which the Bank retained control over the transferred asset or did not acquire control over the asset received, are treated as a collateralized debt. Financial instruments transferred under such transactions are measured according to the same measurement rules applying prior to their transfer. Namely, such securities are not removed from the balance sheet, against which a deposit is recognized secured by a pledge on the said securities, which are stated in the item "Securities loaned or sold under repurchase agreements". Securities received under such transactions, are recorded according to the cash amount transferred by the Bank in the item "Securities borrowed or purchased under resale agreements".

The Bank monitors the fair value of securities borrowed or loaned and of securities transferred under repurchase and resale agreements, and where necessary additional collateral is sought.

In accordance with the public reporting instructions, transactions involving the lending or borrowing of securities, in which the lending is made in consideration of the credit quality and general collateral of the borrower, the lending or borrowing is treated as credit or as a deposit, which are measured at the fair value of the related securities. Income on an accrual basis relating to these securities are recorded as interest income from credit, while changes in fair value (over and above changes in the accrual basis) are recorded as part of non-interest financing income in the case of securities included in the trading portfolio, or recorded in other comprehensive income in the case of available-for-sale securities.

The Bank removes a liability if and only if it had been extinguished, namely, if one of the following terms exists: (a) the Bank had paid the lender and was released from its obligations regarding this liability; or (b) the Bank, under a legal process, had been legally released from liability or, with the consent of the lender, had been released from being the principal debtor in respect of this liability.

An overseas subsidiary conducts transactions for the sale of securities under repurchase agreements terms and for the purchase of securities under resale agreements terms. Securities sold under repurchase agreements terms, according to which control over the sold asset has not been lost, are treated as acceptance of a secured liability, so that the sold securities are not eliminated from the balance sheet, being reflected in the item "Securities", against which a deposit, the repayment of which is secured by a pledge of the said securities, is reflected in the item "Securities loaned or sold under repurchase agreements". Securities purchased under resale agreement terms, are treated as the granting of a secured loan, so that the securities so purchased serve as collateral for the loan and are not reflected in the Balance sheet. The loan granted is reflected in the item "Securities borrowed or purchased under resale agreements".

10. Fixed assets (buildings and equipment)

Recognition and measurement. Fixed asset items are measured at cost less depreciation and losses on impairment. Cost includes expenditure that may be directly attributed to the acquisition of the asset. The cost of self constructed assets includes the cost of materials, direct payroll and any additional costs which may be attributable directly to the bringing of the asset to the location and condition in which it could function in the manner intended by Management.

The cost of acquired software being an integral part of the operation of the related equipment is recognized as part of the cost of such equipment. Furthermore, in accordance with the public reporting directives, the Bank classifies to the buildings and equipment item the cost of purchased software assets or capitalized costs of software developed internally for own use. Regarding the accounting treatment of software costs, see item 12 hereunder.

Where substantial parts of fixed asset items have different life spans, they are treated as separate items of the fixed assets.

Profit or loss on the disposal of a fixed asset item are determined by comparing the proceeds from disposal of the asset to its stated value, and are recognized, net, in the item "Other income" in the statement of income.

Subsequent costs. The cost of replacement of a part of a fixed asset item is recognized as part of the book value of that item if it is anticipated that the future economic benefits inherent in the replaced part will flow to the Bank and if its cost is reliably measurable. The stated value of the replaced part is deducted. Current maintenance costs of fixed asset items are charged to the Statement of income as incurred.

Depreciation. Depreciation is a methodical allocation of the depreciable amount of an asset over its useful life span. The depreciable amount is the cost of the asset, or another amount replacing cost, less the residual value of the asset.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation is charged to the Statement of income by the straight-line method over the assessed useful life span of each part of the fixed asset items, as this method reflects in the best manner, the anticipated consumption format of the future economic benefits inherent in the asset. Leased assets are amortized over the shorter of the period of the lease or the period of use of the asset. Leasehold improvements are being amortized over the shorter of the period of the lease or the useful life of the asset. Land is not depreciated.

An asset is depreciated when it is available for use, namely, when it has reached the location and the condition required for it to operate in the manner intended by the Management.

Assessments regarding the depreciation method, the useful life span of assets and their residual values are re-examined at the end of each financial year and adjusted where required.

For details as to the depreciation rates in the current period and the comparative periods, see Note 7 below.

11. Leases

Leases, including the lease of land from the Israel Land Administration or from other third parties in respect of which the Group essentially bears all risk and yield pertaining to the asset, are classified as financial leases. Upon initial recognition, the leased assets are measured at an amount equal to the lower of its fair value or the present value of the future minimum lease fees. Future payments to the Israel Land Administration in respect of the exercise of an option for extension of the lease period are not recognized as part of the asset and the related liability, since they constitute conditional lease fees derived from the fair value of the land at date of the future renewal of the lease agreement. Following the initial recognition, the asset is treated in accordance with the accepted accounting policy in respect of such an asset.

All other leases are classified as operational leases, and the leased assets are not recognized in the balance sheet of the Group.

12. Intangible assets

Goodwill. For information regarding the measurement of goodwill upon initial recognition thereof, see item D 2.1 above. In following periods, goodwill is measured at cost less accumulated impairment losses.

Software costs. Software purchased by the Bank is measured at cost less accumulated depreciation and impairment losses.

Costs related to the development of software or its modification for own use are capitalized only if: it is reliably possible to measure the development costs; the software is technologically and commercially feasible, future economic benefits are anticipated; the Bank has the intention and adequate resources to complete the development and to use the software. Costs recognized as an intangible asset include the direct cost of materials and payroll. These costs are measured at cost less accumulated depreciation and impairment losses. Overhead costs that cannot be directly attributed to the development of the software and research costs are recognized as an expense as incurred (software costs are presented as part of fixed assets. (See item 10 above).

Amortization. Amortization is charged to the Statement of income by the straight-line method over the useful life span of intangible assets, including software assets, beginning with the date on which the assets are ready for use.

Goodwill and intangible assets of indeterminate life span are not amortized systematically but are examined yearly for examining impairment.

Intangible assets created within the Bank (such as: software in the course of development) are not amortized systematically so long as they are not ready for use. Accordingly, impairment of such intangible assets is reviewed once a year, until they become available for use.

The development costs of the core computer system (Ofek Project) are being amortized over seven years.

Subsequent costs. Subsequent costs are recognized as an intangible asset only when they enhance the future economic benefits inherent in the asset in respect of which they had been incurred. Other costs, including goodwill related costs or costs related to independently developed brands are charged to the Statement of income as incurred.

13. Impairment of non-financial assets The stated value of the Bank's non-financial assets, excluding deferred tax assets and including investments treated by the equity method, is examined in order to determine whether signs of impairment exist. If such signs do exist, an assessment is made of the recoverable value amount of the asset. In periods following the initial recognition date, an assessment is made once a year, at a determined date for each asset, of the recoverable value amount of intangible assets having an indeterminate lifespan or which are not available for use or at more frequent dates if signs of impairment exist. The recoverable value amount of an asset or of a cash generating unit is the higher of its value in use or the net selling price (fair value, less selling expenses).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss on impairment of goodwill may not be reversed. As regards other assets, impairment losses recognized in prior periods are re-examined at each reporting date in order to determine whether there are signs for the reduction in the loss or for its nonexistence. A loss on impairment may be reversed in case of changes in the assessment used to determine the recoverable value amount, on condition that the stated value of the asset after reversal of the impairment loss does not exceed the stated value, less depreciation or amortization, that would have been determined had an impairment loss not been recognized.

Impairment of costs of internal development of computer software. In addition to the signs for examining the existence of impairment specified in IAS 36, "impairment of assets", examining the existence of impairment with respect to the own development of computer software shall be made also where the signs noted in the generally accepted accounting principles for banks in the United States exist, SOP 98-1: "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (ASC 350-40):

(1) It is not expected that the software will provide significant potential services;

(2) A material change occurred in the manner or scope of use of the software or in the anticipated use of the software;

(3) A material change in the software was made or will be made in the future;

(4) The costs of development or of modifying the software intended for internal use deviate materially from forecasted amounts;

(5) It is no longer expected that the development of the software will be completed and use made of it.

If one or more of the above signs appear, it is required to examine impairment in accordance with the rules of IAS 36, "Impairment of assets".

Investment in affiliated companies. The investment in an affiliated company was tested for impairment, where objective evidence existed that indicated impairment in accordance with IAS 39 "Financial instruments - recognition and measurement", and in accordance with decision 1-4 of the Securities Authority "Guidelines for examining the need to provide for impairment of fixed investments". Impairment was tested in respect of the investment as a whole. Where objective evidence existed that indicates a possible impairment of the investment, the Bank assessed the recoverable value amount of the investment, which is the higher of the value in use and the net selling price of the investment.

14. Non-current assets held for sale. Non-current assets (or realization groups comprising assets and liabilities) expected to be realized through a sale or distribution and not by way of continued use (excluding assets foreclosed in respect of impaired debts), are classified as assets held for sale if highly expected to be recovered mainly by means of a sale transaction and not by a continued use. This applies also where the Bank is committed to the planning of a sale involving the loss of control over a subsidiary company, irrespective of whether the Bank remains with non-controlling rights in consolidated subsidiaries in the former subsidiary subsequent to the sale.

Immediately prior to the classification of the assets as held for sale or distribution, the assets (or the components of the groups intended for disposal) are measured according to the Bank's accounting policy. Subsequently, the assets (or the group intended for disposal) are measured according to the lower of the stated value or the fair value, net of selling expenses.

In following periods, depreciable assets classified as held for sale or distribution are no longer depreciated periodically, and investments in affiliated companies held for sale are no longer treated by the equity method.

15. Employee rights

15.1 Liabilities in respect of employee rights are covered by appropriate provisions. For further details see Note 16 hereunder.

15.2 The subsidiary IDB New York adopted EITF Issue No. 06-04, "Accounting for Deferred Compensation and Postretirement Benefits Aspects of Endorsement Split-Dollar Life Insurance Arrangements", as of January 1, 2008. The Task Force reached a consensus that for an endorsement split-dollar life insurance arrangement within the scope of this Issue, an employer should recognize a liability for future benefits in accordance with FAS 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

15.3 Guidelines and clarifications regarding "strengthening of internal control over financial reporting of employee rights". The guidelines from March 2011 refer principally to aspects of strengthening the internal control over financial reporting of this subject. However, one aspect comprises an accounting guideline, viz., voluntary retirement plan and non-contractual severance payments. A banking corporation that anticipates the payment to groups of employees of benefits in excess of contractual obligations, has to take into account in its actuarial computations the ratio of employees who are expected to retire (including employees expected to retire under voluntary retirement plan or upon obtaining other beneficial terms) and the benefits to which they will be entitled to upon retirement. The guidelines include quantitative yardsticks, which, where these exist, the banking corporation is required to take into account the additional cost in this respect, based on an actuarial computation.

The liability for payment of severance pay to such group of employees shall be presented in the financial statements at the higher of the amount of liability based on an actuarial computation, taking into account the additional cost expected in respect of the said benefits, and the amount of liability computed by multiplying the monthly salary of the employee by the number of years of employment, as required by Opinion No. 20 of the Institute of Certified Public Accountants in Israel.

The computation on an actuarial basis of the provisions with respect to the Bank's liability for severance pay involves the use of statistical tools and evaluations regarding the future, and is based on past experience and on the limitations determined in this respect by the Bank's Management (see hereunder).

The computation is based also on the average retirement rates, according to age groups, in accordance with the actual retirement rates in the years 2004-2010. In view of the scope of natural retirement anticipated in the years 2017-2028, it had been assumed that the rate of voluntary retirement in these years will be 2% per year from the age of 50. The computation based on retirement rates has been applied retroactively.

The limitations determined by the Management, in connection with the 2011 retirement plan, which have been implemented as from the financial statements as of June 30, 2011, are as follows:

- The retirement of employees under preferred terms will not be allowed during the period of five years following the 2011 retirement plan becoming effective (see Note 16 below) except for exceptional cases (see below);
- The minimum age for retirement under preferred terms is 50;
- The creation of a special fund in the amount of NIS 50 million, for exceptional retirement cases, for that group of employees, who under the determined limitations will not be entitle to retirement under preferred terms (as of December 31, 2012, the balance of the special fund amounted to NIS 70 million; as of December 31, 2013, the balance of the special fund amounted to NIS 60 million).

The limits set by the Bank's management, within the framework of approval of the retirement plan in August 2014, which has been implemented in the financial statements as of June 30, 2014, as part of the updating of the provision for employee rights:

- During the two years following completion of the retirement plan, employees will not be entitled to retire under preferential terms, except in exceptional cases;
- The minimum age for retirement under preferred terms is 50;
- The special fund for exceptional retirement cases, which was created in the past and whose balance as of December 31, 2014 amounted to NIS 35 million (June 30, 2014: NIS 50 million), will be used for the retirement of employees in exceptional cases during the aforesaid two-year period.

For details regarding the retirement plan, see Note 16 L below. For details regarding the change in assessment of the anticipated payroll increase rate for the purpose of computing the actuarial liability in respect of employee rights, see item C 4.2 above.

16. Share based payment

The fair value at date of granting the share based payments to officers is charged as a payroll expense concurrently with the increase in the share capital over the period in which unconditional entitlement to the awards is obtained. The amount charged as an expense in respect of share based payments conditional upon vesting terms being service terms or performance terms that differ from market terms, is adjusted to reflect the number of awards expected to be vested. For share based payments that are conditional upon terms that are not vesting terms, or upon vesting terms comprising performance terms representing market terms, the Bank takes into consideration these terms in assessing the fair value of the capital instruments granted. Therefore, the Bank recognizes an expense in respect of such awards irrespective of the existence of these terms.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value of the amount due to officers in respect of rights to appreciation in value of shares settled in cash ("phantom options") is charged as an expense against a parallel increase in liabilities over the period in which unconditional rights for payment are obtained. The liability is remeasured at each reporting date until final settlement. Any change in fair value of the liability is charged as a payroll expense in the Statement of income.

17. Contingent liabilities

The accounting treatment of outstanding legal actions is in accordance with the provisions of the U.S. Accounting Standard SFAS-5 "Accounting for Contingencies" and its related guidelines, and in accordance with the guidelines and clarifications of the Supervisor of Banks, including public reporting directives in the matter of the "Accounting for Contingencies".

In assessing the outstanding legal actions, Managements of the Bank and of its subsidiaries base themselves on opinions of their legal Counsels, which determine the probability of the exposure to the risk involved in these claims materializing.

Claims have been classified according to the probability range for a risk exposure materializing, as follows:

1) Probable - probability of over 70%.
2) Reasonably possible - probability of over 20% and up to and including 70%.
3) Remote - probability of 20% or less.

The financial statements include appropriate provisions regarding claims the realization of the exposure in respect thereof was considered "probable".

According to the guidelines, only in rare cases may a banking corporation state in its financial statements that it is not possible to assess the prospects of a risk exposure materializing in respect of an ordinary legal action and an action approved as a class action, this in four financial statements (including one annual financial statements) to be published subsequently to the filing of a lawsuit together with a petition to have it approved as a class action suit, such period is not to include a period in which the Court has decided to stay the proceedings. Note 19 states separately the outstanding claims, in respect of which a reasonable assessment of the exposure to risk is not possible.

The Bank has described material legal proceedings being conducted against the Bank and Group companies. In this respect, the Bank has determined that as a general rule, a legal proceeding shall be disclosed where the amount claimed exceeds 0.5% of the equity capital of the Bank if it is not possible to assess the prospects of the risk exposure materializing and exceeds 1% of the equity capital where the reasonability prospects of the risk exposure materializing is possible or remote.

It should further be noted, that in cases where the Bank is one of the defendants in the action, and the claimants have not allocated the amount claimed to each of the defendants, the amount estimated as relevant to the Bank is computed to the best of ability, considering the fact that taking the full amount into account might be misleading and is not correct under the circumstances, and that the estimate made does not necessarily represent the allocation which at the end of the day would be decided by the Court.

The financial statements include appropriate provisions in accordance with generally accepted accounting principles and the estimates of the Managements of the Bank and of its subsidiaries, based on opinions of their legal Counsels.

The Bank is exposed to unasserted claims or suits due, inter alia, to doubts with regard to interpretation of agreements and/or statutory provisions and/or their application. The Bank is made aware of such exposure in several ways, including: appeals or complaints by third parties to Bank entities. In assessing the risk associated with unasserted claims/lawsuits, the Bank relies on internal assessment by the handling entities and by Management, which weigh the estimated probability of a claim being made, the chances of such claim, if made, to prevail and any settlement payments. Such assessment is based on past experience with regard to the claims filed, and on an analysis of the actual allegations. By nature, in view of the preliminary stage of inquiring of the legal allegation, the actual outcome may differ from assessment conducted prior to filing of the claim.

18. Taxes on income

The Bank and its consolidated subsidiaries use the tax allocation method with respect to timing differences in the recognition for tax purposes of certain income and expenses.

Deferred taxes have been calculated according to the "liability" method, at tax rates expected to be applicable during the period in which the deferred taxes are realized, based on laws in force at the balance sheet date.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The realization of deferred taxes receivable is contingent upon the future existence of taxable income. Management believes that such deferred tax assets will be realizable in the future.

Retained earnings of certain investee companies may be subject to additional taxes if and when distributed as cash dividends. With respect to consolidated subsidiaries - when a dividend distribution is not expected in the foreseeable future - no provision for taxes has been recorded. With respect to affiliated companies - a provision for taxes on income was recorded if an additional tax liability is likely to arise due to the distribution of dividend.

Profits from the future sale of investments in shares of investee companies may attract additional taxes. The provision for deferred taxes does not include taxes relating to the sale of investments in investee companies as long as the supposition of the ongoing holding of the investment exists.

The provision for taxes on income of the Bank and its consolidated subsidiaries which are financial institutions, for the purposes of Value Added Tax, includes profit tax levied on income as stipulated in the Value Added Tax Law. Value Added Tax levied on payroll of financial institutions is included in the statement of income under the item "Salaries and related expenses".

Income taxes include current and deferred taxes. Current and deferred taxes are recognized in the statement of income, unless the taxes stem from business combinations, or are recognized directly in shareholders' equity to the extent that they stem from items recognized directly in equity.

A deferred tax asset in respect of carry-forward losses, tax benefits and deductible temporary differences, is recognized in the books when positive income is more likely than not expected to exist in the future, against which such deferred taxes might be utilized. Deferred tax assets are examined at each reporting date, and if found that the related tax benefits are not expected to be realized in the future, the tax assets are written off.

Uncertain tax positions. The Bank recognizes the effect of tax positions only if it is more likely than not that these positions would be accepted by the Tax Authorities or by the Courts. Recognized tax positions are measured according to the highest amount the probability of its realization exceeds 50%. Changes in recognition or in measurement are reflected in the period in which changes in circumstances leading to a change in considerations have occurred.

Setoff of deferred tax assets and liabilities. The Bank offsets deferred tax assets against deferred tax liabilities where a legal and enforceable right exists for the setoff of current tax assets and liabilities that relate to the same taxable income, which is taxed by the same tax authority in respect of that assessed entity.

Intercompany transactions. Deferred tax in respect of intercompany transactions in the consolidated financial statements is recognized according to the tax rate applying to the purchasing company.

Additional taxes in respect of the distribution of dividends. The Bank may be liable for additional taxes in the case of a distribution of dividend by consolidated subsidiaries. This additional tax is not included in the financial statements in cases where the investee company adopts a policy of non-distribution of dividends involving additional taxes. In cases where an investee company is expected to distribute dividends out of earnings involving additional taxes, the provision for taxes is increased in respect of the additional tax that might apply in respect of such distribution of dividend.

19. Earnings per share

The Bank presents basic and fully diluted earnings per share with respect to its ordinary share capital. The basic earnings per share is computed by dividing the earnings or loss attributed to the holders of the Bank's ordinary shares by the weighted average number of ordinary shares outstanding during the period. The fully diluted earnings per share is determined by adjusting the earnings or loss attributed to the holders of the ordinary shares and by adjusting the weighted average number of ordinary shares outstanding in respect of the effect of all potentially diluting ordinary shares, which include share option warrants.

20. Segment reporting

Segment of operation is defined in international standards as a component of a banking corporation engaged in operations from which it may generate income and incur expenses; the results of its operations are being examined on a regular basis by the Management and the Board of Directors in order to take decisions regarding the allocation of resources and evaluation of its performance; and also separate financial data exists in its respect. Division into segments and the related reporting outline have been set in provisions and directives of the Supervisor of Banks. For further information, see Note 31 below.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For details regarding the new instruction in the matter of "Supervisory segments of operation", applying as from the 2015 annual report, see item E(3) below.

21. Amortization of deferred expenses

Bond and subordinated capital notes issue costs are amortized proportionally to the outstanding principal amount of the bonds.

22. Debtors and creditors regarding credit card activity

At date of the transaction, the credit card company clearing the transaction acquires an asset in respect of the debt of the issuer of the card or the card holder and concurrently assumes a liability towards the trading house. Furthermore, a credit card Company as an issuer, acquires an asset in respect of a debt of a card holder or of the issuing bank, and concurrently, a liability towards the clearing credit card company.

Debtor and creditor balances in respect of credit card transactions represent entries processed until the business day preceding the day of the report.

23. "Related party disclosures"

IAS 24 regarding "Related party disclosures" determines the disclosure requirements with respect to relations with a related party as well as to transactions and outstanding balances with related parties.

In addition, disclosure is required regarding the compensation paid to key management personnel. These are defined as persons having authority and responsibility for the planning of the entity's operations, for the direct or indirect direction and control thereof, including any Director (whether active or inactive) of the entity.

24. Transactions with controlling shareholders. In accordance with the directives of the Supervisor of Banks, the Bank implements generally accepted accounting principles in the U.S. as regards the accounting treatment of transactions between a banking corporation and its controlling shareholder and between a company controlled by the banking corporation. As regards situations where the said principles do not address a method of treatment, the Bank implements, in accordance with the instructions, the principles determined in Standard No. 23 of the Israeli Accounting Standards Board as regards "the accounting treatment of transactions between an entity and the controlling shareholder therein", this consistently with the adoption principles of the international financial reporting standards as regards subjects that are not part of the core banking business.

Assets and liabilities involved in the transaction with the controlling shareholder are measured at fair value at date of the transaction. Due to the fact that the transaction is of a capital nature, the difference between the fair value and the consideration for the transaction is recognized in shareholders' equity.

Accepting a liability or a waiver. The difference between the fair value of the liability and its book value at date of settlement is recorded as a profit or loss. The difference between the fair value of the liability at date of settlement and the determined consideration is recorded in the equity. In the case of a waiver, the fair value of the waived liability is recorded in the equity.

Indemnification. The amount of the indemnification is recognized in a capital reserve.

Loans, including deposits. At date of initial recognition, the loan granted to a controlling shareholder or a deposit received from a controlling shareholder, are presented in the financial statements at their fair value as an asset or liability, as the case may be. The difference between the amount of the loan granted or of the deposit received and their fair value at date of initial recognition is recognized in shareholders' equity.

In periods following the initial recognition date, the said loan or deposit are stated in the financial statements at their written down cost, using the effective interest method, except for cases where according to generally accepted accounting principles they are stated at fair value.

25. Instructions regarding the adoption of accounting principles accepted by U.S. banks in the matter of the measurement of interest income (FAS 91). As from January 1, 2014, the Bank implements the instructions regarding "adoption of generally accepted accounting principles for banks in the United States, in the matter of measurement of interest income" (ASC 310-20), published on December 29, 2011.

A Questions and Answers file was published in October 2013, in the matter of non-nonrefundable fees and other costs, which states certain guidelines and clarifications with respect to the manner of implementation of the Standard. Among other things, the implementation by way of "from now onwards" of transactions made or renewed as from January 1, 2014 and thereafter, as well as the continued spreading of early redemption commissions.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On October 24, 2013, the Supervisor of Banks issued a circular in the matter of "Update of transitional provisions regarding the measurement of interest income". The circular determines reliefs as regards changes in terms of loans, which are not treated as a troubled debt restructuring, the treatment of credit allocation commissions as well as early repayment commission. The said reliefs have been determined as transitional provisions for the year 2014 only.

It has been further clarified that a banking corporation shall not be permitted to concurrently defer internal costs incurred in the creation of loans without the prior approval of the financial reporting unit of the Supervisor of Banks.

Commissions regarding the setting-up of credit facilities. Commissions charged upon the setting-up of credit facilities, except for loans for periods of up to three months, are not recognized immediately as income in the statement of income, but are deferred and recognized over the period of the loan as a yield adjustment. Commission income, as stated, is recognized by the effective interest method and is reported as part of interest income.

Credit allocation commissions. Credit allocation commissions are treated in accordance with the probability of the commitment to grant credit being realized. Where the probability is remote, the commission is recognized on a "straight-line" basis over the period of the commitment, otherwise, the Bank defers recognition of such commission income until date of realization of the commitment or until date of expiry thereof, whichever is earlier. Where the commitment has been realized, then the commission income is recognized by way of adjustment of the yield over the period of the loan, as stated above. Where the commitment expires without being realized, the commissions are recognized on date of expiry and are reported as part of commission income. In this respect, the Bank assumes that the probability of the commitments being realized is not remote.

Changes in terms of loans. In cases of refinancing or of restructuring of non-problematic loans, the Bank examines the materiality of the changes in terms of the loan. Accordingly, the Bank examines whether the present value of future cash flows under the revised terms of the loan differs by at least 10% from the present value of the remaining cash flows under the existing terms, or if the transaction involve a change in the currency of the loan. In such cases, the refinanced loan is treated as a new loan, and accordingly the outstanding commissions not yet amortized as well as early repayment commissions collected from the customer in respect of the change in the terms of credit are recognized immediately in the statement of income. Otherwise, the said commissions are included as part of the net investment in the new loan and are recognized as an adjustment of the yield, as stated above.

Early repayment commission. Early repayment commissions charged in respect of early repayments made prior to January 1, 2014, and not yet amortized, are recognized over a period of three years, or over the remaining period of the loan, whichever is shorter. Commissions charged in respect of early repayments made subsequently to January 1, 2014, are recognized immediately as part of interest income.

The effect of the initial implementation. The instruction is being applied by way of "from now onwards" on transactions made or renewed as from date of initial application, where as part of the implementation of the instruction the Bank has changed the manner of income recognition and the classification of the commissions as part of interest income or commission income, depending on the substance of the commission, yield adjustment or other commission.

Following is the disclosure regarding the effect of the implementation of the instruction on net interest income, non-interest income (commissions) and the Bank`s net income in the period of the year ended December 31, 2014.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	for the year ended December 31, 2014					
	Consolidated			The Bank		
	In accordance with the prior reporting instructions	Effect of the implementation of the instruction regarding the measurement of interest income	In accordance with the instruction regarding the measurement of interest income	In accordance with the prior reporting instructions	Effect of the implementation of the instruction regarding the measurement of interest income	In accordance with the instruction regarding the measurement of interest income
	in NIS millions					
Interest income	5,545	191	5,736	3,325	123	3,448
Commissions	2,775	(189)	2,586	1,330	(106)	1,224
Net income	595	1	596	585	11	596

The principal changes are the deferment of commission income in respect of the granting of credit and in respect of Commitment Fees, the non-deferment of early repayment commissions and the treatment of changes in debt terms. Following the implementation of the instructions, certain income have been reclassified to interest income, and certain income, which in the past had been classified as interest income, have been reclassified and are now presented as part of commissions item.

26. **Reporting amounts that had been reclassified out of accumulated other comprehensive income.** A circular in this matter was published on October 3, 2013, which amends the public reporting instructions. The amendments are intended to modify the disclosure requirements regarding amounts that had been reclassified out of accumulated other comprehensive income to the update of U.S. Accounting Standard ASU 2013-02.

The principal changes in the instructions are:

- A new disclosure requirement has been added to the note on accumulated other comprehensive income (loss) regarding the items in the statement of income, which include the amounts reclassified from accumulated other comprehensive income to the statement of income;
- A footnote was added to the note on non-interest financing income explaining which of the items in the note had been reclassified from accumulated other comprehensive income.

Initial implementation and its effect. The instructions included in the circular were retroactively applied as from January 1, 2014. Implementation of these instructions did not have a material effect, except for the presentation effect on the Note on accumulated other comprehensive income (loss) and on the note regarding non-interest financing income.

E. New accounting standards and new directives of the Supervisor of Banks in the period prior to their implementation

1. **Adoption of U.S. accounting principles as regards employee rights.** The Supervisor of Banks issued on April 10, 2014, a circular in this matter. The circular updates the recognition, measurement and disclosure requirements in the matter of employee benefits, included in the reporting to public instructions, in accordance with accounting principles accepted by U.S. banks. The circular states that the amendments to the reporting to public instructions shall apply as from January 1, 2015, whereupon its initial implementation, a bank shall retroactively restate the comparative data for periods beginning on January 1, 2013 and thereafter, in order to comply with the provisions of the said principles.

   A Q&A file on the subject was published on January 12, 2015, which, among other things, includes examples for the manner treatment of benefits prevalent in the banking industry, in accordance with generally accepted accounting principles in the U.S..

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furthermore, an amendment to the Reporting to the Public Directives was published on January 11, 2015, regarding "Employee rights – discount rate, disclosure format and transitional instructions for the initial implementation" ("the circular"). The circular notes that the Supervisor of Banks has reached the conclusion that a deep market for high quality corporate bonds does not exist in Israel. Accordingly, the discount rate in respect of employee benefits shall be computed on the basis of the return on Israeli government bonds with the addition of an average spread on AA and above (international) rating of corporate bonds at date of reporting. For practical reasons, it has been determined that the spread shall be fixed according to the difference between the rates of return to maturity, according to periods to maturity, on corporate bonds in the U.S. with an AA and above rating, and the rates of return to maturity, for the same periods to maturity, on U.S. government bonds, and all at date of reporting. A bank, which is of the opinion that changes in the spread computed as above in a certain period, derive from exceptional fluctuations in the market, in a manner that the resulting spreads based upon them are no longer suitable for use as the discount rate, as above, shall refer to the Supervisor of Banks for preliminary guidance. In accordance with the circular, examples of such situations may include, among other things, changes in respect of which, the resulting spread shall be higher than the spread on AA (local) rating of corporate bonds in Israel.

As stated, a banking corporation is required to restate retroactively the comparative data for periods beginning on January 1, 2013 onwards. As to the accounting treatment of actuarial profits/losses recognized in other comprehensive income due to changes in the discount rates, it is determined that:

- The actuarial loss as of January 1, 2013, deriving from the difference between the discount rate used to compute the CPI-linked provisions for employee rights, determined in accordance with the provisional instruction of the Reporting to the Public Directives (4%), and the discount rates as of that date for CPI-linked liabilities to employees, as determined according to the new rules, as stated above (hereinafter: "the loss"), shall be included in accumulated other comprehensive income;
- Actuarial profits recognized as from January 1, 2013, and thereafter, derived from current changes in the discount rates during the reported year, shall be recognized in accumulated other comprehensive income, and shall reduce the above stated recorded balance of loss until its nullification;
- Actuarial losses derived from current changes in the discount rates during the reported year, and actuarial profits derived from current changes in the discount rates during the reported year, recognized after nullification of the recorded balance of loss, as above, shall be amortized by the "straight line" method over the remaining average period of service of the employees expected to enjoy benefits under the plan.

The circular updates the disclosure requirements in respect of employee rights and in respect of share based payments in accordance with Generally Accepted Accounting Principles at U.S. banks.

Despite the material adverse effect on the Bank's equity capital, for the purpose of computing the equity requirements in accordance with the Basel III rules, in accordance with the transitional instructions determined in Proper Conduct of Banking Directive No. 299, the cumulative balance of profit or loss in respect of the remeasurement of the net liabilities or net assets relating to defined employee benefits (including losses recognized directly in the balance of retained earnings as of January 1, 2013), is not taken immediately into account but is subject to the transitional instructions, so that its effect is spread by rates of 40% as from January 1, 2015, and by equal rates of 20% per year as from January 1, 2016 and until the implementation in full of the instruction as from January 1, 2018.

The Bank is preparing for the implementation of the new policy. The following principal subjects are included in the said framework:

1. Definition of a process for the determination of the discount rate on the basis of Israeli CPI linked government bonds, in accordance with the average period to maturity of the estimated indebtedness, with the addition of an average spread of U.S. corporate bonds having a rating of AA and above. The process includes aspects of control of the appropriateness of choosing the bonds, validation of the resultant discount rate and examination of the reasonableness of changes in the discount rate.
2. Determination of a mechanism for defining the forecasted return on assets of the plan. The parameters used in determining the forecasted return are mostly the actual and past composition of the plan's assets, possible changes in the composition of the assets in accordance with the investment policy, as defined, past yields of the fund, the yield of the assets and its weight in the total portfolio, after deduction of operating expenses and commissions. The mechanism also includes examination of the need for the updating of the forecasted return during the reported period.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3. The change in the method of measurement of the Bank's liability in respect of benefits to retirees in relation to the population of active employees, and the transition to computing the liability on the date on which it becomes certain instead of a computation assuming retirement rates prior to the age of 67 and a pro-rata charge in accordance therewith.
4. Definition of the work process for the treatment of actuarial profits and losses, differentiating in the framework thereof between:
   - The actuarial loss arising from the change in the discount rate as of January 1, 2013;
   - Actuarial profits that would arise from changes in the discount rate subsequent to the date of initial implementation;
   - Actuarial losses arising from changes in the discount rate and from other components subsequent to the date of initial implementation;
   - Actuarial profits/losses arising from the difference between the forecasted return on the plan's assets and the return actually earned.

The process includes reference to reasonableness of the resultant actuarial profit/loss, the accounting records, the mechanism for the amortization of the profits/losses and the determination of the amortization period.

Following are details regarding the effect of the initial implementation of the new instructions as of December 31, 2014 had they been applied on that date:

Consolidated

	December 31, 2014		
	Reported data	Impact of the implementation	Data after implementation
	In NIS millions		
Total assets	206,946	336	207,282
Total liabilities	193,305	893	194,198
Equity capital attributed to the Bank's shareholders	13,243	(557)	12,686
Total Shareholders' equity	13,641	(557)	13,084
Total Capital Ratio - in %	14.9	(0.3)	14.6
Common equity tier 1 ratio - in % Ratio	9.4	(0.2)	9.2

The Bank

	December 31, 2014		
	Reported data	Impact of the implementation	Data after implementation
	In NIS millions		
Total assets	141,066	276	141,342
Total liabilities	127,823	733	128,556
Equity capital attributed to the Bank's shareholders	13,243	(457)	12,786

2. **Reporting according to U.S. generally accepted accounting principles in the matter of Distinguishing Liabilities from Equity.** On October 6, 2014 the Supervisor of Banks published an instruction in the matter of reporting according to U.S. generally accepted accounting principles regarding distinguishing liabilities from equity. This, in continuation to the policy of the Supervisor of Banks adopting, in cases of material issues, the financial reporting layout applying to banks in the United States. According to the instruction, it is required to apply the U.S. generally accepted accounting principles in the matter of classification of financial instruments as equity or liabilities, including hybrid instruments. For this purpose, it would be required to apply, among other things the presentation, measurement and disclosure principles determined within the framework of the following topics in the codification:
   - Topic 480 regarding "Distinguishing Liabilities From Equity";
   - Topic 470-20 regarding "Debt with Conversion and Other Options"; and
   - Topic 505-30 regarding "Treasury stock".

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, in applying the differentiation between liabilities and capital, it is required to refer to the reporting to the public instructions as regards embedded instruments.

Concurrently, the Supervisor of Banks published an FQA file in this matter, within the framework of which, it has been clarified that existing debt instruments having a conditional conversion component into shares (which under the Basel II instructions is included in Common equity tier I, and according to the transitional instructions agrees with the definition of a hybrid capital instrument, or which is included as a regulatory capital component under the Basel III Instructions) are to be classified as a liability measured according to amortized cost, without separating the embedded derivative.

The effective date stated is January 1, 2015, whereupon the initial implementation it is required to act in accordance with the transitional instructions determined in respect of topics in the codification, as detailed above, including the restatement of the comparative data, where relevant.

In the Bank's opinion, the implementation of the instruction will have no material effect.

3. Regulatory operating segments. An amendment to the reporting to the public instructions in the matter of regulatory operating segments was published on November 6, 2014.

The main changes are:

- Additional requirement for disclosure of "regulatory operating segments" was added, in accordance with the definition of the Supervisor of Banks. The format of disclosure regarding regulatory operating segments refers to the following segments: private banking, households, one-man and small businesses, medium businesses, large businesses, institutional bodies and financial management;
- New definitions were added clarifying which customers are to be included in each segment;
- A new requirement was added for a separate disclosure of the "financial management" segment.

In addition, a FAQ file in the matter was distributed November 6, 2014.

The circular determines that the disclosure in the matter of "operating segments according to Management's approach" shall be provided in accordance with Generally Accepted Accounting Principles at U.S. banks in the matter of operating segments (included in ASC 280), to the extent that a difference exists between Management's approach and operating segments according to guidelines of the Supervisor of Banks.

The new rules apply as from the 2015 financial statements and thereafter, as follows:

- The disclosure requirement in the 2015 statements shall apply to balance sheet data regarding supervisory operating segments, as defined in the new instructions. According to the new instructions, it is permitted not to provide disclosure of balance sheet comparative data for the supervisory operating segments, but to include comparative data in accordance with the Reporting to the Public Directives in effect prior to the letter taking effect. Furthermore, no disclosure is required for the financial management segment;
- Full disclosure according to the new rules is required as from the financial report for the first quarter of 2016, excluding disclosure of the financial management segment. The comparative data are to be adjusted retroactively. It is permitted to present in the financial statements for 2016 comparative data for one year only in respect of the Note regarding the supervisory operating segments. For the purpose of presentation of the comparative data it would be possible to rely on the classification of customers to supervisory operating segments as of January 1, 2016;
- Implementation in full of the guidelines of the circular is required as from the financial statements for the first quarter of 2017.

The Bank is of the opinion that the new instructions are not expected to have a material effect, save for the manner of presentation and disclosure.

4. Recognition of income from contracts with customers. A circular was published on January 14, 2015, in the matter of adoption of the update for accounting principles regarding income from contracts with customers. The circular updates the Reporting to the Public Directives in view of the publication of ASU 2014-09, which adopts in U.S. GAAP a new standard in the matter of income recognition. The standard states that income shall be recognized in the amount expected to be received in consideration for the delivery of goods or the granting of service to the customer.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The amendments in the Directives will apply as from January 1, 2017. In accordance with the transitional instructions, on the initial implementation it is permitted to choose between retroactive implementation by restating the comparative data, or the alternative of the "from now onwards" method, recognizing in equity the cumulative effect at date of initial implementation.

The new standard does not apply, among other things, to financial instruments and to contractual rights or liabilities under Chapter 310 of the Codification.

The Bank has not yet examined the effect of the standard on its financial statements, and has not yet elected the alternative manner of implementation of the transitional instructions.

2. CASH AND DEPOSITS WITH BANKS[1]

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
Cash and deposits with central banks	27,442	19,545	21,631	16,165
Deposits with commercial banks	4,252	5,774	3,635	4,031
Total cash and deposits with banks	**[2]31,694**	**[2]25,319**	**25,266**	**20,196**
Includes cash, deposits with banks and deposits with central banks for an initial period of up to three months	29,013	23,765	24,635	19,338

Footnote:

(1) See Note 15 D, F, I, L for pledges.

(2) Not including balances classified as assets and liabilities held for sale, in the amount of NIS 2,152 million (31.12.13: NIS 1,659 million) - see Notes 8A.

3. SECURITIES[1]

A. Composition of this item - consolidated

	December 31,2014				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,476	3,476	364	-	3,840
Of foreign Governments	19	19	-	-	19
Of Israeli financial institutions	85	85	8	-	93
Of foreign financial institutions	81	81	-	1	80
‎♂Mortgage-backed-securities or (MBS) Assets -backed-securities (ABS)	1,225	1,225	17	18	1,224
Of others abroad[7]	2,095	2,095	105	4	2,196
Total held-to-maturity bonds	**6,981**	**[3]6,981**	**494**	**23**	**7,452**

For further footnotes see next page.

3. SECURITIES[1] (CONTINUED)

A. Composition of this item - consolidated (continued)

	December 31,2014				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	14,637	14,223	420	6	14,637
Of foreign governments	1,538	1,536	3	1	1,538
Of Israeli financial institutions	546	537	9	-	546
Of foreign financial institutions	1,919	1,886	39	6	1,919
⁷Mortgage-backed-securities or (MBS) Assets -backed-securities (ABS)	7,774	7,810	46	82	7,774
Of others in Israel**	759	747	18	6	759
Of others abroad[8]	109	110	-	1	109
Total bonds	27,282	26,849	535	102	[3]27,282
Shares	1,681	1,737	8	64	[5][10][11]1,681
Total available-for-sale securities	**28,963**	**28,586**	**[4]543**	**[4]166**	**28,963**
**Of which: Bonds backed by State guarantees	308	307	2	1	308

	December 31,2014				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	1,278	1,262	19	3	1,278
Of Israeli financial institutions	3	3	-	-	3
Of foreign financial institutions	5	5	-	-	5
⁷Mortgage-backed-securities or (MBS) Assets -backed-securities (ABS)	60	60	-	-	60
Of others in Israel	50	50	-	-	50
Of others abroad	2	2	-	-	2
Total bonds	1,398	1,382	19	3	1,398
Shares	11	13	-	2	11
Total trading securities	**1,409**	**1,395**	**[6]19**	**[6]5**	**1,409**
Total securities[9]	**37,353**	**36,962**	**1,056**	**194**	**37,824**

Footnotes:

(1) See Note 15 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 848 million (approx. US$ 218 million) and from the available for sale portfolio with a market value of NIS 3,810 million (approx. US$ 980 million).

(4) Included in "Accumulated other comprehensive income".

(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 765 million.

(6) Recorded in the statement of income.

(7) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 2,026 million (book value).

(8) Including U.S. Government agencies, in an amount of NIS 67 million (Book value).

(9) Excluding balances classified as assets and liabilities held for sale - see Note 8 A.

(10) For details regarding the classification of the investment in shares of FIBI, see Note 6D (4).

(11) Including investment in Tracking Funds in the amount of NIS 16 million.

3. SECURITIES[1] (CONTINUED)

A. Composition of this item - consolidated (continued)

	December 31, 2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,738	3,738	278	-	4,016
Of Israeli financial institutions	86	86	5	-	91
Of foreign financial institutions	64	64	1	3	62
Mortgage-backed-securities or (MBS) Assets -backed-securities (ABS)	1,298	1,298	20	41	1,277
Of others abroad[7]	1,988	1,988	61	71	1,978
Total held-to-maturity bonds	**7,174**	**[3]7,174**	**365**	**115**	**7,424**

	December 31, 2013				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	19,932	19,516	416	-	19,932
Of foreign governments	331	342	3	14	331
Of Israeli financial institutions	628	608	20	-	628
Of foreign financial institutions	2,748	2,854	47	153	2,748
Mortgage-backed-securities or (MBS) Assets -backed-securities (ABS)	6,724	6,900	24	200	6,724
Of others in Israel**	693	659	34	-	693
Of others abroad[8]	52	61	-	9	52
Total bonds	31,108	30,940	544	376	[3]31,108
Shares	852	838	15	1	[5]852
Total available-for-sale securities	**31,960**	**31,778**	**[4]559**	**[4]377**	**31,960**
**Of which: Bonds backed by State guarantees	257	253	4	-	257

For further footnotes see next page.

3. SECURITIES[1] (CONTINUED)

A. Composition of this item - consolidated (continued)

	December 31, 2013				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,019	2,020	2	3	2,019
Of foreign governments	4	4	-	-	4
Of Israeli financial institutions	2	2	-	-	2
Of foreign financial institutions	9	9	-	-	9
Mortgage-backed-securities or (MBS) Assets -backed-securities (ABS)	50	52	-	2	50
Of others in Israel	89	88	1	-	89
Of others abroad	5	6	-	1	5
Total bonds	2,178	2,181	3	6	2,178
Shares	13	14	1	2	13
Total trading securities	**2,191**	**2,195**	[6]**4**	[6]**8**	**2,191**
Total securities[9]	**41,325**	**41,147**	**928**	**500**	**41,575**

Footnotes:

(1) See Note 15 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity portfolio at a reduced cost of NIS 837 million (approx. US$ 241 million) and from the available for sale portfolio with a market value of NIS 3,475 million (approx. US$ 1,001 million).

(4) Included in "Accumulated other comprehensive income".

(5) Including shares, the fair value of which is not readily available, stated at cost of NIS 751 million.

(6) Recorded in the statement of income.

(7) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 1,971 million (book value).

(8) Including U.S. Government agencies, in an amount of NIS 52 million (book value).

(9) Excluding balances classified as assets and liabilities held for sale - see Note 8 A.

For details as to the results of investment activity in bonds and shares, see Notes 23 and 24.

B. Composition of this item - the Bank

	December 31,2014				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,267	3,267	338	-	3,605
Total held-to-maturity bonds and bills	**3,267**	**3,267**	**338**	**-**	**3,605**

For footnotes see next page.

3. SECURITIES[1] (CONTINUED)

B. Composition of this item - the Bank (continued)

	December 31,2014				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	11,983	11,635	351	3	11,983
Of foreign governments	1,539	1,537	3	1	1,539
Of Israeli financial institutions	92	87	5	*-	92
Of foreign financial institutions	1,526	1,490	38	2	1,526
Of others in Israel**	332	328	6	2	332
Of others abroad	39	39	-	*-	39
Total bonds	15,511	15,116	403	8	15,511
Shares	843	906	-	63	(4)(6)(7)843
Total available-for-sale securities	**16,354**	**16,022**	**(3)403**	**(3)71**	**16,354**
**Of which: Bonds backed by State guarantees	115	116	-	1	115

	December 31,2014				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	1,224	1,208	19	3	1,224
Of others in Israel	46	46	-	*-	46
Total bonds	1,270	1,254	19	3	1,270
Shares	-	2	-	2	-
Total trading securities	**1,270**	**1,256**	**(5)19**	**(5)5**	**1,270**
Total securities	**20,891**	**20,545**	**760**	**76**	**21,229**

*Loss amount lower then NIS 1 million.

Footnotes:

(1) See Note 15 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in "Accumulated other comprehensive income".

(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of NIS 9 million.

(5) Recorded in the statement of income.

(6) For details regarding the classification of the investment in shares of FIBI, see Note 6D (4).

(7) Including investment in Tracking Funds in the amount of NIS 16 million.

3. SECURITIES[1] (CONTINUED)

B. Composition of this item - the Bank

	December 31,2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[2]
	In NIS millions				
(1) Held-to-maturity bonds:					
Bonds and bills:					
Of the Israeli Government	3,526	3,526	265	-	3,791
Total held-to-maturity bonds	**3,526**	**3,526**	**265**	**-**	**3,791**

	December 31,2013				
			Accumulated other comprehensive income		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value[2]
	In NIS millions				
(2) Available for sale securities:					
Bonds and bills:					
Of the Israeli Government	14,940	14,615	325	*-	14,940
Of foreign governments	172	169	3	-	172
Of Israeli financial institutions	110	103	7	*-	110
Of foreign financial institutions	1,487	1,450	37	*-	1,487
Of others in Israel**	341	324	17	*-	341
Total bonds	17,050	16,661	389	-	17,050
Shares	5	5	-	*-	[4]5
Total available-for-sale securities	**17,055**	**16,666**	**[3]389**	**-**	**17,055**
**Of which: Bonds backed by State guarantees	81	81	-	-	81

For further footnotes see next page.

3. SECURITIES[(1)] (CONTINUED)

B. Composition of this item – the Bank (continued)

	December 31,2013				
	Book value	Amortized cost (for shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(2)]
	In NIS millions				
(3) Trading Securities:					
Bonds and bills:					
Of the Israeli Government	1,956	1,958	1	3	1,956
Of others in Israel	74	73	1	-	74
Total bonds	2,030	2,031	2	3	2,030
Shares	1	3	-	2	1
Total trading securities	**2,031**	**2,034**	**(5)2**	**(5)5**	**2,031**
Total securities	**22,612**	**22,226**	**656**	**5**	**22,877**

*Loss amount lower then NIS 1 million.

Footnotes:

(1) See Note 15 for pledges.

(2) Fair value data based on market prices, does not necessarily reflect the price that may be obtained on the sale of securities in large volumes.

(3) Included in "Accumulated other comprehensive income".

(4) Including shares and bonds, the fair value of which is not readily available, stated at cost of NIS 5 million.

(5) Recorded in the statement of income.

For details as to the results of investment activity in bonds and shares, see Notes 23 and 24.

C. Amortized cost and unrealized losses, according to the length of the period and rate of impairment of held-to-maturity bonds which are in an unrealized loss position - consolidated

	December 31, 2014							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of foreign financial institutions	-	-	-	-	35	1	-	1
Mortgage-backed-securities (MBS) and Assets -backed-securities (ABS)	129	1	-	1	803	17	-	17
Of others abroad	-	-	-	-	351	4	-	4
Total held-to-maturity bonds	**129**	**1**	**-**	**1**	**1,189**	**22**	**-**	**22**

	December 31, 2013							
	Less than 12 months				More than 12 months			
		Unrecognized losses from adjustment to fair value				Unrecognized losses from adjustment to fair value		
	Amortized cost	0-20%	20-40%	Total	Amortized cost	0-20%	20-40%	Total
	In NIS millions							
Held-to-maturity bonds								
Bonds and loans:								
Of foreign financial institutions	-	-	-	-	31	3	-	3
Mortgage-backed-securities (MBS) and Assets -backed-securities (ABS)	777	34	-	34	219	7	-	7
Of others abroad	696	62	-	62	93	9	-	9
Total held-to-maturity bonds	**1,473**	**96**	**-**	**96**	**343**	**19**	**-**	**19**

3. SECURITIES[1] (CONTINUED)

D. Fair value and unrealized losses, according to the length of the period and rate of impairment of available-for-sale securities which are in an unrealized loss position-consolidated

	December 31, 2014							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available for sale securities								
Bonds and loans:								
Of the Israeli Government	1,003	6	-	6	-	-	-	-
Of foreign governments	214	1	-	1	-	-	-	-
Of foreign financial institutions	228	2	-	2	171	4	-	4
Mortgage-backed-securities (MBS) and Assets -backed-securities (ABS)	757	5	-	5	3,165	77	-	77
Of others in Israel	300	6	-	6	-	-	-	-
Of others abroad	20	*-	-	*-	67	1	-	1
Total bonds	2,522	20	-	20	3,403	82	-	82
Shares	843	64	-	64	17	*-	-	*-
Total available-for-sale securities	**3,365**	**84**	**-**	**84**	**3,420**	**82**	**-**	**82**

	December 31, 2013							
	Less than 12 months				More than 12 months			
		Unrealized losses				Unrealized losses		
	Fair value	0-20%	20-40%	Total	Fair value	0-20%	20-40%	Total
	In NIS millions							
Available for sale securities								
Bonds and loans:								
Of the Israeli Government	98	*-	-	*-	-	-	-	-
Of foreign governments	160	14	-	14	-	-	-	-
Of foreign financial institutions	95	*-	-	*-	844	106	47	153
Mortgage-backed-securities (MBS) and Assets -backed-securities (ABS)	4,195	153	-	153	1,176	47	-	47
Of others in Israel	13	*-	-	*-	7	*-	-	*-
Of others abroad	52	8	1	9	-	-	-	-
Total bonds	4,613	175	1	176	2,027	153	47	200
Shares	15	1	-	1	-	-	-	-
Total available-for-sale securities	**4,628**	**176**	**1**	**177**	**2,027**	**153**	**47**	**200**

*Loss amount lower then NIS 1 million.

3. SECURITIES[1] (CONTINUED)

E. **Further details regarding mortgage and asset backed securities, on a consolidated basis.** The Bank's securities portfolio as of December 31, 2014, includes investments in asset backed securities, primarily investment in mortgage backed securities (MBS) which are held for the most part by IDB New York.

Mortgage-backed Securities - MBS.A type of asset-backed security (ABS) that is secured by a mortgage or a pool of mortgages, in respect of which periodic payments of principal and interest are paid. These securities are also referred to as mortgage related or mortgage pass-through securities.

In accordance with the IDBNY Treasury Management and Asset-Liability Policy, investments in MBSs, excluding GNMAs, are limited to 75% of the total investment portfolio. The market risk of these securities is evaluated prior to purchase to determine their suitability for inclusion in the portfolio. Moreover, certain high risk tranches, are not allowable.

Mortgage Pass - Through. A security issued by a financial institution which constitutes holdings of a proportionate share of the mortgage loan portfolio of private borrowers. Where the issue is executed by Ginnie Mae, a U.S. Government guarantee is in effect. When the issue is performed by Fannie Mae or Freddie Mac, Government Sponsored Enterprises (hereinafter: "GSE"), the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the issue is performed by other financial institutions, the security is backed by the mortgages alone. The large issuers of securitized assets are the GSE's who have a high credit rating. The GSE's are sponsored by the U.S. Government and are supervised by it. There is, however, no explicit guarantee on the part of the U.S. Government to the GSE's.

Mortgage loans, grant the private borrower the right of early repayment at any given time. As a result, the investor's have interest exposure (early repayment), as well as exposure to the condition in the real estate market and the economy in general.

Collateralized Mortgage Obligation - CMO. A type of structured bond, backed by a portfolio of mortgage loans of private borrowers in the United States. The CMO is divided into tranches. Each tranche represents a bond security entitled to receive interest and repayment of principal before or after other bonds in the CMO, so that each bond reflects a different maturity period and interest risk.

Where the CMO is issued by GNMA or GSE's, the issuer provides guarantee for any loss on the loan portfolio backing the bond. Where the CMO is issued by other financial institutions, the bond is backed by the mortgages alone and preference is given to bonds high rated in respect of payments of principal and interest over the other tranches given a lower rating.

CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

FNMA (Fannie Mae): a public corporation under the sponsorship of the U.S. Government that purchases mortgages, securitizes them and sells them on the open market (the corporation does not carry a U.S. Government guarantee).

FHLMC (Freddie Mac): an agency branched to the U.S. Government that purchases mortgages, securitizes them and sells them to the public (the agency does not carry a U.S. Government guarantee).

GNMA (Ginnie Mae): a federal mortgage corporation. Bonds issued by it are secured by guarantees of the Government National Mortgage Association.

3. SECURITIES[1] (CONTINUED)

F. Additional details (consolidated) regarding mortgage and asset backed securities

	December 31, 2014			
	Amortized cost	Unrealized gains from adjustment to fair value[1]	Unrealized losses from adjustment to fair value[1]	Fair value
	In NIS millions			
1.Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	1,690	15	1	1,704
Securities issued by FHLMC and FNMA	1,950	22	13	1,959
Total mortgage-backed pass-through securities	**3,640**	**37**	**14**	**3,663**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by LMCFH, FNMA and GNMA	3,760	9	65	3,704
Other mortgage-backed securities	20	-	1	19
Total available-for-sale other mortgage-backed securities	**3,780**	**9**	**66**	**3,723**
Total available-for-sale MBS securities	**7,420**	**46**	**80**	**7,386**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	47	3	-	50
Securities issued by FHLMC and FNMA	35	3	-	38
Total mortgage-backed pass-through securities	**82**	**6**	**-**	**88**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by LMCFH, FNMA and GNMA	1,103	3	18	1,088
Other mortgage-backed securities	40	8	-	48
Total held-to-maturity other mortgage-backed securities	**1,143**	**11**	**18**	**1,136**
Total held-to-maturity MBS securities	**1,225**	**17**	**18**	**1,224**
Trading securities				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	1	-	-	1
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	59	-	*-	59
Total mortgage-backed trading securities (MBS)	**60**	**-**	**-**	**60**
Total mortgage-backed securities (MBS)	**8,705**	**63**	**98**	**8,670**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	390	-	2	388
Total asset-backed available-for-sale securities (ABS)	**390**	**-**	**2**	**388**
Total mortgage and asset-backed securities	**9,095**	**63**	**100**	**9,058**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available for sale securities-accumulated other comprehensive income.

3. SECURITIES[1] (CONTINUED)

F. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

	December 31, 2013			
	Amortized cost	Unrealized gains from adjustment to fair value[1]	Unrealized losses from adjustment to fair value[1]	Fair value
	In NIS millions			
Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	288	1	4	285
Securities issued by FHLMC and FNMA	2,622	15	66	2,571
Total mortgage-backed pass-through securities	**2,910**	**16**	**70**	**2,856**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	3,971	8	130	3,849
Other mortgage-backed securities	19	-	*-	19
Total available-for-sale other mortgage-backed securities	**3,990**	**8**	**130**	**3,868**
Total available-for-sale MBS securities	**6,900**	**24**	**200**	**6,724**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	52	3	-	55
Securities issued by FHLMC and FNMA	41	2	-	43
Total mortgage-backed pass-through securities	**93**	**5**	**-**	**98**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,161	7	41	1,127
Other mortgage-backed securities	44	8	-	52
Total held-to-maturity other mortgage-backed securities	**1,205**	**15**	**41**	**1,179**
Total held-to-maturity MBS securities	**1,298**	**20**	**41**	**1,277**
Trading securities				
A. Mortgage pass-through securities:				
Securities issued by FHLMC and FNMA	1	-	-	1
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	51	-	2	49
Total mortgage-backed trading securities (MBS)	**52**	**-**	**2**	**50**
Total mortgage-backed securities (MBS)	**8,250**	**44**	**243**	**8,051**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available for sale securities-accumulated other comprehensive income.

3. SECURITIES[1] (CONTINUED)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES

Additional details regarding mortgage and asset backed securities in unrealized loss position

	December 31, 2014			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
1. Mortgage-backed securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities				
Securities guaranteed by GNMA	87	1	55	*-
Securities issued by FHLMC and FNMA	-	-	758	13
Total mortgage-backed pass-through securities	**87**	**1**	**813**	**13**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	497	2	2,332	63
Other MBS securities	-	-	20	1
Total other mortgage-backed securities	**497**	**2**	**2,352**	**64**
Total available-for-sale MBS securities	**584**	**3**	**3,165**	**77**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	127	1	786	17
Total other mortgage-backed securities	**127**	**1**	**786**	**17**
Total held-to-maturity MBS securities	**127**	**1**	**786**	**17**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	28	*-	14	*-
Total mortgage-backed trading securities (MBS)	**28**	***-**	**14**	***-**
Total mortgage-backed securities (MBS)	**739**	**4**	**3,965**	**94**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	173	2	-	-
Total asset-backed available-for-sale securities (ABS)	**173**	**2**	**-**	**-**
Total mortgage and asset-backed securities	**912**	**6**	**3,965**	**94**

*Loss amount lower then NIS 1 million.

3. SECURITIES[1] (CONTINUED)

G. ADDITIONAL DETAILS (CONSOLIDATED) REGARDING MORTGAGE AND ASSET BACKED SECURITIES (CONTINUED)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued):

	December 31, 2013			
	Less than 12 months		12 months and over	
	Fair value	Unrealized losses	Fair value	Unrealized losses
	In NIS millions			
Mortgage-Backed Securities (MBS):				
Available-for-sale securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	164	4	-	-
Securities issued by FHLMC and FNMA	1,966	66	-	-
Total mortgage-backed pass through securities	**2,130**	**70**	**-**	**-**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	2,046	83	1,176	47
Other MBS securities	19	*-	-	-
Total other mortgage-backed securities	**2,065**	**83**	**1,176**	**47**
Total available-for-sale MBS securities	**4,195**	**153**	**1,176**	**47**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	743	34	211	7
Total other mortgage-backed securities	**743**	**34**	**211**	**7**
Total held-to-maturity MBS securities	**743**	**34**	**211**	**7**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	41	2	2	*-
Total mortgage-backed trading securities (MBS)	**41**	**2**	**2**	***-**
Total mortgage-backed securities (MBS)	**4,979**	**189**	**1,389**	**54**

*Loss amount lower then NIS 1 million.

H. The available-for-sale securities portfolio includes corporate bonds, including bonds of banks, in a total amount of NIS 3,333 million (December 31, 2013: NIS 4,121 million). The balance of the said bonds included as of December 31, 2014, unrealized losses in the amount of NIS 13 million (December 31, 2013: NIS 162 million).

I. Most of the unrealized losses as at December 31, 2014 relate to securities rated as "investment grade" and they are attributed to certain factors, including changes in market interest rate subsequent to date of acquisition, an increase in margins occurring in the credit market concerning similar types of securities, the impact of inactive markets and changes in the rating of securities. For debt securities, there are no securities past due or securities for which the Bank and/or it relevant consolidated companies estimates that it is not probable that they will be able to collect all the amounts owed to them pursuant to the investment contracts.

Since the Bank and the relevant consolidated subsidiaries have the ability and intent to hold on to securities with unrealized losses until a market price recovery (which for bonds, may not be until maturity), the Bank and the relevant consolidated subsidiaries do not consider the impairment in value of these investments to be other than temporarily impaired at December 31, 2014 except for certain securities, in respect of which a provision for impairment in value has been included.

In 2014, an other than temporary in nature write down was recorded on several securities, in the amount of NIS 180 million (2013: NIS 50 million). For details regarding the provision made on the background of the classification of the securities of DBLA as assets held for sale, see Note 8A below. For details as to loss on an other than temporary impairment, in respect of the shares of FIBI, see Note 6D (7) below.

3. SECURITIES[1] (CONTINUED)

J. The securities portfolio of the Discount Group as at December 31, 2014, includes a direct investment in bonds of the Federal Home Loan Bank (FHLB), Fannie Mae and Freddie Mac (hereinafter: "the Federal Agencies"), that are being held by IDB New York, in an amount of US$25 million, (NIS 97 million), compared to US$25 million on December 31, 2013 (NIS 87 million).

K. **Fair value presentation.** The balances of securities as of December 31, 2014, and December 31, 2013, include securities amounting to NIS 29,597 million and NIS 33,400 million, respectively, that are presented at fair value.

L. Data regarding impaired bonds - consolidated

	December 31, 2014	December 31, 2013
	In NIS millions	
Recorded amount of non accruing interest income impaired bonds	20	21

M. **Provision for impairment of TRUPS.** The Basel III rules apply to IDB New York as from January 1, 2015, within the framework of which, the investment in TRUPS bonds is considered as "non-significant investment in the capital of financial institutions". Accordingly, that part of the investment exceeding 10% of the Common equity tier 1, shall be gradually deducted from capital, in accordance with the transitional instructions. In view of the anticipated effect on capital adequacy, IDB New York has decided to sell the said securities. In 2014 the full investments in TRUPS have been sold. In the financial statements a loss was recorded on the sale of bonds, as stated in an amount of approx. US$30 million (NIS 105 million).

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES

General. Debts – in this Note: Credit to the public, credit to Governments, deposits with banks and other debts, excluding bonds and securities borrowed or purchased under resale agreements.

A. Debts and off-balance sheet credit instruments

1. Change in the balance of the allowance for credit losses - Consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	2014					
Balance of allowance for credit losses, as at December 31, 2013[(1)]	1,709	255	354	2,318	3	2,321
Credit loss expenses	30	19	113	162	2	164
Accounting write-offs	(662)	(11)	(259)	(932)	-	(932)
Collection of debts written-off in previous years	441	-	203	644	-	644
Net accounting write-offs	(221)	(11)	(56)	(288)	-	(288)
Financial statements translation adjustments	27	-	-	27	-	27
Balance of allowance for credit losses, as at December 31, 2014[(1)]	**1,545**	**263**	**411**	**2,219**	**5**	**2,224**
Of which: In respect of off-balance sheet credit instruments	134	3	33	170	-	170
	2013					
Balance of allowance for credit losses, as at December 31, 2012	1,636	225	395	2,256	5	2,261
Credit loss expenses	538	31	13	582	(2)	580
Accounting write-offs	(690)	(1)	(261)	(952)	-	(952)
Collection of debts written-off in previous years	249	-	207	456	-	456
Net accounting write-offs	(441)	(1)	(54)	(496)	-	(496)
Financial statements translation adjustments	(19)	-	-	(19)	-	(19)
Assets and liabilities held for sale	(5)	-	-	(5)	-	(5)
Balance of allowance for credit losses, as at December 31, 2013[(1)]	**1,709**	**255**	**354**	**2,318**	**3**	**2,321**
Of which: In respect of off-balance sheet credit instruments	153	1	30	184	-	184
	2012					
Balance of allowance for credit losses, as at December 31, 2011	1,477	230	440	2,147	4	2,151
Credit loss expenses	705	-	20	725	1	726
Accounting write-offs	(781)	(7)	(263)	(1,051)	-	(1,051)
Collection of debts written-off in previous years	241	2	198	441	-	441
Net accounting write-offs	(540)	(5)	(65)	(610)	-	(610)
Financial statements translation adjustments	(6)	-	-	(6)	-	(6)
Balance of allowance for credit losses, as at December 31, 2012	**1,636**	**225**	**395**	**2,256**	**5**	**2,261**
Of which: In respect of off-balance sheet credit instruments	132	-	39	171	-	171

Footnote:
(1) Excluding balance classified as assets and liabilities held for sale - see Note 8A.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

2. Additional information regarding the mode of computing the allowance for credit losses in respect of debts and regarding the debts for which the allowance is computed – consolidated

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	December 31,2014					
Recorded amount of debts:						
Examined on a specific basis	59,467	-	4,357	63,824	5,849	69,673
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	331	20,361	-	20,692	-	20,692
Group - other	20,238	37	17,381	37,656	1,647	39,303
Total debts	**80,036**	**20,398**	**21,738**	**122,172**	**7,496**	**129,668**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	1,111	-	73	1,184	2	1,186
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	1	(1)260	-	261	-	261
Group - other	299	-	305	604	3	607
Total allowance for Credit Losses	**1,411**	**260**	**378**	**2,049**	**5**	**2,054**
	December 31,2013					
Recorded amount of debts:						
Examined on a specific basis	61,161	-	4,401	65,562	7,260	72,822
Examined on a group basis:	-	-	-	-	-	-
The allowance in respect thereof is computed by the extent of arrears	395	19,978	-	20,373	-	20,373
Group - other	16,413	29	15,616	32,058	1,578	33,636
Total debts	**77,969**	**20,007**	**20,017**	**117,993**	**8,838**	**126,831**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	1,329	-	80	1,409	1	1,410
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	4	(1)254	-	258	-	258
Group - other	223	-	244	467	2	469
Total allowance for Credit Losses	**1,556**	**254**	**324**	**2,134**	**3**	**2,137**

Footnote:

(1) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 26 million (December 31, 2013 - NIS 17 million), computed on a group basis in an amount of NIS 73 million (December 31, 2013 - NIS 70 million).

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

3. Change in the balance of the allowance for credit losses – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	2014					
Balance of allowance for credit losses, as at December 31, 2013	1,193	241	155	1,589	(1)-	1,589
Credit loss expenses (expenses reversal)	(3)	20	82	99	-	99
Accounting write-offs	(516)	(10)	(137)	(663)	-	(663)
Collection of debts written-off in previous years	365	-	104	469	-	469
Net accounting write-offs	(151)	(10)	(33)	(194)	-	(194)
Financial statements translation adjustments	-	--	--	-	--	--
Balance of allowance for credit losses, as at December 31, 2014	**1,039**	**251**	**204**	**1,494**	**(1)-**	**1,494**
Of which: In respect of off-balance sheet credit instruments	120	3	12	135	-	135
	2013					
Balance of allowance for credit losses, as at December 31, 2012	1,109	216	184	1,509	(1) --	1,509
Credit loss expenses (expenses reversal)	406	26	(6)	426	--	426
Accounting write-offs	(505)	(1)	(132)	(638)	--	(638)
Collection of debts written-off in previous years	184	-	109	293	--	293
Net accounting write-offs	(321)	(1)	(23)	(345)	--	(345)
Financial statements translation adjustments	(1)	--	--	(1)	--	(1)
Balance of allowance for credit losses, as at December 31, 2013	**1,193**	**241**	**155**	**1,589**	**(1)-**	**1,589**
Of which: In respect of off-balance sheet credit instruments	139	1	13	153	-	153
	2012					
Balance of allowance for credit losses, as at December 31, 2011	982	222	212	1,416	1	1,417
Credit loss expenses (expenses reversal)	569	(1)	22	590	(1)	589
Accounting write-offs	(627)	(7)	(157)	(791)	--	(791)
Collection of debts written-off in previous years	185	2	107	294	--	294
Net accounting write-offs	(442)	(5)	(50)	(497)	--	(497)
Financial statements translation adjustments	--	--	--	--	-	--
Balance of allowance for credit losses, as at December 31, 2012	**1,109**	**216**	**184**	**1,509**	**(1)-**	**1,509**
Of which: In respect of off-balance sheet credit instruments	117	-	17	134	-	134

Note:
(1) An amount lower than NIS 1 million.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

4. Additional information regarding the mode of computing the allowance for credit losses in respect of debts and regarding the debts for which the allowance is computed – The Bank

	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	TOTAL	Banks and Governments	TOTAL
	In NIS millions					
	December 31,2014					
Recorded amount of debts:						
Examined on a specific basis	45,341	-	1,834	47,175	5,145	52,320
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	237	17,376	-	17,613	-	17,613
Group - other	4,080	-	9,433	13,513	-	13,513
Total debts[(1)]	**49,658**	**17,376**	**11,267**	**78,301**	**5,145**	**83,446**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	837	-	33	870	-	870
Examined on a group basis:						
Of which: the allowance in respect thereof is computed by the extent of arrears	1	[(1)]248	-	249	-	249
Group - other	81	-	159	240	[(2)]-	240
Total allowance for Credit Losses	**919**	**248**	**192**	**1,359**	**[(2)]-**	**1,359**
	December 31,2013					
Recorded amount of debts:						
Examined on a specific basis	47,779	-	2,027	49,806	5,837	55,643
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	285	17,260	--	17,545	-	17,545
Group - other	3,615	-	8,527	12,142	-	12,142
Total debts[(1)]	**51,679**	**17,260**	**10,554**	**79,493**	**5,837**	**85,330**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	989	-	25	1,014	-	1,014
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	4	[(1)]240	-	244	-	244
Group - other	[(2)]61	-	117	178	[(2)]-	178
Total allowance for Credit Losses	**1,054**	**240**	**142**	**1,436**	**[(2)]-**	**1,436**

Footnotes:

(1) Includes the balance of allowance in excess of that required by the extent of arrears method, computed on a specific basis in amount of NIS 25 million (December 31, 2013 - NIS 16 million), computed on a group basis in amount of NIS 63 million (December 31, 2013 - NIS 60 million).

(2) An amount lower than NIS 1 million

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts

1. Credit quality and arrears - consolidated

	December 31, 2014					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	5,404	95	109	5,608	7	8
Construction and Real Estate - Real Estate Activity	8,780	68	462	9,310	1	2
Financial Services	5,352	144	170	5,666	2	3
Commercial - Other	33,981	1,812	1,317	37,110	21	58
Total Commercial	**53,517**	**2,119**	**2,058**	**57,694**	**31**	**71**
Private Individuals - Housing Loans	19,850	[5]458	-	20,308	421	79
Private Individuals - Other Loans	20,009	258	83	20,350	47	75
Total Public - Lending Activity in Israel	**93,376**	**2,835**	**2,141**	**98,352**	**499**	**225**
Banks in Israel	604	-	-	604	-	-
Government of Israel	1,510	-	-	1,510	-	-
Total Lending Activity in Israel	**95,490**	**2,835**	**2,141**	**100,466**	**499**	**225**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	6,573	167	412	7,152	-	-
Commercial - Other	14,836	132	222	15,190	1	-
Total Commercial	**21,409**	**299**	**634**	**22,342**	**1**	**-**
Private Individuals	1,471	6	1	1,478	6	2
Total Public - Lending Activity Outside of Israel	**22,880**	**305**	**635**	**23,820**	**7**	**2**
Foreign banks	5,359	-	-	5,359	-	-
Foreign governments	23	-	-	23	-	-
Total Lending Activity Outside of Israel	**28,262**	**305**	**635**	**29,202**	**7**	**2**
Total public	**116,256**	**3,140**	**2,776**	**122,172**	**506**	**227**
Total banks	**5,963**	**-**	**-**	**5,963**	**-**	**-**
Total governments	**1,533**	**-**	**-**	**1,533**	**-**	**-**
Total	**123,752**	**3,140**	**2,776**	**129,668**	**506**	**227**

For footnotes see next page.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	December 31, 2013					
		Problematic[1]			Unimpaired debts – additional information	
	Non-problematic	Unimpaired	Impaired[2]	Total	In Arrears of 90 Days or More[3]	In Arrears of 30 to 89 Days[4]
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	5,308	80	308	5,696	11	13
Construction and Real Estate - Real Estate Activity	7,555	132	586	8,273	-	3
Financial Services	6,276	143	147	6,566	2	1
Commercial - Other	34,686	1,498	1,511	37,695	27	41
Total Commercial	**53,825**	**1,853**	**2,552**	**58,230**	**40**	**58**
Private Individuals - Housing Loans	19,457	[5]471	-	19,928	435	85
Private Individuals - Other Loans	18,461	247	94	18,802	49	57
Total Public - Lending Activity in Israel	**91,743**	**2,571**	**2,646**	**96,960**	**524**	**200**
Banks in Israel	1,142	-	-	1,142	-	-
Government of Israel	1,806	-	-	1,806	-	-
Total Lending Activity in Israel	**94,691**	**2,571**	**2,646**	**99,908**	**524**	**200**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,197	206	692	6,095	-	-
Commercial - Other	13,019	121	504	13,644	-	1
Total Commercial	**18,216**	**327**	**1,196**	**19,739**	**-**	**1**
Private Individuals	1,278	6	10	1,294	7	1
Total Public - Lending Activity Outside of Israel	**19,494**	**333**	**1,206**	**21,033**	**7**	**2**
Foreign banks	5,861	-	-	5,861	-	-
Foreign governments	29	-	-	29	-	-
Total Lending Activity Outside of Israel	**25,384**	**333**	**1,206**	**26,923**	**7**	**2**
Total public	**111,237**	**2,904**	**3,852**	**117,993**	**531**	**202**
Total banks	**7,003**	**-**	**-**	**7,003**	**-**	**-**
Total governments	**1,835**	**-**	**-**	**1,835**	**-**	**-**
Total	**120,075**	**2,904**	**3,852**	**126,831**	**531**	**202**

Footnotes:

(1) Impaired, substandard or under special mention credit risk, including housing loans for which an allowance according to the extent of arrears exists and including housing loans in arrears for ninety days or over for which an allowance according to the extent of arrears does not exist.

(2) As a general rule, interest income is not accrued in respect of impaired debts. For information regarding impaired debt restructured under problematic debt restructuring, see Note 4 B 2 c. below.

(3) Classified as unimpaired problematic debts. Accruing interest income.

(4) Debts in arrears for between 30 and 89 days which accrue interest income in amount of NIS 119 million (December 31, 2013 - NIS 93 million) are classified as unimpaired problematic debts.

(5) Including housing loans in amount of NIS 10 million (December 31, 2013 - NIS 7 million) with an allowance according to the extent of arrears, for which an arrangement was made for the repayment of overdue amounts, which included a change in the repayment schedule for the balance of the loan not yet due.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated

A. Impaired debts and specific allowance

	December 31, 2014				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	32	11	77	109	3,290
Construction and Real Estate - Real Estate Activity	144	21	318	462	1,752
Financial Services	116	26	54	170	516
Commercial - Other	609	215	708	1,317	4,932
Total Commercial	**901**	**273**	**1,157**	**2,058**	**10,490**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	28	7	51	79	451
Total Public - Lending Activity in Israel	**929**	**280**	**1,208**	**2,137**	**10,941**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**929**	**280**	**1,208**	**2,137**	**10,941**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	30	3	382	412	959
Commercial - Other	130	24	92	222	487
Total Commercial	**160**	**27**	**474**	**634**	**1,446**
Private Individuals	1			1	
Total Public - Lending Activity Outside of Israel	**161**	**27**	**474**	**635**	**1,446**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**161**	**27**	**474**	**635**	**1,446**
Total public	**1,090**	**307**	**1,682**	**2,772**	**12,387**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**1,090**	**307**	**1,682**	**2,772**	**12,387**
Of which:					
Measured according to present value of cash flows	719	257	571	1,290	
Debts under troubled debt restructurings	609	111	695	1,304	

For footnotes see next page.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

A. Impaired debts and specific allowance (continued)

	December 31, 2013				
	Balance[1] of impaired debts in respect of which specific allowance exist[2]	Balance of specific allowance[2]	Balance[1] of impaired debts for which specific allowance do not exist[2]	Total balance[1] of Impaired Debts	Contractual principal amount of impaired debts[3]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	50	15	258	308	3,851
Construction and Real Estate - Real Estate Activity	252	49	334	586	2,003
Financial Services	116	29	31	147	495
Commercial - Other	820	238	691	1,511	5,936
Total Commercial	**1,238**	**331**	**1,314**	**2,552**	**12,285**
Private Individuals - Housing Loans	-	-	-	-	1
Private Individuals - Other Loans	45	14	49	94	460
Total Public - Lending Activity in Israel	**1,283**	**345**	**1,363**	**2,646**	**12,746**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,283**	**345**	**1,363**	**2,646**	**12,746**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	415	27	277	692	1,309
Commercial - Other	372	84	132	504	777
Total Commercial	**787**	**111**	**409**	**1,196**	**2,086**
Private Individuals	9	3	1	10	11
Total Public - Lending Activity Outside of Israel	**796**	**114**	**410**	**1,206**	**2,097**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**796**	**114**	**410**	**1,206**	**2,097**
Total public	**2,079**	**459**	**1,773**	**3,852**	**14,843**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,079**	**459**	**1,773**	**3,852**	**14,843**
Of which:					
Measured according to present value of cash flows	896	381	1,192	2,088	
Debts under troubled debt restructurings	745	172	904	1,649	

Footnotes:
(1) Recorded amount.
(2) Specific allowance for credit losses.
(3) The contractual balance of the principal amount includes accrued unpaid interest at date of the initial implementation of the instruction in respect of impaired debts, not yet written off or collected.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. Average balance and interest income

	2014			2013		
	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis	Average balance of Impaired Debts(1)	Recorded Interest Income(2)	Of which: recorded on cash basis
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	261	1	1	479	(4)6	(4)3
Construction and Real Estate - Real Estate Activity	585	17	15	623	5	(4)1
Financial Services	217	1	-	191	1	-
Commercial - Other	1,497	25	18	1,787	(4)21	(4)9
Total Commercial	**2,560**	**44**	**34**	**3,080**	**33**	**13**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	99	4	1	139	(4)7	(4)2
Total Public - Lending Activity in Israel	**2,659**	**48**	**35**	**3,219**	**40**	**15**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**2,659**	**48**	**35**	**3,219**	**40**	**15**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	563	5	2	1,249	23	21
Commercial - Other	235	5	4	551	5	4
Total Commercial	**798**	**10**	**6**	**1,800**	**28**	**25**
Private Individuals	3	-	-	11	-	-
Total Public - Lending Activity Outside of Israel	**801**	**10**	**6**	**1,811**	**28**	**25**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**801**	**10**	**6**	**1,811**	**28**	**25**
Total	**3,460**	**(3)58**	**41**	**5,030**	**(3)68**	**40**

Footnotes:

(1) Average recorded amount of Impaired debts during the reported period.

(2) Interest income recognized in the reported period, in respect of the average balance of impaired debts, during the time period in which these debts had been classified as impaired.

(3) Had the impaired debts accrue interest according to the original terms interest income is in amount of NIS 171 million would have been recognized (December 31, 2013 - NIS 195 million).

(4) Reclassified due to improvement in the calculation of the data and changes in the data of a subsidiary company.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

B. Average balance and interest income

	2012
	in NIS millions
The average recorded amount of impaired debts[1]	6,193
Total interest income recorded in respect of these debts at the time period in which it was classified as impaired	128
Of which: interest income recorded by the cash basis accounting method	65
Total interest income that would have been recognized had such debts accrued interest according to its original terms	**236**

C. Restructured troubled debts - consolidated

	December 31, 2014				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	21	-	-	15	36
Construction and Real Estate - Real Estate Activity	228	-	-	27	255
Financial Services	29	-	-	21	50
Commercial - Other	524	-	1	140	665
Total Commercial	**802**	**-**	**1**	**203**	**1,006**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	29	-	-	34	63
Total Public - Lending Activity in Israel	**831**	**-**	**1**	**237**	**1,069**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**831**	**-**	**1**	**237**	**1,069**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	95	-	-	41	136
Commercial - Other	69	21	-	9	99
Total Commercial	**164**	**21**	**-**	**50**	**235**
Private Individuals	-	-	-	-	-
Total Public - Lending Activity Outside of Israel	**164**	**21**	**-**	**50**	**235**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**164**	**21**	**-**	**50**	**235**
Total	**995**	**21**	**1**	**287**	**1,304**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts – consolidated (continued)

	December 31, 2013				
	Recorded amount				
	Not accruing interest income	Accruing debts[1],in arrears for 90 days or more	Accruing debts[1], in Arrears for 30 to 89 Days	Accruing debts[1] not in arrears	Total[2]
	In NIS millions				
Lending Activity in Israel					
Public - Commercial					
Construction and Real Estate - Construction	102	-	3	51	156
Construction and Real Estate - Real Estate Activity	310	-	-	44	354
Financial Services	19	-	-	22	41
Commercial - Other	534	-	2	183	719
Total Commercial	**965**	**-**	**5**	**300**	**1,270**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	36	-	1	29	66
Total Public - Lending Activity in Israel	**1,001**	**-**	**6**	**329**	**1,336**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,001**	**-**	**6**	**329**	**1,336**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	44	-	-	197	241
Commercial - Other	52	-	-	11	63
Total Commercial	**96**	**-**	**-**	**208**	**304**
Private Individuals	6	-	-	3	9
Total Public - Lending Activity Outside of Israel	**102**	**-**	**-**	**211**	**313**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**102**	**-**	**-**	**211**	**313**
Total	**1,103**	**-**	**6**	**540**	**1,649**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts - consolidated (continued)

	2014			2013		
	Debt restructuring performed					
	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring	Number of contracts	Recorded amount before restructuring	Recorded amount after restructuring
	In NIS millions					
Lending Activity in Israel						
Public - Commercial						
Construction and Real Estate - Construction	82	11	8	85	51	49
Construction and Real Estate - Real Estate Activity	12	91	91	6	20	20
Financial Services	12	1	1	6	14	14
Commercial - Other	467	213	183	511	233	224
Total Commercial	**573**	**316**	**283**	**608**	**318**	**307**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	2,716	46	45	3,575	51	48
Total Public - Lending Activity in Israel	**3,289**	**362**	**328**	**4,183**	**369**	**355**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**3,289**	**362**	**328**	**4,183**	**369**	**355**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	1	293	293	7	105	101
Commercial - Other	5	18	18	13	84	81
Total Commercial	**6**	**311**	**311**	**20**	**189**	**182**
Private Individuals	1	-	-	5	11	11
Total Public - Lending Activity Outside of Israel	**7**	**311**	**311**	**25**	**200**	**193**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**7**	**311**	**311**	**25**	**200**	**193**
Total	**3,296**	**673**	**639**	**4,208**	**569**	**548**

Footnote:

(1) An amount lower than NIS 1 million.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

2. Additional information regarding impaired debts – consolidated (continued)

C. Restructured troubled debts - consolidated (continued)

	2014		2013	
	Failure of restructured debts[1]			
	Number of contracts	Recorded amount	Number of contracts[3]	Recorded amount[3]
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	10	[2]-	16	2
Construction and Real Estate - Real Estate Activity	3	9	3	10
Financial Services	5	[2]-	1	[2]-
Commercial - Other	100	9	148	13
Total Commercial	**118**	**18**	**168**	**25**
Private Individuals - Other	1,597	9	3,318	16
Total Public - Activity in Israel	**1,715**	**27**	**3,486**	**41**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total Activity in Israel	**1,715**	**27**	**3,486**	**41**
Lending Activity Outside of Israel				
Public - Commercial				
Construction and Real Estate	-	-	-	-
Commercial - Other	-	-	2	[2]-
Total Commercial	**-**	**-**	**2**	**[2]-**
Private Individuals	-	-	-	-
Total Public - Activity Outside of Israel	**-**	**-**	**2**	**[2]-**
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total Activity Outside of Israel	**-**	**-**	**2**	**[2]-**
Total	**1,715**	**27**	**3,488**	**41**

Footnotes:

(1) Debts, which in the reported year turned into debts in arrears for 30 days or over, which had been restructured under troubled debt restructurings during the period of twelve months prior to their having become debts in arrear.

(2) An amount lower than NIS 1 million.

(3) Reclassified - Improvement in the calculation of the data.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit

(A) Risk characteristics according to credit segments

(1) Business credit

- Sensitivity to the domestic economic cycle in Israel. In addition, in view of material overseas investments by large Israeli corporations, the level of exposure to global crises increased;
- Sensitivity to private consumption;
- Exposure to foreign competition;
- In view of the high concentration of the ownership and control structure of corporations in the Israeli market – credit is typified by high concentration at the large borrower groups' level. Furthermore, the structure of the holding groups and their indebtedness at several levels within the holding corporations, increase the credit risk and the vulnerability of these corporations. Several debt arrangements were particularly noticeable in the recent period, and uncertainty exists as to the ability of corporations, which had raised debt with no matching cash flow, to recycle such debts.

(2) Credit to private individuals – housing loans

- Loans involving a high finance ratio carry risk in the event of impairment in the value of collateral below the balance of the loan. The Bank's underwriting policy limits the ratio of finance when granting a loan.

(3) Credit to private individuals – other

- Exposure to retail credit is affected by macro-economic factors.
- Intensification of competition in the banking system in recent years may lead to erosion in margins, decline in quality of borrowers with a resultant increase in credit risk. The credit policy does not allow at the present time the granting of credit to customers having a low internal credit rating, thus moderating such risks.

(B) Indication of credit quality

	December 31, 2014				December 31, 2013			
		Private Individuals				Private Individuals		
	Commercial	Housing Loans	Other Loans	Total	Commercial	Housing Loans	Other Loans	Total
Ratio of the balance of non-problematic credit to the public to the balance of credit to the public	93.6%	97.7%	98.4%	95.1%	92.4%	97.6%	98.2%	94.3%
Ratio of the balance of problematic unimpaired credit to the public to the balance of credit to the public	3.0%	2.3%	1.2%	2.6%	2.8%	2.4%	1.3%	2.4%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	3.4%	-	0.4%	2.3%	4.8%	-	0.5%	3.3%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of credit to the public	1.8%	1.3%	1.7%	1.7%	2.0%	1.3%	1.6%	1.8%
Ratio of the balance of allowance to credit losses in respect of credit to the public to the balance of problematic credit risk (excluding derivatives and bonds)	24.3%	56.0%	109.5%	30.9%	23.3%	53.3%	91.0%	28.4%

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

3. Additional disclosure regarding the quality of credit (continued)

The number of days in which a debt is in arrears is a central factor in determining the classification of the Bank's debts, and accordingly affects the allowance for credit losses and the accounting write-offs. A debt that is examined on a specific basis, is classified as an impaired debt when the repayment of capital or interest thereon is in arrears for 90 days or more, except where the debt is well secured and in the process of collection.

A central indication regarding the quality of the credit portfolio is the ratio of performing debts to the problematic debts at the Bank. During 2014, the ratio of performing credit to the public increased. The impaired credit as a ratio of total credit to the public decreased during 2014, this, due to a decrease in credit to the middle market banking segment, comprising most of the impaired credit.

Notwithstanding, the ratio of problematic credit that is not impaired to total credit to the public, has slightly increased in the course of 2014.

4. Additional information regarding housing loans

Balances for the period end, according to Loan-to-Value (LTV) ratio, manner of repayment and type of interest:

		Balance of housing loans			
		Total	Of which: Bullet and Balloon debts	Of which: variable interest	Total Off-Balance Sheet Credit Risk
		In NIS millions			
		December 31,2014			
First degree pledge: financing ratio	Up to 60%	12,393	273	8,198	331
	Over 60%	7,670	67	5,251	49
Second degree pledge or without pledge		672	22	342	1,425
Total		**20,735**	**362**	**13,791**	**1,805**
		December 31,2013			
First degree pledge: financing ratio	Up to 60%	11,576	253	7,755	203
	Over 60%	8,243	78	5,602	64
Second degree pledge or without pledge		582	16	317	1,184
Total		**20,401**	**347**	**13,674**	**1,451**

Footnote:
(1) The ratio between the authorized credit line at the time the credit line was granted and the value of the asset, as confirmed by the Bank at the time the credit line was granted. The LTV ratio is another indication of the bank as to the assessment of the customer risk when the facility was granted.

C. Information regarding the purchase and sale of debts

Following are details regarding the consideration paid or received for the purchase or sale of loans:

	2014					2013				
	Credit to the public					Credit to the public				
	Commercial	Housing	Other	Credit to governments	Total	Commercial	Housing	Other	Credit to governments	Total
	In NIS millions									
Loans acquired	478	-	-	119	597	25	-	-	156	181
Loans sold	123	-	-	-	123	547	-	-	-	547

For details regarding income (loss) net, in respect of loans sold, see Note 24 below.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

D. Composition of credit to the public(1) and off-balance-sheet credit risk(3), by size of credit to individual burrowers

1. Consolidated

				December 31					
				2014			2013		
				Number of borrowers(2)	Credit(1)(6)	Off-balance Credit risk(3)(6)	Number of borrowers(2)	Credit(1)(6)	Off-balance Credit risk(3)(6)
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	1,110,682	1,683	1,745	1,112,288	1,711	(8)1,807
Over	10	Up to	20	423,896	2,448	4,564	422,871	2,458	(8)4,442
Over	20	Up to	40	278,082	4,245	4,601	261,310	3,996	(8)4,397
Over	40	Up to	80	150,895	5,633	3,456	138,840	5,157	(8)3,347
Over	80	Up to	150	57,038	5,228	1,669	52,226	4,659	(8)1,575
Over	150	Up to	300	29,695	5,515	1,179	27,806	5,083	(8)1,045
Over	300	Up to	600	23,734	8,987	1,502	22,571	8,572	(8)1,334
Over	600	Up to	1,200	16,641	11,532	2,236	15,985	11,136	(8)1,950
Over	1,200	Up to	2,000	4,150	5,014	1,301	3,844	4,750	(8)1,090
Over	2,000	Up to	(4)4,000	2,515	5,430	1,563	2,447	5,329	(8)1,407
Over	4,000	Up to	(4)8,000	1,226	5,321	1,747	(7)1,238	(7)5,191	(7)(8)1,808
Over	8,000	Up to	(4)20,000	1,000	9,662	2,960	(7)964	(7)9,368	(7)2,510
Over	20,000	Up to	(4)40,000	599	12,596	4,064	552	(7)11,277	(7)3,452
Over	40,000	Up to	(4)200,000	565	29,300	13,113	(7)568	(7)28,149	(7)12,839
Over	200,000	Up to	(4)400,000	39	7,236	3,219	(7)40	(7)8,501	(7)2,472
Over	400,000	Up to	(4)800,000	13	4,476	2,384	(7)11	(7)3,765	(7)1,426
Over	800,000	Up to	(4)1,200,000	1	840	-	1	970	10
Over	1,200,000	Up to	(4)1,600,000	1	169	1,094	2	1,309	1,133
Over	1,600,000	Up to	(4)2,800,000	*1	*1,736	-	*2	*4,063	-
Over	2,800,000	Up to	(4)3,200,000	*2	*4,983	930	1	2,239	876
Over	(4)3,200,000			*1	*3,976	-	*1	*3,945	-
Total				**2,100,776**	**136,010**	**53,327**	**2,063,568**	**131,628**	**48,920**
Mortgage backed securities issued by:									
GNMA				1	3,976	-	1	2,026	-
FNMA				1	2,900	-	1	3,945	-
FHLMC				1	1,736	-	1	2,037	-

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance sheet credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower (not including credit facilities under banks guarantees, not of the Group's, as of December 31, 2014 - NIS 4,798 million, as of December 31, 2013 - NIS 4,682 million).

(4) Consolidated - by combining specific balances.

(5) The credit limit on the top level: NIS 3,976 million (2013: NIS 3,945 million).

(6) Not including balances classified as assets held for sale - see notes 8A.

(7) Reclassified - changes deriving from widening the specific consolidation.

(8) Reclassified, improvement of attribution to grades.

4. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

D. Composition of credit to the public(1) and off-balance-sheet credit risk(3), by size of credit to individual burrowers (continued)

2. The Bank

				December 31					
				2014			2013		
				Number of borrowers(2)	Credit(1)	Off-balance Credit risk(3)	Number of borrowers(2)	Credit(1)	Off-balance Credit risk(3)
				in NIS millions					
Credit limit (in NIS thousand):									
		Up to	10	251,809	193	726	248,321	319	(6)688
Over	10	Up to	20	116,503	760	1,307	122,567	806	(6)1,355
Over	20	Up to	40	108,317	1,871	1,928	109,880	1,910	(6)1,965
Over	40	Up to	80	83,714	3,557	2,068	79,605	3,352	(6)2,034
Over	80	Up to	150	42,755	3,875	1,379	38,411	3,468	(6)1,294
Over	150	Up to	300	21,851	3,996	914	20,312	3,717	(6)841
Over	300	Up to	600	18,202	6,863	1,230	17,599	6,694	(6)1,107
Over	600	Up to	1,200	13,615	9,280	1,946	13,147	9,055	(6)1,694
Over	1,200	Up to	2,000	3,074	3,572	1,111	2,863	3,438	(6)916
Over	2,000	Up to	4,000	1,702	3,445	1,276	1,632	3,371	(6)1,159
Over	4,000	Up to	8,000	878	3,440	1,523	(5)882	(5)3,376	(6)1,569
Over	8,000	Up to	20,000	607	5,277	2,345	(5)595	(5)5,425	(5)2,042
Over	20,000	Up to	40,000	299	5,961	2,471	277	(5)5,471	2,333
Over	40,000	Up to	200,000	273	14,408	6,856	(5)276	(5)15,023	(5)6,883
Over	200,000	Up to	400,000	29	5,077	2,732	(5)34	(5)6,792	(5)2,409
Over	400,000	Up to	800,000	12	4,360	2,034	10	3,591	1,183
Over	800,000	Up to	1,200,000	3	2,157	988	3	2,239	955
Over	800,000	Up to	1,600,000	-	-	-	1	1,177	56
Over	1,600,000	Up to	2,800,000	1	1,771	928	-	-	-
Over	2,800,000	Up to	3,200,000	-	-	-	1	1,999	873
Total				**663,644**	**79,863**	**33,762**	**656,416**	**81,223**	**31,356**

Footnotes:

(1) Including investments in bond of the public, assets deriving from derivative financial instruments as against the public before the provision for credit loss and before the impact of collateral allowed for setoff for the purpose of a borrower or a group of borrowers liability.

(2) Number of borrowers based on total credit and Off-balance credit risk.

(3) Credit risk of off-balance sheet financial instruments, as computed for the purpose of limitations on a borrower.

(4) The credit limit on the top level: NIS 2,699 million (2013: NIS 2,872 million).

(5) Reclassified - improvement of data in respect of a few customers.

(6) Reclassified, improvement of attribution to grades.

5. CREDIT GRANTED TO GOVERNMENTS

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
Tender for state employees and teaching staff	1,218	1,644	1,218	1,644
Credit to Israel government	292	162	292	162
Credit to foreign governments:	23	29	-	-
Total credit granted to Governments	**(1)1,533**	**(1)1,835**	**1,510**	**1,806**

Footnote:

(1) Not including balances classified as assets held for sale - see Notes 8A.

6. INVESTMENT IN INVESTEE COMPANIES

A. Consolidated

	December 31, 2014			December 31, 2013		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	In NIS millions					
Investments						
Shares stated on equity basis (including goodwill)[(1)(3)]	140	-	140	1,666	-	1,666
Other investments:						
Shareholders' loans	2	-	2	2	-	2
Total other investments	2	-	2	2	-	2
Total investments	**142**	**-**	**142**	**1,668**	**-**	**1,668**
Includes:						
Earnings accumulated since January 1, 1992	84	-	84	1,021	-	1,021
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustments in respect of presentation of securities available for sale at fair value, net	-	-	-	14	-	14
Financial statements translation adjustments	-	-	-	(1)	-	(1)
Details Regarding Goodwill:						
Original amount	-	283	283	-	283	283
Book value[(2)]	-	142	142	-	142	142
Book and Market Values of Marketable Investments[(3)]:						
Book value	-	-	-	1,530	-	1,530
Market value	-	-	-	1,530	-	1,530

Footnotes:

(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.

(2) Balances of goodwill in respect of consolidated subsidiaries are presented in the item "Intangible assets and goodwill".

(3) For details regarding the classification of the investment in shares of FIBI, see Note 6D (6).

6. INVESTMENT IN INVESTEE COMPANIES (CONTINUED)

B. The Bank

	December 31, 2014			December 31, 2013		
	Affiliated companies	Consolidated subsidiaries	Total	Affiliated companies	Consolidated subsidiaries	Total
	in NIS millions					
Investments:						
Shares stated on equity basis (including goodwill)[(1)(2)]	72	6,838	6,910	1,598	6,376	7,974
Other investments:						
Subordinated debt notes and Capital notes	-	932	932	-	1,032	1,032
Total other investments	-	932	932	-	1,032	1,032
Total investments	**72**	**7,770**	**7,842**	**1,598**	**7,408**	**9,006**
Includes:						
Retained earnings since January 1, 1992	69	3,851	3,920	1,047	3,875	4,922
Items accumulated in shareholders' equity since January 1, 1992:						
Adjustments in respect of presentation of securities available for sale at fair value, net	-	51	51	14	(97)	(83)
Financial statements translation adjustments	-	31	31	(1)	(305)	(306)
The State's bonus to the employees (privatization)	-	32	32	-	32	32
Net adjustments on the hedging of cash flows	-	(4)	(4)	-	(6)	(6)
Details Regarding Goodwill:						
Original amount	-	282	282	-	282	282
Book value	-	142	142	-	142	142
Book and Market Values of Marketable Investments[(2)]:						
Book value	-	-	-	1,530	-	1,530
Market value	-	-	-	1,530	-	1,530

Footnotes:
(1) Includes earnings and translation adjustments in units having a functional currency that differs from the reporting currency accumulated from the acquisition date up to December 31, 1991.
(2) For details regarding the classification of the investment in shares of FIBI, see Note 6D (6).

The Bank's share of income or loss of investee companies

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	In NIS millions					
Bank's share in income of investee companies (consolidated - affiliated companies)	[(4)]53	159	201	[(4)]492	718	759
Losses on impairment in value of investee companies	[(3)](26)	[(3)](185)	[(3)](113)	[(3)](26)	[(3)](185)	[(3)](113)
	27	(26)	88	466	533	646
Provision for taxes (tax saving):						
Current taxes[(1)]	-	-	-	25	30	23
Deferred taxes[(2)]	-	(71)	(16)	6	(83)	(4)
Total provision for taxes (tax saving)	-	(71)	(16)	31	(53)	19
Bank's share in income net of tax effect of investee companies (consolidated - affiliated companies)	**27**	**45**	**104**	**435**	**586**	**627**

Footnotes:
(1) Current taxes in respect of IDB New York, in accordance with an agreement with the Tax Authorities – see Note 29 L hereunder.
(2) Including the decrease in the provision for taxes in respect of the Bank's share in the results of FIBI: 2013 - NIS 72 Million and 2012 - NIS 16 million.
(3) For details regarding the provision for impairment in value of the investment in FIBI, see item D (3).
(4) For details as to the elimination of the Bank's share in the reserves of FIBI, previously recognized in other comprehensive income, see item D (4).

6. INVESTMENT IN INVESTEE COMPANIES (CONTINUED)

C. Information on principal investee companies

Name of Company	Details of company	Share in capital conferring rights to profits		Share in voting rights		Investment in shares: Equity basis[1]		Investment in shares: Market value	
		2014	2013	2014	2013	2014	2013	2014	2013
		In %				In NIS millions			
1. Consolidated Subsidiaries:									
Discount Bancorp, Inc.[2]	Holding company, U.S.A.	100.00	100.00	100.00	100.00	23	24	-	-
Israel Discount Bank of New York [3]	Commercial bank, U.S.A	100.00	100.00	100.00	100.00	3,054	2,829	-	-
Mercantile Discount Bank Ltd.	Commercial bank	100.00	100.00	100.00	100.00	2,026	1,931	-	-
Israel Credit Cards Ltd.[4]	Credit card service	[15]71.83	[15]71.83	79.00	79.00	824	696	-	-
Discount Leasing Ltd.	Equipment leasing	100.00	100.00	100.00	100.00	113	113	-	-
Discount Israel Capital Markets and Investments Ltd.	Underwriting and investments	100.00	100.00	100.00	100.00	305	218	-	-
Discount Manpikim Ltd.	Securities issue	100.00	100.00	100.00	100.00	64	63	-	-
IDB (Swiss) Bank Ltd [16]	Commercial bank, Switzerland	100.00	100.00	100.00	100.00	206	207	-	-
Companies held by Israel Discount Bank of New York:									
Discount Bank (America Latin) [5][14]	Commercial bank, Uruguay	100.00	100.00	100.00	100.00	243	269	-	-
IDBNY Realty (Delaware) Inc, [5]	Holding company, USA	100.00	100.00	100.00	100.00	2,885	2,522	-	-
IDB Realty LLC [6]	Investment company, USA	100.00	100.00	100.00	100.00	6,078	5,349	-	-
Companies held by Israel Credit Cards Ltd.:									
Diners (Club) Israel Ltd.[13]	Credit card service	51.00	51.00	51.00	51.00	73	174	-	-
Cal Mimun Ltd.	Credit facilitate	100.00	100.00	100.00	100.00	69	46	-	-
2.Affiliated Companies:									
First International Bank of Israel Ltd.[7]	Commercial bank	-	26.45	-	26.45	-	[11]1,530	-	[11]1,530

Footnotes:
(1) Including allocated excess of cost over book value and goodwill.
(2) A holding company, wholly-owned and controlled by the Bank, which fully owns and controls Israel Discount Bank of New York.
(3) The company is owned by Discount Bancorp, Inc.
(4) For details regarding a guarantee unlimited in amount in favor of VISA Europe, securing all of ICC's liabilities, see Note 19 C 10 below.
(5) Included in the financial statements of Israel Discount Bank of New York. The investment in these companies and their contribution to the net income are not deducted from the investment and contribution to profit of Israel Discount Bank of New York
(6) Included in the financial statements of IDBNY Realty (Delaware), Inc. The investment in these companies and their contribution to the net income are not deducted from the investment and contribution to profit of IDBNY Realty (Delaware), Inc

Of which: excess of cost balance		Other investments		Contribution to net income attributed to bank's shareholders		Of which: loss on impairment		Dividend		Other items recorded in shareholders' equity[8]		Guarantees issued for consolidated subsidiaries in favor of entities outside the group	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
In NIS millions													
-	-	-	-	1	1	-	-	-	-	-	-	-	-
-	-	-	-	84	147	-	-	271	88	19	(491)	-	-
-	-	85	85	157	182	-	-	45	120	57	74	-	-
[9]142	[9]142	36	39	47	42	-	-	-	72	-	-	12	10
-	-	-	-	-	3	-	-	-	-	-	-	-	-
-	-	721	773	93	114	-	-	-	-	1	8	53	49
-	-	-	42	1	2	-	-	-	-	-	-	-	-
-	-	-	-	-	(9)	-	-	-	-	-	-	-	-
-	-	-	-	(53)	(6)	-	-	-	-	6	(21)	-	-
-	-	-	-	49	36	-	-	-	-	136	(177)	-	-
					30				814	(1)	(731)		
-	-	-	-	24	30	-	-	55	-	-	-	-	-
-	-	84	86	23	20	-	-	-	-	-	-	-	-
-	-	-	-	[12]12	[10][11]38	[11](26)	[11](185)	26	53	-	14	-	-

(7) For details regarding the agreement with FIBI Holdings Ltd. regarding the continued interest of the Bank in the First International Bank, regarding the outline for the reduction in such interest and regarding the deposit of a part of the shares in the hands of a Trustee, see Section D below.

(8) Including adjustments from translation of financial statements of units having a functional currency that differs from the reporting currency and adjustments concerning the presentation of certain securities of investee companies at fair value.

(9) Goodwill.

(10) Including the decrease in the provision for taxes in respect of the Bank's share in the results of the First International Bank: 2013 - NIS 72 Million.

(11) For details regarding the provision for impairment in value of the investment in FIBI, see item D (3).

(12) In respect of the period until the date of loss of material influence in FIBI, see item D (4) below.

(13) For details regarding the holding of a controlling interest in Diners, see Note 34A below.

(14) For details regarding the agreement for sale of the operations of the company and regarding the loss recorded on this sale, see Note 8A below.

(15) The balance is held by FIBI.

(16) For details regarding the agreement between the Swiss authorities and the United States Department of Justice, see Note 19 C 15 below.

6. INVESTMENT IN INVESTEE COMPANIES (CONTINUED)

D. The investment in the First International Bank ("FIBI")

(1) An agreement with FIBI holdings. On March 28, 2010, an agreement was signed between the Bank and FIBI Holdings Ltd. (hereinafter: "FIBI Holdings") regarding the Bank's holdings in FIBI.

Following are the principal terms of the agreement:

- The agreement contains conditions precedent to its validity (hereinafter: "the conditions precedent"), which are: obtaining the approval of the Supervisor of Banks and the approval of the Antitrust Commissioner to the agreement ("the regulatory approvals"), this until the end of 150 days from the date of signing of the agreement; as well as the distribution of a cash dividend of NIS 800 million by FIBI to its shareholders, out of its retained earnings as of December 31, 2005, as per its financial statements (hereinafter: "the distribution");
- It has been agreed that FIBI Holdings will act to the best of its ability towards the unification of the share capital of FIBI, following which, all shares making up the share capital of FIBI shall be of one class and shall confer equal voting rights;
- Israel Discount Bank shall vote in favor of completing the process of unification of the share capital in the general meetings of shareholders of FIBI, subject to obtaining the regulatory approvals to the agreement as well as to the realization of the terms specified in the agreements, inter-alia, completion of actual distribution or obtaining confirmation according to which all required proceedings for the distribution have been realized and all approvals for the distribution have been obtained;
- Soon after completion of the unification of capital, Israel Discount Bank shall deposit with a trustee a number of shares of FIBI, the voting rights attached therein (out of the total voting rights in FIBI) exceeding the rate of voting rights in FIBI held by Israel Discount Bank at date of signing the agreement (hereinafter: "the deposited shares"), this in accordance with a trusteeship agreement to be approved by the Supervisor of Banks. Israel Discount Bank or the trustee shall refrain from acting upon the voting rights attached to the deposited shares. The trustee shall pass on to Israel Discount Bank any dividend or any other benefit of any kind that will be received by him by virtue of the deposited shares, immediately upon their receipt (excluding bonus shares or shares stemming from the unification of the capital, or a split of the deposited shares, or shares deriving from securities convertible into shares, which FIBI may issue in respect of the deposited shares. These shares shall remain in the hands of the trustee and shall become an integral part of the deposited shares for all intents and purposes).

  The trustee shall release the deposited shares in the event that the ratio of voting rights held by Israel Discount Bank in FIBI shall fall below the ratio that existed at date of signing the agreement (11.09%) in order to restore the ratio of voting rights to the ratio that existed at date of signing the agreement, or for the purpose of transferring the deposited shares, or part thereof, to a third party;
- It has been agreed that until the determining date, as signified below, Israel Discount Bank shall be entitled to purchase additional securities within the framework of any rights offer by FIBI to its shareholders, on condition that the additional shares purchased by Israel Discount Bank, if at all, shall be deposited with the trustee and all the provisions applying to the deposited shares shall also apply to them;
- Starting with the date on which all conditions precedent to the agreement are fulfilled, the arrangement existing between Israel Discount Bank and FIBI Holdings regarding the right of first refusal for the purchase of shares in FIBI, shall be abolished, and any transfer or sale of shares in FIBI by FIBI Holdings or by Israel Discount Bank, shall not be subject to the said right;

The agreement determined conditions precedent, which were fulfilled as detailed below:

Distribution of Dividend - on September 6, 2010, the Bank received a cash dividend of NIS 212 million in the framework of a cash dividend to shareholders of FIBI in a total amount of NIS 800 million.

Reverse stock split - the determining date for FIBI's reverse stock split was on September 19, 2010, and as from September 20, 2010 only shares of a par value of NIS 0.05 of FIBI are being traded on the Tel Aviv Stock Exchange. Upon completion of the process for FIBI's reverse stock split, the rate of the Bank’s holdings in FIBI increased to 26.4% in the voting rights. In accordance with the provisions of the agreement, the Bank deposited with a Trustee shares which grant it voting rights in excess of 11.09%.

6. INVESTMENT IN INVESTEE COMPANIES (CONTINUED)

Within the framework of the agreement it has been determined that starting with the date on which all conditions precedent to the agreement are fulfilled and until December 31, 2013 (hereinafter: "the determining date"), Israel Discount Bank shall be entitled to have FIBI Holdings continue to cause the appointment of one quarter of the Directors of FIBI from among candidates recommended by Israel Discount Bank (subject to directives regarding the prevention of conflict of interests), regardless of the number of shares held by Israel Discount Bank. Subsequent to the determining date, the arrangement existing between Israel Discount Bank and FIBI Holdings, including the arrangement regarding appointment of directors recommended by Israel Discount Bank, shall become null and void. Certain terms had been included in the agreement, where upon the realization of which, the determined date would be deferred. Accordingly the determined date was deferred to March 13, 2014.

Approvals of the Supervisor of Banks and the Antitrust Commissioner. The approval of the Supervisor of Banks for the agreement and the approval of the Antitrust Commissioner (hereinafter: "the Commissioner) for "merger of companies" under the Restrictive Trade Practices Law, 1988, were received on August 17, 2010, with respect to the process of reverse stock split to be executed by FIBI. The parties to the agreement confirmed that the conditions precedent determined in the agreement for this purpose have been fulfilled with the receipt of the above mentioned two approvals.

The agreement, approved by the Supervisor of Banks, specified that the Supervisor of Banks would consider the Bank's request in the event that FIBI would offer rights to all its shareholders and the Bank would seek to participate in such offer.

Among other things, the approval by the Commissioner specified that the Bank must reduce its holdings in FIBI to a rate below 10% of the issued share capital of FIBI by December 31, 2015, or until the end of five years from date of the reverse stock split of FIBI, the earlier of the two (namely, until September 19, 2015), and in addition reduce its holdings in FIBI to a rate below 5% of the issued share capital of FIBI by December 31, 2017, or until the end of seven years from date of completion of the reverse stock split of FIBI, the earlier of the two (namely, until September 19, 2017). Alternatively, the Bank must reduce its holdings in FIBI to a rate below 5% of the issued share capital of FIBI by December 31, 2016, or until the end of six years from date of completion of the reverse stock split of FIBI, the earlier of the two (as detailed below, on February 19, 2015, the rate of holding shares of FIBI decreased to below 10%). In addition, the Commissioner's approval specifies that in the event that the Bank does not reduce its holdings until the end of the above mentioned periods, as the case may be, than the excess number of shares in FIBI held by the Bank subsequent to the dates detailed above, shall be sold by a Trustee appointed for this purpose, this in accordance with the arrangements determined in this matter in the Commissioner's approval. Furthermore, it has been determined that the Bank shall not acquire shares in FIBI or any right in FIBI any other way, unless with the prior permission in writing by the Commissioner.

On September 6, 2010, following completion of the distribution and the actual payment in cash of the dividend, in accordance with the agreement, and upon obtaining the regulatory approvals with respect to the agreement, the conditions precedent have been fulfilled and the agreement came into effect.

It should be noted, that following the formation of the agreements with FIBI Holdings, the Bank included a provision for taxes, in respect of its holdings in FIBI, this in view of the uncertainty regarding the continued holding by the Bank of the shares in FIBI and based on the assumption that over a period of time, the Bank will sell all of its holdings in FIBI.

(2) **Data regarding the investment in FIBI.** On December 31, 2014 the Bank’s holdings in FIBI were 16.31% in the equity and in the voting rights (December 31, 2013: 26.45%. For details regarding the sale of part of the shares, see item 6 below). At a date proximate to date of approval of the financial statements, the rate of holdings amounted to 9.28% (see item 7 below).

The market value of the Bank’s holdings in FIBI totaled on December 31, 2014: NIS 817 million. The market value of this investment at March 2, 2015: NIS 870 million.

(3) **Provision for impairment in the financial statements as of December 31, 2013.** In view of the approach by the Supervisor of Banks, and on the background of the termination in March 2014 of the Bank`s right to recommend the appointment of directors to the Board of FIBI (see below), and on the background of the decision of the Antitrust Commissioner in the matter of the decline in the Bank`s holdings in FIBI (see above), the Bank has decided to state the above investment in the Bank`s books as of December 31, 2013, at the market value of the shares, and accordingly, include in the financial statements as of December 31, 2013, an additional provision for impairment of the value of the investment in shares of FIBI in respect of the anticipated loss amounting to NIS 158 million, net.

6. INVESTMENT IN INVESTEE COMPANIES (CONTINUED)

Provision for impairment in the financial statements as of March 31, 2014. In continuation to that stated above, the financial statements as of March 31, 2014, include an additional provision in the amount of NIS 26 million.

(4) **Loss of material influence.** The entitlement of the Bank to the commitment by FIBI Holdings to continue and cause the appointment of one quarter of the board of directors of FIBI from among candidates proposed by Discount Bank, expired on March 13, 2014. With the expiry of this entitlement, the Bank has lost its significant influence over FIBI (within the meaning of this term in generally accepted accounting principles). Two directors that had been appointed on recommendation of the Bank, resigned on March 26, 2014. (The third director has been appointed as an external director and continues in office).

In accordance with the reporting instructions of the Supervisor of Banks, the shares are stated in the financial statements as of March 31, 2014, as available-for-sale shares, at their fair value.

Starting with the financial statements as of March 31, 2014, the item representing the investment by the equity method of accounting has been abolished and the balance of which being classified to the item "available-for-sale securities". Also abolished were the capital reserves that had been recognized in other comprehensive income during the period of holding the investment in FIBI and their balance in an amount of NIS 13 million was classified to the statement of income.

(5) **Dividend.** The Bank 's share in the dividends distributed by FIBI in the months of April and December 2014, which amounted to NIS 44 million, was recognized in the financial statements as non-interest financing income.

As noted, the board of directors of FIBI decided on August 30, 2010 to adopt a profits distribution policy, according to which, FIBI will distribute by way of dividend in each year, 50% of its annual distributable net profit, subject to the following provisos: the ratio of capital to risk components shall not fall below the targets set or which will be set from time to time by the board of directors of FIBI and subject to Proper Conduct of Banking Business Directives, and with the absence of deterioration in the profitability of FIBI and/or in its business and/or financial condition and/or the general economic situation and/or the regulatory environment.

(6) **Sale of shares during 2014.** Further to that stated in item (1) above, during 2014 (June 1, September 15 and December 16), the Bank sold 10,165,223 shares of FIBI, comprising approx. 10.1% of the share capital of FIBI. The sales were effected in off-market transactions. As a result of these sales, the Bank recognized a loss of NIS 14 million (included in non-interest financing income).

(7) **Sale of shares in February 2015.** On February 19, 2015, the Bank sold 7,054,625 shares of FIBI, comprising approx. 7% of the share capital of FIBI. The balance of the shares in the First International Bank held by the Bank comprises 9.28% of the share capital of FIBI. The sale was made in an off-market transaction, at a price of NIS 0.4951 per share, reflecting a discount of 2.5% on the base price for the February 19 trading day. The total consideration amounted to NIS 349 million.

In consequence of this sale and the decrease in the Bank's rate of holdings in the shares of FIBI to below 10%, the exceptional impact of the investment in these shares on capital adequacy has been removed, a fact that would bring about an improvement in capital adequacy already in the first quarter of 2015. Completion of this move constitutes the Bank's attainment of a relevant milestone in the sale outline determined by the Antitrust Commissioner, prior to the final date that had been fixed for this sale.

In respect of the above, a loss on impairment of a nature other than temporary (OTTI) in the amount of NIS 47 million, net, was recorded in the financial statements as of December 31, 2014.

7. BUILDINGS AND EQUIPMENT

A. Composition

	Consolidated				
	Buildings and land*	Equiptment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2012	2,343	845	957	3,108	7,253
Additions	51	38	65	270	424
Assets designated for sale (Note 8A)	(86)	(12)	(33)	(12)	(143)
Disposals	(20)	(25)	(63)	(30)	(138)
Balance as at December 31, 2013	**2,288**	**846**	**926**	**3,336**	**7,396**
Additions	24	25	41	285	375
Assets designated for sale (Note 8A)	(1)	-	-	-	(1)
Translation adjustments	10	4	4	10	28
Disposals	(6)	(32)	(65)	(29)	(132)
Balance as at December 31, 2014	**2,315**	**843**	**906**	**3,602**	**7,666**
Depreciation and impairment loss:					
Balance as at December 31, 2012	1,045	555	732	1,959	4,291
Depreciation for the year	66	44	87	402	599
Reversal of impairment loss	(3)	-	-	-	(3)
Assets designated for sale (Note 8A)	(37)	(9)	(29)	(10)	(85)
Disposals	(7)	(24)	(59)	(12)	(102)
Balance as at December 31, 2013	**1,064**	**566**	**731**	**2,339**	**4,700**
Depreciation for the year	67	42	81	369	559
Impairment loss	1	-	-	-	1
Reversal of impairment loss	(2)	-	-	-	(2)
Assets designated for sale (Note 8A)	-	-	-	-	-
Translation adjustments	10	6	1	2	19
Disposals	(5)	(30)	(65)	(11)	(111)
Balance as at December 31, 2014	**1,135**	**584**	**748**	**2,699**	**5,166**
Book value:					
Balance as at December 31, 2012	**1,298**	**290**	**225**	**1,149**	**2,962**
Balance as at December 31, 2013	**1,224**	**280**	**195**	**997**	**2,696**
Balance as at December 31, 2014	**1,180**	**259**	**158**	**903**	**2,500**
Average weighted depreciation rate for year 2013	3.7%	9.9%	21.4%	18.0%	12.3%
Average weighted depreciation rate for year 2014	3.8%	9.9%	21.0%	18.6%	12.3%

*Includes installations and leasehold improvements.

7. BUILDINGS AND EQUIPMENT (CONTINUED)

A. Composition (continued)

	The Bank				
	Buildings and land*	Equiptment, furniture and vehicles	Hardware	Software	Total
	in NIS millions				
Cost:					
Balance as at December 31, 2012	1,705	472	697	2,314	5,188
Additions	17	20	48	168	253
Assets designated for sale (Note 8a)	(32)	-	-	-	(32)
Disposals**	-	(19)	(50)	(2)	(71)
Balance as at December 31, 2013	**1,690**	**473**	**695**	**2,480**	**5,338**
Additions	4	10	24	170	208
Assets designated for sale (Note 8A)	(1)	-	-	-	(1)
Disposals	-	(30)	(65)	(6)	(101)
Balance as at December 31, 2014	**1,693**	**453**	**654**	**2,644**	**5,444**
Depreciation and impairment loss:					
Balance as at December 31, 2012	785	275	533	1,434	3,027
Depreciation for the year	44	30	60	318	452
Reversal of impairment loss	(3)	-	-	-	(3)
Assets designated for sale	(24)	-	-	-	(24)
Disposals	-	(19)	(50)	(2)	(71)
Balance as at December 31, 2013	**802**	**286**	**543**	**1,750**	**3,381**
Depreciation for the year	46	28	55	270	399
Reversal of impairment loss	(2)	-	-	-	(2)
Assets designated for sale (Note 8A)	-	-	-	-	-
Disposals	(1)	(29)	(65)	(6)	(101)
Balance as at December 31, 2014	**845**	**285**	**533**	**2,014**	**3,677**
Book value:					
Balance as at December 31, 2012	**920**	**197**	**164**	**880**	**2,161**
Balance as at December 31, 2013	**888**	**187**	**152**	**730**	**1,957**
Balance as at December 31, 2014	**848**	**168**	**121**	**630**	**1,767**
Average weighted depreciation rate for year 2013	3.3%	9.2%	20.0%	17.7%	12.5%
Average weighted depreciation rate for year 2014	3.4%	9.1%	19.6%	18.2%	11.7%

*Includes installations and leasehold improvements.

B. The Bank and a consolidated subsidiary own leasehold rights for periods ending in the years 2014-2058.

7. BUILDINGS AND EQUIPMENT (CONTINUED)

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
C. Depreciated balance of buildings and land includes:				
Installations and leasehold improvements depreciated balance	129	137	44	57
Balance of provision for impairment loss	4	11	1	9
D. Financial leasing rights:				
Balance of non-capitalized leasehold	13	13	9	10
Balance of capitalized leasehold	178	174	98	101
E. Depreciated balance of not yet registered buildings	223	227	59	59
F. Depreciated balance of buildings not in use by the bank, the majority of wich are rented to other parties	20	27	6	15
G. Depreciated balance of buildings and equipment designated for sale	2	58	2	8
Reversal of impairment loss during the year	2	3	2	3
H. The cost of in-house development of computer software:				
The cost of software put into operation	2,654	2,472	2,362	2,215
Accumulated depreciation	(2,002)	(1,682)	(1,812)	(1,533)
Depreciable amount	652	790	550	682
Accumulated costs in respect of software under development	57	41	16	15
Total cost of in-house development of computer software	**709**	**831**	**566**	**697**
I. Gross value of fully depreciated fixed assets still in use	2,117	1,722	1,443	1,122
J. Recognized cost for fixed assets items in mounting stage:				
Cost of real estate	1	6	1	6
Cost of equipment	19	11	19	11

	for the year ended December 31		
	2014	2013	2012
	in NIS millions		
K. Details of operating lease contracts*:			
Recognized operating lease expenses**			
Consolidated	141	136	139
The Bank	95	91	87

* Details of future non-cancellable lease expenses, see note 19.c.1

**Includes minimum lease payment and contingent rent

7A. INTANGIBLE ASSETS AND GOOWILL

	Consolidated		
	Goodwill[1]	Customer relations	Total
	in NIS millions		
Cost			
Balance as at December 31,2012, 2013 and 2014	**283**	**78**	**361**
Amortization and losses on impairment			
Balance as at December 31,2012, 2013 and 2014	**141**	**78**	**219**
Book value			
Balance as at December 31,2012, 2013 and 2014	**142**	**-**	**142**

Footnote:

(1) Goodwill recognized in business combination (goodwill recognized upon acquisition of an affiliated company, included in the item "investment in affiliated companies").

8. OTHER ASSETS

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	In NIS millions			
Net deferred tax assets (see Note 29 I)	1,426	1,561	980	953
Excess advance tax payments over current provisions	393	232	320	153
Issue costs and discount expenses of subordinated capital notes	16	17	20	22
Income receivable	152	180	85	74
Surrender value of life assurance policies owned by a consolidated subsidiary	684	598	-	-
Assets in respect of the "Maof" market operations	9	4	9	4
Gold deposit	458	424	458	424
Other debtors and debit balances	367	261	125	94
Total other assets	**[1]3,505**	**[1]3,277**	**1,997**	**1,724**

:Footnote

(1) Excluding balances classified as assets held for sale - see Note 8A.

8A. ASSETS HELD FOR SALE

During 2013, the possibility of sale of the holdings of the Group in Discount Bank Latin America (hereinafter: "DBLA"), a wholly owned and controlled subsidiary of IDB New York was studied. Several potential buyers, noncommittally provided indications as to the consideration they might be ready to pay and have performed due diligence reviews, under limitations prescribed by the Bank. In January 2014, the Bank decided to continue examining the possibility of the sale of DBLA. The Bank`s Board of Directors approved its intention to sell the holdings in DBLA and instructed the Management to continue negotiations in this respect. In view of the above, and noting that DBLA is not material at the Group's level, the assets and liabilities of DBLA as of December 31, 2013 (and since then), have been classified as held for sale.

In the framework of the above mentioned, the financial statements as of December 31, 2014 recorded a provision for the impairment of available-for-sale securities of DBLA in the amount of US$5.8 million (approx. NIS 23 million) (December 31, 2013: a net amount of US$3.1 million, approx. NIS 11 million).

An agreement for the sale of the operations of DBLA was signed on December 18, 2014. The agreement is subject to conditions precedent, including various regulatory approvals, and accordingly it is not possible at this stage to predict when the transaction would be consummated.

In accordance with the agreement, the empty shell of the legal entity remaining in the wake of the transaction will be liquidated following the consummation of the transaction. In the interim period and until consummation of the transaction, DBLA shall continue to operate and conduct business in the ordinary course of business, as in the past, except for restrictions applying to material changes in its business operations.

A loss in the amount of US$17 million (NIS 66 million) has been recorded as a result of this agreement, an amount of NIS 50 million after the tax effect.

Following are data regarding assets and liabilities classified as held for sale (which includes also assets of the Bank in a negligible amount):

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
Assets classified as held for sale				
Cash and deposits with banks	2,152	1,659	-	-
Securities	2,064	1,935	-	-
Credit granted to the public, Net	638	500	-	-
Credit to Governments	22	24	-	-
Buildings and equipment	2	58	2	8
Other assets	14	28	-	-
Total	**4,892**	**4,204**	**2**	**8**
Liabilities classified as held for sale				
Deposits from the public	4,586	3,872	-	-
Deposits from banks	16	15	-	-
Other liabilities	49	44	-	-
Total	**4,651**	**3,931**	**-**	**-**
Guarantees and Unutilized credit facilities	**123**	**129**	**-**	**-**

9. DEPOSITS FROM THE PUBLIC

A. Type of deposits according to location of raising the deposit and type of depositor

	Consolidated		The Bank	
	December 31			
	2014	2013	2014	2013
	In NIS millions			
In Israel				
Demand deposits:				
Non-interest bearing	22,552	17,159	20,438	14,480
Interest bearing	21,772	16,470	18,247	14,832
Total demand deposits	**44,324**	**33,629**	**38,685**	**29,312**
Time deposits	83,153	93,176	71,792	81,194
Total deposits in Israel*	**127,477**	**126,805**	**110,477**	**110,506**
* Of which:				
Private individuals deposits	76,948	75,231	63,908	62,089
Institutional bodies deposits	7,122	(1)7,692	4,298	(1)5,300
Corporations and others deposits	43,407	(1)43,882	42,271	(1)43,117
Outside Israel (2)				
Demand deposits:				
Non-interest bearing	4,993	4,139	62	46
Interest bearing	13,572	11,085	91	41
Total demand deposits	**18,565**	**15,224**	**153**	**87**
Time deposits	6,861	6,899	350	585
Total deposits outside Israel	**25,426**	**22,123**	**503**	**672**
Total deposits from the public	**152,903**	**148,928**	**110,980**	**111,178**

Notes:

(1) Reclassification following the "lifting of the curtain", within the framework of which deposits held by a trust company on behalf of Institutional bodies are directly related to these institutional bodies.

(2) Not including balances classified as assets and liabilities held for sale, see Note 8A.

B. Deposits from the public according to size, on a consolidated basis

	December 31	
	2014	2013(2)
In NIS millions	In NIS millions	
Deposit limit	Balance	
Up to 1	58,183	57,907
Over 1 up to 10	44,764	43,840
Over 10 up to 100	23,299	20,836
Over 100 up to 500	15,390	(1)13,132
Over 500	11,267	(1)13,213
Total	**152,903**	**148,928**

Note:

(1) Reclassification following the "lifting of the curtain", within the framework of which deposits held by a trust company on behalf of Institutional bodies are directly related to these institutional bodies.

(1) Reclassified, due to changes in the data of a subsidiary company.

10. DEPOSITS FROM BANKS

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	In NIS millions			
In Israel				
Commercial banks:				
Demand deposits	1,315	1,005	272	235
Time deposits	469	511	530	621
Outside Israel				
Commercial banks:				
Deposits on demand	888	405	803	113
Schedule deposits	2,473	1,793	1,723	1,133
Acceptances	203	308	145	235
Central banks:				
Time deposits	199	191	-	-
Total deposits from banks	**(1)5,547**	**(1)4,213**	**3,473**	**2,337**

Footnote:
(1) Excluding balances classified as assets and liabilities held for sale - see Notes 8A.

11. SUBORDINATED CAPITAL NOTES

	Average maturity[1]	Internal rate of return[1]	Consolidated December 31		The Bank December 31	
	years	%	2014	2013	2014	2013
			in NIS millions			
Subordinated capital notes not convertible into shares[3]:						
In non-linked Israeli currency	3.34	5.95	2,639	3,016	327	327
In Israeli currency, linked to CPI	5.33	5.19	6,190	6,837	1,266	1,488
Subordinated capital notes convertible into shares:						
In Israeli currency, linked to CPI[2]	7.09	5.71	1,809	1,811	1,809	1,811
Total subordinated capital notes			**10,638**	**11,664**	**3,402**	**3,626**

Footnotes:

(1) Internal rate of return is the rate which discounts the projected payment flow of amounts presented in the balance sheet. Period to maturity is the average of the repayments periods weighted by the cash flows discounted at the internal rate of return. Data regarding the internal rate of return and the period to maturity relates to the consolidated statements as of December 31, 2014.

(2) Subordinate capital notes, recognized as additional tier I capital, under the transitional instructions of Basel III.

(3) Of which: NIS 8,825 million, listed for trade on the Tel Aviv Stock Exchange (2013: NIS 9,635 million)

12. OTHER LIABILITIES

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
Net provision for deferred taxes (see Note 29 I)	22	19	20	16
Excess of current tax provisions over advanc payments	20	36	-	-
Excess of the provision for severance and retirement benefits over amounts deposited (See Note 16 E, I)	490	362	229	190
Provisions for vacation pay, seniority bonus and retirement benefits	1,174	1,199	925	963
Deferred income	142	154	87	98
Payables for credit card activity	5,657	5,663	2,900	2,764
Provision for doubtful debts in respect of guarantees	170	184	135	153
Expenses payable	977	746	640	425
Liabilities in respect of "Maof" market operations	9	4	9	4
Liabilities stemming from "Market making" activity	224	99	224	99
Other payables and receivables	1,350	1,253	421	487
Total other liabilities	**(1)10,235**	**(1)9,719**	**5,590**	**5,199**

Footnote:

(1) Excluding balances classified as assets held for sale - see Note 8A.

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS

A. The authorized, issued and paid-up nominal capital (In new Israeli Shekels):

	December 31,2014		December 31, 2013	
	Authorized	Issued and Fully Paid-Up	Authorized	Issued and Fully Paid-Up
Ordinary “A” Shares of NIS 0.1 par value each	225,515,000	105,386,930	196,100,000	105,386,930
6% Cumulative Preferred Shares, of NIS 0.00504 each (equivalent to 10 pounds sterling each)	202	202	202	202
Total shareholders equity	**225,515,202**	**105,387,132**	**196,100,202**	**105,387,132**

Ordinary "A" Shares are registered and are listed for trade on the Tel Aviv Stock Exchange.

B. 6% cumulative preferred authorized share capital:

The dividend and the rights of these shareholders are linked to the representative rate of exchange of the New Israel shekel to the pound sterling at the date of each payment. At the balance sheet date, every holder of a preference share, the par value of which is equivalent to 10 pounds sterling, is entitled to an annual dividend in an amount of NIS 3.64, and at the time of liquidation to a distribution in an amount of NIS 60.64. According to an Opinion issued by the Institute of Certified Public Accountants in Israel, non-participating preference shares are not to be included as part of shareholders' equity, and accordingly they are presented under the item "other liabilities".

C. (1) Increase of the authorized share capital in the years 2006-2008 - creation of a pool of shares for the purpose of "forced conversion events" of subordinate capital notes Series "A" and "B". The special meetings of shareholders convened on December 26, 2006 and September 22, 2008, resolved to increase the Bank's authorized share capital by a total amount of 820 million ordinary A shares of NIS 0.1 par value each. The shares derived from the said increases are intended to be issued to investors in subordinate capital notes (series "A") in a total amount of NIS 2 billion, in the event of a compulsory conversion of the principal amount and/or interest, in certain circumstances that have been determined by the Supervisor of Banks (hereinafter: "compulsory conversion events"; for further details see Note 14 below).

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

In December 2006, May 2007 and September 2008, the Bank issued subordinate capital notes (Series "A") in an approximate par value of NIS 1,147 million (see Note 14 (7) b hereunder). In respect of the said capital notes the Bank maintained in its share capital a pool of approx. NIS 470 million ordinary "A" shares (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

In March 2009, the Bank issued approx. 350 million par value of subordinate capital notes Series "B" (see Note 14 (7) c hereunder). In respect of the said capital notes, the Bank maintained in its authorized share capital a pool of approx. 267 million shares to be used, if required, in a forced conversion event (the said quantity is subject to adjustment to the benefit component included in the rights issue of December 2010).

(2) Increase of the authorized share capital in 2009 - increase for the purpose of raising tier 1 capital

The special meeting of shareholders convened on December 15, 2009 resolved to increase the Bank's authorized share capital by 111 million ordinary A shares of NIS 0.1 par value each. The shares created by the said increase were intended to promote a move for the raising of tier 1 capital. The Bank is committed towards the State of Israel, which at that date owned a 20% of the Bank's shares, that the shares constituting part of the Bank's authorized share capital, which were created as a result of the said increase in capital, will be utilized for the above purpose and will not be used for any other purposes.

In December 2010 the bank completed a share offer to the public as well as a rights issue.

(3) Increase of the authorized share capital in February 2014

A special general meeting of shareholders held on February 17, 2014, resolved to increase the Bank`s authorized share capital by 294.15 million ordinary "A" shares.

D. Share based payment transactions – an option plan for officers of the Bank

(1) Phantom plan for the acting Chairman of the Board and for the former President & CEO

Within the framework of an approved remuneration plan in respect of the Chairman of the Board and to the President & CEO who held office until February 19, 2014 (hereinafter: the former President & CEO) (see Note 22 G), it had been determined that the Chairman of the Board and the former President & CEO will be entitled to a phantom type remuneration, dependent on the performance of the Bank's shares. The Bank granted to the chairman of the Board a quantity of 6,511,628 phantom rights and to the former President & CEO a quantity of 4,878,049 phantom rights (hereinafter: "the phantom rights")

The phantom rights do not entitle any rights to the Bank's shares and/or to any rights whatever stemming from the holding of the Bank's shares, excluding certain adjustments.

The phantom rights shall vest in five equal annual lots, each lot numbering one fifth of the total quantity of phantom rights, so that one annual lot shall vest in each year. The first annual lot pertaining to the Chairman of the Board vested on January 1, 2011, and his last lot vested on January 1, 2015. The first annual lot pertaining to the former President & CEO vested on January 1, 2012.

Each annual lot of phantom rights is exercisable, in whole or in part, during a period of two years from date of vesting, thereafter it shall expire and will no longer entitle to any rights (hereinafter: "the exercise period"). The first, second and third annual lots pertaining to the Chairman of the Board expired on January 1, 2013, January 1, 2014 and January 1, 2015, respectively. The first and second annual lots of the options granted to the former President & CEO expired on January 1, 2014 and January 1, 2015, respectively.

The plan established circumstances when materialized, the vesting date of each annual lot of phantom rights shall be deferred or an annual lot shall expire. Net loss from ordinary operations in the Bank's most recent quarterly financial statements on a cumulative basis over the four quarters preceding the said vesting date issued prior to the vesting date of the relevant annual lot; A material deviation from the required total capital adequacy ratio in the Bank's most recent financial statements issued prior to the vesting date of the relevant annual lot. In this respect, a deviation at a rate exceeding 20% of the required total capital adequacy ratio will be considered a material deviation. A conversion event of the outstanding balance of principal and interest of subordinate capital notes (of whatever Series) issued by the Bank.

The plan includes provisions regarding the modification of the plan under certain circumstances.

In respect of each exercise notice, the Bank shall pay an amount equal to the difference between the closing market price for each ordinary "A" share of the Bank and the base price, multiplied by the number of phantom rights being exercised.

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

For this purpose, the "base price" is the last closing market price of each ordinary "A" share of the Bank on the trading date preceding the date of the approval of the Board of Directors granted to the Phantom plan, with the addition of CPI linkage increments according to the rise of the CPI between the known Index at date of approval by the Board and the known Index at date of exercise of the rights.

The overall fair value of the rights (for five years), calculated by the Black & Scholes model, was NIS 14 million in respect of phantom rights granted to the Chairman of the Board, and NIS 12 million in respect of phantom rights granted to the former President & CEO. The above economic value was computed on the basis of the assumption that all the phantom rights would be exercised on the last day of the exercise period determined in respect thereof, on the basis of the market closing price of an ordinary "A" share of the Bank on December 19, 2010 (NIS 8.092), a standard deviation of 32.9% for computation purposes and a risk-free interest rate of between 0% and 1.5% (according to the period). It should be noted that the above calculation serves as an indication only to the cost of the phantom award, and that the actual cost may change, as it is affected by changes in the market price of the shares during the period of the plan.

The expense in respect of the different lots is recognized over the period up to their vesting dates. Until the final date of exercise of the phantom rights, at each reporting date the fair value of the plan is calculated in accordance with market conditions at those dates, the differences being recognized in the statement of income.

According to the terms of the plan, in the event that the former President & CEO terminates his term of office of his own accord, then in addition to the annual lots, which had vested until the end of the early notice period, a proportionate part of the phantom rights included in the annual lot for that year will also become vested on the date ending the early notice period, in accordance with the proportionate part of the period starting with the last vesting date of an annual lot within the framework of the plan (January 1, 2014) and until the end of the early notice period (April 1, 2014).

In accordance with the terms of the plan, the former President & CEO is entitled to exercise the said proportionate part during a period of two years starting with the date ending the early notice period. The remaining phantom rights of the former President & CEO would be exercisable within a period of two years from date of their original vesting.

The phantom rights, which the former President & CEO could have realize subsequent to his retirement amounted to 2,195,122 rights, of which, 975,610 option warrant had expired until January 1, 2015.

In the financial statements as of December 31, 2010, an expense of NIS 7.4 million was recognized, in respect of the proportionate share of all the tranches granted to the Chairman of the Board. The financial statements as of December 31, 2011, reflected a reduction of NIS 5 million in the expense with respect to the Chairman of the Board, and an expense of NIS 1.5 million in respect of the former President & CEO. In the financial statements as of December 31, 2012, an expense of NIS 0.4 million was recognized with respect to the Chairman of the Board, and an expense of NIS 1.2 million in respect of the former President & CEO. The financial statements as of December 31, 2013, reflected a reduction of NIS 1.18 million in the expense with respect to the Chairman of the Board, and NIS 1.93 million in respect of the former President & CEO. In the financial statements as of December 31, 2014, an expense of NIS 1.5 million was recognized with respect to the Chairman of the Board, and an expense of NIS 0.7 million in respect of the former President & CEO (all amounts stated above include payroll taxes).

For further details, see item (3) below.

(2) Awards, the payment of which is linked to the price of the Bank's shares

For details regarding deferred awards, the payment of which is linked to the price of the Bank's shares, see Note 16 K.

13. SHAREHOLDERS' EQUITY, PREFERRED SHARES, SHARE BASED PAYMENT TRANSACTIONS AND DIVIDENDS (CONTINUED)

(3) Liabilities arising from share-based payment transactions - Phantom plans - Quantitative data

Phantom plan for the Bank's officer, the Chairman of the Board and the former President & CEO

	December 31	
	2014	2013
	in NIS thousands	
Total liabilities arising from share-based payment transactions	217	2,423
Intrinsic value of liabilities in respect of which the counterparty's right to cash has vested by the end of the year	-	-
Total reversal of expense charged to the statement of income	(2,206)	(3,137)

E. DIVIDEND

(1) General

The distribution of dividends by the Bank is subject to the provisions of the law, including limitation deriving from Directives of the Supervisor of Banks.

(2) Restrictions established in instructions of the Supervisor of Banks

Proper Conduct of Banking Business Directive No. 311 determines restrictions on the distribution of dividends. Letters of the Supervisor of Banks in the matters of "Capital policy for interim periods" and "Basel III framework – Minimum core capital ratios" required banking corporations, among other things, to avoid a distribution of dividend, if as a result thereof, the banks might not attain the capital targets determined in the said letters.

(3) Distribution of a dividend in respect of preferred shares

On October 2, 2014, the General Meeting of Shareholders resolved to approve as final dividend for 2013, the interim dividend of 6%, paid on December 30, 2013, to the holders of 40,000, 6% cumulative preference shares of NIS 0.00504 per value each, in a total amount of GBP 24,000.

On November 10, 2014, the Bank's Board of Directors resolved to pay on December 29, 2014, an interim dividend of 6% to the holders of the said preferred shares, and to recommend to the annual General Meeting of Shareholders, that will convene in 2015, to declare such dividend as final.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS

(a) **Basel II guidelines.** The capital adequacy as of December 31, 2013, was computed according to the standard approach in accordance with Proper Conduct of Banking Business Directive Nos. 201 and 211 regarding "Measurement and capital adequacy" (hereinafter: "Basel II guidelines").

(b) **Adoption of Basel III instructions.** On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives, in order to modify them to the Basel III guidelines.

The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions". The data presented below (as of January 1, 2014 and December 31, 2014) reflects deductions, in accordance with the transitional instructions. It is noted that in computing the data as of January 1, 2014, a part of the amortizations has been computed in a quarterly linear amortization format of one quarter of the required annual amortization. In the light of clarifications issued by the Supervisor of Banks, starting with the financial statements as of June 30, 2014, the annual amortization is computed in full, also during that year, and the format for the treatment of certain financial investments has also been changed. Among other things, the Directives state more stringent requirements with respect to the components qualified for inclusion in regulatory capital and regulatory adjustments (deductions from capital).

According to the instructions, starting with January 1, 2015, the minimum total capital ratio, which the Bank will be required to attain, is 12.5% (for details regarding the required addition in respect of housing loans, see below).

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

The Bank prepared a detailed plan for attaining the capital targets, being at least the level of capital prescribed by the policy of the Supervisor of Banks and according to the time schedules published by him, and the Bank is acting toward its implementation.

(c) Restrictions on the granting of housing loans. On September 28, 2014 the Supervisor of Banks issued an amendment to Proper Conduct of Banking Business Directive No. 329, in the framework of which, a banking corporation is required to increase their Common equity tier 1 target by a rate which expresses 1% of the outstanding housing loans. This requirement is to be applied gradually in equal quarterly installments, over eight consecutive quarters, starting on January 1, 2015 and until January 1, 2017.

On the other hand, it has been determined that a banking corporation may reduce the weight of risk applying to leveraged loans bearing variable interest rates from 100% to 75%.

As estimated by the Bank, on the basis of the data pertaining to the housing loan portfolio of the Group as of December 31, 2014, the said requirement is expected to increase the minimum equity capital requirement and the total capital by approx. 0.14%

1. Capital for calculating ratio of capital

	Basel III		Basel II
	December 31, 2014	January 1, 2014	December 31, 2013
	in NIS millions		
Common equity tier 1 after deductions	13,393	12,364	12,266
Additional tier 1 capital after deductions	1,425	1,136	1,016
Tier 1 capital	14,818	13,500	13,282
Tier 2 capital	6,288	6,124	5,663
Total capital	**21,106**	**19,624**	**18,945**

2. Weighted risk assets balance

	Basel III		Basel II
	December 31, 2014	January 1, 2014	December 31, 2013
	in NIS millions		
Credit risk	125,643	122,592	117,138
Market Risk	2,629	2,588	2,588
CVA risk	1,200	1,144	--
Operational risk	12,345	12,217	12,217
Total weighted risk assets balance	**141,817**	**138,541**	**131,943**

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

3. Ratio of capital to risk assets

	Basel III		Basel II
	December 31, 2014	January 1, 2014	December 31, 2013
	In %		
A. The Bank			
Ratio of common equity tier 1 to risk assets (2013: ratio of core capital)	9.4	8.9	9.3
Ratio of tier 1 capital to risk assets	10.4	9.7	10.1
Ratio of total capital to risk assets	14.9	14.2	14.4
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.0	(4)9.0	--
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.5	(4)12.5	9.0
B. Significant subsidiaries			
1. Mercantile Discount Bank LTD. and its consolidated companies			
Ratio of common equity tier 1 to risk assets (2013: ratio of core capital)	10.7	10.6	10.5
Ratio of tier 1 capital to risk assets	10.7	10.6	10.5
Ratio of total capital to risk assets	14.6	14.6	14.6
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.0	(4)9.0	--
Minimum total capital adequacy ratio required by the Supervisor of Banks	(4)12.5	(4)12.5	9.0
2. Discount Bakcorp Inc. (1)			
Ratio of common equity tier 1 to risk assets	--	--	--
Ratio of tier 1 capital to risk assets	11.9	-	12.9
Ratio of total capital to risk assets	12.9	-	13.9
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	-	-	-
Minimum total capital adequacy ratio required by the Supervisor of Banks	(2)8.0	-	(2)8.0
3. Israel Credit Cards LTD.			
Ratio of common equity tier 1 to risk assets	14.2	14.4	--
Ratio of tier 1 capital to risk assets	14.2	14.4	14.9
Ratio of total capital to risk assets	16.3	16.4	16.2
Ratio of minimum common equity tier 1 required by the Supervisor of Banks	(4)9.0	(4)9.0	-
Minimum total capital adequacy ratio required by the Supervisor of Banks	(3)(4)12.5	(3)(4)12.5	(3)9.0

Footnotes to the table, see after item 4.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

4. Capital components for calculating ratio of capital

		Basel III	Basel II
	December 31, 2014	January 1, 2014	December 31, 2013
		in NIS millions	
A. Tier 1 capital			
Common equity	13,641	12,538	12,538
Difference between common equity and common equity tier 1	(30)	35	(90)
Total common equity tier 1 before supervisory adjustments and deductions	13,611	12,573	12,448
Supervisory adjustments and deductions			
Goodwill and other intangible assets	142	142	142
Deferred tax assets	36	32	--
Investment in capital of financial corporations that are not consolidated in reports to the public	39	35	34
Supervisory adjustments and other deductions	1	--	6
Total supervisory adjustments and deductions	218	209	182
Total common equity tier 1 after supervisory adjustments and deductions	**13,393**	**12,364**	**12,266**
B. Additional tier 1 capital			
Additional tier 1 capital before deductions	1,425	1,425	1,781
Deductions	-	289	765
Total additional tier 1 capital after deductions	**1,425**	**1,136**	**1,016**
C. Tier 2 capital			
Instruments before deductions	4,727	4,874	(5)6,208
Provision before deductions	1,586	1,542	254
Total tier 2 capital before deductions	6,313	6,416	6,462
Deductions			
Total deductions	25	292	799
Total tier 2 capital	**6,288**	**6,124**	**5,663**

Footnotes:

(1) The data in this item was computed in accordance with the rules mandatory in the U.S.A.

(2) IDB New York, a subsidiary of Discount Bancorp Inc., was classified by the FDIC as "well capitalized". Retaining the said classification requires the maintenance of a total capital ratio, at a minimum ratio, of 10% and of a tier 1 minimum capital ratio of 6%.

(3) In view of the approach by the Supervisor of Banks, ICC is required to maintain a total capital ratio of not less than 15%, starting from December 31, 2010.

(4) Starting with January 1, 2015. For details regarding the requirement for the raising of the Common equity tier 1 target, at a rate reflecting 1% of the outstanding balance of housing loans see item (c) above.

(5) Including gains in respect of adjustment to fair value of available for sale securities and preferred shares.

5. Effect of the adoption of the Basel III instructions

On June 3, 2013, the Supervisor of Banks issued amendments to Proper Conduct of Banking Business Directives Nos. 201-211 in the matter of "measurement and capital adequacy", in order to modify them to the Basel III guidelines. The said amendments gradually entered into effect beginning with January 1, 2014, in accordance with the transitional instructions determined in Proper Conduct of Banking Business Directive No. 299 regarding "measurement and capital adequacy – the regulatory capital – transitional instructions".

Stated hereunder is the effect of the adoption of the Basel III instructions as of January 1, 2014 (in accordance with the balances as of December 31, 2013) and as of December 31, 2014, in computing the effect of the adoption of the Basel III instructions, as stated, the transitional instructions issued by the Supervisor of Banks had been taken into Account.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

	December 31, 2014	January 1, 2014
	In %	
Ratio of common equity tier 1 to risk assets before implementation of the effect of the provisional instructions in directive No.299.	(6)8.4	7.8
Effect of the provisional instructions	0.3	1.1
Ratio of common equity tier 1 to risk assets after implementation of the effect of the provisional instructions in directive No.299.	9.4	8.9

Footnote:

(1) Including the anticipated effect of the initial application of U.S. GAAP in the matter of employee rights, according to data expected as of January 1, 2015.

6. Clarification regarding the recognition of hybrid capital instruments

A. Clarification regarding the recognition of hybrid capital instruments issued prior to the Basel II guidelines taking effect

At the Bank's request, the Supervisor of Banks clarified in a letter dated March 3, 2010, that until otherwise determined, the specific terms established for the recognition of hybrid capital instruments, as detailed in the approvals granted for each issue of the said instrument, continue to apply with respect to the particular issue even after the Basel II guidelines taking effect.

The Supervisor further clarified, to avoid doubt, that whenever the Bank is required to maintain capital adequacy ratios (overall, primary, original or other), including as a precondition for the recognition of hybrid capital instruments as a part of the Bank's capital base, such ratios shall not be changed, despite the change made from time to time in the criteria for the issue, and that they will be computed in accordance with the calculation method in practice at that date.

The above stated relates to issues made by the Bank as detailed in Sections 7 and 8 hereunder.

B. On December 25, 2013, the Supervisor of Banks approved the removal of the condition for the non-recognition of hybrid capital instruments (hybrid tier 1 and upper tier 2) in cases where the original tier 1 capital ratio falls below 6.5%.

7. The issue of hybrid tier 1 capital

A. General

The subordinate capital notes issued by the Bank in the years 2006-2009, as detailed in items B and C below have been recognized as hybrid tier 1capital under the Basel II rules. The said capital notes are not qualified in terms of the Basel III instructions, though according to the transitional instructions they are recognized in the transitional period as additional tier I capital, and will be gradually eliminated in the years 2014-2021.

B. Issue of hybrid tier 1 capital - Series "A"

The issue of hybrid tier 1 capital in the years 2006-2007. On December 31, 2006 subordinate capital notes, in its par value, were issued in the amount of NIS 750 million in a private placement, and on May 13, 2007 an additional NIS 250 million was issued to investors in a private placement.

The Governor of the Bank of Israel approved that the abovementioned subordinate capital notes will be deemed hybrid capital instruments and will be recognized as part of the Bank's tier 1 capital (see item A "General" above). On May 31, 2007, the Bank published a Prospectus for the listing for trade of subordinate capital notes.

The issue of hybrid tier 1 capital in 2008. The Bank issued on September 25, 2008, subordinated capital notes (Series "A"), by way of enlarging of an existing Series, listed for trade per Prospectus dated May 30, 2007, in a par value of approx. NIS 147 million, through a private issue to classified investors (as defined in the Securities Regulations (Offer of Securities to the Public), 2007).

On September 22, 2008, the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank's Tier 1 capital (see item A "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the following conditions:

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

a. The capital notes are to be issued under terms identical to those of the capital notes issued as part of the existing Series;

b. The rate of the Hybrid Tier 1 Capital is not to exceed 15% of the Bank's total Tier 1 capital;

c. The capital notes are not and will not be pledged in favor of the Bank or in favor of its subsidiary companies.

The Bank complies with the said conditions.

Terms of the subordinated capital notes - Series "A". The subordinate capital notes were issued for a period of 99 years and the principal will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes is payable quarterly.

The Bank is entitled, at its own discretion, to redeem the subordinate capital notes prematurely, after a minimum of 15 years from the issuance date, subject to the conditions stated in the notes and to approval from the Supervisor of Banks.

The subordinated capital notes will bear linked interest at the rate of 5.10%. In the event that the capital notes are not prematurely redeemed after fifteen years, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate of 1% over the original spread determined for the first fifteen years (namely 2.495%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 398.5 million of the Bank's ordinary "A" shares.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank's assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

Recognition of the capital notes as upper tier 1 capital. The Governor of the Bank of Israel approved the Bank's inclusion of the capital notes as upper tier 1 capital (see item A "General" above).

Following are the basic conditions for recognition of the capital notes as upper tier 1 capital:

(1) The ratio of capital to the Bank's risk assets should not fall below 10% as of the date of issuance of a compound capital instrument.

(2) Hybrid tier 1 capital is required to comply with the designated conditions for compound capital instruments, as defined in Proper Conduct of Banking Business Directive No. 311, included in secondary capital.

(3) Structure of the issuance - The issuance should be implemented directly only by the Bank itself.

(4) Quantity restriction - The ratio of the hybrid tier 1 capital should not exceed 15% of the total tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 311, including the hybrid tier 1 capital (hereinafter: "overall tier 1 capital").

(5) Repayments - Only capital notes fully paid up in cash will be deemed hybrid tier 1 capital.

(6) Non-accrual interest - In "special circumstances", as defined below, on the due date for payment of interest, such interest will not be payable and the entitlement of holders of the capital notes to interest will expire. Interest not paid as a result of existence of the special circumstances will not accumulate and will be erased after the payment date. Following are the special circumstances:

(a) The Bank's Board of Directors has determined that the Bank is unable to honor its obligations, which rank higher than the subordinate capital notes (series "A") or are equivalent thereto, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank's annual or interim financial statements, respectively, to notes to the financial statements regarding the Bank's inability to fulfill its obligations, as stated above;

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

(b) The Bank's Board of Directors has determined that probability exists that payment of the interest would create a situation in which the Bank will be unable to settle its existing and/or expected liabilities, or the Bank's independent auditors drew attention in their audit report or review report attached to the Bank's annual or interim financial statements, respectively, to notes to the financial statements regarding the probability of such situation;

(c) During six consecutive quarters, the financial statements for the last of which were published prior to the date for payment of the interest, the Bank did not report on accrued net income (i.e. if the simple addition of the quarterly amounts of the net earning or losses reported in the Bank's financial statements, for six consecutive quarters, constituted a negative amount);

(d) The Bank's last financial statements published prior to the date of the interest payment indicate that the Bank has no distributable profits.

(7) Allotment of shares in respect of interest - In the case of erasure of interest, as described in 6 above, the Bank is empowered to issue shares to holders of the capital notes against the erased interest. Such shares may be issued only in respect of interest not paid in the same year, and shares may not be issued in respect of interest erased in prior years.

(8) Sustaining of losses - The Bank is required to convert all outstanding balances of principal and interest in respect of the subordinate capital notes into the Bank's ordinary "A" shares, of the circumstances described below occur:

(a) If the ratio of the overall tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a particular quarter below 6%, and does not recover within 90 days from the date of issue of the said financial statements, to a rate of at least 6%, conversion will be implemented immediately;

(b) If the ratio of the tier 1 capital to the Bank's risk assets, excluding the hybrid tier 1 capital (hereinafter - "the original tier 1 capital"), as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5.5%, and does not recover until the date of publication of the financial statements for the following quarter to a rate of at least 5.5% (even if the ratio of the overall tier 1 capital exceeds 6% at that time), conversion will be implemented immediately;

(c) If the ratio of the original tier 1 capital to the Bank's risk assets, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 6% but not lower than 5.5%, and does not recover to a rate of at least 6% until the end of the two quarters following that quarter, as stated in the Bank's interim financial statements, conversion will be implemented immediately (even if the ratio of the overall tier 1 capital exceeds 6% at that time), unless the Supervisor of Banks directs otherwise;

(d) If the ratio of the original tier 1 capital, as stated in the annual financial statements or in the Bank's quarterly interim financial statements for the reporting period, falls in a certain quarter below 5%, immediate partial conversion will be implemented in an amount that would recover the Bank's original primary capital ratio published for that quarter to at least 5%;

(e) According to the Bank's financial statements, the Bank's retained earnings become negative;

(f) The Bank's independent auditors drew attention in their audit report or review report attached to the annual financial statements or to the Bank's interim financial statements, respectively, to notes to the financial statements which express significant uncertainties regarding the continued existence of the Bank as a "going concern".

(9) Change in terms, premature redemption, and/or increase in interest rate - the subordinate capital notes will be issued for a period of 99 years and may be redeemed at the discretion of the issuer, subject to advance written approval from the Supervisor of Banks, after a minimum period of 15 years. Additionally, other terms of the subordinate capital notes may not be changed without advance written approval from the Supervisor of Banks.

Without detracting from this condition, one step-up of interest by up to 100 basis points over the original margin determined for the first period of 15 years is enabled, after at least 15 years from the issuance date.

(10) Subordination - Except for the rights of creditors in accordance with similar capital instruments, the capital notes are subordinate to claims of all other creditors, including holders of capital notes issued as secondary capital.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

(11) Collateral - The liabilities according to the capital notes are not secured by any collateral.

(12) Issuance to related entities - The Bank will not issue subordinate capital notes to provident funds and/or mutual funds controlled and/or managed by the bank (insofar as this condition is at the Bank's discretion in the primary allocation).

(13) Transparency - The terms of the issuance will be clear and disclosed, including full disclosure in the Bank's published annual financial statements of all conditions of the hybrid tier 1 capital, inter alia, the following details regarding the compound primary capital: amount, components, share in the total overall primary capital and principal characteristics.

Regarding recognition of the capital notes as upper tier 1 capital, the Board of Directors adopted a capital adequacy policy according to which the Bank will maintain an original primary capital adequacy ratio (excluding the compound primary capital) of at least 6.5%, at all times.

C. Issue of hybrid tier 1 capital - Series "B"

Issue of hybrid tier 1 capital in March 2009. The Bank entered into an agreement with Migdal Insurance Company Ltd. (participation in profits), Migdal Insurance Company Ltd. (nostro) and Migdal Makefet Pension Funds and Provident Funds Management Ltd., each of them separately according to its share, for the private placement of NIS 350 million par value of the Bank's subordinated capital notes (Series "B") in a total consideration for NIS 350 million.

On March 26, 2009 the Supervisor of Banks approved the said capital notes as hybrid capital instruments recognized as part of the Bank's Tier 1 capital (see item A "General" above), as defined in Proper Conduct of Banking Business Directive No. 311 - "The minimum capital ratio" (as phrased at that date) subject to the following conditions:

(a) The rate of the Hybrid Tier 1 Capital is not to exceed 15% of the Bank's total Tier 1 capital;

(b) The ratio of the original tier 1 capital is not to fall below 6.5% at any time (see item 7 B above);

(c) The capital notes are not and will not be pledged in favor of the Bank or in favor of its subsidiary companies.

The Bank complies with the said conditions.

Terms of the subordinated capital notes - Series "B". The principal on the subordinate capital notes will be repayable on January 1, 2106. The principal and interest on the notes are linked to the CPI and will bear annual interest. The interest on the subordinate capital notes will be paid four times a year. The Bank shall be entitled to announce, at its own discretion, the early redemption of the principal sum of the subordinated capital notes and of the linkage increments and interest accrued as of date of the actual early redemption, subject to the terms specified in the note, and subject to the prior approval of the Supervisor of Banks.

The subordinated capital notes will, in the period from date of issue and until December 31, 2021 (hereunder: "the first interest period"), carry linked interest at the rate of 8.7%. In the event that an early redemption will not occur on December 31, 2021, then the subordinated capital notes will carry interest at a variable rate to be fixed in advance for each period of five years, with the addition of a "step up" interest of 1% over the original margin fixed for the first interest period (namely, 7.13%).

The subordinate capital notes include special provisions, as detailed below, mainly compulsory conversion of the principal amount and/or interest into the Bank's ordinary "A" shares of NIS 0.1 par value each, under certain circumstances determined by the Supervisor of Banks. In the event of conversion of the total principal amount of the capital notes and the allocation of shares in exchange for interest in respect of the full number of shares designated for such purpose in the Bank's authorized share capital, 267 million ordinary "A" shares of the Bank, will be allocated in respect of the issued capital notes, as stated.

The subordinate capital notes are not secured by any pledge on the Bank's assets or by any other collateral. The Bank's liability for payment of the principal and interest on the capital notes is subordinate to all other liabilities of the Bank to creditors of any class, including to holders of subordinate capital notes that were issued or will be issued in the future by the Bank and/or its subsidiaries, and will be superior only to rights of the shareholders to the distribution of the balance of the Bank's assets upon liquidation. The Bank's liability for payment of the principal amount of the capital notes and the interest thereon will be equivalent, pari passu, to other liability notes and/or securities that will be issued by the Bank or by its subsidiaries, and which are approved by the Supervisor of Banks as primary capital instruments.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

The terms for recognition of the subordinated capital notes (series "B") as hybrid tier 1 capital. The basic terms determined by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 1 capital (see item A "General" above) are identical to the terms determined for Series "A" (as detailed in Section A above) with the following changes:

- The definition of "special circumstances" no longer includes the case of six consecutive quarters showing a loss (subsection (6) C).
- The following case was added to the definition of "special circumstances": where the Supervisor has instructed the cancellation of interest payments after realizing that a real danger exists that the interest payment might lead to a situation where the Bank would be unable to meet its obligations.
- Within the framework of the definition of cases where, if realized, an immediate conversion of the outstanding balance of principal and interest of the subordinated capital notes into the Bank's ordinary "A" shares would be effected, the definition of the term relating to the reduction in the proportion of the original tier 1 capital to below 5% (Section (8) (d)), was changed as follows: in the event that the proportion of the original tier 1 capital, as stated in the financial statements or in the Bank's interim financial statements, once in every quarter, fell in a particular quarter below 5%, the said conversion shall be effected immediately.

For details regarding clarifications in the matter of hybrid capital instruments, see item 6 above.

8. The issue of upper tier 2 capital

General. The subordinate capital notes issued by the Bank in 2009, as detailed below, have been recognized under the Basel II rules as upper tier 2 capital. The said subordinate capital notes are not qualified under the Basel III rules, but in accordance with the transitional instructions they are recognized in the transitional period as additional tier 1 capital, and will be gradually eliminated in the years 2014-2021.

Issue of upper tier 2 capital in 2009. In 2009, Discount Manpikim issued NIS 1,252 million par value subordinated capital notes (Series 1), which were designated as upper tier 2 capital (see "General" above).

Terms of the subordinated capital notes to serve as upper tier 2 capital. The subordinated capital notes will be issued for a period of 49 years; the principal sum of the subordinated capital notes will be repayable in one amount on a date to be determined in the first shelf offer report for the relevant series. The principal and interest of the subordinated capital notes are linked to the CPI. Interest on the said subordinated capital notes will be paid four times a year.

The Bank shall be entitled, at its discretion, to prematurely redeem the subordinated capital notes, starting with the end of the period to be announced in the shelf offer report and which in no case shall be shorter than ten years (hereinafter: "the initial period"), subject to the terms specified in the notes and subject to the approval of the Supervisor of Banks.

Until the end of the initial period, the capital notes will bear linked interest to be determined in the tender. In the event that the capital notes are not prematurely redeemed at the end of the initial period, then in the period beginning with the end of the initial period, they will bear interest at a variable rate, to be determined in advance for each period of five years, with the addition of step-up interest at a rate to be determined in the first shelf offer report, as stated.

The rights of the holders of the subordinated capital notes shall be deferred as regards claims by all other creditors of Discount Manpikim and of the Bank of any class, with the exception of holders of capital notes which constitute and/or will constitute from time to time the hybrid tier 1 capital issued by the Bank.

Terms for the recognition of the subordinated capital notes as upper tier 2 capital. Below are details of the terms specified by the Supervisor of Banks for the recognition of the subordinated capital notes as upper tier 2 capital (see "General" above):

1. Capital adequacy at date of issuance - at date of issue of the hybrid capital instrument, the ratio of capital to the Bank's risk assets shall not fall below 10%.
2. Original tier 1 capital ratio - the original tier 1 capital ratio shall not fall at any time below 6.5% (see item 7 B above).
3. Directive 311 - hybrid tier 2 capital must comply with the terms determined for hybrid capital instruments as defined in Section "C" (Definitions) of annex "A" to Proper Conduct of Banking Business Directive 311 - "Minimum capital ratio", included in tier 2 capital.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

4. During the five years prior to the final redemption date, the hybrid capital instruments are to be included in the tier 2 capital as though they were subordinated capital notes, in accordance with Section 2(b)(2) of annex "A" to Proper Conduct of Banking Business Directive 311 - "Minimum capital ratio".
5. Structure of the issue - the issue shall be effected by the Bank or by a subsidiary thereof.
6. A quantitative restriction - the tier 2 capital may comprise up to 100% of the tier 1 capital and subordinated capital notes up to 50% of the tier 1 capital that was not issued in respect of market risks. This means that the upper tier 2 capital may reach up to 100% of tier 1 capital, though in actual fact, the potential for the issue of upper tier 2 capital ranges between the total amount of the tier 1 capital and the volume of the capital notes.
7. Redeamability - Only capital notes that have been fully paid up in cash may be considered upper tier 2 capital.
8. Collateral - the liability in accordance with the capital notes may not be secured by collateral.
9. Pledge on capital notes - the capital notes may not be financed and may not be pledged as security for a loan granted by the Bank or a subsidiary thereof.
10. Suspension of interest payments - Interest payments shall not be made if on their due date "suspending circumstances" prevail, as the term is defined below, and the payment thereof shall be deferred for unlimited periods. The suspending circumstances are:
    (a) The Bank's Board of Directors has determined that the Bank is not able to honor on their due dates its liabilities that have preference over or that are equal to the subordinated capital notes, or where the Bank's independent auditor in his opinion or review report appended to the Bank's financial statements or the interim financial statements, as the case may be, has drawn attention to notes to the financial statements concerning the Bank's inability to honor its liabilities, as above.
    (b) The Bank's Board of Directors has determined that reasonable concern exists that the payment of interest will cause a situation where the Bank will not be able to meet its existing and/or expected liabilities, or where the Bank's independent auditor in his opinion or review report appended to the financial statements or the Bank's interim financial statements, as the case may be, has drawn attention to notes to the financial statements mentioning the existence of such reasonable concern.
    (c) Where according to the Bank's financial statements last issued prior to the interest payment date, the Bank has no distributable earnings.
    (d) The Supervisor of Banks has ordered the suspension of interest payments after realizing that real concern exists that the payment of interest will cause a situation where the Bank would not be able to meet its liabilities.
11. Settlement of suspended interest payments - if at the date determined for the settlement of whatever interest payment it becomes clear that a change has taken place in the Bank's financial stability in a manner that suspending circumstances, as described in Section 10 above, exist, then payment of such interest would be suspended until such time as one or more of the conditions detailed hereunder exist, and provided that none of the suspending circumstances is still in existence and/or has ceased to exist.

    These are the circumstances where upon the first coming into existence any of which, and subject to a determination by the Bank's Board of Directors that suspending circumstances no longer exist at that time, the suspended interest payments may be paid together with interest and linkage increments thereon:
    (a) The Bank has declared the payment of dividend to the holders of any class of its shares.
    (b) The Bank has announced a premature redemption, in full or in part, of the principal sum of the subordinated capital notes, or has redeemed the principal sum of the subordinated capital notes, in full or in part.
    (c) A liquidation order has been issued against the Bank, however in such a case, settlement of the suspended interest payments is subject to the settlement of all the Bank’s liabilities that take precedence over the principal and interest of the subordinated capital notes, or subject to another arrangement reached with the Bank's creditors that are preferable to the holders of the subordinated capital notes.
12. Non-payment of dividends - the Bank shall not pay a dividend to its shareholders so long as all the suspended interest payments have not been settled in full, this whether the declaration of the dividend had been made prior to the announcement by the Bank that suspending circumstances emerged or made after such an announcement.
13. Premature redemption by the holder - the holder may not redeem the subordinated capital notes prematurely.

14. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

14. Premature redemption by the Bank - subject to restrictions detailed hereunder, the Bank may decide, based upon its judgment with no option to the holders of the subordinated capital notes, to prematurely redeem the principal of the subordinated capital notes, in full or in part, as the case may be, as well as the linkage increments and interest accrued in respect of the subordinated capital notes to date of the actual premature redemption, in respect of the principle of the subordinated capital notes this upon all the following conditions being materialized cumulatively:
    (a) At least ten years have elapsed since the date of issue of the subordinated capital notes and the actual date of premature redemption.
    (b) Premature redemption may only be made after receiving the prior approval of the Supervisor of Banks and on condition that the instrument shall be replaced by other capital of an identical or higher caliber, unless the Supervisor has determined that the capital adequacy of the corporation is adequate in relation to its risks.
    (c) Effecting the premature redemption will not bring about any of the suspending circumstances, as defined in section 10 above, immediately after execution of the resolution for the premature redemption, and the Bank's Board of Directors has determined that even considering the premature redemption it does not expect suspending circumstances to emerge in the course of the twelve months following the date of the premature redemption.
15. Change in terms, premature redemption and/or determination of an interest mechanism - the capital notes are issued for a period of 49 years.
    The terms of the capital notes may not be altered without the prior approval in writing of the Supervisor of Banks. Without derogating from this provision, and following at least ten years from date of issue (hereinafter: "the initial period"), a step-up of interest is permitted only once in the instrument's life time. The rate of increase in the interest shall not exceed 100 basis points less the swap spread between the initial index base of the increased interest and the stepped-up index basis, or - 50% of the initial credit margin less the swap spread between the initial index base and the stepped-up index base.
    Following the end of the initial period and if the subordinated capital notes are not prematurely redeemed at the end of the initial period, the capital notes shall bear interest at a variable rate in accordance with a predetermined and fixed basis to be established by the Trustee for the notes.
16. Subordination - The Bank's obligation for the payment of principal and interest of the capital notes shall be subordinate to all its other liabilities of whatever class, including liabilities towards the holders of subordinated capital notes issued or to be issued in the future by the Bank, and shall only take precedence over the rights of the Bank's shareholders to the reimbursement of the Bank's surplus assets upon liquidation, and over the rights of holders of other securities, the Bank's obligation in respect of which is recognized as the Bank's tier 1 capital, if and when the Bank will issue such securities. The status of the Bank's obligations, as stated above, shall not be altered as a result of the fact that the capital notes shall no longer be considered the Bank's tier 2 capital, for whatever reason. The Bank's obligation to pay the principal of the capital notes and the interest thereon stands parri passu with additional securities and/or additional securities that may be issued by the Bank or its subsidiaries and approved by the Supervisor of Banks as "hybrid capital instruments".
17. Allotment to related parties - The Bank shall not allot (to the extent that the matter depends on the Bank upon the initial issue) the hybrid capital notes to provident funds and/or mutual funds controlled and/or managed by the Bank.
18. Transparency - The terms of issue will be clear and disclosed. In this respect, full disclosure shall also be given in the Bank's annual financial statements issued to the public, to the terms of the hybrid tier 2 capital. Such disclosure will include, among other thing, the following details regarding the hybrid capital: its amount, composition, its share as a percentage of the total inclusive tier 1 capital as well as it principal characteristics.

For details regarding clarifications in the matter of hybrid capital instruments, see item 6 above.

15. PLEDGES

A. IDB New York has pledged various loans and corporate bonds with the Federal Reserve Bank of New York (FRBNY). This pledge was made to secure credit from the FRBNY credit window as well as for credit within the framework of TAF tenders of this bank. The carrying value of the loans and securities pledged for FRBNY credit as of December 31, 2014 amounted to US$1,268 million (NIS 4,931 million) [December 31, 2013: US$1,530 million (NIS 5,311 million)].

In addition, IDB New York pledged loans in favor of the Federal Home Loan Bank, in the amount of US$77 million (NIS 298 million) as of December 31, 2014 as a collateral for deposits received from it [as at December 31, 2013: US$104 million (NIS 360 million)].

B. IDB New York has sold securities, under buyback terms, in the amount of US$1,198 million (NIS 4,658 million) as of December 31, 2014 [as at December 31, 2013: US$1,242 million (NIS 4,312 million)].

C. The Bank is a member of the Euroclear Clearing House, which serves as a clearing system for transactions in securities traded on international markets, made through this clearing house. For this purpose, the Bank has pledged cash and securities in the amount of US$15 million.

D. The Bank deposits bonds with foreign brokers (in the United States) as collateral for option transactions performed by its customers by means of these brokers. The value of such collateral at December 31, 2014 amounted to NIS 11 million (December 31, 2013: NIS 16 million). The highest balance of the collateral in 2014 was 11 million, while the average balance was NIS 11 million (December 31, 2013: NIS 56 million and NIS 27 million, respectively).

E. Note 19 C 4 below describes the risk fund established by the Ma'of clearing house. The Bank's share in the fund, deriving from the volume of the clearing activity on behalf of the Bank's customers as of December 31, 2014, amounted to NIS 20 million (December 31, 2013: NIS 21 million).

The balance of the security, which the Bank has to provide in favor of the clearing house (an off-balance sheet liability) based on scenarios devised by the Stock Exchange in respect of the activity of the Bank's customers and in respect of the Bank's activity itself (nostro) as of December 31, 2014, was NIS 84 million (2013: NIS 122 million).

According to the Memorandum and Bye Laws of the Ma'of clearing house all member of the clearing house, including the Bank signed pledge agreements to secure their liabilities in favor of the Ma'of clearing house and deposited liquid security only (State of Israel bonds and/or cash).

The Bank provided the Ma'of Clearing House with a first degree pledge on all monies that had been deposited by the Bank in an account in the name of the Ma'of Clearing House at the Stock Exchange Clearing House and at an account in the name of the Ma'of Clearing House in another bank, all as collateral for amounts that the Bank will be liable for in respect of Ma'of transactions to which it is responsible towards the Ma'of Clearing House. The obligation is subject to conditions, and the Bank is entitled, under certain conditions, to demand the repayment of certain amounts. Within the framework of these accounts the Bank has pledged bonds and cash in favor of the Ma'of Clearing House, the amount of which at December 31, 2014, totaled NIS 316 million (December 31, 2013: NIS 876 million).

Mercantile Discount Bank ("MDB") has created a similar pledge in favor of the Ma'of Clearing House. The value of the collateral in favor of the Ma'of Clearing House, as stated, amounted on December 31, 2014, to NIS 74 million (December 31, 2013: NIS 73 million). In addition, pledged in favor of the Ma'of Clearing House were cash the balance of which amounted at December 31, 2014, to NIS 2 million (December 31, 2013: NIS 2 million).

Balance of collateral provided to the Ma'of Clearing House:

	Balance as of December 31, 2014	Highest balance during the year 2014	Average balance* in 2014	Balance as of December 31, 2013
	In NIS millions			
Cash	7	14	9	7
Securities	385	950	572	944

* The reporting is made on the basis of the month-end balances.

F. As a collateral for the obligations of Yatzil Finance, the said company registered an assignment by way of a pledge and a fixed and floating pledges on all its rights according to agreements with business houses for the discount of IsraCard, VISA, American Express and Diners Club Israel vouchers, and all the rights to receive amounts and payments from IsraCard, ICC, American Express and Diners, under power of assignment of rights and under the business house agreement. As of balance sheet date there was no obligation towards the banks.

15. PLEDGES (CONTINUED)

G. IDB (Swiss) Bank has pledged assets in the amount of CHF 0.5 million (December 31, 2013: CHF 0.4 million), as collateral for credit facilities in the amount of US$0.5 million.

H. As detailed in Note 19 C 5 hereunder, in accordance with the requirements of the Articles of the Tel-Aviv Stock Exchange Ltd. and the bylaws of the Stock Exchange Clearinghouse (hereinafter: "the Clearinghouse" or "Stock Exchange Clearinghouse"), the Bank pledged as security for its obligations towards the Clearinghouse all the Bank's rights in the security deposit managed by the Clearinghouse (in which the Bank deposits securities) and all its rights in an account opened with another bank. The value of the collateral amounted on December 31, 2014, to NIS 68 million (as at December 31, 2013: NIS 70 million).

MDB has created a similar pledge in favor of the Stock Exchange Clearing House. The value of the collateral as of December 31, 2014, amounted to NIS 12 million (December 31, 2013: NIS 13 million).

Balance of collateral provided to the Stock Exchange Clearing House:

	Balance as of December 31, 2014	Highest balance during the year 2014	Average balance* in 2014	Balance as of December 31, 2013
	In NIS millions			
Cash	14	18	15	18
Securities	66	68	65	65

* The reporting is made on the basis of the month-end balances.

I. In July 2007, the Bank of Israel launched a system for the real-time settlement of large amounts (RTGS), enabling the swift and final transfer of funds between banks connected to the system, provided that the liquidity balance at these banks shall not fall below the volume required for effecting such money transfers. In view of the new settlement arrangements, the Bank may require from time to time credit from the Bank of Israel for short periods of time. In order to secure the repayment in full of amounts due to the Bank of Israel with respect to such credit, as part of joining the security management system operated in this respect by the Stock Exchange Clearing House, the Bank pledged on November 24, 2010, in favor of the Bank of Israel a first degree floating pledge on its holdings in Israel Government bonds, deposited at the Stock Exchange Clearing House in an account in the Bank of Israel's name (in addition to a floating pledge, at first charge, registered on these assets on July 26, 2007).

At the end of July 2007, the Bank deposited with the said account bonds valued, as at December 31, 2014, at NIS 3.59 billion (December 31, 2013: NIS 3.56 billion).

MDB has also registered a similar pledge in favor of the Bank of Israel and has deposited with the Bank of Israel account at the Stock Exchange Clearing House bonds in the amount of NIS 492 million (December 31, 2013: NIS 507 million).

Details of the pledge agreement:

	Balance as of December 31, 2014	Highest balance during the year 2014	Average balance* in 2014	Balance as of December 31, 2013
	In NIS millions			
Pledged securities (market value)	4,085	4,132	4,041	4,071

* The report is based on outstanding monthly balances.

J. In addition, the Bank and MDB make deposits from time to time with the Bank of Israel, constituting (together with the securities deposited, as stated) the collateral for the credit granted by the Bank of Israel to the Bank and to MDB, within the framework of credit tenders.

The Bank and MDB did not participate in the years 2013-2014 in the said credit tenders.

15. PLEDGES (CONTINUED)

Details of the deposits:

	Balance as of December 31, 2014	Highest balance during the year 2014	Average balance* in 2014	Balance as of December 31, 2013
	In NIS millions			
Deposits with the Bank of Israel	23,101	23,101	16,759	16,086

* The report is based on outstanding monthly balances.

K. In accordance with Section 6(a) of the State Loans Law, 1979, the Accountant General announces from time to time, the appointment of certain entities, including the Bank, as "market makers" with respect to government bonds. Within the framework of the market making operations, the Treasury grants the market makers a facility for the borrowing of government bonds in order to cover short sale bond transactions, as part of the market making. Against the use of this facility, the Bank deposits with the Treasury as collateral amounts equal to the amount of the borrowed bonds. The balance of this deposit at December 31, 2014 was NIS 466 million (December 31, 2013: NIS 102 million).

L. **(1)** The Bank enters into Credit Support Annex (CSA) type agreements with various banks intended to minimize mutual credit risks arising on derivative trading between banks. According to these agreements, the value of the inventory of derivative transactions made by the parties is measured periodically, and in the event that the net exposure of one of the parties exceeds a predetermined limit, that party is obligated to transfer deposits to the other party by way of a pledge, until the date of the next measurement. As of December 31, 2014, the Bank allocated in favor of various banks deposits in a total amount of NIS 724 million (December 31, 2013: NIS 868 million).

(2) IDB New York also engages in CSA type agreements. As of December 31, 2014, IDB New York provided in favor of various banks deposits in a total amount of US$24 million (December 31, 2013: US$9 million).

(3) MDB also engages in CSA type agreements. As of December 31, 2014, MDB provided in favor of various banks deposits in a total amount of NIS 58 million (December 31, 2013: NIS 53 million).

M. The sources and use of the securities that had been received and which the Bank is entitled to sell or pledge, at their fair value, before setoffs effect:

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	In NIS millions			
The sources:				
Securities against cash	464	99	464	99
Total	**464**	**99**	**464**	**99**
The uses:				
Securities sold under repurchase arrangements	4,657	4,313	-	-
Other	667	426	667	426
Total	**5,324**	**4,739**	**667**	**426**

N. Details of securities pledged to the lenders:

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	In NIS millions			
Available for sale securities	2,148	3,142	1,195	1,748
Held-to-maturity bonds	2,951	2,905	2,835	2,810
Total	**5,099**	**6,047**	**4,030**	**4,558**

These securities have bee deposited as collateral with the lenders, who are not permitted to sell or pledge them.

16. EMPLOYEE BENEFITS

A. (1) The liability of the Bank and its subsidiaries for severance pay to their employees, based on the customary one month's salary for each year of employment, is fully covered by deposits with severance pay funds, by insurance policies and pension funds and by a provision recorded in the Bank`s books. The redemption value of the insurance policies and amounts accumulated in pension funds are not included in the balance sheet since they are neither controlled nor managed by the Bank or its subsidiaries.

(2) As detailed in Note 1 D 15 above, the liability for payment of severance pay to such group of employees is presented in the financial statements at the higher of the amount of liability based on an actuarial computation, and the amount of liability computed by multiplying the monthly salary of the employees by the number of years of employment, as required by Opinion No.20 of the Institute of Certified Public Accountants in Israel.

(3) Members of the Bank's Management are entitled to the customary severance payments, while several of whom are entitled also to an "adjustment" bonus of between 4 to 8 months' salary upon retirement, pursuant to individual agreements signed with them, and in respect of which adequate provisions have been included (see item K below, in the matter of the approved remuneration policy). The pension liability of foreign subsidiaries, based on actuarial computations, is covered by current deposits into a recognized foreign pension fund.

(4) In certain consolidated banking subsidiaries, several officers are entitled to "adjustment" bonus" equal to 6 to 9 months' salaries, and in respect of which adequate provisions have been included.

(5) The Bank and its subsidiaries are not permitted to withdraw these deposits except for the purpose of making severance payments.

B. A number of the Bank's employees and those of its consolidated banking subsidiaries in Israel are entitled to long-service bonuses equal to a certain number of monthly salaries, and to a certain number of additional vacation days, upon completing 20, 30 and 40 years of employment in the Bank. In accordance with instructions of the Supervisor of Banks the provision in respect of this liability is computed on an actuarial basis and stated at its present value. The capitalization rate, set by the Supervisor of Banks, on an actuarial computation is 4% (for details regarding the change in the discount rate, in effect since January 1, 2015, see Note 1 E 1 above). The future payroll increase used to compute the amount of the liabilities for employee rights, in respect of the Bank's employees, is 1.8% per year (December 31, 2013: 2.5% per year). The financial statements include provisions for long-service bonuses totaling: Consolidated - NIS 403 million (2013: NIS 436 million); the Bank - NIS 282 million (2013: NIS 321 million).

An agreement with the representatives of the employees was signed in 2007, regarding the "Jubilee vacation" days, according to which, among other things, the entitlement of new employees to "Jubilee vacation" was abolished. In 2011, the Bank signed with the representative committee of the employees a "grades and stages" agreement, according to which, among other things, new employees engaged or moved to the position of regular employees as from January 1, 2012, shall not be entitled to a "jubilee award".

C. Employees of the Bank and its consolidated subsidiaries in Israel are entitled to annual vacation as provided by labor agreements in force, and subject to the guidelines of the Annual Vacation Law - 1951. The liability for vacation pay is recognized over the period of employment in which the right to paid vacation accumulates. The liability is determined on the basis of the most recent salary in the reporting period with the addition of related payments. The financial statements include provisions for vacation pay as follows: Consolidated - NIS 163 million (2013: NIS 160 million); and for the Bank - NIS 124 million (2013: NIS 124 million).

D. Employees of the Bank and its subsidiaries are entitled to certain benefits after retirement. The said liability is computed on an actuarial basis using a discount rate of 4% (for details regarding the change in the discount rate, in effect since January 1, 2015, see Note 1E 1 above), and is recognized over the period of employment of the employee. In addition, some of the employees who accepted early retirement exchanged their retirement award with a pension for a determined period. This liability is presented at its discounted value based on a discount rate of 4% (for details regarding the change in the discount rate, in effect since January 1, 2015, see Note 1E 1 above).

The amount of the provision at balance sheet date: Consolidated - NIS 608 million (2013: NIS 603 million); the Bank - NIS 519 million (2013: NIS 518 million).

It should be noted that the agreement "Grades and stages" signed in 2011, reduced the benefits granted to retirees of the Bank who were engaged as or converted to the status of regular employees, subsequently to January 1, 2012. These benefits match now the terms applying to employees under this agreement, and consist of presents for the holidays and medical expenses.

16. EMPLOYEE BENEFITS (CONTINUED)

E. Provision and deposits due to employees' severance pay and allowance payments are as follows:

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
Deposits	2,117	2,372	1,835	2,082
Provision	2,524	2,690	2,064	2,272
The excess of provision over the deposits is included in the item other liabilities (Note 12)	**407**	**318**	**229**	**190**

F. Several of the subsidiaries have adopted employee remuneration plans, according to which the General Managers and/or other employees of these subsidiaries are entitled to a bonus, the amount of which is based upon their business results. The necessary provisions in respect of these bonuses are included in the financial statements.

G. 124 employees from among the retirees within the framework of the 2011 retirement plan, have elected the monthly pension option. The aforesaid liability is fully covered by the balance of the provision for severance pay.

The terms of the monthly pension are as follows:

- A CPI-linked monthly pension for the entire lifetime of the retiree, from the date of his/her retirement;
- The monthly pension amounts are determined on the retirement date in accordance with an economic computation performed by the Bank, which derives from the amount of the balance in the severance pay fund that was converted to the pension;
- The employee can opt for a pension track with or without next of kin.
- The employee is given the option of choosing a guaranteed number of pension payments, based on his/her age.

In respect of pension payable to the retiree and/or his/her spouse upon reaching the age of 85 years (all according to the route chosen by the retiree), the Bank has purchased insurance coverage that would secure the payment of the said pension and which will be paid directly by the insurance company.

H. IDB New York has a liability for the payment of pensions to its employees, in respect of which it has established a pension fund, in which contributions by the employer and by the employees are deposited. The annual deposits with the fund are based on calculations made by an independent actuary.

Following are principal details concerning the said liability:

	As at December 31	
	2014	2013
	in US$ millions	
Amount of provision	60	46
Amount of deposits	39	33
Excess of provision over deposits included in Other liabilities (Note 12)	**21**	**12**
	%	%
The annual discount rate	3.89	4.87
The anticipated annual rate of return on the funds assets	6.57	7.10
The annual rate of increase in employees payroll	4.00	4.00

16. EMPLOYEE BENEFITS (CONTINUED)

I. Remuneration plan for members of the Bank's Management (2011-2013)

1. General

Subsequent to having already been approved by the Audit Committee of the Board of Directors, after adopting the recommendation of the Payroll and Remuneration Committee of the Board, the Bank’s Board of Directors resolved on August 31, 2011, to approve the remuneration plan for members of the Bank’s Management and for the Bank’s Internal Auditor, which includes an annual award and a long-term award. The remuneration plan was a three year plan covering the years 2011-2013.

The remuneration plan states that its principles will apply also, mutatis mutandis, as part of the remuneration plan for senior executives of the Bank’s subsidiaries, subject to approval of the authorized organs of the said subsidiaries. And indeed, the Bank’s principal subsidiaries in Israel have determined remuneration in accordance with the same principles, mutatis mutandis.

2. Annual award to members of Management (excluding the Chief Risk Officer, the internal auditor and the Chief Accountant)

The annual award comprised an award based on a formula, computed according to attainment of quantitative indices (hereinafter: "computed award"), and an additional award determined at the discretion of the Bank’s President & CEO (Hereinafter: "discretionary award").

The indices that served as a basis for the computation of the annual award were based on the goals set in the Bank’s work plan for the years 2011-2013. The said annual award was approved in each year by the Audit Committee and the Board of Directors, subject to any law.

Payment of the annual award by installments. Payment of the annual award in respect of a particular calendar year was made in three installments: 60% of the annual award was paid no later than thirty days following the publication of the Bank’s financial statements for the year in question. Two installments of 20% each were deferred and paid (linked to the CPI) following the publication of the financial statements for each of the two years following the said calendar year.

3. Annual award to the Internal Auditor, the Chief Risk Officer and the Chief Accountant

The annual award to the Internal Auditor, the Chief Risk Officer (CRO) and the Chief Accountant was based on a different mechanism, determined, among other things, according to directives of the Supervisor of Banks, in order to reflect the importance and sensitivity of the role they fulfill.

Payment of the annual award to the Internal Auditor, to the CRO and to the Chief Accountant in respect of a particular year was made in installments similarly to the manner of payment applying to the other members of Management.

4. Long-term award

Members of Management, including the CRO and the Chief Accountant, as well as the Internal Auditor, were entitled to a long-term award depending on the Bank's attainment of cumulative net earnings goals over the period of the remuneration plan (the years 2011 to 2013). At the beginning of each of the years 2011, 2012 and 2013 a net earnings goal was determined within the framework of the Bank’s annual budget and approved by the Board of Directors (hereinafter: "net earnings goal").

5. Amount of the annual award for 2011. Members of the Bank's Management, the Internal Auditor, the CRO and the Chief Accountant were entitled to an annual award in respect of the year 2011, in a total amount of NIS 4.1 million. In accordance with the terms of the plan, an amount of NIS 2.5 million out of the above award sum was in April 2012, and the balance was divided into two deferred amounts the payment of which was subject to the fulfillment of threshold conditions in respect of the years 2012 and 2013, respectively. The entitlement to the deferred payments, as above, became effective in the years 2012-2013, in view of compliance with the determined threshold terms.

6. Waiver of the award in respect of 2012. In July 2012, members of the Bank's Management and the Bank's Internal Auditor (the beneficiaries of the said remuneration plan) informed of their decision (each electively) to waive the annual award due to them in respect of 2012, if and to the extent that they will be entitled to it, in accordance with the said remuneration plans. Following the decision of the senior management of Discount, and similarly to it, the members of management of Mercantile Discount Bank (the beneficiaries of the remuneration plans determined at MDB) also decided (each electively) to waive the annual award due to them in respect of 2012, if and to the extent that they will be entitled to it, in accordance with the remuneration plans approved by the respective companies in MDB. In October 2012, the Board of Directors of ICC in unison with and consent of members of the management of ICC, decided to reduce the bonus to the members of Management for 2012, by a significant rate. These decisions have been taken in continuation and in line with the savings and efficiency measures adopted by the Bank and in consideration of the existing public mood.

16. EMPLOYEE BENEFITS (CONTINUED)

7. **Amount of the annual award for 2013.** Members of the Bank's Management, the Internal Auditor, the CRO and the Chief Accountant were entitled to an annual award in respect of the year 2013, in a total amount of NIS 5.2 million. In accordance with the terms of the plan, an amount of NIS 3.1 million out of the above award sum was paid in April 2014, and the balance was divided into two deferred amounts the payment of which is subject to the fulfillment of threshold conditions in respect of the years 2014 and 2015, respectively. The said amount is net of a deduction of 20% of the annual award and the denial of the discretionary award.

   Threshold conditions in respect of 2014 have been fulfilled, creating entitlement to the payment of the first deferred installment.

8. **Long-term award in respect of the years 2011-2013.** Members of the Bank`s Management, the Internal Auditor, the Chief Risk Officer and the Chief Accountant, are entitled to a long-term award in respect of the years 2011-2013, in a total amount of NIS 5.1 million, which was paid in full in April 2014. The said amount is after the elimination of the proportionate part of the long-term award in respect of 2012, and a reduction of 20% of the balance in respect of the years 2011 and 2013.

9. **The annual award in respect of 2014.** The Bank's Board of Directors has decided that no award to officers of the Bank shall be paid for the year 2014.

J. Remuneration policy for officers of the Bank (2014-2016). A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve the remuneration policy for officers of the Bank, and in accordance with Section 267A of the Companies Act, 1999, after its approval by the Board of Directors with the recommendation of the Remuneration Committee. Among other things, the plan includes the following components: the maximum monthly salary and the considerations in determining it; the scope of severance pay, which as a general rule will be based on a rate of 100% of the monthly salary; period of early notice, not to exceed four months; adaptation award in a total of up to six monthly salaries, where the engagement terminates within a period of up to two years from inception, and up to four monthly salaries following the end of two years, as stated; the payment of variable retirement terms that would be subject to deferred payment arrangements; the payment of a recruitment award in special cases; related terms and limitations thereon; annual award plan for officers, subject to attaining determined minimum targets. The scope of the annual award to officers shall be based upon attaining group indices and personal indices reflecting the contribution of the officer towards achieving the goals of the Bank, upon a basic award component and a discretionary award component. Special instructions have been determined, within the framework of the remuneration policy, with respect to the remuneration of officers engaged in risk management, control and audit. Within the framework of the policy, the maximum total amount of awards to all officers together and to each one of the officers has been determined, also included is the possibility for the distribution of special awards: award in respect of special profits or losses (positive or negative award), an award for special contribution and an award in special circumstances. In the framework of the policy arrangements for the spreading of the annul award were determined, including – a cash payment of 50% of the total awards granted in respect of an award year, to be made soon after the publication of the Bank`s financial statements for the award year, and deferment of the remaining 50% to be paid in three equal installments over the three years following the entitlement date, and which would be linked to changes in the price of the Bank`s shares; instructions regarding the terms of office and employment of the Chairman of the Board and of the President & CEO.

The principles detailed in the remuneration plan shall apply to the terms of office and employment of officers of the Bank, to be approved as from the date of approval of the remuneration policy. In no way does the remuneration policy derogate from the engagement and/or other rights of officers relating to their office and employment with the Bank, existing at date of approval of the policy.

The approved remuneration policy shall not directly apply to the terms of office and employment of officers of the Bank`s subsidiaries. Notwithstanding, the principles of the Bank`s remuneration policy shall be adopted as part of the Group's remuneration policy, which shall apply, with the required adjustments, to officers of the Bank`s subsidiaries in Israel.

K. Award plan for members of Bank's Management and for the Internal Auditor (2015-2016)

1. **General**

   On February 2, 2015, the Bank's Board of Directors received the recommendation of the remuneration committee and approved the award plan for members of Management and for the Internal Auditor for the years 2015-2016 ("the plan").

   The Board of Directors received the recommendations of the remuneration committee and approved also the targets for the purpose of the awards at the Bank for the said years.

16. EMPLOYEE BENEFITS (CONTINUED)

The remuneration committee and the Board of Directors are entitled to examine from time to time the components of the plan and to make changes or modifications to the plan or to the determined indices.

The plan is subject to amendments which may apply from time to time under the law or instructions applying to the Bank.

The plan prescribes instructions regarding the computation in cases of beginning or termination of office.

2. The annual award to Executive Vice Presidents

A. General. The annual award to Executive Vice Presidents (including the Internal Auditor) includes four components:

- Award computed according to indices based on the Bank's results ("the collective award");
- Award computed according to the Executive Vice President's attainment of the personal indices determined for him ("the personal award");
- Additional award, to be distributed on the basis of recommendations by the Bank's President & CEO ("the qualitative award") out of the annual award budget ("the qualitative award budget");
- Award equal to one monthly salary conditional upon complying with entitlement terms ("the basic award").

The annual award shall be approved in each year by the remuneration committee and the Board of Directors, proximate to the date of publication of the financial statements.

B. Minimum terms for entitlement to the annual award. Entitlement of the Executive Vice Presidents to annual awards in respect of a particular award year is conditional upon the cumulative fulfillment in that year of all the following minimum terms**:**

(1) The rate of return on equity shall not be lower than the higher of 7% or the weighted return on equity (computed according to instructions prescribed in the plan) at the other four major banks in the award year, after deducting 2%.

(2) The Bank's total capital adequacy ratio and the core capital ratio, in accordance with the Bank's annual consolidated financial statements for the year of award, shall not be lower than the minimum ratios determined in the instructions of the Supervisor of Banks.

(3) The efficiency ratio shall not exceed 78%.

(4) The Executive Vice President has obtained a "pass" mark for the qualitative index, which includes the contribution of the Executive Vice President to the implementation of processes in matters of corporate governance, attainment of the Bank's general targets in matters of risk management, compliance with the law, regulatory instructions and procedures of the Bank.

3. The collective award

The annual collective award for each Executive Vice President will be restricted to an amount that shall not exceed six monthly salaries of the Executive Vice President ("upper limit of the collective award").

The collective indices. The collective award shall be computed on the basis of five indices based on measurable ratios derived from the Bank's performance, on the basis of the consolidated financial statements and the Bank's standalone statements (the percentages in parenthesis below represent the weight of each index out of the upper limit of the collective award):

(1) Return on equity (25%);

(2) Efficiency ratio (25%) – computed in accordance with the manner in which the ratio is measured and reported in the financial statements for the award year, net of extraordinary income or losses;

(3) Operating and other expenses (25%) – computed on the basis of the total amount of operating and other expenses, net of extraordinary income or losses and nonrecurring provisions in the award year and in accordance with the Bank's standalone financial statements for that year;

(4) Core capital ratio (15%);

(5) Commission income (10%) – computed on the basis of total income from commissions, net of extraordinary income or losses in the award year, in accordance with the Bank's consolidated financial statements for that year.

The remuneration committee and the Board of Directors are entitled to examine at the beginning of the award year, whether the said goals require modification, or whether other indices should be introduced.

16. EMPLOYEE BENEFITS (CONTINUED)

A target goal shall be determined for each index in accordance with the goal approved for this index, according to which the minimum and maximum goals shall be computed for that index.

Attainment of the minimum goal, the targeted goal and the maximum goal in a particular award year, shall entitle the Executive Vice Presidents to 30%, 80% and 100%, respectively, of the weight of the index of the upper limit of the collective award.

Any result in the range between the minimum goal and the targeted goal, and any result in the range between the targeted goal and the maximum goal, shall entitle the Executive Vice Presidents to a proportionate share, computed on a linear basis (in the range between 30% and 80% and in the range between 80% and 100%, respectively).

4. The personal award

The personal award to each Executive Vice President shall be restricted to an amount not exceeding three monthly salaries for each Executive Vice President.

The personal award for each Executive Vice President shall be computed according to indices focusing on the goals set for the division under the charge of that Executive Vice President in the said year.

Proximate to the beginning of each award year, the Bank's President & CEO shall recommend, for each Executive Vice President separately, the personal indices composing the personal award, targets for computation and their weight. These recommendations would be submitted for approval of the remuneration committee and the Board of Directors.

Recommendations with respect to the Internal Auditor, the Chief Risk Officer and the Chief Accountant ("supervision and control Executive Vice Presidents") shall be made by the following functions ("the relevant appointees"): for the Bank's Internal Auditor– the audit committee; for the Chief Risk Officer – the risk management committee in consultation with the Bank's President & CEO; for the Bank's Chief Accountant – the Bank's President & CEO.

For each personal index based on measurable criteria, minimum, targeted and maximum goals shall be determined, as well as the weight of the index of the total personal indices used for computing the personal award (similarly to the computation format for the collective indices).

For each personal index based on criteria that are not quantitative, a weight out of the total personal indices shall be determined.

At the end of the award year, the President & CEO shall grant a mark of between 0% and 100% in respect of attainment of the personal index that is based on non-quantitative criteria (the marking in respect of the supervision and control Executive Vice Presidents shall be given by the audit committee; the marking in respect of the Chief Risk Officer shall be given by the relevant appointees).

The maximum mark of 100% shall entitle the Executive Vice President to 100% of the product of multiplying the upper limit of the personal award by the index weight, and a mark of 50% shall entitle the Executive Vice President to 30% of the product of multiplying the upper limit of the personal award by the index weight. Any mark of between 50% and 100% shall entitle the Executive Vice President with a proportionate part of the upper limit of the personal award in relation to that index, computed on a linear basis (between 30% and 100%). Mark of below 50% in respect of attaining a particular index shall not entitle the Executive Vice President to a personal award in respect of that index only.

5. The qualitative award and the budget for the qualitative award

A. Upper limit of the budget for the qualitative award. The budget for the qualitative award in respect of each award year shall not exceed one-sixth of the total actual collective award to all Executive Vice Presidents in respect of that award year.

In an award year in which all Executive Vice Presidents shall not be entitled to any collective award, no budget for the qualitative award shall be allocated and the Executive Vice Presidents shall not be entitled to a qualitative award in respect of such year.

B. Manner of allocation of the budget to the qualitative award. The amount of the budget for the qualitative award shall be distributable among the Executive Vice Presidents entitled to an annual award, at the discretion of the Bank's President & CEO (and with respect to supervision and control Executive Vice Presidents, at the discretion of the relevant appointees) provided that the qualitative award to a single Executive Vice President shall not exceed an amount of two monthly salaries.

16. EMPLOYEE BENEFITS (CONTINUED)

Allocation of the budget to the qualitative award shall be made subject to the approval of the remuneration committee and the Board of Directors.

When allocating the budget for the qualitative award among the different Executive Vice Presidents, the President & CEO and the relevant appointees shall, among other things, take into consideration the following factors: the contribution to the Bank's strategic planning as well as its implementation, promotion and execution of strategic plans and goals; leading of efficiency plans and attaining the resultant goals; promotion and implementation of investment plans and/or material acquisitions (including acquisitions that might reduce current profitability); attaining the Bank's general goals in the matter of risk management; attaining the Bank's general goals in the matter of compliance to laws (including internal enforcement with respect to securities and/or other operations), regulatory instructions and the Bank's procedures; legal proceedings (including administrative proceedings) conducted or which had been conducted against the Executive Vice President; reports by regulatory authorities relating to the work of the Executive Vice President; contribution to current operations and business results; promotion and implementation of projects relating to the maintenance of security; material findings of the internal audit reports.

6. The basic award

The basic award shall be equal one monthly salary of the Executive Vice President.

Entitlement terms to the basic award. Entitlement to the basic award in respect of a particular award year is conditional upon fulfillment on a cumulative basis of all entitlement terms detailed below:

(1) The core capital ratio, in accordance with the Bank's consolidated financial statements for the award year, shall not be lower than the ratio determined in the work plan for that year;

(2) The actual efficiency ratio, as computed on the basis of the Bank's standalone financial statements for the award year, net of extraordinary income or losses, did not exceed the goal of that standalone efficiency ratio, determined by the Board of Directors at the beginning of an award year, in accordance with the Bank's work plans;

(3) The Executive Vice President has been awarded a "pass" mark as regards the qualitative index, which includes the contribution of the Executive Vice President towards the implementation of processes regarding corporate governance.

7. Fixed award and a extra award to a supervision and control Executive Vice President

A supervision and control Executive Vice President shall be entitled to a cash award in an amount equal to one monthly salary, payable proximate to the date of publication of the financial statements for the award year ("the fixed award"), provided that the minimum terms detailed in item 2(b) above are fulfilled.

In an award year in which the amount of entitlement of a supervision and control Executive Vice President to an annual award (as detailed in item 2 above) is higher than the fixed award, the supervision and control Executive Vice President shall receive the positive difference ("the extra award") in addition to the annual award, as the case may be.

The total amount of the fixed award, the extra award and the special award (where relevant) in respect of a supervision and control Executive Vice President shall not exceed an upper limit amounting to twelve monthly salaries of that Executive Vice President.

In respect of the manner of granting, deferral and payment of the extra award and the special award (where relevant), the instructions of item 10 below shall apply.

8. Special awards

(a) **Award in respect of extraordinary income or losses.** The Bank's remuneration committee and Board of directors are entitled to grant to all Executive Vice Presidents or to any one of them, a special award, whether positive or negative, in respect of extraordinary income or losses ("award for extraordinary income or losses"). The award in respect of a Executive Vice President shall be computed as the difference between the annual award for the award year and the annual award as would have been computed had not the extraordinary income or losses been eliminated for the purpose of computing the collective indices (including any tax liability expected in their respect), with the addition of up to 20% of the said difference.

16. EMPLOYEE BENEFITS (CONTINUED)

Notwithstanding the above, the amount of the positive award to a single Executive Vice President in respect of extraordinary income or losses, shall not exceed an amount of six monthly salaries, and the amount of the negative award in respect of a single Executive Vice President, shall not exceed the amount of entitlement to an annual award of Executive Vice Presidents, who are not supervision and control Executive Vice Presidents, or the amount of the extra award in respect of a supervision and control Executive Vice President.

(b) **Award in respect of a special contribution.** The remuneration committee and the Board of directors are entitled to grant to all Executive Vice Presidents or to any one of them a special award, in respect of extraordinary performance or special contribution to reaching the goals of the Bank, including in respect of attaining measurable criteria determined in advance by the Board of Directors, provided that the total award in respect of the special contribution shall not exceed NIS 500 thousand and subject to the upper limit determined for the awards.

(c) **Award under special circumstances.** The remuneration committee and the Board of directors are entitled to grant an annual award in a cumulative amount not exceeding the product of multiplying the number of Executive Vice Presidents by the amount of one average monthly salary of a Executive Vice President, in case the Bank has not attained all minimum terms for the payment of an annual award, provided that the following cumulative terms are fulfilled ("special circumstances award"):

(1) The remuneration committee and the Board of Directors have found that in that year special circumstances occurred at the Bank or in the banking industry in Israel or in the macro-economic situation;

(2) The Bank's overall capital adequacy ratio and the core capital ratio, in accordance with the Bank's consolidated financial statements for the award year, are not below the minimum ratios determined in the directives of the Supervisor of Banks, with the addition of 0.15%;

(3) The total said annual award granted to a single Executive Vice President shall not exceed an amount of two monthly salaries of that Executive Vice President.

9. Upper limit of the awards

The total amount of awards to all Executive Vice Presidents, with the addition of the fixed awards (as defined in item 7 above) to supervision and control Executive Vice Presidents, shall not exceed an amount equal to the product of the number of Executive Vice Presidents entitled to an annual award (in accordance with item 2 above) multiplied by eleven average monthly salaries of those Executive Vice Presidents.

In accordance with the remuneration policy, the total amount of awards to all officers (including the Chairman of the Board and the President & CEO) in respect of an award year, shall not exceed 2.5% of the net income attributed to the Bank's shareholders, in accordance with the annual financial statements for the award year.

The total amount of awards in an awards year, in respect of a Executive Vice President who is not supervision and control Executive Vice President, shall not exceed thirteen monthly salaries.

The total extra award, the fixed award and the special award in respect of an award year, granted to a supervision and control Executive Vice President, shall not exceed twelve monthly salaries.

10. Granting, deferral and payment of the total amount of awards

The date for computing the entitlement to the total amount of awards in accordance with the plan, in respect of the award year, shall be March 31, of the year following the award year ("date of entitlement to the total award").

The total amount of the variable remuneration in an award year shall not exceed the amount of the fixed remuneration of the Executive Vice President in the award year.

50% of the total amount of awards for the award year shall be paid in cash, no later than 45 business days following the publication of the Bank's financial statements for that year.

50% of the total amount of awards for the year of award shall be linked to changes in the price of shares of the Bank, and shall be deferred and paid in three equal installments ("deferred award installment") in the three consecutive years following the date of entitlement to the total amount of awards, as follows:

- The first deferred award installment shall be paid proximately to twelve months from date of entitlement to the total awards;

16. EMPLOYEE BENEFITS (CONTINUED)

- The second deferred award installment shall be paid proximately to twenty-four months from date of entitlement to the total awards;
- The third deferred award installment shall be paid proximately to thirty-six months from date of entitlement to the total awards.

The consideration for the deferred award installment payable to a Executive Vice President ("consideration for the deferred award installment") shall be computed according to the value of the deferred award installment at date of entitlement to the total awards, linked to changes in the price of the shares of the Bank since date of the said entitlement and until date of payment.

In any event, the consideration for the deferred award installment shall not exceed twice the value of the deferred award installment at date of entitlement to the total awards.

Payment of the consideration for the deferred award installment is conditional upon the rate of return on equity in the award year preceding the date of payment in full of the consideration for the deferred award installment, as follows: in the case of a rate of return on equity of 6% or higher, the full consideration for the deferred award installment shall be paid. In the case of a rate of return on equity of 4% or below, the consideration for the deferred award installment shall be abolished and not paid. In the event of a rate of return on equity of between 4% and 6%, the consideration for the deferred award installment shall be paid proportionally on a linear basis.

In the event that the consideration for the deferred award installment is not paid or is paid in part only, the remaining consideration for the deferred award installments shall not be abolished and shall be subject to the terms stated above in the following years.

Notwithstanding the above, if in any award year, the total amount of awards to which a Executive Vice President is entitled in respect of that year, does not exceed one-sixth of the fixed remuneration due to the Executive Vice President, then 100% of the amount of awards for that award year shall be paid in cash, no later than 45 business days following the publication of the Bank's financial statements for that year, and the deferral of payment provisions shall not apply.

The plan includes provisions for adjustments in the payment of the deferred award installment under certain circumstances defined therein. Provisions have also been determined regarding deferred awards not yet paid upon termination of office.

11. **Authority of the Board of Directors to reduce the total amount of awards.** The Board of Directors is empowered, for special reasons, to reduce the total amount of awards for all Executive Vice Presidents or for a particular Executive Vice President, following the recommendation of the remuneration committee and after consultation with the Bank's President & CEO.

    The plan contains also provisions for the amendment and refund of awards short-paid or paid in excess.

L. Retirement plan. On August 20, 2014, the Bank’s Board of Directors approved a strategic plan for the years 2015-2019, in the framework of which, as part of the efficiency measures, approval in principle was given to a retirement plan, which is designed for approx. 250 employees.

The Bank approached those employees to whom the defined criteria (age and seniority) apply, and offered them an early retirement under preferential terms.

In view of the extensive demand on the part of employees to join the plan, the Bank's Board of Directors, in its meeting of December 17, 2014, decided to extend the plan, allowing 130 additional employees to join it.

The cost of the plan amounts to NIS 515 million (not including severance pay in accordance with the law) – increasing the provision for employee rights with respect to the plan. On the other hand, the change of the assessment (see Note 1 C 4 above) has reduced the provision for employee rights by NIS 111 million. Following the approval of the retirement plan and the updating of the assessment, an expense of NIS 404 million, before the tax effect, and of NIS 252 million, after the tax effect, was recorded in 2014.

M. Voluntary retirement plan at MDB. As part of the efficiency measures taken by MDB, which, among other things, include the reduction in the workforce of the bank, the Board of Directors of MDB approved on November 17, 2014, a framework for a voluntary retirement plan formed by the Management of this bank. The plan involves the payment of increased severance pay to employees to which the plan applies. The financial statements as of 2014, include a provision in respect of the expected additional liability resulting from the implementation of the plan, amounting to NIS 33 million, before the tax effect, or NIS 20 million net of the tax effect.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS

Consolidated

	December 31, 2014						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	25,230	105	4,169	590	1,600	-	31,694
Securities	14,782	4,817	14,942	944	176	1,692	37,353
Securities borrowed or purchased under resale agreements	466	-	-	-	-	-	466
Credit to the public, net	74,762	15,314	26,368	2,664	1,015	-	120,123
Credit granted to Governments	149	1,361	23	-	-	-	1,533
Investments in affiliated companies	-	2	-	-	-	140	142
Buildings and equipment	-	-	-	-	-	2,500	2,500
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	1,933	113	2,273	109	81	87	4,596
Other assets	1,775	60	1,005	6	509	150	3,505
Assets held for sale	-	-	4,147	118	625	2	4,892
Total assets	**119,097**	**21,772**	**52,927**	**4,431**	**4,006**	**4,713**	**206,946**
Liabilities							
Deposits from the public	85,546	8,314	47,313	7,977	3,753	-	152,903
Deposits from banks	3,570	158	1,749	38	32	-	5,547
Deposits from the Government	153	104	615	-	-	-	872
Securities loaned or sold under repurchase agreements	-	-	3,984	-	-	-	3,984
Subordinated debt notes	2,639	7,999	-	-	-	-	10,638
Liabilities in respect of derivative instruments	2,236	193	1,678	258	27	83	4,475
Other liabilities	9,207	151	637	26	64	150	10,235
Liabilities held for sale	-	-	3,905	118	628	-	4,651
Total liabilities	**103,351**	**16,919**	**59,881**	**8,417**	**4,504**	**233**	**193,305**
Difference	15,746	4,853	(6,954)	(3,986)	(498)	4,480	13,641
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(13,826)	(759)	10,252	3,965	368	-	-
Options in the money, net (in terms of underlying asset)	94	-	(153)	14	45	-	-
Options out of the money, net (in terms of underlying asset)	54	-	(38)	(17)	1	-	-
Total	**2,068**	**4,094**	**3,107**	**(24)**	**(84)**	**4,480**	**13,641**
Options in the money, net (discounted par value)	137	-	(226)	26	63	-	-
Options out of the money, net (discounted par value)	(310)	-	329	(24)	5	-	-

Footnote:

(1) Includes those linked to foreign currency.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS (CONTINUED)

Consolidated (continued)

	December 31, 2013						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In Euro	In other currencies	Non monetary items	Total
	in NIS millions						
Assets							
Cash and deposits with banks	17,773	166	5,343	623	1,414	-	25,319
Securities	20,804	5,474	13,746	356	80	865	41,325
Securities borrowed or purchased under resale agreements	102	-	-	-	-	-	102
Credit to the public, net	69,874	17,388	23,960	3,278	1,359	-	115,859
Credit granted to Governments	81	1,725	29	-	-	-	1,835
Investments in affiliated companies	9	2	-	-	-	1,657	1,668
Buildings and equipment	-	-	-	-	-	2,696	2,696
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,536	191	459	397	94	403	4,080
Other assets	1,619	86	1,011	1	433	127	3,277
Assets held for sale	-	-	[2]3,428	114	604	[2]58	4,204
Total assets	**112,798**	**25,032**	**47,976**	**4,769**	**3,984**	**5,948**	**200,507**
Liabilities							
Deposits from the public	85,467	10,797	40,216	8,321	4,127	-	148,928
Deposits from banks	1,998	267	1,496	172	280	-	4,213
Deposits from the Government	241	114	617	-	-	-	972
Securities loaned or sold under repurchase agreements	-	-	3,644	-	-	-	3,644
Subordinated debt notes	3,016	8,648	-	-	-	-	11,664
Liabilities in respect of derivative instruments	2,996	423	409	546	122	402	4,898
Other liabilities	8,729	143	583	28	90	146	9,719
Liabilities held for sale	-	-	3,191	114	626	-	3,931
Total liabilities	**102,447**	**20,392**	**50,156**	**9,181**	**5,245**	**548**	**187,969**
Difference	10,351	4,640	(2,180)	(4,412)	(1,261)	5,400	12,538
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(7,200)	(3,420)	5,209	4,347	1,064	-	-
Options in the money, net (in terms of underlying asset)	263	-	(196)	(75)	8	-	-
Options out of the money, net (in terms of underlying asset)	(37)	-	24	36	(23)	-	-
Total	**3,377**	**1,220**	**2,857**	**(104)**	**(212)**	**5,400**	**12,538**
Options in the money, net (discounted par value)	321	-	(210)	(121)	10	-	-
Options out of the money, net (discounted par value)	(416)	-	533	(89)	(28)	-	-

Footnotes:

(1) Includes those linked to foreign currency.

(2) Reclassified - sorting between linkage segments.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS (CONTINUED)

The Bank

	December 31, 2014						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	21,224	29	3,472	377	164	-	25,266
Securities	12,588	3,342	3,092	911	115	843	20,891
under resale agreements securities borrowed or purchased	466	-	-	-	-	-	466
Credit granted to the public, net	54,085	12,880	6,808	2,330	839	-	76,942
Credit granted to Governments	149	1,361	-	-	-	-	1,510
Investments in affiliated companies	805	124	-	-	-	6,913	7,842
Buildings and equipment	-	-	-	-	-	1,767	1,767
Debit balances of derivative financial instruments	1,935	111	2,094	109	55	79	4,383
Other assets	1,428	4	15	6	506	38	1,997
Assets held for sale	-	-	-	-	-	2	2
Total assets	**92,680**	**17,851**	**15,481**	**3,733**	**1,679**	**9,642**	**141,066**
Liabilities							
Deposits from the public	70,618	9,415	20,592	7,112	3,243	-	110,980
Deposits from banks	2,334	290	679	164	6	-	3,473
Deposits from the Government	44	104	-	-	-	-	148
Subordinated capital notes	327	3,075	-	-	-	-	3,402
Credit balances of derivative financial instruments	2,213	150	1,528	237	26	76	4,230
Other liabilities	5,184	84	166	18	43	95	5,590
Total liabilities	**80,720**	**13,118**	**22,965**	**7,531**	**3,318**	**171**	**127,823**
Difference	11,960	4,733	(7,484)	(3,798)	(1,639)	9,471	13,243
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(11,860)	(1,111)	7,888	3,768	1,315	-	-
Options in the money, net, (in terms of base asset)	81	-	(140)	14	45	-	-
Options out of the money, net, (in terms of base asset)	55	-	(39)	(17)	1	-	-
Total	**236**	**3,622**	**225**	**(33)**	**(278)**	**9,471**	**13,243**
Options in the money, net, (discounted nominal value)	124	-	(201)	14	63	-	-
Options out of the money, net, (discounted nominal value)	(310)	-	314	(9)	5	-	-

Footnote:

(1) Includes those linked to foreign currency.

17. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS (CONTINUED)

The Bank (continued)

	December 31,2013						
	Israeli currency		Foreign currency[1]				
	Non-linked	Linked to the CPI	In US$	In EURO	In other currencies	Non-monetary Items	Total
	NIS millions						
Assets							
Cash and deposits with banks	15,873	104	3,557	386	276	-	20,196
Securities	16,718	3,426	2,074	354	34	6	22,612
under resale agreements Securities borrowed or purchased	102	-	-	-	-	-	102
Credit granted to the public, net	51,149	14,613	8,150	2,954	1,191	-	78,057
Credit granted to Governments	81	1,725	-	-	-	-	1,806
Investments in affiliated companies	867	171	-	-	-	7,968	9,006
Buildings and equipment	-	-	-	-	-	1,957	1,957
Debit balances of derivative financial instruments	2,534	184	408	396	92	398	4,012
Other assets	1,262	5	4	1	430	22	1,724
Assets held for sale	-	-	-	-	-	8	8
Total assets	**88,586**	**20,228**	**14,193**	**4,091**	**2,023**	**10,359**	**139,480**
Liabilities							
Deposits from the public	70,442	12,128	17,408	7,620	3,580	-	111,178
Deposits from banks	1,000	468	420	180	269	-	2,337
Deposits from the Government	102	114	-	-	-	-	216
Subordinated capital notes	326	3,300	-	-	-	-	3,626
Credit balances of derivative financial instruments	2,988	328	355	528	95	397	4,691
Other liabilities	4,722	93	208	17	69	90	5,199
Total liabilities	**79,580**	**16,431**	**18,391**	**8,345**	**4,013**	**487**	**127,247**
Difference	9,006	3,797	(4,198)	(4,254)	(1,990)	9,872	12,233
Effect of non hedging derivative instruments:							
Derivative instruments (except for options)	(6,468)	(3,894)	4,546	4,159	1,657	-	-
Options in the money, net, (in terms of base asset)	239	-	(180)	(67)	8	-	-
Options out of the money, net, (in terms of base asset)	(36)	-	24	35	(23)	-	-
Total	**2,741**	**(97)**	**192**	**(127)**	**(348)**	**9,872**	**12,233**
Options in the money, net, (discounted nominal value)	295	-	(184)	(121)	10	-	-
Options out of the money, net, (discounted nominal value)	(416)	-	531	(87)	(28)	-	-

Footnote:
(1) Includes those linked to foreign currency.

18. ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY PERIODS[5]

Consolidated - in NIS millions

A. Anticipated Future Contractual Cash Flows as of December 31, 2014

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency)					
Assets[10]	51,601	11,771	18,175	13,375	10,132
Liabilities	73,128	10,797	18,236	6,067	4,276
Difference	**(21,527)**	**974**	**(61)**	**7,308**	**5,856**
Derivative instruments (excluding options)	(5,309)	(2,803)	(5,436)	(590)	305
Options (in terms of underlying assets)	(57)	7	-	(2)	-
Difference after effect of derivative instruments:	(26,893)	(1,822)	(5,497)	6,716	6,161
Foreign currency[8]:					
Assets[11]	12,902	5,978	12,062	5,640	6,101
Liabilities	47,517	7,392	9,907	2,391	2,404
Difference	**(34,615)**	**(1,414)**	**2,155**	**3,249**	**3,697**
Of which: Difference in dollar	(30,460)	(109)	3,529	2,902	3,093
Of which: Difference in respect of foreign activity	(19,456)	1,665	5,423	2,496	2,508
Derivative instruments (excluding options)	5,309	2,803	5,436	590	(305)
Options (in terms of underlying assets)	57	(7)	-	2	-
Difference after effect of derivative instruments:	(29,249)	1,382	7,591	3,841	3,392
Total:					
Assets[1]	64,510	17,756	30,246	19,015	16,233
Liabilities[2]	120,650	18,191	28,143	8,458	6,680
Difference	**(56,140)**	**(435)**	**2,103**	**10,557**	**9,553**
Derivative instruments (excluding options)	-	-	-	-	-
Options (in terms of underlying assets)	-	-	-	-	-
(1) Of which: Credit to the public	27,415	15,249	21,319	15,025	11,726
(2) Of which: Deposits from the public	106,007	14,522	23,644	4,935	2,221
B. Balance Sheet Amount as December 31, 2013					
Total:					
Assets[3]	53,800	21,073	27,250	21,013	15,288
Liabilities[4]	108,471	21,626	29,779	9,439	5,267
Difference	**(54,671)**	**(553)**	**(2,529)**	**11,574**	**10,021**
(3) Of which: Credit to the public	25,769	17,807	18,672	14,767	10,112
(4) Of which: Deposits from the public	96,451	18,496	25,249	5,575	2,153

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according , to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the effect of accounting write-offs and of allowances for credit losses.

(6) As included in Note 17 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives without netting.

(7) Includes past-due receivables totaling NIS 710 million (2013: NIS 1,212 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 4,793 million (2013: NIS 4,872 million) and an amount of NIS 1,003 million with no due date (2013: NIS 1,143 million).

(11) Including current loan account credit facilities in the amount of NIS 408 million (2013: NIS 160 million) and an amount of NIS 76 million with no due date (2013: NIS 260 million).

Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	Balance sheet amount[(6)] No fixed maturity date[(7)]	Balance sheet amount[(6)] Total	The contractual rate of return,in percentages[(9)]
7,703	6,841	20,960	11,034	1,889	153,481	1,475	141,498	2.66
2,069	1,601	6,480	876	150	123,680	24	120,530	0.78
5,634	**5,240**	**14,480**	**10,158**	**1,739**	**29,801**	**1,451**	**20,968**	**1.88**
1,417	(310)	(1,124)	(90)	-	(13,940)	-	(14,294)	-
-	-	-	-	-	(52)	-	(66)	-
7,051	4,930	13,356	10,068	1,739	15,809	1,451	6,608	-
4,086	3,648	9,032	4,798	2,125	66,372	1,467	60,735	2.00
1,585	814	1,122	34	-	73,166	208	72,542	0.26
2,501	**2,834**	**7,910**	**4,764**	**2,125**	**(6,794)**	**1,259**	**(11,807)**	**1.74**
2,175	2,574	6,897	4,721	2,125	(2,553)	1,120	(7,260)	-
1,825	2,047	5,478	4,722	2,125	8,833	788	4,221	-
(1,417)	310	1,124	90	-	13,940	-	14,294	-
-	-	-	-	-	52	-	66	-
1,084	3,144	9,034	4,854	2,125	7,198	1,259	2,553	-
11,789	10,489	29,992	15,832	4,014	219,876	7,631	206,946	2.46
3,654	2,415	7,602	910	150	196,853	458	193,305	0.58
8,135	**8,074**	**22,390**	**14,922**	**3,864**	**23,023**	**7,173**	**13,641**	**1.88**
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
8,354	6,479	14,410	10,241	1,639	131,857	1,854	120,123	3.72
982	740	428	144	-	153,623	-	152,903	0.31
12,261	10,044	32,408	17,463	4,279	214,879	9,867	200,507	2.93
4,662	2,859	8,831	1,025	153	192,112	681	187,969	1.08
7,599	**7,185**	**23,577**	**16,438**	**4,126**	**22,767**	**9,186**	**12,538**	**1.85**
8,043	6,511	13,729	10,849	1,693	127,952	2,817	115,859	4.26
621	532	450	134	-	149,661	-	148,928	0.60

18. ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY PERIODS[5] (CONTINUED)

The Bank - in NIS millions

A. Anticipated Future Contractual Cash Flows as of December 31, 2014

	On demand or within 1 month	Over 1 month and up to 3 months	Over 3 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years and up to 3 years
Israeli currency:(including linked to foreign currency):					
Assets[10]	42,040	7,313	12,903	9,815	7,591
Liabilities	57,638	8,073	12,720	4,874	3,875
Difference	**(15,598)**	**(760)**	**183**	**4,941**	**3,716**
Derivative instruments (excluding options)	(4,196)	(2,532)	(5,259)	(585)	310
Options (in terms of base assets)	(57)	7	-	(2)	-
Difference after effect of derivative instruments:	(19,851)	(3,285)	(5,076)	4,354	4,026
Foreign currency[8]:					
Assets[11]	7,661	2,924	3,693	1,200	1,308
Liabilities	20,382	5,809	6,343	474	156
Difference	**(12,721)**	**(2,885)**	**(2,650)**	**726**	**1,152**
Of which: Difference in dollar	(8,090)	(1,518)	(1,056)	501	752
Of which: Difference in respect of foreign activity	621	84	509	416	268
Derivative instruments (excluding options)	4,196	2,532	5,259	585	(310)
Options (in terms of underlying assets)	57	(7)	-	2	-
Difference after effect of derivative instruments:	(8,468)	(360)	2,609	1,313	842
Total:					
Assets[1]	49,701	10,237	16,596	11,015	8,899
Liabilities[2]	78,020	13,882	19,063	5,348	4,031
Difference	**(28,319)**	**(3,645)**	**(2,467)**	**5,667**	**4,868**
Derivative instruments (excluding options)					
Options (in terms of base assets)					
[1] Of which: Credit to the public	21,176	9,086	10,349	8,959	6,546
[2] Of which: Deposits from the public	71,812	12,389	16,868	4,140	3,082
B. Balance Sheet Amount as December 31, 2013					
Total:					
Assets[3]	40,414	14,788	14,783	12,921	9,387
Liabilities[4]	70,531	17,743	19,158	6,697	3,919
Difference	**(30,117)**	**(2,955)**	**(4,375)**	**6,224**	**5,468**
[3] Of which: Credit to the public	19,270	12,597	9,441	9,442	6,059
[4] Of which: Deposits from the public	66,225	16,175	16,846	5,006	3,015

Footnotes:

(5) This Note presents the anticipated future contractual cash flows in respect of assets and liabilities according to linkage base and according to the remaining period to the contractual maturity date of each cash flow. The data is shown net of the effect of accounting write-offs and of allowances for credit losses.

(6) As included in Note 17 "Assets and liabilities according to linkage base", including off-balance sheet amounts in respect of derivatives without netting.

(7) Includes past-due receivables totaling NIS 627 million (2013: NIS 1,083 million).

(8) Excluding Israeli currency linked to foreign currency.

(9) The contractual rate of return is the rate of interest discounting the expected future contractual cash flows presented in this Note in respect of a monetary item, to its balance sheet amount.

(10) Including current loan account credit facilities in the amount of NIS 2,936 million (2013: NIS 3,157 million) and an amount of NIS 816 million with no due date (2013: NIS 972 million).

(11) Including current loan account credit facilities in the amount of NIS 371 million (2013: NIS 135 million) and an amount of NIS 75 million with no due date (2013: NIS 254 million).

						Balance sheet amount[6]		
Over 3 years and up to 4 years	Over 4 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total cash flows	No fixed maturity date[7]	Total	The contractual rate of return,in percentages[9]
5,618	5,502	17,736	9,495	1,611	119,624	1,700	110,838	2.32
1,738	1,404	5,786	641	84	96,833	24	94,046	0.80
3,880	**4,098**	**11,950**	**8,854**	**1,527**	**22,791**	**1,676**	**16,792**	**1.51**
1,422	(276)	(1,052)	(90)	-	(12,258)	-	(12,617)	-
-	-	-	-	-	(52)	-	(66)	-
5,302	3,822	10,898	8,764	1,527	10,481	1,676	4,109	-
872	743	2,548	56	-	21,005	485	20,585	2.03
220	97	167	23	-	33,671	15	33,605	0.26
652	**646**	**2,381**	**33**	**-**	**(12,666)**	**470**	**(13,020)**	**1.77**
351	391	1,380	(4)	-	(7,293)	153	(7,574)	-
234	190	-	-	-	2,322	257	2,509	-
(1,422)	276	1,052	90	-	12,258	-	12,617	-
-	-	-	-	-	52	-	66	-
(770)	922	3,433	123	-	(356)	470	(337)	-
6,490	6,245	20,284	9,551	1,611	140,629	11,828	141,066	2.27
1,958	1,501	5,953	664	84	130,504	211	127,823	0.66
4,532	**4,744**	**14,331**	**8,887**	**1,527**	**10,125**	**11,617**	**13,243**	**1.61**
4,915	3,698	9,975	8,258	1,365	84,327	1,454	76,942	3.36
1,203	853	2,029	73	-	112,449	-	110,980	0.61
7,295	5,777	23,166	10,500	1,644	140,675	13,414	139,480	2.92
2,959	1,617	6,966	739	98	130,427	524	127,247	1.03
4,336	**4,160**	**16,200**	**9,761**	**1,546**	**10,248**	**12,890**	**12,233**	**1.89**
5,131	3,909	10,225	8,938	1,419	86,431	2,322	78,057	3.95
2,243	897	2,556	104	-	113,067	-	111,178	0.95

18. ASSETS AND LIABILITIES ACCORDING TO CURRENCY AND MATURITY PERIODS[5] (CONTINUED)

A. Off-Balance Sheet Financial Instruments

	Consolidated		The Bank		Consolidated		The Bank	
	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]	Balance[1]	Provision[2]
	December 31,2014[4]				December 31,2013[4]			
	in NIS millions							
Transactions in which the balance represents credit risk:								
Letters of credit	1,242	10	691	9	1,146	12	629	11
Credit guarantees	2,324	29	1,401	25	2,675	33	1,781	28
Guarantees for home purchasers	4,918	7	3,998	5	5,181	9	4,088	8
Other guarantees and obligations	4,639	29	4,006	26	4,295	42	3,654	41
Unutilized facilities for transactions in derivative instruments	1,164	-	1,095	-	1,356	-	1,305	-
Unutilized facilities credit line for credit cards	17,436	22	4,406	2	16,831	24	4,345	5
Unutilized current loan account facilities and other credit facilities in on-call accounts	7,919	26	6,808	23	7,647	19	6,674	16
Irrevocable commitments to extend credit approved but not yet granted[3]	19,728	43	12,325	41	15,353	40	9,444	40
Commitment to issue guarantees	3,248	4	2,502	4	2,782	5	1,991	4

Footnotes:

(1) Contract balance or their stated amounts at year end before the effect of allowance for credit loss.

(2) Balance of allowance for credit losses at year end.

(3) Including commitments to customers for granting credit within the framework of "an approval in principle and maintaining interest rates" in accordance with Proper Management Directive No. 451 "Procedures for the granting of housing loans".

(4) Excluding balances classified as assets held for sale - see note 8A.

B. Off-Balance sheet Commitment at year-end regarding activity based[1] on loan payments

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
Balance of loans granted out of deposits repayable according to the repayment of the loans[2]				
Israeli currency - non linked	1,425	1,730	1,425	1,730
Israeli currency - linked to the CPI	778	957	752	927
Foreign currency	175	464	175	464
Total	**2,378**	**3,151**	**2,352**	**3,121**

Footnotes:

(1) Loans and deposits granted out of deposits, the repayment of which to the depositors is conditional upon the collection of these loans (or deposits), with a margin or with a collection commission (instead of a margin).

(2) Standing loans and government deposits made in respect thereof, totaling NIS 8 million (2013: NIS 8 million), have not been included in the table.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

Cash flows in respect of collection commissions and interest margins of activity based on loan requirements - Consolidated

	December 31,2014							2013
	Up to 1 year	Over 1 year and up to 3 years	Over 3 years and up to 5 years	Over 5 years and up to 10 years	Over 10 years and up to 20 years	Over 20 years	Total	Total
In Israeli currency, non-linked:								
Future contractual flows	-	1	1	2	4	-	8	10
Expected future flows based on Management's estimates of early repayments	-	1	1	2	4	-	8	10
Discounted expected future flows based on Management's estimates of early repayments(1)	-	1	1	2	2	-	6	8
In Israeli currency, CPI-linked:								
Future contractual flows	6	12	11	12	3	-	44	58
Expected future flows based on Management's estimates of early repayments	6	10	8	7	1	-	32	40
Discounted expected future flows based on Management's estimates of early repayments(2)	6	10	8	7	1	-	32	38
In foreign currency:								
Future contractual flows	1	-	-	-	-	-	1	2
Expected future flows based on Management's estimates of early repayments	1	-	-	-	-	-	1	2
Discounted expected future flows based on Management's estimates of early repayments(3)	1	-	-	-	-	-	1	2

Information as to the granting of loans during the year by the mortgage banks:

	December 31	
	2014	2013
Loans out of deposits repayable according to the repayment of loans	2	2
Standing loans	3	4

Footnotes:

(1) The capitalization was performed according to weighted rate of 2.66% (2013: 4.09%).

(2) The capitalization was performed according to weighted rate of 0.56% (2013: 0.91%).

(3) The capitalization was performed according to weighted rate of 0.29% (2013: 0.27%).

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

C. Contingent liabilities and other special commitments

	Consolidated		The Bank	
	December 31			
	2014	2013	2014	2013
	in NIS millions			
1. Long-term lease contracts - rent payable in future years:				
First year	119	115	58	57
Second year	105	106	50	52
Third year	95	87	45	38
Fourth year	84	70	38	34
Fifth year	57	62	24	30
Sixth year and thereafter	297	312	113	134
Total	**757**	**752**	**328**	**345**
2. Commitment to acquire buildings and equipment	106	41	57	25
3. Commitment to invest in private investment funds and in venture capital funds	293	308	-	-

4. The Bank and Mercantile Discount Bank ("MDB"), which are members of the Ma'of Clearing House Ltd., are responsible along with other Ma'of Clearing House members towards the Clearing House for any financial obligations resulting from option transactions conducted on the Stock Exchange. For this purpose, the Ma'of Clearing House established a risk fund. The Bank's share in the risk fund as of December 31, 2014, amounts to approx. NIS 20 million, comprising 1.12% of the total risk fund at that date. The share of MDB in the Risk Fund as of December 31, 2014, amounted to NIS 6 million, comprising 0.4% of the total amount of the Risk Fund as of that date. The two banks were required to provide collateral in favor of the Ma'of Clearing House by way of securities (Government bonds) in an amount that would cover their possible liability in respect of their share in the risk fund, as stated, as well as an additional amount derived from the volume of operations in this field of each of the banks (see Note 15 E). Each of the banks is also committed to pay the Ma'of Clearing House any monetary charge that may result from its operations and from the operation of their customers involving the writing of options traded within the framework of the Clearing House.
5. According to the articles of the Stock Exchange and the byelaws of the Tel Aviv Stock Exchange Clearing House, the members are committed towards the Clearing House to cover any amount resulting from the obligations on behalf of themselves or their customers as well as for other Stock Exchange members who are not members of the Clearing House and their customers, in respect of transactions conducted by way of the Clearing House. Furthermore, each member is also responsible for his share of the Risk Fund, established for this purpose, based on the clearing ratio of turnovers of the members. As collateral for their obligations towards the Clearing House, the Bank and MDB pledged their rights to accounts maintained at the Clearing House (in which securities are deposited) and at another bank (in which cash is deposited). (See Note 15 H).
6. a) The Bank is committed to indemnify the subsidiary Tafnit Discount Asset Management Ltd. (formerly known as Tachlit Discount - Portfolio Management Ltd.; and beforehand: Tachlit Investment House Ltd.; hereinafter - "Tafnit") in respect of liability lawsuits filed against it by a letter of guarantee as alternative to insurance according to the Engagement in Investment Consulting and in Investment Portfolio Management (Equity capital and insurance) Regulations, 2000. The letter of guarantee is in addition to the professional liability insurance purchased by Tafnit with an insurance coverage of up to NIS 20 million. Following the merger of Mercantile Capital Markets Ltd. into Tafnit, the letter of guarantee was expanded to include also a liability deriving from the professional liability of Mercantile Capital Markets Ltd. prior to the merger. The letter of guarantee is granted for the settlement of any amount up to NIS 14.5 million, linked to the CPI of November 1998, payable or which might become payable by Tafnit and/or its employees or executives (hereinafter: "the debtor") in respect of any liability stemming from the professional responsibility of the debtor towards a customer of Tafnit, in accordance with the terms of the letter of guarantee. The guarantee is in effect until May 15, 2015, inclusive.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

b) Tafnit is committed towards Tachlit Dollar Worldwide Ltd., previously held by Tafnit at the rate of 20%, and toward Synergetica Ltd., which owns approximately 80% of Tachlit Dollar Worldwide Ltd., to transfer to Tachlit Dollar Worldwide Ltd., a company that issues ETN's, a total amount not exceeding US$1 million, to cover its current operating expenses and to fulfill its obligations towards the holders of its ETN's. The Bank granted Tafnit an indemnification as collateral for the said commitment. A similar indemnification from the Bank, in an identical amount, was given by the Bank in respect of Tachlit Basket Certificates Ltd.. The indemnifications granted by the Bank, as stated, have expired upon the consummation of the transaction for the sale of the ETN's operations (see Subsection 19 below), following which the Bank no longer holds (indirectly) means of control in the companies Tachlit Dollar Worldwide Ltd. and Tachlit Basket Certificates Ltd.

It should also be noted, regarding Tafnit's commitments towards Tachlit Dollar WorldWide Ltd. and Synergetics Ltd., as stated above in this subsection, that as part of the transaction for the sale of the ETN's operation, the parties signed a letter of assignment, according to which all obligations and rights deriving from the ETN's operation have been irrevocably assigned to Synergetics Ltd., with specific reference to the commitment made by Tafnit Investment House to invest in two ETN companies (including Tachlit Dollar WorldWide Ltd.) assigned to Synergetics Ltd. As of the present time, as long as the commitment of Tafnit towards the ETN companies remains in effect, Synergetics Ltd. is obligated to indemnify Tafnit in case this commitment materializes.

7. The Bank's consolidated subsidiaries are engaged in providing a variety of trusteeship services and serve, inter alia, as trustees for certain debentures issued to the public according to a prospectus and which are traded on the Stock Exchange.

8. a) The Bank's previous Articles of Association, which were amended in March 2002, prescribed that the Bank shall indemnify any person who serves or served as a representative of the Bank, or at its request, as a Director in another company in which the Bank has an interest, for the expenses incurred by such person in connection with legal proceedings instituted against him in respect of acts of commission or omission in the course of fulfilling his duties as a Director of such other company, and for an amount he is ordered to pay under a judgment handed down in such legal proceedings, including by way of a settlement to which the Bank has agreed, unless the judicial authority in such proceedings has found that the acts as aforesaid on the part of such person were performed not in good faith. The Bank is entitled to issue a letter of indemnity to any such Director of another company, including a Director of the Bank who serves as a Director in the other company, at terms and conditions approved by the Board of Directors. Accordingly, the Bank has issued letters of indemnity, unlimited as to amount, to Directors who serve or served at the Bank’s request in other companies held, directly or indirectly, by the Bank (see hereunder).

b) According to the Bank's Articles of Association, any employee or clerk of the Bank who is not an executive officer, will be indemnified out of the Bank's funds for any liability incurred by him in his capacity as an employee or clerk of the Bank in defending himself in any legal proceedings, whether civil or criminal, in which a judgment is given in his favor or in which he is acquitted, and the Bank is entitled to indemnify him for any financial liability imposed on him in favor of another person for an act done in his capacity as an employee or clerk of the Bank.

c) The Articles of Incorporation of certain consolidated subsidiaries of the Bank allow for indemnification of officers under certain conditions, subject to the provisions of the Law. Certain companies in certain cases granted such indemnification.

d) Discount Manpikim Ltd.("Manpikim"), a wholly owned and controlled subsidiary of the Bank, granted in September 2006 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated September 2006, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 1.5 billion. In September 2007, Discount Manpikim Ltd. approved a similar indemnify to the CEO appointed subsequently to the issue of the shelf prospectus, regarding shelf offering reports that were published subsequent to the date of the resolution, in accordance with the said shelf prospectus.

e) Manpikim granted in February 2008 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with a shelf prospectus for the issue and listing for trade of subordinated capital notes, dated February 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 2 billion.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

f) Manpikim granted in February 2009 indemnification to directors as well as the CEO of the company with respect to monetary liability that might be imposed on any of them and with respect to reasonable litigation expenses in connection with the issue of subordinated capital notes in accordance with the amended a shelf prospectus dated December 24, 2008, and this under terms specified in the letter of indemnification. In any event, the maximum amount of the indemnification granted to all of the directors and to the CEO as a whole shall not exceed the gross proceeds of the said issue, and in any case no more than NIS 3 billion.

g) The Bank's Board of Directors approved the granting of indemnification by Manpikim to the Board members and CEO of Manpikim, with respect to a shelf Prospectus dated June 18, 2010, and shelf offer reports issued in accordance therewith. In any event, the maximum amount of the indemnification to be granted to all Directors and the President & CEO as a group, shall not exceed the gross proceeds of the public offerings and in any event not in excess of NIS 2 billion.

h) On October 31, 2012, Manpikim granted an indemnification to Directors, the CEO and the Financial Comptroller of the company, with respect to a shelf Prospectus respecting a notice of acceptance of liability within the framework of the merger dated May 31, 2012, between Discount Mortgage Issues Ltd. and Manpikim ("the merger Prospectus"), in respect of a monetary liability that may be imposed on any of them, and in respect of reasonable legal fees, in connection with the merger Prospectus and the merger, including everything stemming from them and/or related to them, directly or indirectly, on condition that in no event shall the maximum cumulative amount of the indemnification granted to all those entitled to it, exceed the sum of NIS 200 million.

In respect of the indemnity granted by Manpikim to officers of Manpikim, in respect of the issuance of prospectuses, as detailed in items (d) to (h) above, the Bank has granted an indemnity to Manpikim.

i) In April 2013, the Bank's Board of Directors resolved to grant a general commitment for indemnification that will be provided by the Bank to officers of Manpikim. The text of the indemnification undertaking will be based upon the text of the indemnification letter to officers of the Bank and subsidiaries, approved by the Bank, which includes a limitation regarding the maximum amount of the indemnity.

j) Concurrently with approval of the engagement in an agreement for the sale of the provident fund management activity, the Bank committed to indemnify Discount Gemel Ltd. and its executive officers under conditions and circumstances in which the Bank is permitted to grant such indemnification in accordance with the relevant provisions of the Companies Law, with respect to their activity as officers of the company relating to approval of the sale agreement and implementation of the said sale, including any financial liabilities, expenses, consultation with legal and other experts, as required, and reasonable litigation expenses, provided that the cumulative amount required to be paid by the Bank shall not exceed the consideration receivable by the Bank under the sale agreement, and provided that realization of the indemnification will not impair the capital adequacy ratio, which the Bank is required to maintain under Proper Conduct of Banking Business Directive No. 311, all as stated in the indemnification letter.

k) **Liability Insurance of Officers.** The Agenda of the general meeting of shareholders, convened for March 31, 2015, includes a proposal to approve the Bank's engagement for the purchase of other liability insurance policy with respect to Directors and other Officers, including the President & CEO and the Internal Auditor, who act today and who had acted in the past and/or will act in the Bank and in companies in which the Bank holds, directly or indirectly, an interest of 50% or more in their equity or voting rights, as well as officers appointed or to be appointed by the Bank to serve in a company in which the Bank holds less than 50% of the equity or voting rights. The policy is in effect for the period October 1, 2014 through April 1, 2016, with maximum coverage in the amount of US$150 million for an event and for the period. The annual premium to be paid in respect of the Bank`s group for the policy shall not exceed an amount of US$479 thousand. The Bank's part (not including the subsidiaries) in the said premium will not exceed US$343 thousand on an annual basis. In the event of claims against any officers, the officer shall not bear any deductible. The Bank will bear participation (deductible) in the amount of US$50 thousand per event.

On April 25, 2013, a special General meeting of shareholders approved the Bank's engagement in a policy with respect to the responsibility of the Bank's officers and of companies in which the Bank holds, directly or indirectly, an interest of 50% or more in the equity or voting rights for the period from April 1, 2013 and until September 30, 2014. The details of the policy are as described above, with the following changes: annual premium – US$490 thousand, share of the Bank – US$ 350 thousand, participation of the Bank in the case of a claim filed against anyone of the Officers – US$50 thousand.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

l) **Advance exemption and a commitment to indemnify of directors and other officers.** On June 26, 2007 a special General Meeting approved advance exemption from responsibility of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), for damage caused to the Bank as a result of breach of the requirement for caution toward the Bank, except as a result of breach of the requirement for caution in respect of distribution, all subject to qualifications detailed in the decision, derived from the Bank's articles regarding exemption from responsibility.

The abovementioned special General Meeting also approved a commitment for indemnification of directors and other officers in the Bank and of former directors and officers in the Bank (according to a list of individual names), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, subject to a limit on the total amount of the indemnification payable to officers in the Bank and to officers in subsidiaries of 10% of the Bank's shareholders' equity, as reflected in the most recent financial statements published prior to the actual date of the indemnification, and subject to the indemnification amount not impairing the minimum capital adequacy ratio in accordance with Regulation No. 311 of the Proper Conduct of Banking Business Regulations. The indemnification will be provided in respect of any action implemented in connection with the subjects detailed in the indemnification letter in effect for directors and officers in the Bank, subject also to fulfillment of additional conditions customary in such indemnification letters.

The above-mentioned indemnification will be provided only in the event that the monetary liability and/or expenses are not covered by a third party, including an insurance company.

Concurrently with the passing of the above resolutions, the special meeting of shareholders resolved to approve the amendment of some of the Bank's bye-laws, regarding the granting of exemption and indemnification to the Bank's Directors and other Officers.

The abovementioned special General Meeting also approved a commitment for indemnification of other directors and officers in the Bank as of the date of the decision (as detailed in the list appended to the announcement of the General Meeting), in respect of monetary liabilities levied on them and in respect of reasonable legal expenses, all in connection with mobilization of tier 1 capital implemented in the Bank in December 2006 and May 2007. The commitment for indemnification is limited to the amount of the mobilization (NIS 1 billion), subject, that in each event:

(1) Realization of the indemnification will not impair the minimum capital adequacy ratio in accordance with the Proper Conduct of Banking Business Regulations;

(2) Realization of the indemnification will not impair the required original tier 1 capital ratio (without hybrid tier one capital) of at least 6.5% at any time.

Following approval by the Audit Committee dated June 28, 2009, the Bank's Board of Directors approved on July 12, 2009, the granting of exemption and indemnification to Directors and other Officers appointed subsequently to June 2007 (the date on which the General Meeting of shareholders approved the granting of exemption and indemnification to acting Officers and to Officers that had acted in the past) as well as to Directors and other Officers that may be appointed in the future, excluding controlling shareholders in respect of whom a specific resolution is required. In this framework, certain amendments to the indemnification letter have been approved, which will apply also to Directors and Officers who had been issued indemnification letters in June 2007. The General Meeting of Shareholders approved the said resolution on August 27, 2009.

m) On March 21, 2012, the Bank's General Meeting of Shareholders approved changes in the Sections dealing with exemption, indemnification and insurance in the Bank's by-laws, this in the wake of the enactment of the Act for the improvement of enforcement means by the Securities Authority.

Following the amendment of the Bank`s articles, the resolution regarding the commitment for indemnification granted to officers of the Bank, has also been amended, in order to add an undertaking for indemnification in respect of expenses allowable for indemnification according to the law, within the framework of administrative enforcement procedures.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

n) In accordance with the existing Articles, the Bank may provide an indemnification commitment in advance to any person, including an officer of the Bank, acting or who had acted as a representative of the Bank, or at the request of the Bank, as director in another corporation held by the Bank. In accordance with a policy decision regarding indemnity for officers of subsidiaries in the Discount Bank Group, which had been approved by the Bank`s Board of Directors in July 2009, the Bank is committed to indemnify acting officers of Discount Trust Company, Tafnit, DCMI and DCMI Underwriting, under terms parallel to the terms granted to officers of the Bank, according to which, the amount of indemnity commitment shall not exceed 10% of the amount of the supervisory capital of the Bank.

o) **Exemption and a commitment to indemnify of Directors and Officers of MDB.** On November 29, 2009, MDB's General meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of MDB and providing a commitment for the indemnification of other Directors and officers and of certain of its subsidiaries, who held office at MDB and at those subsidiaries since the year 2002 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's board in July 2009. Following the amendment of the articles of MDB, as discussed above, the general meetings of shareholders of that bank, held on October 31, 2012 and on March 24, 2013, approved amendments to sections regarding indemnification commitments granted to officers of the bank, as stated above, in order to add indemnification in respect of administrative enforcement proceedings under various laws, as detailed in the articles, and which may be indemnified under the law.

p) **Exemption and a commitment to indemnify Directors and Officers of ICC and Diners.** In August 2011 'ICC's and Diners' general Meeting of Shareholders approved the granting of a commitment to indemnify and exemption to Directors and other Officers of ICC and Diners, accordingly, who held office at ICC and Diners, accordingly, since the year 2011 onwards. The said commitment to indemnify and exemption were granted in accordance with principles and group limitations approved by the Bank's Board of Directors on July 2009.

q) **Indemnification of officers of DCMI.** The Bank's Board of Directors approved in April 2013 a commitment to grant indemnification to officers of DCMI, officiating from time to time, in accordance with the version of an indemnification commitment letter in use at the Bank, as in effect from time to time, mutatis mutandis. The said indemnification commitment shall not apply to anyone acting also as an officer of Discount Underwriting and Issuing Ltd. and/or of the Bank, who has been granted indemnification by the Bank.

r) **Indemnification to Officers of Discount Underwriting Company.** On April 10, 2013, the Bank's Board of Directors approved the granting of a commitment for indemnification to Officers of Discount Underwriting Company, officiating therein from time to time, in accordance with the version of indemnification letter accepted at the Bank, as in effect from time to time, with the required changes. The said indemnification commitment shall not apply to whoever acts also as an Officer of Israel Discount Capital Market and Investment, Ltd. and/or the Bank, to whom indemnification has been granted by the Bank.

9. The Bank's practice is to grant, from time to time, and at terms and circumstances customary in the banking business, letters of commitment and of indemnification, limited or unlimited in amount, and for limited or unlimited periods, and everything in the Bank's ordinary course of business. Inter alia, such letters of indemnity are granted within the framework of the regulations of the Clearing House as to lost checks; are granted to Receivers and Liquidators; are granted in respect of negligence claims, to providers of various services including assessors, project manager etc; to customers in respect of lost check books; to credit card companies as part of the accountability with them; or indemnification granted as part of a contractual obligation.

   This includes a full indemnification granted by the Bank to an assessor, in respect to any damage, which might be caused to him as a result of rendering valuation opinions, except in the case where gross negligence or malfeasance might be found; and a similar indemnification that the Bank gave to an expert who had provided the bank with an economic opinion.

10. a) The Bank has granted the International VISA Organization a guarantee unlimited in amount, securing the operations of ICC. Against this guarantee, ICC provided the Bank with a letter of indemnity.

    b) The Bank issued a guarantee in the amount of approx. US$3 million, in favor of the MasterCard Worldwide organization, to secure the activity of ICC within the framework of the Organization.

    c) ICC has granted an indemnification for all liabilities of its subsidiary companies: C.A.L (Financing), ICC Deposits and Iatzil Finance. Diners has granted an indemnification for all liabilities of Diners Financing.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

11. Within the framework of permits granted to the Bank for the construction of a building at 156 Herzl Street, Tel Aviv, the Bank is obligated to the Tel Aviv Municipality to bear the costs involved in evacuating tenants from the plot. To the best of the Bank's knowledge as at the date of the financial statements, the Municipality had not yet begun evacuating the tenants from the plot, and the Bank is unable to assess the cost of its participation in the evacuation of tenants as aforesaid.

12. **Various actions against the Bank and its consolidated subsidiaries**

Various actions are pending against the Bank and its consolidated subsidiaries. These include class action suits and requests to approve actions as class action suits. Among others, allegations are raised in these claims with regard to the unlawful debiting of interest and/or the debiting of interest not in accordance with agreements, subjecting one service to another service, failure to execute instructions, applications for the confirmation of attachment orders in respect of attachments served by third parties on the assets of debtors which they allege are held by the Bank, the unlawful debiting of accounts, mistakes in value dates, the invalidity of collateral security and the realization thereof, applications for injunctions ordering the Bank to refrain from paying out bank guarantees or documentary credit, as well as allegations pertaining to securities, construction loans, applications for the removal of restrictions on an account pursuant to the Dishonored Checks Law, 1981. In the opinion of the Bank's Management, which is based, inter alia, on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based upon the opinion of their counsels, respectively, as the case may be, adequate provisions have been included in the financial statements, where required. The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, has been assessed as reasonably possible, amounts to approx. NIS 2,323 million.

12.1 On November 2, 1997 a law suite was filed with the Tel-Aviv District Court and a motion to approve the filing as a class-action suit against Discount Mortgage Bank ("DMB") and against three additional mortgage banks regarding the charging of commissions for life assurance and property insurance of borrowers (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The amount set in the class-action suit is NIS 500 million, with no specific allocation to the banks involved.

Whereas, with respect to another request to approve an action as a class action, in a matter practically identical, the Court had already handed down its decision, which was appealed against, the Court decided that it will be heard only after the Supreme Court will issue a judgment with respect to the said appeal. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict.

12.2 A lawsuit was filed on September 12, 2006, against the Bank, Bank Leumi and Bank Hapoalim, as well as a motion for approval of the lawsuit as a class action suit. The Plaintiff assessed the amount claimed at NIS 7 billion in respect of all the defendant banks, reserving the right to amend this amount in accordance with developments during the course of the litigation.

The Plaintiff argued that most of the credit to the public is concentrated in the hands of the defendant banks, and that they coordinated among themselves the prices applying to five parameters in everything relating to credit.

On January 21, 2007, the District Court admitted the Plaintiff's motion to recognize the lawsuit as a class action suit on grounds derived from the Restrictive Trade Practices Law.

On July 28, 2013, the Supreme Court admitted the appeals of the banks and reversed the decision of the District Court which approved the suit as a class action suit. Accordingly, the case was returned to the District Court in order to renew the hearing of the motion for approval of a class action.

On January 21, 2014, the Court in the procedure described in item 12.3 below decided that the hearing in the procedure described in item 12.3 will be transferred to the Court that is deliberating the procedure described in this item.

A motion for approval of a compromise arrangement between the parties was filed with the Court on December 11, 2014. The payment to be made in accordance with the compromise arrangement, if and when approved, shall be made out of funds transferred in accordance with the agreed Order, see item 14 hereunder.

The Court instructed on January 4, 2015, that an announcement regarding the motion for approval of a compromise arrangement be published in the press and delivered to the Attorney General of the Government, the Supervisor of Banks and the Director of the Courts of Law.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Plaintiff in the action described in item 12.3 below, filed on January 6, 2015, a motion with the Court requesting the cancellation or delay of the decision of January 4, 2015. The Court has stayed the execution of its ruling. A hearing of the oral supplementary arguments has been deferred to March 25, 2015, in the presence of the parties and the Attorney General for the Government.

In accordance with the ruling of the Court dated February 19, 2015, the banks submitted on March 2, 2015, their position as to the legal procedures that are to be determined in these proceedings and in the proceedings described in item 12.3 below and in connection of the motion for approval of a compromise arrangement in this case, despite the opposition of the Appellant in the proceedings described in item 12.3.

12.3 On November 23, 2006, a lawsuit was filed to the Jerusalem District Court together with a motion for its approval as a class action suit against the Bank, Bank Hapoalim and Bank Leumi. The claimants assess the amount of the claim at between NIS 5.2 and NIS 5.6 billion for all the defendants, while they reserve the right to amend the claim brief.

In the claim brief the claimants argue that the defendant banks charge the private household sector interest at an exorbitant rate, which is much higher than the interest rate charged to the commercial and business sectors, this without any economic and commercial justification, with an ostensible existence of a binding arrangement between the banks.

The Bank responded to the motion to approve the claim as a class action suit.

On May 15, 2008, the Court decided to stay the proceedings until a ruling is given in the appeal filed by the banks with respect to the action described in item 12.2 above.

A decision was given on January 21, 2014, instructing the transfer of the hearing of the motion for approval of the claim as a class action in this case, to the District Court hearing the lawsuit described in item12.2 above.

The parties to the case conducted negotiations for reaching a compromise in the matter. A notice on behalf of the banks was filed with the Court on November 16, 2014, stating that the negotiations were unsuccessful. On the other hand, the Plaintiffs filed a motion with the Court requesting it to instruct the parties to refer the case to mediation. On November 24, 2014, a joint notice was submitted by the banks, according to which the differences between the parties are considerable leaving no room for referring the case to mediation proceedings.

For details regarding the opposition by the Plaintiffs in this proceeding to the compromise arrangement discussed in item 12.2 above, see item 12.2 above.

12.4 On May 12, 2009, an action was filed against the Bank, Bank Leumi, Bank Hapoalim, Mizrahi-Tefahot Bank and the First International Bank together with a motion to approve the action as a class action suit.

The action is based on the statement of the Commissioner (see item 14 below) according to which binding arrangements regarding the communication of information with respect to commissions had existed between the defendant banks. The Claimants argue that a binding arrangement had existed between the said banks with respect to commission rates charged by these banks and that the banks established a coordinated policy, which, as alleged by the claimants, was typified by prohibited cooperation and exchange of information.

The class defined in the action constitutes all customers of the defendant banks, both private and business customers, in the period from 1990 to 2004. The total damage for all the defendant banks is assessed for the purpose of the action at approx. NIS 1 billion, with no allocation between them. The Claimants reserve the right to amend the amount of the damage claimed following receipt of the full data from the banks.

On October 7, 2009, the District Court rejected the motions submitted for the in limine dismissal of the claim and instructed that the hearing of this claim should be incorporated with the claim discussed in Section 12.5 below. The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the Commissioner's ruling, was submitted by the banks to the Antitrust Tribunal (see item 14 hereunder).

On June 15, 2014, a consent decree was granted at the request of the Antitrust Commissioner, see item 14 below.

A motion for approval of a compromise arrangement between the parties was filed with the Court on November 16, 2014. The Court instructed the publication of an announcement regarding the filing of a motion for approval of a compromise arrangement and the submission of the motion to the Attorney General of the Government, to the Antitrust Commissioner and to the Courts Administrator. The Court ruled that responses to the motion have to be submitted within thirty days from date of receipt thereof.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

On November 27, 2014, a notice was published regarding the filing of a motion for approval of a compromise agreement. Furthermore, a copy of the motion for approval of the arrangement has been delivered to the relevant parties.

At the request of the Attorney General to the Government, the date for submission of his reply to the compromise agreement has been deferred to March 11, 2015. The hearing of the motion has been fixed for April 16, 2015.

The payment to be made in accordance with the compromise arrangement, if and when approved, shall be made out of funds transferred in accordance with the agreed Order, see item 14 hereunder.

12.5 On June 30, 2008, a motion for the approval of an action as a class action suit against the Bank, Bank Hapoalim and Bank Leumi, was submitted to the Tel Aviv District Court. The core issue of the suit rests on the Plaintiffs' claim that, since the end of the 1990's and possibly even earlier, the three defendant banks created a cartel coordinating the prices of commissions charged to their customers. The Plaintiffs further claim that the banks have created an unlawful restrictive business practice regarding the rates of the various commissions charged to customers. As alleged by the Plaintiffs, as a result of the cartel, the price paid by the public is higher than the price that would have been paid had competition not been prevented by the cartel.

The Plaintiff estimates the gap between commissions actually charged and the commissions that would have been charged had the banks not acted as they did, at 25%. Based on this assessment, the Plaintiffs claim an overall damage for all member of the group of NIS 3.5 billion. The Bank's share in the claimed amount is 22% (namely an amount of approx. NIS 770 million).

The Bank filed its response on March 19, 2009.

According to the decision of the District Court of October 7, 2009, the claim will be heard together with the claim described in Section 12.4 above. The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the decision of the Commissioner, to be submitted by the banks to the Antitrust Tribunal (as described in section 14 below). On June 15, 2014, a consent decree was granted at the request of the Antitrust Commissioner, see item 14 below.

A motion for approval of a compromise arrangement between the parties was filed with the Court on November 16, 2014. The Court instructed the publication of an announcement regarding the filing of a motion for approval of a compromise arrangement and the submission of the motion to the Attorney General of the Government, to the Antitrust Commissioner and to the Courts Administrator. The Court ruled that responses to the motion have to be submitted within thirty days from date of receipt thereof.

On November 27, 2014, a notice was published regarding the filing of a motion for approval of a compromise agreement. Furthermore, a copy of the motion for approval of the arrangement has been delivered to the relevant parties.

At the request of the Attorney General to the Government, the date for submission of his reply to the compromise agreement has been deferred to March 11, 2015. The hearing of the motion has been fixed for April 16, 2015.

The payment to be made in accordance with the compromise arrangement, if and when approved, shall be made out of funds deposited in accordance with the agreed Order (see item 14 hereunder).

12.6 On October 29, 2009, two companies submitted a lawsuit against the Bank, MDB and five additional banks, requesting a declarative ruling according to which the defendant banks are not entitled to charge the Claimants with violation interest in the amount of NIS 840 million, but only with an amount of NIS 37 million. Alternatively, the banks are entitled to charge the Claimants only with interest and linkage increments, and accordingly, the accounts of the Claimants should be credited with the difference in the amount of NIS 521 million.

The Bank's share in the alleged damage, based on its share in the credit consortium, is approx. 10% and that of MDB is 4%.

In accordance with the decision of the District Court, the Claimants filed a monetary claim of NIS 830 million, instead of a declarative relief.

A partial ruling was given on July 25, 2013, according to which, the violation interest comprises an agreed compensation. The court ruled that the interest rate agreed by the parties is reasonable, however due to the long Receivership period, the interest rate should be reduced from 3% to 2.5%, for the period from January 1, 2007, until the settlement of the loan in November 2009. On November 3, 2013, a supplementary ruling was given within the framework of which, among other things, it approved the amount of recovery. The share of the Bank and of Mercantile Discount Bank in the recovery is NIS 8 million.

Appeals against the verdict were filed with the Supreme Court in December 2013 by the Plaintiffs and the Respondents. A preliminary hearing in the case was held by the Supreme Court on October 27, 2014.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

12.7 A lawsuit together with a motion for approval of the suit as a class action suit was submitted on October 11, 2012, to the Tel Aviv District Court, against the Bank, FIBI, Leumi Bank and Mizrahi Bank.

The matter of the lawsuit is the value date attributed by the banks to payments made by debtors directly to their account at the Debt Execution Office. As alleged by the Claimants, the practice of the banks is to determine the date on which payments have been received as the value date for these payments from the Debt Execution Office. In respect of the said time difference, the banks charge the debtors with interest in arrears.

The Claimants argue that at this stage it is not possible to assess the amount of the claim, since in order to do so, specific examinations would have to be made at the banks.

On March 10, 2014 the Bank`s response was filed. A preliminary hearing in the case was held on September 14, 2014. In view of the standpoint of the Respondents, according to which the issue of the delay in the transfer of the funds lies with the Debt Execution Office, the Court decided that the claims briefs would be delivered to the Attorney General of the Government and to the Supervisor of Banks, in order to obtain their position in this matter.

The Attorney General for the Government submitted his position on February 2, 2015, according to which a winning bank may not charge the account of a customer with interest in respect of the period from date of deposit of a payment with the Execution Office and until it is transferred over to the bank. On February 25, 2015, the banks filed a request for presenting their response to the position of the Attorney general to the Government, and the Court consented to the request.

A preliminary hearing is fixed for April 19, 2015.

12.8 In February and March 2013, the Liquidator of a construction group filed with the Jerusalem District Court two claims against the Bank and other parties. One claim, on behalf of one company in the group, is for an amount of NIS 75 million. The other claim, on behalf of another company in the group, is for an amount of NIS 45 million.

In both claims it is argued that the Bank and the other defendants enabled the flow of funds from accounts of the said companies to accounts of private companies in the same group. The argument is that the funds in question were the proceeds of bonds which the said companies issued to the public. According to the Liquidator, the Bank and the other defendants were obligated to prevent the transfer of these funds on grounds that these transfers were not made for the benefit of the said companies. The Bank submitted a defense brief in respect of one of the said claims on October 27, 2013 and the defense brief in the second claim the Bank submitted on March 4, 2014. The response of the special manager was submitted in April 2014 as well as a motion for combining the hearing of both claims.

Preliminary hearings have been fixed for July 8, 2015 and September 6, 2015.

12.9 A lawsuit together with a motion for approval of the suit as a class action suit was filed on April 17, 2013, with the Tel-Aviv District Court, against ICC and Castro Models Company Ltd. (hereinafter: "the Respondents").

The claim relates to the marketing of "Wish you card" gift cards. The Claimant alleges that the marketing of the gift cards was made while the Respondents displayed misleading statements and determined prohibited terms in contravention of the provisions of the Consumer Protection Act, 1981, and the regulations under it. The Claimant alleges that the actions of the Respondents had misled him and prevented him from performing operations to which he was legally entitled.

The Claimant stated the amount of the claim for all group members at NIS 213.5 million, on the assumption that the group numbers about 500 thousand customers. Mediation proceedings are being conducted in this case between the Appellant and Castro (ICC is not a party to the mediation proceedings). The representative of the Appellant informed on February 17, 2015, that the mediation process conducted by the parties had failed.

12.10 A lawsuit was filed against the Bank on July 31, 2013, at the Central-Lod District Court, together with a motion for approval of the suit as a class action suit. The Claimant allege that the practice of the Bank is to open foreign currency accounts supplemental to the principal current account without informing the customers and without bringing to their notice the engagement terms including the related cost of managing these accounts. The Claimants further argue that the Bank charges the said foreign currency accounts with minimum ledger fees even if no entries are made in these accounts, and also charges interest on debit balances that might occur in these accounts. The amount of the claim in respect of all class members is stated by the Claimants at NIS 170 million.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Bank`s response was submitted on May 5, 2014. On January 1, 2015, the Judge referred to the Supervisor of Banks the question as to whether the receipt of an amount in foreign currency, with the purpose of keeping it in foreign currency, requires the opening of an additional current account in foreign currency. The hearing of the Claimants in this case was fixed for June 11, 2015.

12.11 A lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit were filed on September 1, 2013, with the Tel Aviv District Court.

The Claimant alleges that Mercantile Discount Bank subjects the granting of a State guaranteed loan, in the maximum amount to which the borrower is entitled (hereinafter – "full amount of the loan") to a deposit by the borrower of an amount equal to one third of the full amount of the loan. It is further claimed that as a result of the above, Mercantile Discount Bank grants the borrower only two thirds of the full amount of the loan while charging him interest on the full amount of the loan.

The Claimant stated the amount of the claim for all class members at NIS 129 million.

A ruling was given on February 18, 2015, whereby the Court approved the withdrawal arrangement in respect of the motion for approval of the lawsuit as a class action suit, with no order for expenses.

12.12 A lawsuit against the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank, the First International Bank and against the General Managers of the said banks, as well as a motion for the approval of the lawsuit as a class action suit, were filed on August 28, 2013, with the Tel Aviv District Court.

The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers. They claim that a customer who wishes to convert foreign currency is being charged an additional commission to that listed on the transaction price list, which, as alleged, is the difference between the rate at which the respondents buy foreign currency on the inter-bank market and the rate at which they sell the foreign currency to the customer.

Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a binding arrangement in contradiction to the provisions of the Antitrust Act, 1988.

The Claimant stated the amount of the claim from all the Respondents and for all class members at NIS 10.5 billion.

On January 26, 2014, the Court admitted the preliminary motions submitted in this case, including the motion by the Appellants for withdrawal of the suit against the general managers of the banks. An amended motion for the approval of the suit as a class action suit, was filed on February 4, 2014 and the amount of the claim was set at NIS 11.15 billion.

On May 4, 2014, the Court decided that this motion will be heard together with the motion described in item 12.16 below. The Bank submitted on December 23, 2014, its response to the motion for approval of the claim as a class action suit.

On August 10, 2014, a motion was filed for the consolidation of the hearing of this case with that of the case described in item 13.5 below. The response of the bank to the motion for the merger of the hearings was filed on January 8, 2015. A preliminary hearing has been set for March 8, 2015.

12.13 A lawsuit together with a motion for approval of the suit as a class action suit was filed on October 13, 2013, with the Lod District Court against all credit card companies (including ICC) and against several fuel companies.

As argued by the Claimants, under an arrangement between the fuel companies and the credit card companies, a charge of between NIS 150 and NIS 600 was made in respect of each refueling, irrespective of the actual cost of the fuel purchased (hereinafter – "the additional charge"). As alleged, the additional charge was not brought to the notice of the consumers, and even though it was cancelled after several days, it caused the customers to be in a position of short credit and/or short cash in their accounts during the period from the date on which their credit cards were charged with the additional charge and the date on which the additional charge was cancelled.

The Claimants did not state the amount of the claim in relation to the whole group.

On July 13, 2014, a withdrawal arrangement was signed, which has been submitted to the Court for approval. In the hearing held on July 14, 2014, the Court instructed the parties to submit a notice that would detail the solution for the alleged difficulty resulting from the additional charge. ICC submitted such a notice on its behalf on August 11, 2014.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Court instructed the Attorney General to the Government to submit his position in the matter of the withdrawal arrangement. On December 10, 2014, the Attorney General of the Government presented his position regarding the withdrawal arrangement. In his statement, the Attorney General informed that he is not opposed to the withdrawal arrangement and that he leaves the matter to the decision of the Court. Notwithstanding the above, the Attorney General notes that in his opinion the Court has to consider the following: the one, publication of a notice regarding the withdrawal arrangement; and the other, the question of compensation to the Appellants and legal fees to their representatives. On December 24, 2014, a notice on behalf of the majority of the Respondents (including ICC) was submitted to the Court, according to which, the Respondents are of the opinion that under the circumstances, there is no place for the publication of a notice regarding the withdrawal arrangement, and that the amounts agreed as compensation to the Appellants and as legal fees to their representatives are proper under the circumstances. In addition, a notice has been submitted on behalf of the Appellants in which they state that that they insist on the approval of the withdrawal arrangement as is, otherwise they will request the continuation of the hearing of the motion for approval of the suit as a class action suit.

A ruling was handed on February 10, 2015, within the framework of which the Court approved the arrangement for the removal of the motion for approval of the suit as a class action suit.

12.14 A lawsuit together with a motion for its approval as a class action suit was lodged with the Jerusalem District Court on October 30, 2013, against the Bank, Mercantile Discount Bank, Bank Hapoalim, Union Bank and FIBI. The Plaintiffs argue that the respondent banks charge their customers upon renewal of credit facilities, with a commission in respect of credit and collateral handling, despite the fact that the collateral in respect of the credit facility remains unchanged. It is argued that this practice is in contravention of the law and the contents of the complete pricelist appearing in the first Addendum to the Banking Rules (Customer service) (Commissions).

The Plaintiffs assess the cumulative amount of the claim against all respondent banks for all class members at NIS 2 billion, and estimated the Bank's share at NIS 498 million and share of MDB at NIS 195 million.

The Bank`s and MDB's response was submitted on May 8, 2014. The parties waived the examination of submitters of depositions. The Appellants submitted sunning-up briefs on November 24, 2014. The Banks submitted summing-up briefs on their parts on February 15, 2015.

12.15 A lawsuit, together with a motion for approval of the lawsuit as a class action suit was filed with the Tel Aviv-Jaffa District Court on January 30, 2014, against the Bank and against ICC.

The Appellant claims that ICC charges on a monthly basis the accounts of holders of "Active" credit cards, in respect of charge amounts accumulated through use of the card, with a minimum amount only determined by ICC. The remainder of the said charge amounts turns into a loan carrying especially high interest rates. It is further alleged that upon the marketing of the plan, ICC refrained from emphasizing to the customers that cancellation of the credit requires an explicit request by the customer as well as from stating the cost of the credit granted. The Appellant claims that operating a revolving credit mechanism with respect to the customers and charging them with interest, has been made with no effective contractual basis and with the impairment of the customers' autonomy.

The Appellant stated the amount of the claim in respect of all group members at NIS 2,225 million.

A decision dismissing the claim against the Bank was given on August 19, 2014. The case against ICC continues.

On October 21, 2014, an appeal was filed with the Supreme Court against the decision of the District Court to dismiss in limine the motion for approval against the Bank. The appeal has been fixed for oral complementary arguments on October 8, 2015, following the submission of summing-up briefs by the parties.

ICC submitted its response to the motion on November 10, 2014. On December 21, 2014, the Appellant submitted his response to the comments of ICC. On October 29, 2014, ICC motioned for the stay of proceedings at the District Court until a ruling is given by the Supreme Court in an appeal filed by the Appellant. The preliminary hearing of the case was fixed for June 28, 2015. Within the framework of this hearing, the Court will also consider the request of ICC to stay the proceedings until a ruling is given in the appeal filed with the Supreme Court.

12.16 A lawsuit against DMB and other banks, as well as a motion for the approval of the lawsuit as a class action suit, were filed on March 2, 2014, with the Tel Aviv Jaffa District Court.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Claimants allege that the respondent banks unlawfully charge a commission on the conversion and transfer of foreign currency with no proper disclosure to their customers. They claim that a customer who wishes to convert foreign currency is being charged an additional commission to that listed on the transaction price list, which, as alleged, is the difference between the rate at which the respondents buy foreign currency on the inter-bank market and the rate at which they sell the foreign currency to the customer.

Among other things, the Claimants argue that by operating in this manner the respondent banks in fact maintain a binding arrangement in contradiction to the provisions of the Antitrust Act, 1988.

The Claimant stated the amount of the claim from all the Respondents and for all class members at NIS 2.07 billion.

In accordance with the ruling of the Tel Aviv District Court, this motion will be heard together with the motion described in item 12.12 above. A preliminary hearing has been set for January 21, 2015.

A motion had been filed for the consolidation of the hearing of this case with the case described in item 13.6 hereunder. A response on behalf of the MDB was filed on December 23, 2014.

12.17 On April 28, 2014, a lawsuit together with a motion for its approval as a class action suit, were filed with the District Court Central Region against ICC and others.

The above motion raises the allegation for two binding arrangements in the field of immediate debit cards ("debit") and pre paid cards ("pre-paid"), which, as alleged by the Plaintiffs, constitute "a systematic and continuous deceit" of customers of the credit card companies. The Plaintiffs claim that the first binding arrangement is an arrangement for the charging of a cross commission in respect of transactions made through the use of debit or pre paid cards. As regards the second binding arrangement, the Plaintiffs claim that it involves the unlawful withholding of monies due to trading houses, in respect of transactions made by debit cards and pre-paid cards, for a period of twenty days, following the date of collection of the money by the credit card companies.

The class of those directly affected, whom the Plaintiffs wish to represent, is defined as "all trading houses in Israel which accept debit cards". The class of those indirectly affected, whom the Plaintiffs wish to represent, is defined as "anyone who purchased goods or services at trading houses that accept debit cards, including the Plaintiffs".

The Plaintiffs assess the amount of the claim against all defendants and in respect of all class members at NIS 1,736 million.

On February 24, 2015, a motion for withdrawal from the claim was filed.

13. Requests to approve certain actions against the Bank and its consolidated subsidiaries as class action suits and other actions for which it is not possible at this stage to evaluate their prospects of success:

A class action suit and requests to approve certain actions as class action suits, as well as other claims, are pending against the Bank and its consolidated subsidiaries, which in the opinion of the Bank's, which is based on legal opinions and/or on the opinion of managements of its evaluate their prospects of success, and therefore no provision has been included in respect therewith.

13.1 On June 19, 2000, two borrowers of DMB (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank) filed with the District Court a petition for approval of an action as a class action suit against DMB and against the Israel Phoenix Insurance Co. Ltd. ("Phoenix"), where the properties of the borrowers are insured. The action is for an amount of NIS 105 million.

The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, since the insured amounts included the land component, and that the sum insured was increased in excess of the increase in the Consumer Price Index.

On December 25, 2000, the Court decided that the arguments raised in this petition were similar to the arguments raised in the pleas for approval of class actions discussed in 12.1 above. Consequently, the Court decided to defer the hearing of the said petition until after the verdict is given in those other pleas. The Supreme Court rejected on April 4, 2001, a plea for permission to appeal this decision.

On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

13.2 A lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit was filed with the Tel Aviv District Court on January 5, 2014.

The Appellant claims that following the entry into effect of Proper Conduct of Banking Business Directive No. 325, MDB has unilaterally raised the interest rate on credit granted to its customers within the approved credit facility that had been agreed with the customers, and this after the customer had already borrowed funds from MDB within the framework of the credit facility allotted to him and on its basis.

The group which the Appellant wishes to represent is defined as "all customers of Mercantile Discount Bank Ltd., who have a credit facility renewable on a quarterly basis, and which, between the years 2007 to 2013, were charged with interest for utilizing the credit facility at a rate exceeding the rate agreed with them according to the last credit facility agreement signed by them with the bank".

The Appellant states the amount of the claim in respect of all group members at NIS 139 million.

The response of MDB was submitted on July 24, 2014.

The Appellant filed a response to the Bank's response, which may be seen as expanding the case matter. The Bank has filed a motion for the dismissal of this response however a ruling the matter is still pending.

13.3 On March 4, 2014, a lawsuit was filed against the Bank with the Central-Lod District Court, together with a motion for its approval as a class action suit.

According to the Appellant, the Bank allows customers to deviate from their approved credit facility in contradiction of Proper Conduct of Banking Business Directive No. 325, thus causing them to pay high and the maximum interest rates in respect of the deviation from their approved credit facility. It is further claimed that the Bank charges the customers account with a commission in respect of notice as to the deviation and/or a warning letter regarding such deviation.

The Appellant notes that he is unable to quote an exact amount in respect of the damage caused, but in his opinion this amounts to hundreds of millions of NIS.

The Claimant has filed additional class actions on similar grounds and, in accordance with the Court’s ruling from June 12, 2014, the additional lawsuits will be heard together with the claim described in this item. The Bank filed its response on October 5, 2014. A preliminary hearing is fixed for March 26, 2015.

13.4 On August 5, 2014, a claim was filed with the Tel Aviv-Jaffa District Court, together with a motion for its approval as a class-action suit, against the Bank, against MDB and against other banks.

The Appellant is alleging that the respondent banks charge foreign currency transfer and handling commissions contrary to the Banking Rules and contrary to the Antitrust Law. The banks, it is alleged, charge the aforesaid commissions on a graded scale, with the grade being determined according to the size of the amount transferred. The Appellant alleges that this is a binding agreement “tacitly” agreed to by the banks; in addition, it is alleged that some of the respondent banks do not disclose the amount of the commission and/or the way it is calculated.

The group that the Appellant is seeking to represent is defined as “persons or entities that have made use of bank services for the transfer of foreign currency and/or other dealings in foreign currency and the entire Israeli public, who have been directly and indirectly harmed by the infringements”.

The Appellant has set the aggregate amount of the claim against all respondent banks at NIS 3 billion or, alternatively, at an amount of at least NIS 1.5 billion.

Moreover, a motion has been filed to unite the hearing of this motion with the motions described in item 12.12 above. The response of the banks to the motion for the merger of the hearings was filed on January 8, 2015. The response of the banks to the motion for approval was submitted on February 25, 2015.

A preliminary hearing was fixed for March 8, 2015.

13.5 A lawsuit was filed against the Bank on October 19, 2014, with the Central-Lod District Court, together with a motion for its approval as a class action suit.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

The Claimant argues that in violation of the law, the Bank charges its customers an excessive early repayment commission in respect of loans which are not housing loans. It is being argued that the Bank acts in contravention of Proper Conduct of Banking Business Directive No. 454. It was also argued that despite the fact that the Bank is permitted to charge customers with an early repayment commission in an amount reflecting only the damage caused to the Bank, it is the Bank's practice to charge commission fees reflecting considerable profit.

The Claimant stated that it is unable to estimate the amount of the damage caused.

An agreed motion for a procedural agreement was filed on February 18, 2015, according to which, the Appellant will file a motion for amendment of the motion for approval. The Bank's response to the original motion or to the amended motion shall be filed within 90 days from date of the ruling by the Court in the matter of the motion for amendment.

14. On April 26, 2009, the Antitrust Commissioner ("the Commissioner") issued a statement under Section 43(a)(1) of the Antitrust Act, 1988, according to which binding arrangements existed between Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., Mizrahi-Tefahot Bank, the First International bank of Israel Ltd. and the Bank (hereinafter: "the banks"), in the matter of communication of information regarding commissions ("the Commissioner's Statement"). Under Section 43(e) of the Antitrust Law, the Commissioner's statement serves as prima facie evidence for its contents in any legal proceedings.

    In the wake of the publication of the Statement, the Bank and the other banks submitted appeals against the Commissioner's statement.

    On June 16, 2014 the Antitrust Tribunal approved the agreed order signed between the banks and the Commissioner ("the agreed order"), whereby it is determined that the banks would pay an amount of NIS 70 million, of which an amount of NIS 14 million to be paid by Discount Bank ("the payment"), and this without the banks admitting their liability under the provisions of the law or admitting a violation on their part of the provisions of the law. In view of the approval of the agreed order by the Antitrust Tribunal and to the deposit of the payment by the banks, the Commissioner's statement was cancelled and no enforcement measures would be taken against the banks in connection with the investigation that had led to the publication of the decision.

    It has been determined, within the framework of the agreed order, that the payment may be used for compromise arrangements that might be reached by the banks as regards class actions that are pending against them, and which are detailed in the agreed order. The balance of the payment, which would remain at the end of twenty-four months from date of approval of the agreed order, shall be assigned to the State's Treasury.

15. **Agreement between the Swiss Authorities and the U.S. Department of Justice.** On August 29, 2013, an agreement between the Swiss Authorities and the U.S. Department of Justice regarding the program for the settlement of disputes was published regarding deposits of U.S. citizens with Swiss banks (Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks). The program is intended for Swiss banks that are not involved in investigations by the U.S. Department of Justice or in proceedings against it. It should be noted that IDB (Swiss) is not under investigation or other proceedings by the U.S. Department of Justice.

    The program differentiates between a number of categories. Category No. 1 includes banks being under investigation or proceedings with the U.S. Department of Justice. According to publications, this category includes fourteen banks and such banks are not permitted to participate in the program.

    Category No. 2 is designed for banks that assume the existence of a possibility of effecting violations as detailed in the program. According to the program, banks wishing to be included in this category, could have applied to the U.S. Department of Justice until December 31, 2013, for an agreement for avoiding criminal charges against the bank (Non–Prosecution Agreement), and this only after the Justice Department receives and studies a report of an independent examiner submitted by the applying bank, and subject to the consent of the applying bank to pay a fine in an amount derived from the amount of funds deposited with it by its U.S. customers during the period relevant to the program.

    Category No. 3 is designed for banks that declare and commit that they had not effected violations as detailed in the program. Banks wishing to be included in this category had to apply to the U.S. Department of Justice from July 1, 2014 to December 31, 2014, for conformation that they are not targeted for enforcement actions by it (Non-Target letter). As stated in the program, if it is found retroactively that the examination report does not support the original declaration, the case would be handled at the discretion of the U.S. Department of Justice.

    The said alternatives of the program require the delivery to the U.S. Department of Justice of information of various scopes, where in the case of Category No. 2 (non-prosecution agreement) detailed information regarding the said accounts will be required.

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

Following an examination of the plan and relying, among other things, on outside legal advice rendered to IDB (Swiss) Bank, the Bank and IDB (Swiss) Bank decided not to join the plan.

To the extent that IDB (Swiss) Bank would have elected to participate in the program under category No. 2, than the maximum fine computed in accordance with the approach detailed in the Swiss program with respect to all accounts of U.S. persons held by it, would have been reduced in relation to accounts that would have been recognized under the program as tax compliant, or as such which joined the voluntary disclosure program with the encouragement of IDB (Swiss) Bank, or as such that are out of scope of the program.

According to the examination of IDB (Swiss), with the assistance of an external consultant, and considering the deductions detailed above, the worst case scenario does not amount to a material sum to the Bank.

It is emphasized that in any event, the result of the said review is considered a crude assessment only, due to the fact that the formula in question is not a simple one but a formula requiring specific and complex discussions with the U.S. Justice Department, mostly due to the fact that different reliefs exist under the program, the effect of which is difficult to assess beforehand.

The Bank informed IDB (Swiss) Bank that as long as it maintains the control thereof, it is the Bank`s intension to secure the financial ability of IDB (Swiss) Bank to comply with the regulatory requirements in Switzerland, as required for its business activity.

Examination and investigation actions by the U.S. Authorities. It has been publicized recently, that Israeli banks find themselves in various stages of examination and investigation processes on the part of the U.S. authorities.

It was published on December 22, that the Bank Leumi Group had reached an arrangement of the "Deferred Prosecution Agreement" type with the U.S. Department of Justice, and also reached an additional arrangement with the Financial Services Authority of the State of New York (hereinafter – "the Leumi arrangement"). According to the arrangement, Bank Leumi admitted conducting a series of operations, the aim of which, according to the publication, was assisting tax evasion by its U.S. customers. According to the arrangement, the U.S. Department of Justice agreed to defer the filing of an indictment against the Bank Leumi Group for a period of twenty-four months, during which Bank Leumi is required to abide by the commitments detailed in the agreement. Moreover, various sanctions have been imposed on the Bank Leumi Group, including the payment of a fine in the amount of US$400 million.

The Bank Leumi arrangement has been presented and discussed at the Bank following its publication. This arrangement is based on specific facts dealing with many and continuous operations attributed to different companies in the Bank Leumi Group and as far as can be discerned from the publications, the agreement had been prepared and formed over a long period of time, with considerable investment of resources and of work time of consultants, the data itself remaining undisclosed. The agreement does not detail the formula for the fine, which determines the amounts that the Bank Leumi Group has agreed to pay, except with respect to the operations of Leumi in Switzerland. It would seem that in part, the amount of the fine had been based on agreements as to the amounts of tax evasion by customers, deriving from and in respect of activities attributed to the Bank Leumi Group. According to the published arrangement, the fine paid by Bank Leumi in respect of its operations in Switzerland, is derived from the formula detailed in the program with respect to category No.2.

The Bank has no knowledge of investigative actions taken against the Bank or against any of its extensions by the U.S. authorities, as regards U.S. customers who had not complied with their obligations according to U.S. tax laws. Furthermore, as published, IDB (Swiss) Bank is not one of the corporations included in the category No. 1 of the Swiss program (namely, banks under investigation, which, therefore, may not participate in the Swiss program).

The Bank is adopting a series of measures for the management of the risk involved in its operations with its U.S. customers. However, in view of the said enforcement actions and due to the uncertainty existing in this matter, it is not possible to assess to assess the risk involved in these operations.

16. (a) Israel Discount Capital Markets and Investments Ltd. (hereinafter: "DCMI") is a partner in several venture capital funds, private investment funds and in this respect is obligated to invest in these funds.

As of December 31, 2014, DCMI has a commitment to additional investments in 14 such entities amounts totaling US$83 million (as of December 31, 2013, US$86 million).

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

(b) DCMI owns approx. 19.6% of the equity of Menif. The Board of DCMI had approved in the past the granting of guarantees for projects of Menif Company up to an amount of NIS 72.8 million. This facility is expected to be gradually reduced so as to adjust the ratio of shareholding in Menif to an amount of NIS 54.5 million (linked to the CPI). As of December 31, 2014, guaranties have been provided in the amount of NIS 52.6 million (December 31, 2013: NIS 48 million).

(c) In addition, MDB has a commitment to invest in four active venture capital funds amounts totaling approx. NIS 3 million, as of December 31, 2014 (December 31, 2013: NIS 3 million).

17. **An agreement for provision of services to government employees.** On May 10, 2007 the Bank signed an agreement in this regard for the granting of loans, credit facilities and other banking services to State employees for a period of seven years beginning on January 1, 2008.

Within the framework of this tender, the Bank has established a special deposit for seven years in the amount of NIS 1.036 billion, for the purpose of granting loans and credit facilities to State employees. At the end of the period the principal amount of the deposit will be repaid to the Bank together with CPI linkage increments. (The Accountant General is entitled to interest in respect of the loans and credit facilities granted out of the deposit funds, as well as interest on the balance of the deposit). Loans to State employees so entitled were granted under subsidized terms out of funds of the deposit.

The Bank has deposited an unconditional self obligation, the validity of which expires on June 30, 2015. In continuation thereof, the Bank has been required to deposit an obligation as above, in an amount equal to 10% of the total outstanding balances or NIS 20 million, whichever is lower. The obligation shall be renewed and updated in accordance with the balance at the end of each calendar year.

The agreement with the State terminated on December 31, 2014. An amount of approx. NIS 1,132 million, linked to the CPI, was repaid to the Bank out of the deposit, on January 31, 2015.

On September 17, 2014, The Accountant General's Office at the Ministry of Finance published an offer for submission of proposals in a public tender for credit and banking services to State employees. The last date for submission of proposals in accordance with the provisions of the tender was October 27, 2014. The Bank has not submitted an offer in the framework of the public tender. To the best knowledge of the Bank, also no other bank has submitted an offer.

On January 22, 2015, the Accountant General at the Ministry of Finance, published a public tender for the granting of budgetary loans to State employees, for the period beginning on July 1, 2017 and until June 30, 2022 ("the new tender"). The final date for submission of offers under the provisions of the tender was February 18, 2015. The Bank has not submitted an offer within the framework of the new tender.

On February 25, 2015, an Addendum to the agreement was signed, according to which, the Bank shall provide the services, as detailed in the agreement, for a period beginning on February 25, 2015, and until June 30, 2015, or until such date on which engagement begins with the bank being successful in the new tender, whichever is earlier.

For the purpose of providing services during the additional period, the Bank left an amount of NIS 86 million in the special deposit, which shall be refunded to the Bank at the end of the period, together with CPI linkage increments.

Moreover, the Bank has extended the validity of the unconditional self obligation in the amount of NIS 20 million, granted under the agreement. This obligation will remain valid until December 31, 2015. However, in the event that the Government of Israel notifies the termination of the additional engagement period prior to June 30, 2015 ("early termination"), then the validity of the self obligation will expire at the end of six months from the date of early termination.

18. **An agreement for provision of services to the teaching staff.** On September 26, 2007, the Bank signed an agreement for the granting of subsidized loans to teachers and of conditional loans to education students. The original period of engagement was for five years, as from November 1, 2007 to October 31, 2012. (The Bank has announced its decision to continue the period of benefits for the teaching staff, both existing and new customers, for five additional years).

Within the framework of the tender, the Bank has transferred to a special deposit an amount of NIS 360 million for five years, which served for the granting of loans to teachers only. At the end of the period, the principal amount will be repaid to the Bank together with CPI increments (the Accountant General will be entitled to interest on the loans granted out of the deposit funds as well as interest on the balance of the deposit).

19. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

On December 31, 2012, the Accountant General and the Bank signed an Addendum to the extension of the agreement, until December 31, 2013, or until thirty days prior notice is given by the customer for the termination of the engagement and of the extension, whichever is earlier ("period of extension"). On January 5, 2014, the Accountant General and the Bank signed an addendum extending the Agreement until June 30, 2014, or until submission by the ordering party of a notice of termination of the engagement and its extension given thirty days in advance, the earlier of the two ("the additional extension period"). During the period of extension and the additional extension period, the Bank continued to grant all the services determined in the agreement and in the tender documents.

The Bank has also extended the effect of the unconditional self undertaking in the amount of NIS 10 million, given as part of the terms of the tender. This undertaking shall remain in effect until September 30, 2014. However, if the Government of Israel shall notify before June 30, 2014, of the termination of the engagement and of the extension being the subject of the Addendum ("early termination"), then the effect of the self undertaking will terminate at the end of six months from the date of the early termination.

On January 16, 2014, the Accountant General Department at the Israeli Ministry of Finance published a notice for the submission, of proposals to participate in a tender for the granting of loans to educational staff and of conditional grants to students at colleges of education. It was announced that another bank had been successful in the tender.

The engagement with the Accountant General was terminated on June 30, 2014, and about one month thereafter, the special deposit made at the time (of NIS 360 million), was returned to the Bank. The Bank has extended the unconditional self commitment in the amount of NIS 10 million, until December 31, 2014. At the end of each calendar year the Bank would be required to forward an unconditional self commitment in an amount of 10% of the balance of loans or NIS 10 million, whichever is lower, until the repayment in full of all loans granted within the framework of the said engagement.

19. **Sale of the ETN operations.** A transaction was consummated on March 24, 2011 between Tafnit, a wholly owned subsidiary of the Bank, and Dash Apex Holdings Ltd. (hereinafter - "Dash"), Synergetica Ltd. (controlled by Michael Davis) (hereinafter - "Synergetica") and Mr. Michael Davis. According to which, Tafnit sold to Synergetica its full share of the ETN's and indices products operations that were conducted under the brand name of "Tachlit ETN's", including its shares in the companies through which the said operations were conducted (hereinafter - "the sold operations" and the "designated companies" respectively), this in consideration for NIS 68 million, subject to adjustments determined. Net gain of NIS 29 million was recorded in the 2011 financial statements, in respect of the above transaction. In computing these gains, provisions have been taken into account in accordance with the assessments of the Bank's and of Tafnit managements regarding certain indemnifications granted as part of the transaction. Within the framework of the preparation of the financial statements as of December 31, 2013, the Bank and Tafnit have reexamined the exposures in respect of indemnifications granted, as stated, and have decided, in the light of certain developments and on the basis of their legal counsel's opinion, to cancel the balance of the provision in respect of the indemnifications, in the amount of NIS 15 million.

20. DERIVATIVE INSTRUMENT ACTIVITY – VOLUME, CREDIT RISK AND DUE DATES

General

1. Transactions in derivative financial instruments involve market, credit and liquidity risks.
    a. The Bank's activity involves exposure to various risks, including market risk. The market risk includes, inter-alia, linkage base, interest and exchange rate fluctuation risks, in the correlation characteristics between the various economic parameters, etc. As part of the overall Bank's strategy for the management of exposure to market risk, as stated above, the Bank combines in its financial asset and liability management and as a market maker, a wide range of derivative financial instruments. Among these financial instruments are: Forward transactions, IRS, FRA, SWAP, options purchased and written by the Bank, which hedge against changes in foreign currency exchange rates, inflation rates, interest rates, share indices, embedded options, etc.
    b. The credit risk involved in these transactions derives from the fact that the stated amount of the transaction does not necessarily reflect its credit risk. Such risk is measured according to the maximum amount of the loss that the Bank might sustain if the other party to the transaction will not honor its terms, net of amounts subject to enforceable set-off agreements.
    The credit risk in the course of the engagement period is estimated at the amount of departing from the transaction with the addition of the future potential exposure as determined in Proper Conduct of Banking Business Directive No. 313 regarding the computation of the limitation on borrower indebtedness. The Bank's policy as regards the collateral required in respect of customer derivative financial instrument transactions resembles the policy regarding other credit granted, excluding customers' Ma'of activity. The collateral comprises various types. The Bank may also grant to customers' credit facilities without collateral, as the case may be.
    c. Market liquidity risk derives from the fact that it might not be possible to rapidly contain the exposure involved, mainly in markets of low level trading.
2. Where a derivative instrument is not intended as a qualified hedging, it is stated according to its fair value, and changes in fair value being taken currently to the income statement. Some of these derivatives are intended and qualified as fair value hedging and cash flow hedging, some are purchased and written as part of the Bank's asset and liability management (ALM) and the balance of which if defined as other derivatives.
3. It is possible for the Bank to enter an agreement that in itself does not constitute a derivative instrument but which contains an embedded derivative. In respect of each contract the Bank evaluates whether the economic characteristics of the embedded derivative are not clearly and closely connected to those of the hosting agreement, and examines whether an independent instrument with the same terms of the embedded instrument would have agreed with the definition of a derivative instrument. When it is determined that the embedded derivative has economic characteristics that are not clearly and closely connected to the economic characteristics of the host contract, and also that a separate instrument having the same terms would have been qualified as a derivative instrument, the embedded derivative is separated from the hosting agreement, treated as a derivative in its own right and stated in the balance sheet together with the hosting agreement at its fair value, changes in its fair value being taken currently to the income statement. Where the Bank is unable to reliably identify and measure an embedded derivative for the purpose of its separation from the hosting agreement, the agreement as a whole is stated in the balance sheet at fair value.
4. The Bank maintains a written documentation of all hedging relations between hedging instruments and the items hedged, as well as the object and strategy of risk management by way of creating the various hedging transactions.
    The documentation includes the specific identification of the asset, liability, the firm commitment or the anticipated transaction, which were determined as the hedged item, and the manner in which the hedging instrument is expected to hedge against risks involved in the hedged item. The Bank assesses the effectiveness of hedging relations both at the beginning of the transaction and on a continuing basis, in accordance with its risk management policy.
5. The Bank discontinues its hedging accounting from the following points onward when:
    a. It has been determined that the derivative is no longer effective, setting off the changes in fair value or the cash flows of the hedged item;
    b. The derivative expires, sold, cancelled or realized;
    c. The designation of the derivative as a hedging derivative is discontinued, due to the probability of the execution of the transaction being remote;
    d. A firm hedging commitment no longer complies with the definition of a firm commitment;

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

e. Management cancels the designation of the derivative as a hedging derivative.

When hedging accounting is discontinued due to the fact that a derivative is no longer qualified as an effective fair value hedge, the derivative will continue to be stated in the balance sheet at its fair value, however the hedged asset or liability will no longer be adjusted for changes in fair value.

When hedging accounting is discontinued due to the fact that the hedged item no longer qualifies as a firm commitment, the derivative will continue to be stated in the balance sheet at fair value and every asset or liability which previously were stated based on the recognition as a firm commitment shall be removed from the balance sheet and recognized as income or loss in the income statement for the reported period.

6. Fair value hedging

Certain derivatives are being designated by the Bank as hedging fair value. The changes in the fair value of derivatives hedging against exposure to changes in fair value of an asset or liability, are currently recognized in the income statement, as well as the changes in the fair value of the hedged item, that could be related to the risk being hedged.

7. Cash flow hedge

The subsidiary IDB New York designates certain derivatives as hedge for cash flow. The accounting treatment of the change in the fair value of derivatives that hedge exposure to the change in the cash flow produced by an asset, liability or an anticipated transaction is dependent on the effectiveness of hedge ratios.

- The effective part of the change in the fair value of a derivative, designated as a cash flow hedge, is reported in the first place in equity, as a component of other comprehensive income, and then, when the anticipated transaction affects the statement of income, it is classified to the statement of income.
- The non-effective part of the change in the fair value of the derivative designated as above is immediately recognized in the statement of income.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	December 31, 2014					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[1]						
Swaps	-	2,129	-	-	-	2,129
Total	**-**	**2,129**	**-**	**-**	**-**	**2,129**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,129				
B. ALM derivatives[1][2]						
Futures contracts	-	7,452	-	-	-	7,452
Forward contracts	5,315	200	13,563	-	-	19,078
Marketable option contracts						
Options written	-	-	2,155	-	-	2,155
Options purchased	-	68	2,150	-	-	2,218
Other option contracts						
Options written	-	2,850	10,997	-	-	13,847
Options purchased	-	600	10,102	[3]-	-	10,702
Swaps	30	75,051	61,079	-	-	136,160
Total	**5,345**	**86,221**	**100,046**	**-**	**-**	**191,612**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	30	43,208				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	25	25
Forward contracts	-	-	6,143	-	-	6,143
Marketable option contracts						
Options written	-	-	18	7,324	5	7,347
Options purchased	-	-	18	7,324	5	7,347
Other option contracts						
Options written	-	157	760	406	86	1,409
Options purchased	-	161	755	415	88	1,419
Swaps	-	5,737	515	-	-	6,252
Total	**-**	**6,055**	**8,209**	**15,469**	**209**	**29,942**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,869				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,942			

Footnotes:
(1) Excluding credit derivatives and SPOT foreign currency swap contracts.
(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.
(3) An amount lower than NIS 1 million.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

1. Par value of derivative instruments (continued)

	December 31, 2013					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives[1]						
Swaps	-	1,869	-	-	-	1,869
Total	**-**	**1,869**	**-**	**-**	**-**	**1,869**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,869				
B. ALM derivatives[1][2]						
Futures contracts	-	1,041	-	-	-	1,041
Forward contracts	6,648	11,582	14,921	-	-	33,151
Marketable option contracts						
Options written	-	-	1,098	-	-	1,098
Options purchased	-	-	1,101	-	-	1,101
Other option contracts						
Options written	-	300	8,702	-	-	9,002
Options purchased	-	200	8,646	[3]-	-	8,846
Swaps	-	75,336	53,772	-	-	129,108
Total	**6,648**	**88,459**	**88,240**	**-**	**-**	**183,347**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	38,143				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	-	-
Forward contracts	-	-	1,483	-	6	1,489
Marketable option contracts						
Options written	-	-	27	13,914	13	13,954
Options purchased	-	-	27	13,914	13	13,954
Other option contracts						
Options written	-	89	279	353	153	874
Options purchased	-	92	277	356	154	879
Swaps	-	5,023	-	-	-	5,023
Total	**-**	**5,204**	**2,093**	**28,537**	**339**	**36,173**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,512				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,078			

Footnotes:

(1) Excluding credit derivatives and SPOT foreign currency swap contracts.

(2) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(3) An amount lower than NIS 1 million.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	December 31, 2014					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives						
Positive gross fair value	-	11	-	-	-	11
Negative gross fair value	-	67	-	-	-	67
B. ALM derivatives[1]						
Positive gross fair value	94	1,972	2,218	[4]-	-	4,284
Negative gross fair value	113	2,309	1,729	-	-	4,151
C. Other derivatives						
Positive gross fair value	-	48	167	113	[4]-	328
Negative gross fair value	-	48	133	111	[4]-	292
D. Total						
Positive gross fair value[2]	94	2,031	2,385	113	-	4,623
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**94**	**2,031**	**2,385**	**113**	**-**	**4,623**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	[4]-	43	83	[4]-	126
Negative gross fair value [3]	113	2,424	1,862	111	-	4,510
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**113**	**2,424**	**1,862**	**111**	**-**	**4,510**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	[4]-	77	82	[4]-	159

For footnotes see next page.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	December 31, 2013					
	Interest rate contracts					
	Shekel/CPI	Other	Foreign currency contracts	Contracts on shares	Commodities and other contracts	Total
	in NIS millions					
A. Hedging derivatives						
Positive gross fair value	-	52	-	-	-	52
Negative gross fair value	-	32	-	-	-	32
B. ALM derivatives[1]						
Positive gross fair value	10	2,341	1,259	-	-	3,610
Negative gross fair value	62	2,630	1,712	-	-	4,404
C. Other derivatives						
Positive gross fair value	-	37	16	414	2	469
Negative gross fair value	-	36	26	413	2	477
D. Total						
Positive gross fair value[2]	10	2,430	1,275	414	2	4,131
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**10**	**2,430**	**1,275**	**414**	**2**	**4,131**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[4]-	[4]-	[5]43	402	1	446
Negative gross fair value [3]	62	2,698	1,738	413	2	4,913
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**62**	**2,698**	**1,738**	**413**	**2**	**4,913**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	[4]-	1	103	397	[5]1	502

Footnotes:

(1) Derivatives comprising a part of the Bank's asset and liability management system, which were not designated for hedging relations.

(2) Of which: NIS 27 million (December 31, 2013: NIS 51 million) positive gross fair value of assets stemming from embedded derivative instruments.

(3) Of which: NIS 35 million (December 31, 2013: NIS 15 million) negative gross fair value of liabilities stemming from embedded derivative instruments.

(4) An amount lower than NIS 1 million.

(5) Reclassified – following improvement of the data.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. Derivative instrument credit risk based on the counterparty to the contract on a consolidated basis

	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	December 31, 2014					
Balance sheet balance of assets in respect of derivative instruments(2)	26	3,408	34	-	1,155	4,623
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,562)	(12)	-	(430)	(3,005)
Credit risk mitigation in respect of cash collateral received	-	(650)	-	-	(28)	(678)
Net amount of assets in respect of derivative instruments	**25**	**196**	**22**	**-**	**697**	**940**
Off-balance sheet credit risk in respect of derivative instruments(1)(4)	-	239	24	18	365	646
Total credit risk in respect of derivative instruments	**25**	**435**	**46**	**18**	**1,062**	**1,586**
Balance sheet balance of liabilities in respect of derivative instruments(3)	32	3,562	57	2	857	4,510
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,562)	(12)	-	(430)	(3,005)
Pledged cash collateral	-	(826)	(8)	(2)	-	(836)
Net amount of liabilities in respect of derivative instruments	**31**	**174**	**37**	**-**	**427**	**669**
	December 31, 2013					
Balance sheet balance of assets in respect of derivative instruments(2)	189	2,857	8	41	1,036	4,131
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,629)	(2)	-	(444)	(3,076)
Credit risk mitigation in respect of cash collateral received	-	(55)	-	(13)	-	(68)
Net amount of assets in respect of derivative instruments	**188**	**173**	**6**	**28**	**592**	**987**
Off-balance sheet credit risk in respect of derivative instruments(1)(4)	-	333	28	97	919	1,377
Total credit risk in respect of derivative instruments	**188**	**506**	**34**	**125**	**1,511**	**2,364**
Balance sheet balance of liabilities in respect of derivative instruments(3)	213	3,793	11	-	896	4,913
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,629)	(2)	-	(444)	(3,076)
Pledged cash collateral	-	(845)	(5)	-	-	(850)
Net amount of liabilities in respect of derivative instruments	**212**	**319**	**4**	**-**	**452**	**987**

Footnotes:

(1) The difference, if positive, between the total amount in respect of derivative instruments (including derivative instruments with a negative fair value) included in the borrower's indebtedness, as computed for the purpose of limitation on the indebtedness of a borrower, before credit risk mitigation, and the balance sheet amount of assets in respect of derivative instruments of the borrower.

(2) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,596 million included in the item assets in respect of derivative instruments (December 31, 2013: NIS 4,080 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 4,475 million included in the item liabilities in respect of derivative instruments (December 31, 2013: NIS 4,898 million).

(4) As from January 1,2014, an amendment to the instructions is being implemented, according to which the "Add-on" factor is reduced in order to modify in to Proper Conduct of Banking Business Directive No.203, and is no longer multiplied by three' as was the practice until then.

20. DERIVATIVE INSTRUMENT ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

C. Due dates - par value - consolidated year and balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	December 31, 2014				
Interest rate contracts					
Shekel/CPI	461	2,424	1,879	581	5,345
Other	8,903	20,742	45,914	18,846	94,405
Foreign currency contracts	62,600	38,917	6,266	3,414	111,197
Contracts on shares	14,463	282	724	-	15,469
Commodities and other contracts	99	76	34	-	209
Total	**86,526**	**62,441**	**54,817**	**22,841**	**226,625**
	December 31, 2013				
Interest rate contracts					
Shekel/CPI	1,897	2,454	1,995	302	6,648
Other	9,435	20,439	43,646	22,012	95,532
Foreign currency contracts	56,517	27,923	4,019	3,952	92,411
Contracts on shares	27,868	225	444	-	28,537
Commodities and other contracts	43	160	136	-	339
Total	**95,760**	**51,201**	**50,240**	**26,266**	**223,467**

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

A. General

The instruction of the Bank of Israel regarding the determination of the fair value of financial instruments (the “instruction"), was applied based on the methods and principal assumptions described hereunder. Nothing in the data presented hereunder should be taken as an indication of the Bank's economic value, nor does the data purport to assess such value.

B. Fair value of financial instruments

Most of the Bank's financial instruments do not have a ready "market price" because there is no active market in which they are traded. Therefore, in accordance with the instruction, fair value is based on accepted pricing models, such as the present value of future cash flows discounted at a rate which reflects the estimated risk level related to the financial instrument.

Assessing the fair value by discounting future cash flows and determining the discount rate, is subjective. Therefore, the data for most of the financial instruments given hereunder, does not serve as an indication for the realization value of the financial instrument on the reporting date. Discounting the future cash flows was made, where possible, by discount rates in effect at the reporting date, without taking into consideration fluctuations in interest rates. Using different discount rates assumptions, may result in significantly different fair value amounts. This relates particularly to financial instruments bearing a fixed interest rate or non-interest bearing.

Additionally, in arriving at the fair value amounts, no consideration was given to commissions receivable or payable as part of the business activity and the effect of the non-controlling interests and the tax effect were not included.

It should be further noted, that the differential between the book value of the financial instrument and its fair value, may never be realized, as the Bank usually holds the financial instrument to maturity. In consequence of the above, it should be stressed that the data included in this Note, is no indication of the Bank's value as a going concern.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

Furthermore, due to the wide range of valuation techniques and possible assessments used in determining the fair value, and in view of the methods and assumptions used in applying the instruction, care should be taken when examining the fair value data itself as well as when comparing it with the fair value data presented by other banks.

C. Methods and main assumptions used in estimating the fair value of financial instruments

Bank deposits, non-marketable bonds and loan notes and credit to the Government - discounting future cash flows at rates at which the Bank transacted business at the reporting date.

Marketable securities - market value for securities traded on an active market, or quotations of international providers of prices for securities traded on an inactive market.

Credit to the public, net - Fair value of the balance of credit to the public was determined at the present value of future cash flows using an appropriate discount rate. The present value is measured in respect of the future cash inflows (net of the effect of accounting write-offs and allowances for credit losses) separately for each loan, at a rate of interest reflecting the risk level inherent in the credit.

Determination of the risk level has, to the extent possible, been made, on the basis of a grading model used at present by the Bank, which reviews the level of risk inherent in the debt in accordance with financial and other indices. It should be noted that as of December 31, 2014, the Bank has classified some 95% of the indebtedness which has to be classified according to the directives of the Supervisor of Banks (December 31, 2013: 98%). The discounting interest rates have, generally, been determined according to the interest rates used in similar transactions made by the bank as of the date of the report.

In certain cases, where grading data is not available, the segmentation is made on the basis of an overall evaluation of the risk level relating to the business sectors in which the borrowers operate. In this respect, it should be noted that the general risk level, as evaluated for a particular business sector, is not necessarily identical to the risk level of a particular borrower operating in that sector, none the less, to the risk level relating to the credit which the Bank grants to that borrower.

The fair value of impaired debts was computed using discount interest rates reflecting the high credit risk inherent therein. In any case, these discounting rates were not lower than the highest interest rate used by the Bank in its transactions as of the date of the report.

Increasing the discount interest rate by 1 basis point would have reduced the fair value of the problematic debts by NIS 20 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the problematic debts by NIS 1 million (compared to NIS 24 million and NIS 1 million, respectively, as of December 31, 2013).

Cash flows in respect of mortgages have been evaluated on the basis of an early repayment forecast based on a statistical model. Discounting the said cash flows in accordance with expected repayment dates instead of the contractual repayment dates, reduced the fair value of the mortgages, particularly in the CPI linked segment, by NIS 158 million (compared to NIS 112 million at December 31, 2013). The average period to maturity of assets in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2014 3.67 years, compared to 3.26 years, taking into consideration the forecast for early redemptions.

Deposits, bonds and subordinated capital notes - Capitalizing future cash flows at a rate at which the Bank pays interest on similar deposits, or on the issue of similar bond and subordinated capital notes at the reporting date, Based on parameters, such as: the size of the deposit, the period of the deposit, type of linkage.

Marketable subordinate capital notes are stated at market value.

Cash flows in respect of deposits were evaluated on the basis of an early withdrawal forecast based on a statistical model. Discounting the said cash flows in accordance with expected withdrawal dates instead of the contractual withdrawal dates, decreased the fair value of the deposits, particularly savings deposits in the CPI linked segment, by NIS 44 million (compared to a decrease of NIS 24 million at December 31, 2013). The average period to maturity of liabilities in the CPI-linked segment, based on the original cash flow, which does not take into consideration early redemptions, reached on December 31, 2014 to 3.45 years, compared to 3.24 years, taking into consideration the forecast for early redemption.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments (except for derivatives and marketable financial instruments) for an initial period of up to three months and at a variable market interest rate - Some of the subsidiaries assume that the balance stated in the balance sheet reflects fair value.

Derivative financial instruments - Such financial instruments, which have an active market, were evaluated at their market value, and where several such markets exist, the evaluation was made in accordance with the most active market.

Derivative financial instruments which are not traded on an active market were evaluated according to models in use by the Bank in its current operations and which take into account the risks involved in the financial instrument: market, credit and other risks.

Off balance sheet financial instruments which involve credit risk - The fair value is presented according to the outstanding balance of commissions on the said transactions, which approximate fair value. The fair value of irrevocable commitments to grant credit, which were approved but not yet executed, does not differ materially from the value of these commitments, as they are presented in Note 19 A.

D. Composition - consolidated(3)

	December 31, 2014				
	Book	Fair value			
	value	Level 1(1)	Level 2(1)	Level 3(1)	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	31,694	10,074	-	21,617	31,691
Securities(2)	37,353	20,986	16,063	775	37,824
Securities borrowed or purchased under resale agreements	466	-	-	466	466
Credit to the public, net	120,123	1,888	3	118,921	120,812
Credit to Governments	1,533	-	-	1,582	1,582
Assets in respect of derivative instruments	4,596	104	3,519	973	4,596
Other financial assets	1,952	9	27	1,916	1,952
Financial assets held for sale(4)	4,876	1,977	2,042	857	4,876
Total financial assets	**(3)202,593**	**35,038**	**21,654**	**147,107**	**203,799**
Financial liabilities					
Deposits from the public	152,903	17,822	101,669	33,887	153,378
Deposits from banks	5,547	11	5,239	307	5,557
Deposits from the Government	872	-	703	185	888
Securities loaned or sold under repurchase agreements	3,984	-	-	4,332	4,332
Subordinated debt notes	10,638	9,315	44	2,943	12,302
Liabilities in respect of derivative instruments	4,475	104	4,075	296	4,475
Other financial liabilities	8,366	233	35	8,098	8,366
Financial liabilities held for sale(4)	4,602	1,238	-	3,366	4,604
Total financial liabilities	**(3)191,387**	**28,723**	**111,765**	**53,414**	**193,902**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	61	-	-	61	61

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 3.

(3) Of which: assets and liabilities in the amount of NIS 53,728 million and NIS 73,731 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 21 E 2 and 21 E 1.

(4) See Note 8A.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

D. Composition - consolidated[3] (continued)

	December 31, 2013				
	Book	Fair value			
	value	Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	25,319	6,088	-	19,270	25,358
Securities[2]	41,325	26,752	14,072	751	41,575
Securities borrowed or purchased under resale agreements	102	-	-	102	102
Credit to the public, net	115,859	2,055	6	114,486	116,547
Credit to Governments	1,835	-	-	1,836	1,836
Assets in respect of derivative instruments	4,080	411	2,881	788	4,080
Other financial assets	1,593	4	51	1,538	1,593
Financial assets held for sale[4]	4,118	(5)1,275	1,935	(5)908	4,118
Total financial assets	**(3)194,231**	**36,585**	**18,945**	**139,679**	**195,209**
Financial liabilities					
Deposits from the public	148,928	14,813	98,918	35,592	149,323
Deposits from banks	4,213	15	3,581	652	4,248
Deposits from the Government	972	1	765	220	986
Securities loaned or sold under repurchase agreements	3,644	-	-	4,026	4,026
Subordinated capital notes	11,664	10,894	153	2,318	13,365
Liabilities in respect of derivative instruments	4,898	411	4,037	450	4,898
Other financial liabilities	7,699	103	15	7,581	7,699
Financial liabilities held for sale[4]	3,887	1,105	-	2,782	3,887
Total financial liabilities	**(3)185,905**	**27,342**	**107,469**	**53,621**	**188,432**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	81	-	-	81	81

Footnotes:

(1) Level 1 - fair value measurements using quoted prices in an active market. Level 2 - fair value measurements using other significant observable inputs. Level 3 - fair value measurements using significant unobservable inputs.

(2) For further details of the stated balance sheet amount and the fair value of securities, see Note 3.

(3) Of which: assets and liabilities in the amount of NIS 51,571 million and NIS 60,066 million, respectively, the stated balance sheet amounts of which are identical to their fair value (instruments stated in the balance sheet at their fair value). For additional information regarding instruments measured at fair value on a recurrent basis and on a non-recurrent basis, see Notes 21 E 2 and 21 E 1.

(4) See Note 8A.

(5) Reclassified, following the classification of certain assets by a subsidiary.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Items measured at fair value - consolidated

1. Items measured at fair value on a recurring basis

	December 31, 2014					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	13,678	959	-	-	14,637	14,637
Of foreign governments	252	1,286	-	-	1,538	1,538
Of Israeli financial institutions	483	63	-	-	546	546
Of foreign financial institutions	-	1,919	-	-	1,919	1,919
Mortgage-backed-securities or Assets -backed-securities	-	7,774	-	-	7,774	7,774
Of others in Israel	594	165	-	-	759	759
Of others abroad	-	109	-	-	109	109
Shares	906	-	-	-	906	906
Total available-for-sale securities	**15,913**	**12,275**	**-**	**-**	**28,188**	**28,188**
Trading Securities						
Of the Israeli Government	1,057	221	-	-	1,278	1,278
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	2	-	-	-	2	2
Of foreign financial institutions	-	5	-	-	5	5
Mortgage-backed-securities or Assets -backed-securities	-	60	-	-	60	60
Of others in Israel	51	-	-	-	51	51
Of others abroad	-	2	-	-	2	2
Shares	11	-	-	-	11	11
Total trading securities	**1,121**	**288**	**-**	**-**	**1,409**	**1,409**
Credit to the public in respect of securities loaned	1,888	3	-	-	1,891	1,891
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	94	-	94	94
Other Interest Rate Contracts	-	1,886	145	-	2,031	2,031
Foreign Exchange Contracts	21	1,603	734	-	2,358	2,358
Shares Contracts	83	30	-	-	113	113
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	104	3,519	973	-	4,596	4,596
Other	-	27	-	-	27	27
Assets in respect of the "Maof" market operations	9	-	-	-	9	9
Total assets	**19,035**	**16,112**	**973**	**-**	**36,120**	**36,120**
Liabilities						
Deposits from the public in respect of securities borrowed	1,137	25	-	-	1,162	1,162
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	113	-	113	113
Other Interest Rate Contracts	-	2,421	-	-	2,421	2,421
Foreign Exchange Contracts	21	1,654	183	-	1,858	1,858
Shares Contracts	83	-	-	-	83	83
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	104	4,075	296	-	4,475	4,475
Other	-	35	-	-	35	35
Commitments in respect of the "Maof" market operations	9	-	-	-	9	9
Short sales of securities	224	-	-	-	224	224
Total liabilities	**1,474**	**4,135**	**296**	**-**	**5,905**	**5,905**

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Items measured at fair value - consolidated

1. Items measured at fair value on a recurring basis (continued)

	December 31, 2013					
	Fair value measurements using -					
	Quoted prices in an active market (level 1)	Other significant observable inputs (level 2)	Significant unobservable inputs (level 3)	Influence of deduction agreements	Total fair value	Balance sheet balance
	In NIS millions					
Assets						
Available for sale securities						
Of the Israeli Government	19,119	813	-	-	19,932	19,932
Of foreign governments	172	159	-	-	331	331
Of Israeli financial institutions	570	58	-	-	628	628
Of foreign financial institutions	-	2,748	-	-	2,748	2,748
Mortgage-backed-securities or Assets -backed-securities	-	6,724	-	-	6,724	6,724
Of others in Israel	558	135	-	-	693	693
Of others abroad	-	52	-	-	52	52
Shares	101	-	-	-	101	101
Total available-for-sale securities	**20,520**	**10,689**	**-**	**-**	**31,209**	**31,209**
Trading Securities						
Of the Israeli Government	2,019	-	-	-	2,019	2,019
Of foreign governments	-	4	-	-	4	4
Of Israeli financial institutions	2	-	-	-	2	2
Of foreign financial institutions	-	9	-	-	9	9
Mortgage-backed-securities or Assets -backed-securities	-	50	-	-	50	50
Of others in Israel	89	-	-	-	89	89
Of others abroad	3	2	-	-	5	5
Shares	12	1	-	-	13	13
Total trading securities	**2,125**	**66**	**-**	**-**	**2,191**	**2,191**
Credit to the public in respect of securities loaned	2,055	6	-	-	2,061	2,061
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	10	-	10	10
Other Interest Rate Contracts	-	2,319	111	-	2,430	2,430
Foreign Exchange Contracts	9	548	667	-	1,224	1,224
Shares Contracts	402	12	-	-	414	414
Commodity and other Contracts	-	2	-	-	2	2
Total assets in respect of derivative instruments	411	2,881	788	-	4,080	4,080
Other	-	51	-	-	51	51
Assets in respect of the "Maof" market operations	4	-	-	-	4	4
Total assets	**25,115**	**13,693**	**788**	**-**	**39,596**	**39,596**
Liabilities						
Deposits from the public in respect of securities borrowed	1,213	9	-	-	1,222	1,222
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	62	-	62	62
Other Interest Rate Contracts	-	2,696	-	-	2,696	2,696
Foreign Exchange Contracts	9	1,339	388	-	1,736	1,736
Shares Contracts	402	1	-	-	403	403
Commodity and other Contracts	-	1	-	-	1	1
Total liabilities in respect of derivative instruments	411	4,037	450	-	4,898	4,898
Other	-	15	-	-	15	15
Commitments in respect of the "Maof" market operations	4	-	-	-	4	4
Short sales of securities	99	-	-	-	99	99
Total liabilities	**1,727**	**4,061**	**450**	**-**	**6,238**	**6,238**

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Items measured at fair value - consolidated

2. Items measured according to fair value not on a recurring basis

	December 31, 2014				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2014
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	1,478	1,478	(116)
Other	-	-	13	13	2

	December 31, 2013				
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the year ended December 31, 2013
	In NIS millions				
Impaired credit the collection of which is collateral dependent	-	-	(1)1,761	1,761	(284)
Other	-	3	13	16	(3)

Note:
(1) Reclassified - change in the contents of collateral-dependent credit presented in the framework of the item.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

F. Changes in items measured at fair value on a recurring basis included in item 3 - consolidated

1. For 2014:

	Fair value as at December 31, 2013	Total realized and unrealized gains (losses) included in the statement of income	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at December 31, 2014	Non realized gains (losses) in respect of held instruments as at December 31, 2014
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	(52)	(1)50	-	-	(17)	-	-	(19)	(1)29
Other Interest Rate Contracts	111	(1)134	-	-	(99)	(1)	(2)-	145	(1)134
Foreign Exchange Contracts	279	(1)358	2	(121)	42	(7)	(2)	551	(1)484
Total	**338**	**542**	**2**	**(121)**	**(74)**	**(8)**	**(2)**	**677**	**647**

2. For 2013:

	Fair value as at December 31, 2012	Total realized and unrealized gains (losses) included in the statement of income	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at December 31, 2013	Unrealized gains (losses) in respect of held instruments as at December 31, 2013
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	(64)	(1)(7)	-	-	19	-	-	(52)	(1)1
Other Interest Rate Contracts	80	(1)63	-	-	(15)	(23)	6	111	(1)98
Foreign Exchange Contracts	(199)	(1)371	2	(110)	216	(1)	-	279	(1)313
Total	**(183)**	**427**	**2**	**(110)**	**220**	**(24)**	**6**	**338**	**412**

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income"
(2) An amount lower than NIS 1 million

G. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in 2013 and 2014, due to a clarification of the Supervisor of Banks, according to which, derivative instruments, the credit risk thereof is determined on the basis of unobservable inputs, shall be included in level 3.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

H. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3

1. Quantitative information regarding the measurement of fair value at level 3

	Fair value as at December 31, 2014	Valuation Techniques	Unobservable inputs	Range (Weighted Average)		
	In NIS millions			In %		
A. Items measured at fair value not on a recurring basis						
Impaired credit the collection of which is collateral dependent	1,478	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs			
Other	13	Valuation by an expert assessor	Company value			
B. Items measured at fair value on a recurring basis						
Net Assets in respect of derivative instruments						
Other Interest Rate Contracts	145	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00%	to 9.52%	(0.30%)
Foreign Exchange Contracts	551	Discounted cash flow	One year period inflation expectations	From -1.59%	to 3.00%	(0.24%)
		Discounted cash flow, Models for the pricing of options	Counterparty credit risk (CVA)	From 0.00%	to 17.40%	(1.46%)
Net Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	19	Discounted cash flow	One year period inflation expectations	From -1.75%	to 3.00%	(0.27%)
			Counterparty credit risk (CVA)	From 0.00%	to 7.90%	(2.12%)

	Fair value as at December 31, 2013	Valuation Techniques	Unobservable inputs	Range (Weighted Average)		
	In NIS millions			In %		
A. Items measured at fair value not on a recurring basis						
Impaired credit the collection of which is collateral dependent	[(1)] 1,761	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs			
Other	13	Assessments and evaluation, valuation by an expert assessor	Real estate market inputs, company value			
B. Items measured at fair value on a recurring basis						
Net Assets in respect of derivative instruments						
Other Interest Rate Contracts	111	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00%	to 3.22%	(0.04%)
Foreign Exchange Contracts	279	Discounted cash flow	One year period inflation expectations	From -0.09%	to 1.95%	(1.54%)
		Counterparty credit risk (CVA)	Counterparty credit risk (CVA)	From 0.00%	to 18.25%	(1.26%)
Net Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	52	Discounted cash flow	One year period inflation expectations	From 0.07%	to 1.95%	(1.41%)
			Counterparty credit risk (CVA)	From 0.00%	to 9.27%	(0.79%)

Footnote:
(1) Reclassified - change in the contents of collateral dependent credit presented in the framework of the item.

21. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

2. Qualitative information regarding the measurement of fair value at level 3

Significant unobservable inputs, which were used to measure the fair value of derivative financial instruments, are expectations of inflation up to one year, and adjustments regarding counterparty credit risk (CVA).

As the inflation forecasts rise (fall) and the Bank commits to pay the index-linked amount, so the fair value falls (rises). As the inflation forecasts rise (fall) and the counterparty to the transaction is obligated to pay the Bank the index-linked amount, so the fair value rises (falls).

The counterparty credit risk coefficient (CVA) expresses the probability of credit default of the counterparty to the transaction. A rise in the default probability reduces the fair value of the transaction, and vice versa.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES

A. Balances

	December 31, 2014											
	Interested parties[1]										Related parties held by the Bank[1]	
	Controlling Shareholders[2]		Other shareholders[3]		Key management personnel[4]		Others[5]		whoever was an interested party at date of the transaction		Affiliated companies[6]	
	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)	(7)	(8)
	in NIS millions											
Assets:												
Deposits with banks	-	-	-	-	-	-	-	-	-	-	-	62
Credit to the public	-	-	-	-	1	1	70	200	277	283	284	349
Provision for credit losses	-	-	-	-	-	-	(9)	(14)	-	-	(2)	(4)
Credit to the public, net	-	-	-	-	1	1	61	186	277	283	282	345
Investments in affiliated companies[9]	-	-	-	-	-	-	-	-	-	-	142	1,635
Other assets	-	-	-	-	-	-	-	2	-	5	60	82
Liabilities:									-	-		
Deposits from the public	-	-	-	-	8	8	1	17	-	-	51	780
Deposits from banks	-	-	-	-	-	-	-	-	-	-	-	408
Subordinated debt notes	-	-	-	-	-	-	-	-	-	-	-	3
Other liabilities	-	-	-	-	24	25	9	45	-	-	15	26
Shares (included in equity)[10]	-	-	-	-	*-	*-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[11]	-	-	-	-	4	4	5	9	-	-	88	89

* An amount lower than NIS 1 million.
For notes to the tables see after item D.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

A. Balances (continued)

	December 31, 2013											
	Interested parties[1]										Related parties held by the Bank[1]	
	Controlling Shareholders[2]		Other shareholders[3]		Key management personnel[4]		Others[5]		whoever was an interested party at date of the transaction		Affiliated companies[6]	
	[7]	[8]	[7]	[8]	[7]	[8]	[7]	[8]	[7]	[8]	[7]	[8]
	in NIS millions											
Assets:												
Deposits with banks	-	-	-	-	-	-	-	-	-	-	97	122
Credit to the public	-	-	-	-	1	2	390	455	**-	**-	330	377
Provision for credit losses	-	-	-	-	-	-	(16)	(17)	-	-	(3)	(3)
Credit to the public, net	-	-	-	-	1	2	374	438	**-	**-	327	374
Investments in affiliated companies[9]	-	-	-	-	-	-	-	-	-	-	1,668	1,822
Other assets	-	-	-	-	-	-	-	11	-	-	23	38
Liabilities:												
Deposits from the public	-	-	485	485	4	4	115	2,053	-	-	68	226
Deposits from banks	-	-	-	-	-	-	-	-	-	-	138	562
Subordinated debt notes	-	-	-	-	-	-	75	93	-	-	6	7
Other liabilities	-	-	-	-	38	38	232	241	-	-	25	57
Shares (included in equity)[10]	-	-	3,539	3,539	**-	**-	-	-	-	-	-	-
Credit risk in off-balance sheet financial instruments[11]	-	-	4	4	3	3	5	13	-	-	53	62

* In addition, a former controlling shareholder gave a personal guarantee in the amount of NIS 1 million for credit received by a third party .

** Amount lower than NIS 1 million.

For notes to the tables see after item D.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

B. Summarized results of transactions with related and interested parties

	Interested parties[1]				Related parties held by the Bank[1]
	Controlling Shareholders[2]	Other shareholders[3]	Key management personnel [4]	Others[5]	Affiliated companies[6]
	in NIS millions				
	For the year ended December 31, 2014				
Interest income, net*	-	-	-	18	(2)
credit loss expenses	-	-	-	6	5
Non-interest income	-	-	-	-	50
Operating and other expenses**	-	-	(39)	-	(47)
Total	**-**	**-**	**(39)**	**24**	**6**
	For the year ended December 31, 2013				
Interest income, net*	-	(11)	-	8	1
credit loss expenses	-	-	-	(5)	2
Non-interest income	-	-	-	(12)	(54)
Operating and other expenses**	-	-	52	-	(39)
Total	**-**	**(11)**	**52**	**(9)**	**(90)**
	For the year ended December 31, 2012				
Interest income, net*	-	-	-	13	[12](3)
credit loss expenses	-	-	-	(9)	-
Non-interest income	-	-	-	(12)	(50)
Operating and other expenses**	-	-	(42)	-	[13](48)
Total	**-**		**(42)**	**(8)**	**(101)**

* See item D.

** See item C.

C. Remuneration and any other benefit to interested parties (from the banking corporation and from investee companies)

	For the year ended December 31					
	2014		2013		2012	
	Key management personnel[4]		Key management personnel[4]		Key management personnel[4]	
	Total benefits*	Number of benefit Recipients	Total benefits**	Number of benefit Recipients	Total benefits***	Number of benefit Recipients
	in NIS millions					
Interested parties employed by the Bank or on its behalf	34	22	46	19	38	17
Directors who are not employed by the Bank or on its behalf	5	16	6	11	4	14
Total	**39**	**38**	**52**	**30**	**42**	**31**

* Of which short-term employee benefits: NIS 29 million, post employment benefits NIS 4 million, other long-term benefits NIS 1 million, benefits in respect of dismissal 2 million, share based payments NIS 2 million reduction of expense.

** Of which short-term employee benefits: NIS 40 million, post employment benefits NIS 2 million, other long-term benefits NIS 5 million, benefits in respect of dismissal 2 million, share based payments NIS 3 million reduction of expense.

*** Of which short-term employee benefits: NIS 29 million, post employment benefits NIS 2 million, benefits in respect of dismissal 5 million, share based payments NIS 2 million.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

D. Interest income, net, in transactions of the Bank and its consolidated subsidiaries with related and interested parties*

	Consolidated			Of which from Affiliated Companies		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
A. On assets						
Credit to the public	23	27	18	5	11	5
Total	**23**	**27**	**18**	**5**	**11**	**5**
B. On liabilities						
Deposits from the public	(1)	(12)(24)	(12)(1)	(1)	(6)	(12)(1)
Deposits from the banks	(6)	(4)	(7)	(6)	(4)	(7)
Subordinated capital notes	-	(1)	-	-	-	-
Total	**(7)**	**(29)**	**(8)**	**(7)**	**(10)**	**(8)**
Total Interest income, net	**16**	**(2)**	**10**	**(2)**	**1**	**(3)**

* In respect of transactions made on the same terms that would have been made with a person that is not a related or interested party.

Footnotes: relating to Note 22 A,B,C & D:

(1) Interested party - as defined in item 80 d of the public Reporting Directives.
Related party - as defined in International Accounting standard No. 24 Disclosure regarding a related party who is not an interested party.

(2) Controlling shareholder – as defined in the Securities Law.

(3) Other shareholders or whoever is entitled to appoint one director or more of the directors or the president & CEO.

(4) Key management personnel - in accordance with item 80 d (4) of the public Reporting Directives.

(5) in accordance with item 80 d (5) of the public Reporting Directives.

(6) Affiliated Companies- in accordance with item 80 d (8) of the public Reporting Directives.

(7) The balance at balance sheet date.

(8) The highest balance during the year on the basis of month-end balances.

(9) Details of these items are included also in Investments in Investee Companies - Note 6.

(10) Holdings of interested parties and of related parties in the equity of the banking corporation.

(11) Credit risks in off-balance sheet financial instruments as computed for restrictions on the indebtedness of borrowers.

(12) Following the "raising of curtain", within the framework of which, assets and liabilities of third parties, held by a trust company being a related party, have been attributed to those third parties, the assets, liabilities and business results in respect thereof have been eliminated.

(13) Following improvement of data in a consolidated company.

E. (1) On January 31, 2006, the transaction signed on February 1, 2005 entered into by M.I. Holdings Ltd. and the Government of Israel (hereinafter: "the Government") on the one hand, and a corporation controlled by the Bronfman Family and others and a corporation controlled by Mr. Rubin Schron (hereinafter together: "the Buyers") on the other hand, for the sale of a core controlling interest in the Bank. Following the transaction closure, as above, control of the Bank has passed to the Bronfman-Schron Group. The Bronfman-Schron group was in control of the Bank until December 3, 2013, (see below).

The permit issued to the Buyers by the Governor of the Bank of Israel to jointly hold the control and means of control in the Bank, determined, among other things that members of the Group, their relatives or corporations under the control of any of them, are not to receive management fees or any consideration or other benefit from the Bank or from corporations under the control of the Bank; however, they are permitted to provide services normally provided by suppliers of such services and at market price, as long as a written notice has been given beforehand to the Supervisor as to the type of service and the consideration, at least 14 business days prior to providing the service; in an event that the Supervisor informs that a service is not of the type provided ordinarily to others, or that the consideration for it is not reasonable, such service shall not be given.

The provisions of this Section did not apply to Directors' remuneration payable to all Directors of the Bank in equal amounts.

(2) On December 3, 2013, following a sale of shares transaction, the Bronfman-Schron group ceased to be in control of the Bank, and the Bank became a bank with no core controlling interest.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

The Appendix to the permit by the Governor of the Bank of Israel for the holding of means of control (hereinafter : "holding permit"), dated December 1, 2013, states that no transactions whatsoever may be entered into between the holders and the Bank during the transitional period (as defined in the holding permit), unless a specific prior approval in writing is obtained from the Supervisor of Banks. Furthermore, during the transitional period, the holders, their relatives or corporations under the control of any of them shall not receive management fees or any other consideration or benefit from the Bank or from corporations controlled by the Bank, though they may provide services, which are usually provided by the supplier thereof, at market prices, if a prior approval in writing is obtained from the Supervisor of Banks.

(3) On February 9, 2014, the Governor of the Bank of Israel signed the amendment to the holding permit, revised following the passing away of the late Edgar M. Bronfman on December 21, 2013.

(4) On December 31, 2013, the Bronfman group held 10.9% of the means of control in the Bank and Mr. Schron held 7.26% of the means of control in the Bank, and, as stated, they were no longer the controlling shareholders of the Bank. Accordingly, relevant balances have been presented in item "B" above as part of "other shareholders" (December 31, 2012: as part of "Controlling shareholders"). Notwithstanding, whereas the control of the Bank was in the hands of the Bronfman-Schron group during most of 2013, the condensed business results data for 2013, if any, are presented in item "B" above, as part of "Controlling shareholders".

(5) In the course of 2014, Mr. Schron and the Bronfman Group sold additional shares of the Bank, thus ceasing to be interested parties in the Bank.

F. Remuneration for the Chairman of the Board and to the President & CEO

Employment agreement with the Chairman of the Board. The Bank's Chairman of the Board took office on January 3, 2010. Following receipt of the confirmation of the Audit Committee of the Board and following a review of the recommendation of an ad-hoc Committee of the Board in the matter of the remuneration to the Chairman of the Board, the Board of Directors resolved on October 4, 2010, to approve the Bank’s engagement in a personal employment agreement with the Bank's Chairman of the Board. The period of the agreement was five years beginning on January 3, 2010 (hereinafter: "the agreement period"). The Chairman’s Employment agreement was approved by a special General Meeting of Shareholders held on November 10, 2010.

The Chairman of the Board of Directors is engaged in a full-time position and is not entitled to engage in any other fully paid occupation without the prior consent of the Board of Directors. In consideration for executing his duties, the Chairman is entitled to a monthly salary of NIS 150,000, to be updated every three months in accordance with the rise in the CPI as compared with the CPI published in January of 2010.

The Chairman is entitled to an annual award, as detailed in subsection (G) below. The Chairman is also entitled to remuneration of the "phantom" type, derived from the performance of the Bank's shares, as detailed in Note 13 D (1). The agreement states also the duties imposed on the Chairman, among which are a "cooling-off" and non-competition periods of six months and a confidentiality duty.

The Chairman is entitled to paid vacation, sick leave, convalescence pay and a suitable motor vehicle, social benefits (severance pay in accordance with the Law, provident fund, loss of work ability insurance and further education fund) as well as other benefits.

Upon termination of office, the Chairman is entitled, according to the agreement, to severance pay under the Law, this in addition to his entitlement to the funds and rights accumulated in his favor in respect of the provisions for pension to be created by the Bank. In addition, the Chairman is entitled to early notice of six months, during which he will be entitled to remuneration and related benefits in accordance with the agreement and to an adaptation period of six months. However, if the early notice period begins before the end of three years since the beginning of the agreement period, following termination of office initiated by the Bank, or, alternatively, due to the transfer of control of the Bank, then the adaptation period will be nine months. During the adaptation period the Chairman will be entitled to a monthly salary and related benefits in accordance with the engagement agreement. In the event that the agreement period comes to its end and is not extended, the Chairman will be entitled to an early notice period as well as to an adaptation period of six months.

As stated above, the engagement agreement with the Chairman of the Board was about to expire on January 3, 2015. The Bank's annual meeting of shareholders held on October 2, 2014, approved the terms of office and employment of the Chairman of the Board. At this stage, the approved terms of office and employment do not include the variable remuneration components.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

The variable remuneration components for the period beginning January 2015, shall be determined after completion by the Bank of the strategic plan processes and the targets and work plans established in terms thereof, and accordingly, the award plan derived there from, which would then be brought for approval of the authorized organs at the Bank, in accordance with the Bank's remuneration policy. The terms of office and employment preserve the fixed remuneration and termination arrangements for the employment of the Chairman, in accordance with the terms of the previous employment agreement, subject to changes resulting from new instructions applying to the Bank and from the Bank's remuneration policy (and with the addition of a thirteenth month salary, similarly to other groups of employees at the Bank).

Employment agreement of the President & CEO. A special meeting of the Bank`s shareholders, held on February 17, 2014, resolved to approve in accordance with the remuneration policy for the Bank`s officers (see Note 16 J), which had been approved by the said meeting, the terms of office and employment of the Bank`s incoming President & CEO, after these had been approved by the Board of Directors and the Remuneration Committee for a period of five years since the date on which the tenure of office begins. During the period of employment the President & CEO will be employed in a fulltime position and shall not be permitted to engage in any other gainful occupation, unless the prior consent of the Board of Directors is obtained.

In consideration for the fulfillment of her duties, the President & CEO will be entitled to a monthly salary of NIS 180,000 (gross), to be updated once in every quarter in accordance with the rise in the CPI as compared with the CPI published in January 2014. In each calendar year during her employment period, the President & CEO will be entitled to an additional monthly salary (13^{th} month salary) in respect of which she will not be entitled to social benefits.

In the award year 2014, the President & CEO will be entitled to a proportionate part of the annual award and of the current award, in respect of the period in which she will officiate in the Bank in this year.

The President & CEO is entitled to paid vacation days (the accumulation of which is limited to fifty days), paid sick leave, recreation pay, a suitable motor vehicle, social benefits (pension arrangement – executives' insurance, compensation fund and/or pension fund, including provident contributions; further education fund; loss of work ability insurance), reimbursement of certain expenses and additional benefits.

The President & CEO is entitled to an annual award, current award and to special awards, as detailed in item H below. The President & CEO is also entitled to a one-off recruitment award in the amount of NIS 500 thousand, which does not entitle her to social benefits in respect thereof.

The total variable remuneration in respect of an award year shall not exceed 100% of the fixed remuneration for that year ("fixed remuneration" and "variable remuneration" – within the meaning of these terms in instructions of the Supervisor of Banks). To the extent that the variable remuneration to which the President & CEO would be entitled in respect of any award year exceeds the said limit, then the total variable remuneration in respect of that year shall be reduced to the permitted limit. The approved terms include exceptions from the said rule, in relation to the one-off recruitment award and to an award in respect of special contribution, if at all approved.

As part of the termination of employer/employee relations, whether initiated by the President & CEO or by the Bank , the President & CEO would be entitled to severance pay, in addition to the current contributions made to her pension arrangement funds in respect of severance compensation during the period of employment, which shall be computed as a multiplication of her last monthly salary by the number of years in office. Furthermore, she would also be entitled to an adaptation award amounting to six monthly salaries with the addition of the social and other benefits related thereto.

The said severance pay and one half of the said adaptation award are considered variable retirement terms, the entitlement to them is conditional upon the average return on capital during the period of office of the President & CEO or in the last four years of her office, whichever is higher, being at the rate of 4% and above. Payment of the variable retirement terms shall be made in four installments. The first installment comprising 70% of the total amount shall be paid soon after the date of termination of employer/employee relations. The balance of the amount shall be paid in three equal annual installments, subject to the absence of material deviations from capital adequacy ratios and from the minimum core capital, as determined in instructions of the Supervisor of Banks.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

G. Awards to the Chairman of the Board and to the former President & CEO

1. Awards in respect of 2011 and thereafter. Beginning with the year 2011, for each calendar year or a part thereof, in which the Chairman of the Board or the former President & CEO, respectively, will be in office, the annual award will be granted in accordance with attainment of indices as detailed below, the targets in respect of which shall be based upon the targets set in the Bank's work plans for the years 2011-2014 as regards the Chairman of the Board (2011-2015 as regards the former President & CEO) and in accordance with principles, the essence of which is stated below. The said annual award to the Chairman of the Board shall be approved in each year, subject to the law, whether by the Audit Committee and the Board of Directors, on condition that predetermined minimum targets in respect of the quantitative indices (see hereunder) shall be approved by the General Meeting of Shareholders, or annually by the General Meeting of Shareholders following approval by the Audit Committee and the Board of Directors.

Ceiling for the annual award. The annual award to the Chairman of the Board shall be limited to an amount not exceeding NIS 2.4 million (gross), linked to the CPI for December 2009. The annual award to the former President & CEO was limited to an amount not exceeding NIS 2.8 million (gross), linked to the CPI for November 2010.

Minimum terms for entitlement. Entitlement in respect of any calendar year shall be conditioned upon the fulfillment in that particular year of all the following cumulative minimum terms:

1) The targeted return on risk assets determined in the work plan for the year of the award (in percentages) net of the actual return on risk assets (as defined in the plan) (hereinafter: "the return differential on risk assets") shall be at a rate lower than 3%;
2) The ratio of total capital adequacy and the core capital ratio of the Bank according to its annual financial statements for that year, shall not fall below the ratio of total capital adequacy and the core capital ratio of the Bank, respectively, as determined in the work plan for that calendar year;
3) The Chairman of the Board and the President & CEO, respectively, have been awarded a grade higher than "1" with respect to the qualitative index.

Installment payments. The payment of the annual award in respect of a particular calendar year shall be made in three installments: an amount of 60% of the annual award will be paid no later than thirty days following the issue of the Bank's financial statements for the year of the award. Two deferred award payments of 20% of the award each will be paid following the issue of the financial statements for each of the two consecutive years to the year of the award (linked to the CPI).

Negative award. In a calendar year, in which the "the return differential on risk assets" is higher than 2%, a "negative award" shall be charged, computed as follows: "the return differential on risk assets" minus 2%, multiplied by 100, multiplied by the "cumulative annual award". In this respect, the "cumulative annual award" shall equal the full annual award computed for that calendar year (100%) with the addition of deferred award payments in respect of prior years that should have been paid in that same calendar year.

The negative award amount shall not exceed in any event in a particular year the amount of the cumulative annual award.

In the event that "the return differential on risk assets" in a particular calendar year will be at the rate of 3% or higher, then no annual award payment shall be made in respect of that calendar year, neither shall be paid the deferred award installments in respect of prior years that should have been paid on date of granting the annual award for that year.

Computation of the annual award. The annual award shall be computed on the basis of three indices based on the Bank's performance (hereinafter: "the quantitative indices") and on an additional qualitative index (hereinafter: "the qualitative index").

In the event that the engagement agreement with the Chairman of the Board or with the President & CEO will be terminated during any calendar year, for whatever reason, a proportionate annual award shall be paid for that year until the end of the prior notice period (no entitlement for an annual award, in whole or in part, shall exist in respect of the adaptation period). All deferred award installments shall be paid on that date even if their payment date is not yet due.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Quantitative indices. For each quantitative index, the Board of Directors shall determine at the beginning of the year a target goal according to which minimum and maximum goals will be computed. Attaining the minimum goal in a particular year will entitle to 50% of the maximum annual award relating to that index. To the extent that the goal attained will be higher than the minimum goal so will the percentage of the maximum award increase in accordance with formulas detailed in the plan.

Attainment of the target goal will entitle the officer to 100% of the maximum annual award relating to that index.

Attaining a goal in excess of the target goal and up to the maximum goal will increase the share of the award relating to that index by up to 112.5% of the proportionate share of the maximum annual award relating to that index, provided that the total annual award shall not exceed the maximum annual award.

Proximate to the beginning of each year the Board of Directors shall determine in the work plan target goals for that year. Their manner of measurement shall be identical to the manner in which they are measured in the work plan.

If after the determination of the indices and/or goals in the work plan (hereinafter: "the original goals"), the Bank’s Board of Directors shall decide to change the goals in the Bank’s work plan, this will not require a change in goals for the purpose of computing the annual award for this year.

Notwithstanding the above, in any year in which goals are changed by the Board of Directors, as stated, due to external circumstances affecting the banking industry in Israel, the Board may decide to reduce or cancel the negative award for that year, if such a negative award applies according to the original goals.

Following are the quantitative indices:

(1) Actual return on risk assets.

(2) Efficiency ratio. This index is computed as the ratio between the total operating and other expenses in a particular calendar year (according to the Bank’s financial statements for that year), and the profit from financing operations before credit loss expenses (allowances for doubtful debts) plus all operating and other income in that year (according to the Bank’s financial statements for that year).

(3) Operating and other income. This index is computed as the total of operating and other income in a particular calendar year according to the Bank’s financial statements for that year.

Qualitative index. At the end of each year, a qualitative evaluation shall be made on the basis of the criteria, the principal items of which are detailed below, and according to a grading of 1 to 3, as follow: "1" - under performance by the qualitative index; "2" - reasonable performance by the qualitative index; "3" - good performance by the qualitative index.

Allotment of grade "1" will deny all (100%) of the annual award; allotment of grade "3" entitles to the full amount of the award which may be granted in respect of the qualitative index. The qualitative index entitles to up to 20% of the maximum annual award. Any grading between "1" and "3" entitles to a proportionate part of the maximum amount which may be granted in respect of the qualitative index to be computed according to a formula determined in the plan.

The qualitative evaluation grading shall be considered as an average of the grades determined by all members of the Bank's Board, marked in a questionnaire to be completed by each of them in accordance with the said grading scale and in accordance with the following criteria, and shall be approved by the Audit Committee and of the Bank’s Board of Directors.

The criteria on the basis of which the said qualitative evaluation grading shall be determined, are the contribution made by the Chairman of the Board to supervision and control in areas concerning corporate governance, directives of the Supervisor of Banks (including directives in the matter of "Basel II"), internal audit and audit reports of Regulators (such as the Bank of Israel and the Israel Securities Authority), operational risks and control of risk levels of the Bank's Group; or the contribution made by the President & CEO in respect of the formation of goals and of leadership, advancement and implementation of processes and their realization in the said areas, respectively.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

2. **Amount of the annual award for 2011.** The Chairman of the Board and the former President & CEO were entitled to an annual award in respect of the year 2011, in total amounts of NIS 1,629 million and NIS 1,889 million, respectively. In accordance with the terms of the plan, amounts of NIS 977 million and NIS 1,133 million, respectively, out of the above award sums was paid in 2012, and the balance was divided respectively, into two deferred amounts the payment of which is made in accordance with the "payment spread" mechanism, and is subject to a "negative award" mechanism, all as detailed above. The entitlement to the award is created by attaining all threshold terms. The amount of the award is determined taking into account the extent of reaching the quantitative indices and the qualitative index.

   The annual awards to the Chairman of the Board and to the former President & CEO were approved by the Audit Committee on March 21 and 26, 2012. The annual award to the Chairman of the Board in respect of 2011 was approved by the Board of Directors on March 28, 2012, and by the General Meeting of the Shareholders on June 12, 2012. The entitlement to the deferred payments, as above, became effective in the years 2012-2013, in view of compliance with the determined threshold terms.

3. **Waiver of the award in respect of 2012.** In July 2012, the Bank's Chairman of the Board, the former President & CEO together with the Bank's members of the Management and the Bank's Internal Auditor (see Note 16 J above) informed of their decision (each electively) to waive the annual award due to them in respect of 2012, if and to the extent that they will be entitled to it. This, in continuation and in line with the savings and efficiency measures adopted by the Bank and in consideration of the existing public mood.

4. **Amount of the annual award for 2013.** The Chairman of the Board and the former President & CEO are entitled to an annual award in respect of the year 2013, in total amounts of approx. NIS 2,160 thousand and NIS 2,888 thousand, respectively (the Board of Directors and the Remuneration Committee have reduced the award to the Chairman of the Board from an amount of NIS 2,552 thousand to NIS 2,160 thousand). The payment to the former President & CEO shall be made in accordance with instructions determined in the plan regarding the termination of his employment agreement (see below). The payment to the Chairman of the Board will be made as follows: An amounts of NIS 1,296 thousand, will be paid in April 2014, subject to approval of the General Meeting of Shareholders, and the balance will be divided respectively, into two deferred amounts the payment of which will be made in accordance with the "payment spread" mechanism, and will be subject to a "negative award" mechanism, all as detailed above. The entitlement to the award is created by attaining all threshold terms. The amount of the award is determined taking into account the extent of reaching the quantitative indices and the qualitative index.

   The annual awards to the Chairman of the Board and to the former President & CEO were approved by the Remuneration Committee on March 4, 2014 and by the Board of Directors on March 13, 2014. In June 2014, the Chairman of the Board announced his waiver of the annual award for the year 2013.

5. **The annual award for 2014.** The Bank's Board of Directors has decided that no award to officers of the Bank shall be paid for the year 2014.

H. **Awards to the President & CEO.** As stated, the President & CEO shall, among other things, be entitled to an annual award, a current award and to special awards, as detailed below:

(1) **Annual award.** During the term of her engagement, the President & CEO shall be entitled to an annual award in respect of each award year, which shall be restricted to a maximum amount of NIS 2.2 million, linked to the CPI in respect of December 2013.

Minimum requirements as regards entitlement to the annual award. Entitlement to the annual award in respect of a particular award year is conditional upon the existence together of all the following minimum terms:

- The rate of return on capital in the award year shall not fall below the higher of 7% or the weighted average rate of return on capital in the award year of the four major banks, less 2%;
- The total capital adequacy ratio and the core capital ratio of the Bank, according to the annual financial statements for the award year, shall not fall below the minimum ratios as determined by instructions of the Supervisor of Banks;
- At least a grade "2" marking in the qualitative index for the award year has been granted to the President & CEO, as detailed below.

Computation of the annual award. The annual award is to be computed on the basis of five indices, having identical weight, which are based upon the Bank`s performance (hereinafter: "the quantitative indices") and upon a qualitative index based upon an evaluation of the functioning of the President & CEO by the Board of Directors (hereinafter : "the qualitative index"). The Remuneration Committee and the Board of Directors are entitled to decide that with respect to a particular award year, the award shall be based solely on the qualitative indices.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Quantitative indices. For each quantitative index, the Remuneration Committee and the Board of Directors determine at the beginning of the year a targeted goal according to which the minimum and maximum goals will be computed. Attaining the minimum goal in a particular award year would entitle the recipient to 30% of the maximum annual award relating to that index. Attaining a goal which exceeds the minimum goal and up to the targeted goal, would increase that part of the award relating to the index in question, up to 100% of the proportional part of the maximum annual award relating to that index. Attaining a goal that exceeds the targeted goal and up to the maximum goal would increase that part of the award relating to the index in question, up to 110% of the proportionate part of the maximum annual award relating to that index, on condition that the total annual award shall not exceed the maximum annual award.

Following are the quantitative indices:

(1) Return on capital – the actual return on capital in the award year. The targeted goal for this index shall be determined by the Remuneration Committee and the Board of Directors, but not less than 7.5%.

(2) Efficiency ratio – shall be computed in accordance with the manner in which the efficiency ratio is measured and reported in the financial statements for the award year, less special profits or losses.

(3) Commissions and other income – shall be computed on the basis of the total income from commissions and other income, less special profits or losses in the award year, as reflected in the financial statements for the award year.

(4) Core capital ratio – computed according to the actual core capital in the award year. The minimum goal shall not fall below the minimum ratio determined by instructions of the Supervisor of Banks.

The award plan determined ranges, in term of percentages, for the minimum and maximum goals in relation to the targeted goal.

Qualitative index. At the end of each award year a qualitative evaluation grade will be determined in respect of the functioning of the President & CEO, on a scale of 1 to 3: grade "1" – short performance in the qualitative index; grade "2" - reasonable performance in the qualitative index; grade "3" – good attainment of the qualitative index.

The granting of grade "3" shall entitle the President & CEO to 100% of the weight of the qualitative index in the maximum annual award. The granting of grade "2" shall entitle the President & CEO to 30% of the weight of the qualitative index in the maximum annual award. Any grade between "2" and "3" shall entitle to proportionate part of the maximum amount that may be granted in respect of the qualitative index, computed in accordance with a formula prescribed in the plan.

The qualitative evaluation grade shall be computed as an average of the grades determined by a questionnaire completed by all members of the Board of Directors at the end of the award year, within the framework of which a grade shall be granted to the functioning of the President & CEO in each of the following criteria, on the basis of the above scale.

The criteria on the basis of which the qualitative evaluation grade is to be given are: contribution of the President & CEO to the formation of goals and the leading, advancement and implementation of processes as regards corporate governance, improvement of group management, compliance with instructions of the Supervisor of Banks, internal control, and reports of regulatory authorities (such as the Bank of Israel and the Israeli Securities Authority), management of operating risks and control over the levels of risk of the Bank's Group. Notwithstanding, the Remuneration Committee and the Board of Directors are entitled to determine other criteria from time to time for the determination of the grade of the qualitative evaluation.

(2) **Current award.** The President & CEO shall be entitled to a current award in respect of each award year, in an amount of NIS 900 thousand, linked to the CPI, subject to the entitlement terms, as detailed below.

Entitlement terms to the current award. The entitlement to a current award in respect of a particular award year is conditional upon the existence together of all entitlement terms, as detailed below:

- The core capital adequacy ratio, in accordance with the annual consolidated financial statements, is not lower than the ratio determined in the work plan for the award year.
- The actual efficiency ratio, as computed on the basis of the Bank`s standalone financial statements for the award year, less special profits or losses, is not higher than the efficiency ratio to be determined by the Board of Directors at the beginning of the award year, in accordance with the Bank`s work plan.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

- The grade granted to the President & CEO is at least grade "2" of the qualitative index for the award year.

(3) Special awards

(3.1) **Award for special profits or losses.** The Remuneration Committee and the Board of Directors are entitled to grant the President & CEO a special award, either positive or negative, in respect of special profits or losses. This award shall be computed as the difference between the annual award for the award year and the annual award which would have resulted had the special profits or losses not been eliminated in the computation of the quantitative indices, as stated above, with the addition of 20% of the said difference, provided that the resultant amount does not exceed NIS 700 thousand, linked to the CPI. The amount of the negative award is not to exceed the level of entitlement to the annual award.

(3.2) **Special contribution award.** In exceptionally beneficial circumstances regarding an exceptional business event and/or special contribution, which are to be defined in advance by the Board of Directors according to measurable criteria, the Remuneration Committee and the Board of Directors may grant the President & CEO a special award, in an amount not exceeding NIS 700 thousand, linked to the CPI. The award in respect of a special contribution is subject to any approval or disclosure required by law. The award in respect of a special contribution shall not be awarded more than once in every three years.

(3.3) **Award in special circumstances.** The Remuneration Committee and the Board of Directors may grant the President & CEO an annual award in a monetary amount not exceeding the amount of two monthly salaries, in the event that the minimum conditions for the annual award had not materialized, on condition that the following cumulative terms exist:

- The Remuneration Committee and the Board of Directors have found that in that year, special circumstances had exited in the Bank itself or in the banking industry in Israel or in the macro-economic situation;
- The total capital adequacy ratio and the core capital ratio, in accordance with the annual consolidated financial statement for the award year, were not lower than the minimum ratios determined by the instructions of the Supervisor of Banks.

(4) On February 2, 2015, the Bank's Board of Directors received the recommendation of the audit committee and approved the targets for the purpose of computing the annual award to the President & CEO for the years 2015-2016.

(5) **The annual award for 2014.** The President & CEO informed of the waiver of the award to which she was entitled in respect of the year 2014, in the amount of NIS 785 thousand.

As stated in item F. above, a maximum level has been set for the total variable remuneration in respect of a particular award year.

I. Employment agreement of the former President & CEO. On December 20, 2010, the Audit Committee of the Board and the Board of Directors resolved to approve the Bank's engagement in a personal employment agreement with the Bank's President & CEO, who acted until February 19 2014 (hereinafter: "former President & CEO") (termination of employer/employee relations on March 31, 2014). The period of the agreement was five years beginning on January 1, 2011 (hereinafter: "the agreement period").

The former President & CEO was employed in a full-time position and was not entitled to engage in any other paid occupation, without the prior consent of the Board of Directors. In consideration for executing his duties, the former President & CEO was entitled to a monthly salary of NIS 167,500, which was updated every three months in accordance with the rise in the CPI as compared with the CPI published in December of 2010.

The former President & CEO was entitled to an annual award, as detailed in subsection (g) above. The former President & CEO was also entitled to remuneration of the "phantom" type, derived from the performance of the Bank's shares, as detailed in Note 13 D (1). The agreement stated also the duties that were imposed on the former President & CEO, among which are a "cooling-off" and non-competition periods of six months and a confidentiality duty.

The Bank bared house rental payments for the former President & CEO in an amount of up to NIS 90 thousand, in respect of a rental period that began on the date of his taking office as the Bank's former President & CEO and until August 31, 2011. All taxes pertaining to the said payments, if at all, shall be grossed up and paid by the Bank on his behalf.

The former President & CEO was entitled to paid vacation, sick leave, convalescence pay and a suitable motor vehicle, social benefits (severance pay in accordance with the Law, provident fund, loss of work ability insurance and further education fund) as well as other benefits.

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

Upon termination of office, the former President & CEO was entitled, according to the agreement, to severance pay under the Law, this in addition to his entitlement to the funds and rights accumulated in his favor in respect of the provisions for pension created by the Bank. In addition, the former President & CEO was entitled to early notice of six months, during which he was entitled to remuneration and related benefits in accordance with the agreement (even if the Bank has decided not to make use of his services in this period or in a part thereof) and to an adaptation period for a period of six months if termination of office is initiated by the former President & CEO. During the adaptation period the former President & CEO was entitled to a monthly salary and related benefits in accordance with the employment agreement, but was not entitled in its respect to any annual award (or to a part thereof).

In the period from January 1, 2011 and until February 28, 2011, the former President & CEO continued to act also as CEO of IDB New York. During this period, the former President & CEO was entitled to 80% of his monthly salary payable by the Bank. This amount was deducted during this period, from the amount of the monthly salary to which he was entitled from IDB New York (accordingly, the gross monthly salary payable to him by IDB New York will be NIS 104 thousand).

J. On May 23, 2006, the Bank (which at a later date transferred its rights to Mercantile Discount Bank) entered into an agreement with a third party, who owns the commercial center in Upper Beitar, for the lease of an area of 250 sq. meters, intended for a new Bank branch. About a month following that date, the said third party sold the commercial center to a company in which Mr. Matthew Bronfman has a 35% equity interest. The monthly rental payments amount to US$20 per sq. meter, linked to the CPI since date of signing, and the lease period was for five years with an option granted to the lessee to extend the lease period by two additional periods of five years each. Management fees are paid according to actual costs. Towards the end of the rental period, the agreement was extended for an additional period of five years. According to the terms of the agreement, the rental fees for the additional period increased by 20%. All other rental terms remained unchanged.

K. The Bank has a commitment to pay directly to subordinated capital notes holders of the consolidated subsidiary Manpikim Discount Bank Issues Corporation Ltd. upon the debentures' maturity, the amounts of the principal plus accrued interest and linkage differentials. The undertaking is in respect of the repayment of subordinated capital notes, the proceeds of which were deposited with the Bank. The said liability, as at December 31, 2014, amounted to NIS 6,639 million (as at December 31, 2013 - NIS 7,339 million).

L. The Bank and Mercantile Discount Bank have commitments towards the Tel-Aviv Stock Exchange and towards the "Ma'of" clearing house as mentioned in Note 19 C 4 and Note 19 C 5.

M. Investee companies of the Bank are included in the framework of the undertaking granted by the Bank to VISA Europe and to Mastercard as stated in Note 19 C 10 items a and b.

N. As to indemnification for interested and related parties and for details as to arrangements for insurance, exemption and indemnification of Directors at the Bank or persons appointed by the Bank as Directors of certain subsidiaries, including two former officers who acted as Directors of consolidated subsidiaries, which at the relevant dates had been controlling shareholders of the Bank, see Note 19 C 8, items N and O.

O. Upon granting of the control permit of Discount Bank, Mr. Milstein, one of the Bank's controlling shareholders at that date and until December 3, 2013, has been granted an exemption from the reporting of corporations related to him with regard to Proper Conduct of Banking Business Directive No. 312 - The business of a banking corporation with related parties, subject to certain conditions.

In view of the above, the Supervisor of Banks informed that the Bank is to obtain from Mr. Milstein the following details with respect to corporations related to him, which may be considered as interested parties or related parties of the Bank, also for purposes of the annual public financial reporting:

- A written declaration by Mr. Milstein, to be obtained each year, about one month prior to the publication of the financial statements to the public, according to which:
  (1) Mr. Milstein, his spouse, his children, their spouses and corporations owned by them and which are interested parties in the Bank or are related parties to the Bank, did not enter into any transaction with the Bank during the period of three years ending on the date of the Report, or alternatively, report the details of all transactions entered into as above;

22. RELATED AND INTERESTED PARTIES OF THE BANK AND ITS CONSOLIDATED SUBSIDIARIES (CONTINUED)

(2) At the end of the reporting year and at the end of the preceding reporting year, neither Mr. Milstein nor his spouse, his children, their spouses and corporations owned by them and which are interested parties in the Bank or are related parties to the Bank had any debts to the Bank or any deposit or other credit balance with the Bank or with a corporation under the Bank's control, or alternatively, report the details of any debt or deposit as above.

- In addition to the above, Mr. Milstein shall immediately report to the Secretary and to the Chief Accountant of the Bank, any transaction or debt as above of himself, his spouse, his children, their spouses and corporations owned by them and which are interested parties in the Bank or are related parties to the Bank.

  For the purpose of this item, interested parties and related parties are as defined in the public reporting instructions.
- The Report issued to the public shall include adequate disclosure of this arrangement.

The Bank received a declaration from Mr. Milstein as required, in relation to the 2013 Annual Report.

P. On July 6, 2008, the Board of Directors, following approval of the Audit Committee, approved the payment of annual remuneration and remuneration for participation in meetings to external directors and to other present and future Directors of the Bank (excluding the Chairman of the Board), in an amount equal to the "maximum amount" stipulated in the Second Addendum and in the Third Addendum to the Companies Regulations (Rules for remuneration and expenses to an external director), 2000, as amended in the Companies Regulations (Amendment) (Rules for remuneration and expenses to an external director), 2008, in accordance with the Bank's grade. The said updated remuneration was paid retroactively as from April 1, 2008, or starting with the date of appointment of a director, the later of the two.

Q. Terms of transactions with interested and related parties

All business with interested and related parties has been transacted in the ordinary course of business and under terms similar to those of transactions with parties that are not related to the Bank and to its consolidated subsidiaries. Interest charged and interest paid in respect of balances with interested and related parties are at the regular rates at the ordinary course of business with parties that are not related to the Bank.

R. For details regarding a remuneration scheme for members of Management of the Bank (2011-2013), see Note 16(i). For details regarding the remuneration policy for officers of the Bank, see Note 16 (i). For details regarding an award plan for members of Bank's Management and for the Internal Auditor (2015-2016), see Note 16 (k).

23. INTEREST INCOME AND EXPENSES

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
A. Interest Income[2]						
Credit to the public[4]	4,744	5,372	5,937	2,958	3,610	4,066
Credit to Governments	15	41	26	12	38	24
Deposits with the Bank of Israel and cash	88	175	415	70	154	368
Deposits with Banks	36	53	64	13	26	69
Securities borrowed or purchased under resale agreements	2	4	7	2	4	7
Bonds[1]	825	1,143	1,360	392	648	741
Other assets	26	34	38	1	14	11
Total interest income	**5,736**	**6,822**	**7,847**	**3,448**	**4,494**	**5,286**
B. Interest Expenses[2]						
Deposits from the public	(765)	(1,522)	(2,254)	(816)	(1,530)	(2,150)
Deposits from the Government	(8)	(10)	(11)	(1)	(1)	(2)
Deposits from banks	(46)	(66)	(98)	(17)	(36)	(61)
Securities loaned or sold under repurchase agreements	(143)	(164)	(227)	-	-	-
Subordinated debt notes	(552)	(802)	(789)	(185)	(281)	(274)
Other liabilities	(4)	(8)	(9)	(4)	(7)	(4)
Total interest expenses	**(1,518)**	**(2,572)**	**(3,388)**	**(1,023)**	**(1,855)**	**(2,491)**
Interest Income, Net	**4,218**	**4,250**	**4,459**	**2,425**	**2,639**	**2,795**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:						
Interest income (expenses)[3]	(100)	60	(28)	(100)	60	(28)
D. Accrual basis, interest income from bonds:						
Held-to-maturity	235	270	260	113	136	116
Available-for-sale	567	796	1,019	261	441	554
Trading	23	77	81	18	71	71
Total included in interest income	825	1,143	1,360	392	648	741

Footnotes:

(1) Financing income generated by mortgage backed securities (MBS) - in US $ millions	52	41	67	-	-	-
Financing income generated by mortgage backed securities (MBS) - in NIS millions	185	148	258	-	-	-

(2) Including the effective component of hedging relationships.

(3) Details of the effect of hedge derivative instruments on subsection A.

(4) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1D(25).

24. NON-INTEREST FINANCING INCOME

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
A. Non-interest financing income from operations not for trading purposes						
1. From operations in derivative instruments						
Net income (expenses) in respect of ALM derivative instruments[4]	821	(607)	(367)	743	(589)	(361)
Total from operations in derivative instruments	**821**	**(607)**	**(367)**	**743**	**(589)**	**(361)**
2. From investments in bonds [3]:						
Gains on sale of available-for-sale bonds	387	420	336	303	333	215
Losses on sale of available-for-sale bonds	(57)	(9)	(12)	-	-	(2)
Provision for impairment of available-for-sale bonds	(68)	(21)	(17)	(12)	(3)	-
Total from investments in bonds	**262**	**390**	**307**	**291**	**330**	**213**
3. Net exchange rate differences	**(675)**	**642**	**265**	**(632)**	**599**	**245**
4. Profit (losses) from investments in shares:						
Gains on sale of available-for-sale shares[3]	64	108	75	-	-	6
Losses on sale of available-for-sale shares[3]	(6)	(8)	-	(6)	(6)	-
Provision for impairment of available-for-sale shares[3]	(54)	(12)	(11)	(55)	-	-
Dividends from available-for-sale shares	67	26	18	44	-	-
Profit on sale of shares and activities of affiliated companies	-	23	-	-	-	-
Total from investment in shares	**71**	**137**	**82**	**(17)**	**(6)**	**6**
5. Net income in respect of loans sold	**[7]-**	**30**	**(1)**	**-**	**28**	**-**
Total non-interest financing income from operations not for trading purposes	**479**	**592**	**286**	**385**	**362**	**103**
B. Non-interest financing income from operations for trading purposes[5]:						
Net income in respect of other derivative instruments	33	30	34	10	10	8
Net realized and non-realized income on adjustment of trading bonds to fair value[1]	45	10	34	39	7	27
Net realized and non-realized loss on adjustment of trading shares to fair value[2]	(8)	[7]-	(2)	(7)	[7]-	[7]-
Total from trading operations[6]	**70**	**40**	**66**	**42**	**17**	**35**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:						
Interest rate exposure	55	22	56	39	7	26
Foreign currency exposure	13	8	-	-	-	-
Share exposure	2	10	10	3	10	9
Total according to risk exposure	**70**	**40**	**66**	**42**	**17**	**35**
Total non-interest financing income	**549**	**632**	**352**	**427**	**379**	**138**

Footnotes:

(1) Of which, a part of the income (losses) relating to trading bonds that are still on hand at balance sheet date	18	(3)	6	17	(1)	4
(2) Of which, a part of the losses relating to trading shares that are still on hand at balance sheet date	(1)	[7]-	[7]-	(1)	[7]-	[7]-
(3) Reclassified from accumulated other comprehensive income, see Note33:						
Of which, from investments in bonds, net	262	390	307	291	330	213
Of which, from investment in shares	(54)	-	-	(61)	-	-

(4) Derivative instruments comprising a part of the Bank's asset and liability management layout, not designated for hedge relations.
(5) Including exchange rate differences from trading operations.
(6) For interest income on investments in trading bonds, see Note 23, above.
(7) An amount lower than NIS 1 million.

25. COMMISSIONS

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
Ledger fees	571	591	605	335	353	369
Credit cards	935	917	924	136	136	90
Operations in securities and in certain derivative instruments	338	305	288	216	191	196
Commissions from the distribution of financial products	138	116	100	128	109	93
Management, operational and trusteeship services for institutional bodies	15	17	21	-	-	-
Handling credit[1]	123	288	311	90	190	213
Conversion differences	139	129	108	109	101	80
Foreign trade services[1]	51	53	55	41	43	45
Net income from credit portfolio services	16	17	18	14	14	15
Commissions on financing activities[1]	163	180	174	109	125	115
Other commissions	97	91	81	46	50	52
Total fees	**2,586**	**2,704**	**2,685**	**1,224**	**1,312**	**1,268**

Footnote:

(1) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1 D (25).

26. OTHER INCOME

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	In NIS millions					
Management fees from consolidated subsidiaries	-	-	-	6	8	6
Profit from severance pay funds	101	163	178	96	151	162
Capital income on sale of buildings and equipment	5	5	31	5	1	8
Capital loss on sale of buildings and equipment	-	(5)	(4)	-	-	(1)
Reversal of provision for decline in value of buildings and equipment	-	2	3	-	2	3
Other income	13	18	12	57	58	55
Total other income	**119**	**183**	**220**	**164**	**220**	**233**

27. SALARIES AND RELATED EXPENSES

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
Salaries	2,309	2,410	2,253	1,432	1,547	1,394
Expense resulting from share based payment transactions[1]	(2)	(3)	1	(2)	(3)	1
Severance pay, pension, further education fund, jubilee awards, vacation, remuneration and retirees benefits	[3]440	505	561	[3]218	390	396
National Insurance and payroll taxes	575	577	508	426	437	381
Other related expenses	118	130	121	40	43	47
Voluntary retirement program expenses[2]	548	-	-	515	-	-
Total salaries and related expenses	**3,988**	**3,619**	**3,444**	**2,629**	**2,414**	**2,219**
Of which: overseas salaries and related expenses	511	383	464	16	14	16

Footnotes:

(1) See Note 13 D.

(2) Including payroll tax.

(3) After the effect of a change in assessment of NIS 111 million, see Note 1 C (4).

28. OTHER EXPENSES

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	In NIS millions					
Advertising	202	220	220	53	68	63
Communications	121	121	123	64	65	65
Computer services	126	106	123	59	43	53
Office expenses	32	32	32	18	19	18
Insurance	49	50	56	7	6	9
Professional services	151	133	151	70	61	70
Directors' fees	14	14	14	5	6	5
Instruction and training	9	14	15	5	10	12
Fees	160	157	156	28	29	29
Other	(1)307	305	234	82	140	103
Total other expenses	**1,171**	**1,152**	**1,124**	**391**	**447**	**427**

Footnote:

(1) Including a provision for a loss expected on the agreement for the sale of the activity of DBLA, in the amount of NIS 66 million, see Note 8 (A).

29. PROVISIONS FOR TAXES ON INCOME

A. Composition

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
Taxes for current year[(2)]	453	501	490	193	235	181
Taxes for previous years	(160)	(141)	(69)	(59)	(140)	(69)
Total current taxes	**293**	**360**	**421**	**134**	**95**	**112**
Addition (deduction):						
Deferred taxes for current year	(167)	(176)	(104)	(118)	(141)	(75)
Deferred taxes for previous years	198	121	90	89	115	84
Total deferred taxes[(1)]	**31**	**(55)**	**(14)**	**(29)**	**(26)**	**9**
Total provision for taxes	**324**	**305**	**407**	**105**	**69**	**121**
Of which: tax provision (tax saving) abroad	40	74	75	7	4	(16)

Footnotes:

(1) Deferred taxes:

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
	in NIS millions					
Creation and reversal of temporary differences	31	5	10	(29)	19	28
Change in the tax rate	-	(60)	(24)	-	(45)	(19)
Total deferred taxes	**31**	**(55)**	**(14)**	**(29)**	**(26)**	**9**
(2) Of which, an amount of benefits deriving from loss for tax purposes, tax credit or a temporary difference from a prior period, not recognized in the past and used to decrease current tax expenses	17	10	9	-	-	-

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

B. Reconciliation between the theoretical tax which would apply had the income been taxed at the statutory tax rate applying to the Banking corporations in Israel, to the provision of taxes on operating income as charged in the statement of income:

	Consolidated			The Bank		
	2014	2013	2012	2014	2013	2012
Statutory tax rate on banks in Israel	37.71%	36.22%	35.53%	37.71%	36.22%	35.53%
	in NIS millions					
Income tax at the statutory tax rate	353	424	413	100	129	105
Income tax (tax savings) on:						
Income of foreign subsidiaries	(7)	(5)	15	-	-	-
Income exempt from tax or taxed at preferred rates	(56)	(4)	13	(50)	8	15
Adjustment differences on depreciation and capital gains	22	1	(1)	22	-	-
Other non-deductible expenses	4	14	15	4	14	8
Losses and timing differences (utilization), net, in respect of which no deferred tax assets were recorded	(17)	(10)	(9)	-	-	-
Change in the balance of deferred taxes resulting from the change in tax rates	-	(72)	(27)	-	(57)	(22)
Taxes for prior years	22	(32)	9	16	(34)	6
Additional amounts payable with respect to problematic debts	16	12	12	14	9	9
Income of Israeli subsidiaries	(13)	(23)	(33)	(1)	-	-
Total provision for taxes	**324**	**305**	**407**	**105**	**69**	**121**

C. (1) Final tax assessments have been issued to the Bank for the tax years up to and including 2009. An agreed tax assessment has been issued to the Bank in respect of 2010, with the exclusion of one matter, in respect of which it had been agreed that the Bank would file an appeal. The Bank has been issued final tax assessments up to and including the 2010 tax year.

(2) Following the settlement of the income tax assessment for the years 2009-2010, excess provisions for tax amounting to NIS 31 million were reversed in 2013. Following the settlement of the income tax assessment for the years 2006-2007, excess provisions for tax amounting to NIS 41 million were reversed in 2011.

(3) The major consolidated subsidiaries have received final tax assessments, or assessments deemed final, for tax years between 2006 to 2012.

D. The consolidated balance as of December 31, 2014, of the carry forward tax losses, deductibles and timing differences amounted to NIS 113 million (December 31, 2013: NIS 173 million).

E. On February 9, 2000, the Bank's shares in IDB New York were transferred to Discount Bancorp. Inc. (hereinafter - "Bancorp"), a wholly-owned holding subsidiary of the Bank, registered in the State of Delaware, U.S. The transfer of the shares to Bancorp was made at their value in the Bank's books, in consideration for shares issued by Bancorp. The transfer of the shares was made in accordance with the provisions of Section 104A of the Israeli Income Tax Ordinance. The Bank is obligated to pay taxes in Israel with respect to the said transfer of shares, if and when such shares will be sold. The Bank has provided the Israeli Income Tax Authorities with a guarantee as to the payment of such taxes.

F. **Deferred tax liabilities not recognized**

As of December 31, 2014, deferred tax liabilities in the amount of NIS 453 million, in respect of temporary differences in the amount of NIS 1,831 million, relating to investments in subsidiaries, were not included, since the Bank does not intend to realize these investments in the foreseeable future (December 31, 2013 – NIS 358 million and NIS 1,391 million, respectively).

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

G. Items in respect of which deferred tax assets were not recognized

Deferred tax assets were not recognized in respect of the following items:

	Consolidated		The Bank	
	December 31			
	2014	2013	2014	2013
	in NIS millions			
Deductible temporary differences	1	1	-	-
Loss for tax purposes	29	45	1	1
	30	**46**	**1**	**1**

H. Balances of deferred taxes receivable and provision for deferred taxes:

1. Consolidated

	Deferred tax receivable				Provision for deferred taxes			
	balance		The average tax rate		balance		The average tax rate	
	2014	2013	2014	2013	2014	2013	2014	2013
	in NIS millions		in %		in NIS millions		in %	
On provision for credit losses	631	679	37.7	37.7	-	-	-	-
On provision for vacation pay, jubilee awards and provision of retirees	540	489	37.6	37.6	-	-	-	-
On excess of provision of severance pay	154	120	37.6	37.5	-	-	-	-
On income tax carry- forward deductions	41	57	26.5	26.5	-	-	-	-
On activity outside of Israel	157	337	42.1	44.9	-	-	-	-
On securities	-	-	-	-	9	13	33.2	29.8
On adjustment of depreciable non-monetary assets	-	-	-	-	156	178	34.9	35.3
On other monetary assets	57	56	33.4	34.4	-	-	-	-
Reserve for tax on income of Investee companies	-	-	-	-	11	5	11.4	11.6
Total, net	**1,580**	**1,738**	**37.5**	**38.2**	**176**	**196**	**30.8**	**33.3**

2. The Bank

	Deferred tax receivable				Provision for deferred taxes			
	balance		The average tax rate		balance		The average tax rate	
	2014	2013	2014	2013	2014	2013	2014	2013
	in NIS millions		in %		in NIS millions		in %	
On provision for credit losses	468	506	37.7	37.7	-	-	-	-
On provision for vacation pay, jubilee awards and provision of retirees	469	418	37.7	37.7	-	-	-	-
On excess of provision of severance pay	87	73	37.7	37.7	-	-	-	-
On income tax carry- forward deductions	41	57	26.5	26.5	-	-	-	-
On adjustment of depreciable non-monetary assets	-	-	-	-	132	153	35.3	35.7
On other monetary assets	37	40	37.7	37.7	-	-	-	-
Reserve for tax on income of Investee companies	-	-	-	-	10	4	11.2	11.2
Total, net	**1,102**	**1,094**	**37.1**	**36.9**	**142**	**157**	**30.7**	**34.0**

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

I. Balances of deferred taxes receivable and provision for deferred taxes (continued)

The change in deferred tax assets and tax liabilities is attributed to the following items:

1. Consolidated

	Allowance for credit losses	Interest and securities	Investments in investee companies	Overseas activity	Adjustment of depreciable non-financial assets	Employee benefits	Carry forward deductions for tax purposes	Other	Total
	in NIS millions								
Balance of deferred tax asset (tax liability) as of January 1, 2014	679	(13)	(5)	337	(178)	609	57	56	1,542
Changes recognized in the statement of income	(48)	(7)	(6)	(62)	22	85	(16)	1	(31)
Changes recognized in the equity	-	11	-	(137)	-	-	-	-	(126)
Financial statements translation adjustments	-	-	-	15	-	-	-	-	15
Transfer to groups of assets intended for sale	-	-	-	4	-	-	-	-	4
Balance of deferred tax asset (tax liability) as of December 31, 2014(1)(2)	**631**	**(9)**	**(11)**	**157**	**(156)**	**694**	**41**	**57**	**1,404**
(1)Deferred tax asset	631	-	-	157	-	694	41	57	1,580
Balances available for setoff	-	-	-	-	-	-	-	-	(154)
Deferred tax asset as of December 31, 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,426**
(2)Deferred tax liability	-	(1)	(1)	-	(20)	-	-	-	(22)
Deferred tax liability as of December 31, 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(22)**
Balance of deferred tax asset (tax liability) as of January 1, 2013	704	(4)	(74)	247	(191)	542	71	46	1,341
Changes recognized in the statement of income	(60)	(18)	82	7	22	40	(17)	9	65
Effect of the change in the tax rate	35	3	-	-	(9)	27	3	1	60
Changes recognized in the equity	-	6	(13)	105	-	-	-	-	98
Financial statements translation adjustments	-	-	-	(13)	-	-	-	-	(13)
Transfer to groups of assets intended for sale	-	-	-	(9)	-	-	-	-	(9)
Balance of deferred tax asset (tax liability) as of December 31, 2013(1)(2)	**679**	**(13)**	**(5)**	**337**	**(178)**	**609**	**57**	**56**	**1,542**
(1)Deferred tax asset	679	-	-	337	-	609	57	56	1,738
Balances available for setoff	-	-	-	-	-	-	-	-	(177)
Deferred tax asset as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,561**
(2)Deferred tax liability	-	(2)	(1)	-	(16)	-	-	-	(19)
Deferred tax liability as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19)**

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

I. Balances of deferred taxes receivable and provision for deferred taxes (continued)

The change in deferred tax assets and tax liabilities is attributed to the following items (continued):

2. The Bank

	Allowance for credit losses	Investments in investee companies	Adjustment of depreciable non-financial assets	Employee benefits	Carry forward deductions for tax purposes	Other	Total
	in NIS millions						
Balance of deferred tax asset (tax liability) as of January 1, 2014	506	(4)	(153)	491	57	40	937
Changes recognized in the statement of income	(38)	(6)	21	65	(16)	(3)	23
Balance of deferred tax asset (tax liability) as of December 31, 2014(1)(2)	**468**	**(10)**	**(132)**	**556**	**41**	**37**	**960**
(1)Deferred tax asset	468	-	-	556	41	37	1,102
Balances available for setoff	-	-	-	-	-	-	(122)
Deferred tax asset as of December 31, 2014	**-**	**-**	**-**	**-**	**-**	**-**	**980**
(2)Deferred tax liability	-	-	(20)	-	-	-	(20)
Deferred tax liability as of December 31, 2014	**-**	**-**	**-**	**-**	**-**	**-**	**(20)**
Balance of deferred tax asset (tax liability) as of January 1, 2013	545	(74)	(166)	441	71	24	841
Changes recognized in the statement of income	(66)	83	21	28	(17)	15	64
Effect of the change in the tax rate	27	-	(8)	22	3	1	45
Changes recognized in the equity	-	(13)	-	-	-	-	(13)
Balance of deferred tax asset (tax liability) as of December 31, 2013(1)(2)	**506**	**(4)**	**(153)**	**491**	**57**	**40**	**937**
(1)Deferred tax asset	506	-	-	491	57	40	1,094
Balances available for setoff	-	-	-	-	-	-	(141)
Deferred tax asset as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**953**
(2)Deferred tax liability	-	-	(16)	-	-	-	(16)
Deferred tax liability as of December 31, 2013	**-**	**-**	**-**	**-**	**-**	**-**	**(16)**

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

J. **Tax legislation changes**

2012. The Deficit Reduction and Change in Tax Burden (Legislation amendments) Act, 2012, (hereinafter: "the Act") was published on August 13, 2012. The Act includes several changes in taxation, including an increase in the rate of National Insurance contributions payable by employers. Starting with January 2013, the rate of National Insurance contributions payable by employers in respect of that part of the salary in excess of 60% of the average market wage, increased from a rate of 5.9% at that date, to a rate of 6.5%. In January 2014 the said rate increased to 7% and in January 2015, this rate will increase to 7.5%.

A Value Added Tax Order was published on August 2, 2012, which updates the VAT rate applying to transactions and the import of goods, fixing it at 17% with effect from September 1, 2012.

A Value Added Tax Order (Tax rate applying to non-profit organizations and financial institutions) (Amendment), 2012, was published in the Official Gazette on August 30, 2012, according to which the rate of payroll tax and profit tax increased as from September 1, 2012, to 17%.

As a result of the said amendment, the statutory tax rate applying to financial institutions increased in 2012, to 35.53%, and as from the year 2013 and thereafter, the rate increased to 35.9%. Furthermore, the rate of payroll tax applying to financial institutions increased to 17% in respect of the payroll due for work in the month of September 2012 and thereafter, instead of a rate of 16% for 2012 and 15.5% for 2013 and thereafter.

An increase in the balance of deferred tax assets was recorded in the financial statements, and as a result, an income of NIS 25 million was recorded in 2012.

Concurrently, current tax payments (payroll tax and profit tax) as well as the National Insurance contributions of the Bank and its subsidiaries in Israel and the rest of the Bank's expenses increased, due to the increase in the rate of VAT.

2013. The Minister of Finance signed on May 27, 2013, a Value Added Tax Order (Rate of tax on transactions and the import of goods) (Amendment), 2013, according to which the VAT rate will be 18% as from June 2, 2013.

A Value Added Tax Order (Rate of Tax applying to Non-profit Organizations and Financial Institutions) (Amendment), 2013, was published on June 2, 2013. According to the Order the payroll tax is to be increased to 18%, and it will be applied to the payment of payroll in respect of June 2013 and thereafter. In addition profit tax will also be increased to 18%, applying to a proportionate part of the profit for 2013.

On July 30, 2013, the Knesset passed the Change in order of National Priorities Act (Legislation amendments to achieve budgetary goals for the years 2013 and 2014), 2013, within the framework of which the company tax has been increased to 26.5% as from January 1, 2014.

The legislation amendments are expected to increase the current tax payments of the Bank and of the Israeli subsidiaries, some immediately (payroll tax, profit tax and VAT on acquiring services and products) and some starting at the beginning of 2014 (corporate tax).

Following the aforesaid increase in tax rates, the statutory tax rate in 2013 rose from 35.89% to 36.22%. From the beginning of 2014, the statutory tax rate rose to 37.71%.

Following the increase in payroll tax, the Bank recalculated its liabilities with respect to the payment of certain employee rights. The calculation update as aforesaid has increased the provisions of the Bank and Mercantile Discount Bank as of June 30, 2013, with respect to these liabilities, in the amount of NIS 13 million. Concurrently, in light of the increase in the statutory tax rate in 2013, the Bank and Mercantile Discount Bank have updated the tax rates according to which the provisions for deferred taxes are calculated. The said update of the provisions decreased the tax expenses as of June 30, 2013, in the amount of NIS 22 million.

The change in corporate tax increased the deferred tax receivable balance as of September 30, 2013, in an amount of approx. NIS 45 million, and the profit for the third quarter of the year by the same amount (computed on the basis of balances as of June 30, 2013).

K. **Merger between the Bank and Discount Mortgage Bank Ltd. (DMB)**

Decision of the Income Tax Authority. On May 10, 2012, the Income Tax Authorities signed on the decision ("the tax decision") in the matter of the merger of DMB into the Bank – a merger under Section 103b of the Ordinance (namely, an exempt merger), according to which, subject to the fulfillment of the terms detailed in the Ordinance and of the tax decision, that the details of the merger plan, as presented in the application submitted to the Tax Authorities, are in compliance with the terms of Sections 103 c (1) and (7) of the Ordinance, and that the merger shall become effective on December 31, 2011.

29. PROVISIONS FOR TAXES ON INCOME (CONTINUED)

It has been determined, among other things, in the tax decision that surplus expenses in the hands of the Bank prior to the merger, shall be entitled for setoff against income tax or land betterment tax due by the Bank (subsequent to the merger) in equal installments over a period of five years from date of the merger (20% annually).

L. **Taxation of the foreign banking subsidiaries.** In accordance with an agreement reached with the Israeli Tax Authorities, the earnings of the foreign banking subsidiaries are added to the Bank's chargeable income, so that the Bank complements the taxes paid abroad on the pre-tax accounting profits of the foreign subsidiaries to the amount of taxes that would have been paid in Israel based on the tax rate applicable to the Bank in Israel.

M. For details regarding taxes on income recognized in other comprehensive income, see Note 33B, below.

30. LEGISLATION INITIATIVES

Several legislation issues exist (laws, regulations and administrative instructions) which are at different stages of the enactment proceedings. Certain of these issues are liable to have an adverse effect on the Bank's operations and its consolidated subsidiaries and their business results in the future. The Bank is not able to evaluate the scope of such effect.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION

A. General

In December 2001, the Supervisor of Banks in Israel issued directives concerning segment information reporting in a banking corporation, which determine, among other things, the disclosure requirements and the manner of presenting the financial results of segments in the financial statements.

In July 2005, the Supervisor of Banks published a "Questions and Answers" file about the disclosure of segment information. The said file stated, among other things, that the segments requiring disclosure in the Note are: Households, Private Banking, Small Businesses, Middle Market Banking, Corporate Banking, Financial Management and Other (if relevant, on a specific basis in the reporting banking corporation). The segments relating to banking products (credit cards, capital market activity, mortgage loans and construction and real estate) are to be presented in the relevant customer segments. Notwithstanding, it is required to include in the Directors' Report, in respect of each segment in a separate column, a disclosure as to the banking product. The said file also clarified that the data for the international operations segment is to be presented similarly to the segment data presentation of the operations of the Group in Israel.

The operations of the Group are divided into six principal segments, as detailed hereunder. The segments also include, as aforementioned, the relevant part relating to banking products (credit cards, capital market activity, mortgage loans and construction and real estate).

It should be noted that these segments of operation do not accord with the organizational structure, mainly due to the fact that certain operations are reflected in the various segments, such as credit card activities and the capital market activity, and not within the organizational framework in which they are being operated.

- **Retail Banking - Household Segment:** within the framework of this segment are customers of the Bank's and Mercantile Discount Bank's ("MDB") Banking Division who are private customers who are defined as customers who are either salaried employees, possess the potential for growth, or may be viewed as VIP customers (the definition excludes customers of the private banking centers). The segment also includes the customers of MDB in that Bank's household segment - private customers of MDB, whose activities are typical of those households, including credit of volume not exceeding NIS 300 thousand and deposits of a volume not exceeding NIS 500 thousand.
- **Retail Banking -Small Business Segment:** within the framework of this segment customers of the Bank's Banking Division and customers of MDB which are defined as small companies and small businesses with annual turnovers of up to NIS 15 million and with borrowings of up to NIS 5 million.
- **Corporate Banking:** Within the framework of this segment including customers of the Bank`s corporate division mainly corporations with annual turnovers of over NIS 150 million or indebtedness exceeding NIS 50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's corporate banking segment.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

- **Middle Market banking:** Within the framework of this segment including customers of the middle market department at the Bank`s banking division mainly corporations with annual turnovers of NIS 15-150 million and with indebtedness of NIS 5 to 50 million, which are customers of the Bank and of MDB. The segment also includes customers of IDB New York's commercial banking segment.
- **Private banking:** This segment includes as part of the Bank's customers (individuals and corporations) who receive banking services at the private banking centers. These customers are generally Israeli customers with financial wealth held with the Bank of NIS 4 million and over, and to foreign resident customers with financial wealth held at the Bank of US$1 million and above. The segment also includes customers of MDB and the London branch of medium and high wealth, all the activity of the subsidiary IDB (Swiss) Bank and the private banking customer activity at IDB New York, including all the operations of the subsidiary Discount Bank Latin America.
- **Financial Management Segment:** This segment includes activities that are characterized as banking operations, but do not involve customers of the Group (except for activity with the dealing room and banking corporations). These activities are mainly comprised of the nostro operations of the Bank, MDB and IDB New York involving securities and other banks for their own account, as well as management of market and liquidity risks and dealing room operations, including those involving financial derivatives. This segment also includes the Bank's share in the income of FIBI (until March 31, 2014) and its share in the income of its affiliated companies which operate in a supporting capacity. The segment also includes the sub-segment of non-financial corporations, which includes the Group's investment in non-financial corporations, mainly investments made by DCMI, as well as direct investments by the Bank.

  For details regarding the instruction in the matter of regulatory segments of operation, which is to be implemented starting with the 2015 annual report, see Note 1 e 3 above.

B. Changes in classification

(1) Improvement of the data relating to the average balances at the London Branch;

(2) Inclusion of the average balance of credit bearing no interest in the average balance of assets;

(3) Improvement of the classification to the relating segments of the outstanding credit balance in credit cards;

(4) Improvement of the computation of the average balance of securities and the average balance of other managed assets;

(5) Elimination of not yet issued securities of a customer ("magazine") from the balance of securities;

(6) Improvement of the data regarding the average balance of managed other assets in respect of a foreign subsidiary.

C. The principal assumptions, estimates and principles used in the preparation of segment information

The classification of the business results of the Group into the various segments of activity, as stated above, was prepared based on the principles, assumptions and estimates detailed hereunder:

1. Income

Income from financing operations before credit loss expenses. The segment is credited with the margin resulting from the difference between the effective interest on loans granted to customers of the segment and the interest paid on deposits of customers of the segment and the transfer prices. The transfer prices reflect the marginal alternative cost of financing sources or the application thereof. The margins are set at the date the transaction is entered into and stay in effect for the duration of the transaction free of market risks.

According to this methodology, earning or losses from financing operations resulting from changes in market conditions, are taken to the "Financial Management" segment.

Income earned on the Bank's nostro securities and from deposits from the public are also reflected in the "Financial Management" segment.

Credit loss expenses are included in the segment in which the activity of the customer is reflected, in respect of which the expenses have been written. In the same manner, collection is also reflected in the segment in which the activity of the customer is reflected.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

Operational income. The operational and other income, which the bank collects from customers, are reflected directly in the segment in which the activity of the customer is reflected. Some of the income derived from foreign currency operations with customers is credited to the dealing room.

2. Expenses

Identifiable direct expenses are specifically and directly reflected in the related segments.

Overhead expenses (mainly head office expenses), which cannot be related to a specific segment, are charged to the segments using an estimate based on various charging formulas, most of them based on volume of operation indices and some of them based on estimates and assessments of the Bank's various units. (For details see paragraph 4 hereunder).

Depreciation and amortization expenses are charged as part of the overhead expenses.

The model for the charging of expenses used in calculating the data includes the allocation of inter segment expenses, mainly in relation to operational services provided by the branch setup to customers related to other segments by charging all the branches' expenses to customers of these branches, even if these customers are not amongst the customers of the Banking Division. As stated above, this charge is made by way of an estimate based mainly upon indices for the volume of operations of customers of the Bank's branches.

Taxes on income. In order to exclude the effect of brought forwards tax losses in respect of which deferred tax assets had not been recorded, on the measurement of the profitability according to segments of operation, the following tax computation was made:

The provision for taxes of the various segments of operation was computed on the basis of the statutory tax rate of 37.71% (2013: 36.22%).

Segments showing a loss recorded a tax income computed also on the basis of the statutory tax rate.

The difference between the net taxes attributed to the segments of operation and the provision for taxes recorded in the income statement, is charged to the "Financial Management" segment.

3. Allocation of capital and computation of the return

Shareholders' equity and subordinated capital notes, being part of the financing sources of credit, are being allocated to each segment in respect of its risk assets. According to directives of the Supervisor of Banks, the segments of operations are credited with imputed interest on the capital allocated to them, on the basis the risk assets attributed to the segment.

The average balance of risk assets presented in the Note was computed in 2014 in relation to risk assets calculated in accordance with the principles of Basel III (until December 31, 2013 - according to the principles of Basel II).

Computation of the return in each segment was made in accordance with the equity attributed, as stated, to the segment. Since 2011, the allocation of capital increased to 7.5%, starting with the year 2013 8.0%, and starting with the year 2014 8.5%,in accordance with the targets determined by the Bank's Board of Directors.

4. Presentation of inter-segment income and expenses

The accountability between the profit centers in the Bank is made by a mechanism that allocates the total amount of expenses to the Bank's customers, using various activity indices, and not by allocating the expenses to the profit centers (and the "sale" of inter-segment services). The method for the allocation expenses used by the Bank is a multi-stage one. In the first stage the direct expenses of the branch are allocated to all the customers keeping their accounts at the branch, (customers attached to various segments). In the second stage, the expenses of designated units are allocated based on an estimate of the distribution of the service to the various head offices, and the total expenses of the head offices and administrations to the customers whom they serve. Finally, the costs of the general head office units (management, human resources, comptroller, operations and computer services, etc.) to all the customers of the Bank.

According to the system described above, each customer "bears" its own relevant expenses, which are accumulated in the various segments according to the affiliation of customers to these segments.

The format described above does not allow the determination as to what expenses of one segment were charged to another segment (referred to in the reporting format as "inter-segment activity"). The Supervisor of Banks permitted the Bank to report on the basis of the mechanism it developed for the purpose of allocating income and expenses, and inconsequence thereof not to report inter-segment transfers.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

D. Business segments activity in Discount Bank

	For the year ended December 31, 2014							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
Interest income, net								
- From external sources	1,162	834	1,139	727	32	1	323	4,218
- Intersegmental	16	(37)	(246)	(148)	296	-	119	-
Total Interest income, net	1,178	797	893	579	328	1	442	4,218
Non-interest financing income	15	6	38	8	9	82	391	549
Commissions and Other income	1,523	390	357	155	281	2	(3)	2,705
Total income	**2,716**	**1,193**	**1,288**	**742**	**618**	**85**	**830**	**7,472**
Credit loss expenses (expenses reversal)	128	39	(60)	63	16	-	(22)	164
Operating and other expenses	2,847	838	722	433	641	7	883	6,371
Profit (loss) before taxes	(259)	316	626	246	(39)	78	(31)	937
Provision for taxes (tax savings) on profit	(109)	119	250	90	(14)	2	(14)	324
Profit (loss) after taxes	(150)	197	376	156	(25)	76	(17)	613
Bank's share in operating income of affiliated companies	2	-	-	-	-	2	23	27
Net income from ordinary operations Attributed to the non-controlling rights holders	(30)	(5)	(6)	(3)	-	-	-	(44)
Net Income (loss) Attributed to the bank's shareholders	**(178)**	**192**	**370**	**153**	**(25)**	**78**	**6**	**596**
Return on equity (percentage)	**(7.1)**	**18.4**	**9.1**	**7.7**	**(5.1)**	**63.4**	**0.2**	**4.7**
Average Assets	39,823	13,624	39,528	20,214	5,019	1,023	78,181	197,412
Of which - Investment in Investee companies	49	-	-	-	-	58	273	380
Average Liabilities	68,058	16,088	20,792	11,281	35,211	729	32,597	184,756
Average Risk-assets	29,761	12,335	47,616	23,461	5,680	1,446	18,993	139,292
Average assets of provident and mutual funds	-	-	-	-	-	-	2,093	2,093
Average customers' securities	44,557	8,449	79,061	7,308	33,850	-	665	173,890
Average other assets under management	5,407	611	648	843	3,204	-	-	10,713
Margin from credits activity	872	729	809	511	76	-	-	-
Margin from deposits activity	306	68	84	68	252	-	-	-
Total Interest income, net	**1,178**	**797**	**893**	**579**	**328**	**1**	**442**	**4,218**

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

D. Business segments activity in Discount Bank (continued)

	For the year ended December 31, 2013							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
Interest income, net								
- From external sources	1,105	746	1,330	734	(42)	2	375	4,250
- Intersegmental	163	(3)	(347)	(184)	362	-	(1)9	-
Total Interest income, net	1,268	743	983	550	320	2	384	4,250
Non-interest financing income	15	3	74	15	17	113	395	632
Commissions and Other income	1,520	482	418	190	246	2	29	2,887
Total income	**2,803**	**1,228**	**1,475**	**755**	**583**	**117**	**808**	**7,769**
Credit loss expenses (expenses reversal)	48	94	322	123	4	-	(11)	580
Operating and other expenses	2,764	815	720	388	548	7	776	6,018
Profit (loss) before taxes	(9)	319	433	244	31	110	43	1,171
Provision for taxes (tax savings) on profit	(7)	111	150	73	44	8	(74)	305
Profit (loss) after taxes	(2)	208	283	171	(13)	102	117	866
Bank's share in operating income (loss) of affiliated companies	7	-	-	-	-	(6)	44	45
Net income from ordinary operations Attributed to the non-controlling rights holders	(25)	(6)	(5)	(1)	-	-	-	(37)
Net Income (loss) Attributed to the bank's shareholders	**(20)**	**202**	**278**	**170**	**(13)**	**96**	**161**	**874**
Return on equity (percentage)	**(0.9)**	**21.4**	**6.7**	**9.7**	**(3.0)**	**80.1**	**6.6**	**7.3**
Average Assets	(1)38,173	(1)12,495	42,766	19,286	(1)4,191	1,027	81,229	199,167
Of which - Investment in Investee companies	46	-	-	-	-	47	1,660	1,753
Average Liabilities	(1)68,661	(1)16,961	23,265	10,118	(1)33,150	756	34,186	187,097
Average Risk-assets	27,500	11,801	51,903	21,887	5,374	1,507	13,077	133,049
Average assets of provident and mutual funds	-	-	-	-	-	-	2,081	2,081
Average customers' securities(2)	37,889	8,529	(3)73,412	8,891	27,494	-	598	156,813
Average other assets under management(2)(4)	4,804	489	689	1,220	2,097	-	-	9,299
Margin from credit activity	823	643	901	479	66	-	-	-
Margin from deposits activity	445	100	82	71	254	-	-	-
Total Interest income, net	**1,268**	**743**	**983**	**550**	**320**	**2**	**384**	**4,250**

Footnote:

(1) Reclassified – Inclusion of the average balance of credit excluding interest in the average balance of assets.

(2) Reclassified – Improvement of the computation of the average balance of securities and the average balance of other managed assets.

(3) Reclassified – Elimination of not yet issued securities of a customer ("magazine") from the balance of securities

(4) Reclassified – Improvement of the data regarding the average balance of managed other assets in respect of a foreign subsidiary.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

D. Business segments activity in Discount Bank (continued)

						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Financial management	Total Consolidated
	Households							
	in NIS millions							
Interest income, net								
- From external sources	237	751	1,453	775	(30)	2	1,271	4,459
- Intersegmental	1,205	26	(421)	(169)	413	-	(1,054)	-
Total Interest income, net	1,442	777	1,032	606	383	2	217	4,459
Non-interest financing income	27	6	50	14	11	61	183	352
Commissions and Other income	1,497	492	442	185	230	2	57	2,905
Total income	**2,966**	**1,275**	**1,524**	**805**	**624**	**65**	**457**	**7,716**
Credit loss expenses	19	98	467	127	10	-	5	726
Operating and other expenses	2,600	777	675	416	574	7	777	5,826
Profit (loss) before taxes	347	400	382	262	40	58	(325)	1,164
Provision for taxes (tax savings) on profit	88	128	127	86	17	7	(46)	407
Profit (loss) after taxes	259	272	255	176	23	51	(279)	757
Bank's share in operating income (loss) of affiliated companies	3	-	-	-	-	1	100	104
Net income from ordinary operations Attributed to the non-controlling rights holders	(38)	(9)	(10)	(2)	-	-	-	(59)
Net Income (loss) Attributed to the bank's shareholders	**224**	**263**	**245**	**174**	**23**	**52**	**(179)**	**802**
Return on equity (percentage)	**10.7**	**29.5**	**5.9**	**10.2**	**6.1**	**54.6**	**(9.4)**	**7.1**
Average Assets[1]	37,270	12,372	[3]46,812	[3]20,049	[3]3,995	824	[2][3]81,879	203,201
Of which - Investment in Investee companies	10	(2)	-	-	-	29	1,570	1,607
Average Liabilities	68,692	16,085	27,371	9,458	35,473	729	[1][2]33,912	191,720
Average Risk-assets[1]	28,032	11,852	55,535	22,703	5,179	1,271	14,593	139,165
Average assets of provident and mutual funds	-	-	-	-	-	-	1,977	1,977
Average customers' securities[4]	33,987	7,073	[5]64,873	8,673	25,229	-	723	140,558
Average other assets under management[4][6]	4,574	412	708	2,078	1,272	-	-	9,044
Margin from credit activity	814	643	950	527	89	-	-	-
Margin from deposits activity	628	134	82	79	294	-	-	-
Total Interest income, net	**1,442**	**777**	**1,032**	**606**	**383**	**2**	**217**	**4,459**

Footnotes:

(1) Reclassified – sorting the average balance of provision in respect of contingencies, from other assets (where it was off-set from an asset of the same nature) to other liabilities.

(2) Reclassified – improvement of attribution of certain items, which were classified to the "Financial management" segment.

(3) Reclassified – following reclassification in MDB, intended to reflect sorting of large institutional deposits from the Private Banking Segment to the Middle Market Segment and a change of the balances of liabilities in respect of credit cards.

(4) Improvement of the computation of the average balance of securities and the average balance of other managed assets.

(5) Elimination of not yet issued securities of a customer ("magazine") from the balance of securities

(6) Improvement of the data regarding the average balance of managed other assets in respect of a foreign subsidiary.

31. BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS INFORMATION (CONTINUED)

E. Information on geographical areas

	Income[1]			Net Income			Assets	
	For the year end December 31						As at December 31	
	2014	2013	2012	2014	2013	2012	2014	2013
	in NIS millions							
Israel	6,454	6,814	6,638	519	720	[2]733	163,849	161,836
Europe	140	120	126	19	7	(52)	5,045	5,260
North America	767	675	773	111	176	[2]106	33,188	29,205
South America	111	160	179	(53)	(29)	[2]15	4,864	4,206
Total Overseas	**1,018**	**955**	**1,078**	**77**	**154**	**69**	**43,097**	**38,671**
Total Consolidated	**7,472**	**7,769**	**7,716**	**596**	**874**	**802**	**206,946**	**200,507**

Notes:

(1) Income-Interest income, net, before credit loss expenses and non-interest income.

(2) Reclassification - classification of balances between different countries, following the improvement in the data of a consolidated subsidiary.

32. EARNMARKED DEPOSITS, CREDIT AND DEPOSITS FROM EARNMARKED DEPOSITS

	Consolidated		The Bank	
	December 31		December 31	
	2014	2013	2014	2013
	in NIS millions			
Credit and deposits from earmarked deposits				
Credit granted to the public	131	175	131	175
Total	**131**	**175**	**131**	**175**
Earmarked deposits				
Deposits from the public	2	2	2	2
Deposits from the Government	132	176	132	176
Total	**134**	**178**	**134**	**178**

33. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A. Changes in other comprehensive income (loss)

	Other comprehensive income, before attribution to non-controlling rights holders			
	Adjustments for presentation of available-for- sale securities at fair value	Financial statements translation adjustments, net after hedge effects[(2)]	Net losses in respect of cash flows hedge	Total
	in NIS millions			
Balance at December 31, 2011	2	(4)	(8)	(10)
Net change during the year	413	(77)	(2)	334
Balance at December 31, 2012	**415**	**(81)**	**(10)**	**324**
Net change during the year	(236)	(224)	4	(456)
Balance at December 31, 2013	**179**	**(305)**	**(6)**	**(132)**
Net change during the year	82	337	3	422
Balance at December 31, 2014	**261**	**32**	**(3)**	**290**

Footnotes:

(1) There are no amounts attributed to the non-controlling interests holders.

(2) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

B. Changes in other comprehensive income (loss)

	2014			2013			2012		
	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes	Before taxes	Tax effect	After taxes
	in NIS millions								
Adjustments for presentation of available-for- sale securities at fair value									
Net unrealized income (loss) from adjustments to fair value	436	(222)	214	27	10	37	1,040	(391)	649
Loss (income) on available for sale securities reclassified to the statement of income[(3)]	(246)	114	(132)	(434)	161	(273)	(367)	131	(236)
Net change during the year	**190**	**(108)**	**82**	**(407)**	**171**	**(236)**	**673**	**(260)**	**413**
Translation adjustments									
Financial statements translation adjustments[(2)]	336	1	337	(227)	-	(227)	(76)	-	(76)
Hedge	-	-	-	4	(1)	3	(1)	-	(1)
Net change during the year	**336**	**1**	**337**	**(223)**	**(1)**	**(224)**	**(77)**	**-**	**(77)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	12	(5)	7	1	-	1	(10)	4	(6)
Net (income) loss in respect of cash flow hedging reclassified to the statement of income	(7)	3	(4)	6	(3)	3	7	(3)	4
Net change during the year	**5**	**(2)**	**3**	**7**	**(3)**	**4**	**(3)**	**1**	**(2)**
Total net changes during the year	**531**	**(109)**	**422**	**(623)**	**167**	**(456)**	**593**	**(259)**	**334**

Footnotes:

(1) There are no amounts attributed to the non-controlling interests holders.

(2) Including financial statements translation adjustments of a consolidated subsidiary - Discount Bancorp Inc., the functional currency of which is different from that of the Bank.

(3) The pre-tax amount is reported in the statement of income in the item "non-interest financing income". For further details see the Note 24 above.

34. CREDIT CARD ACTIVITY

A. Holding means of control in Diners

The establishment of the YOU customer club and the sale of the means of control in Diners. Pursuant to an agreement dated November 29, 2005, ICC sold to Dor-Alon Energy in Israel (1988) Ltd. and Blue Square Israel Ltd. (hereinafter together - "the Purchasers") shares comprising 49% of the issued and paid share capital of Diners Club Israel Ltd. (hereinafter - "Diners"). Concurrently, Diners entered into an agreement with the Purchasers for the establishment of a customer club. The transaction was consummated on December 18, 2006.

Within the framework of an effort for the strengthening of the cooperation and intensifying the penetration of YOU Club into the market, addendum to the set of agreements between ICC and Blue Square Israel Ltd., MEGA Retail Ltd., Dor Allon Energy (1988) Ltd., Dor Allon Finance Ltd. and the Blue Square-Dor Allon Consumer Club (hereinafter: "the Allon Group"), in the matter of the continued joint ownership of Diners was signed on August 31, 2011. According to the Addendum, the existing agreement in the matter of the joint activity in Diners was changed and the YOU Club agreement was extended until the end of 2015. The Addendum outlines a new distribution method for the earnings of Diners so that it will not be subject to attaining a quantitative target for the operations of YOU Club. The Addendum to the agreement also granted the Allon Group the right to realize their investment in Diners as from December 31, 2015, at the value specified in the agreement (PUT option).

On September 23, 2014, ICC, Diners and Alon Blue Square Israel Ltd. confirmed changes in the terms of the agreement for the sale of the Diners shares to the Dor Alon Group and in the terms of the YOU Club agreement, as follows:

- The Club agreement shall be extended until July 15, 2019;
- Changes in the manner of determining the value of the Diners shares under certain circumstances occurring as determined in the agreement, as detailed below, so that the value of the shares will be determined in accordance with a valuation to be made upon the exercise of the right by an agreed assessor. Furthermore, the right of a forced sale, to which the Dor Alon Group was entitled in the event that at date of renewal of the Club agreement it will elect not to renew the agreement and in the event that ICC will revoke the Club agreement following the violation thereof by the Dor Alon Group, will be revoked.

In accordance with the understandings reached by the parties in relation to the changes in the terms of the agreement, Diners distributed on September 30, a dividend in the amount of NIS 100 million, based on a distribution key stated in the agreement for the sale of the said shares, according to which, until the distribution of the "ICC capital" (the earnings of Diners not attributed to the YOU operation, accumulated since the date of signing the original agreement and until December 31, 2010). ICC would be entitled to 75.5% of each dividend distribution and the Dor Alon Group would be entitled to 24.5%, and that after the distribution of the dividend as stated, the "ICC capital" balance amounts to NIS 25 million.

In view of the reduction in the PUT option to which the Dor Alon Group is entitled, as detailed above, the accounting treatment (as of September 30, 2014) has changed: The PUT option is no longer presented as a liability (an amount of NIS 83 million was reclassified in the financial statements as of September 30, 2014, from the item "liabilities" to "non-controlling interests"). Simultaneously, the presentation of changes in the value of liabilities as an expense in the statement of income was discontinued, the share in profits of the non-controlling interests were recorded, and ICC recognizes its share in earnings based of the proportion to which it is entitled (an amount of NIS 11 million was reclassified in the financial statements as of September 30, 2014, from "Retained earnings" to "Non-controlling rights").

B. Arrangements between the credit card companies and between such companies and the banks

1. **Arrangements between credit card companies – VISA Cards.** At the beginning of September 2001, ICC, The First International Bank ("FIBI"), Israel Discount Bank, Bank Leumi Le'Israel B.M. and Leumi Card (hereinafter together - "the appellants") filed motions with the Antitrust Tribunal (hereinafter: "the Tribunal") for the approval of a binding arrangement between them, concerning the cross clearing of VISA cards. Over the years, the Tribunal has granted the Appellants provisional and temporary permits for the charging of issuer commissions at agreed rates. Concurrently, the validity of the general exemption has been extended from time to time.

   A tri-party Cross Clearing agreement. On October 30, 2006, the Antitrust Commissioner ("the Commissioner"), the credit card companies and the banks owning the credit card companies entered into an agreement for the Cross Clearing of Visa and MasterCard credit cards (hereinafter: "the Agreement"). The agreement came into effect upon the granting of a provisional permit by the Antitrust Tribunal. This agreement has been extended from time to time by the Tribunal.

34. CREDIT CARD ACTIVITY (CONTINUED)

Amended cross clearing arrangement – reduction of the issuer commission rate. On December 28, 2011, the Commissioner and the Appellants submitted for approval of the Tribunal a motion requesting a status of a Court verdict for a compromise agreement between them, to which had been attached an amended cross clearing arrangement(hereinafter: "status request" and "the amended arrangement", respectively).The compromise agreement determines, among other things, as follows:

- The Commissioner informs that in view of the exogenous changes that have occurred since the submission to the Tribunal of the complementary opinion, and following his examination of the arguments detailed in the complementary opinion, he is of the opinion that the issuer commission of 0.7% is the proper commission for the purpose of the compromise agreement;
- The reduction of the issuer commission to 0.7% shall be applied gradually as detailed in the amended arrangement, as follows:
  (1) Until June 30, 2012, the issuer commission will amount to an average rate not exceeding 0.875%;
  (2) As from July 1, 2012, the issuer commission will be reduced for a period of six months, to an average rate not exceeding 0.8%. Also, the addition at the rate of 0.15% in respect of transactions where the magnetic strip on the credit card or on the clever card has not been read at the Point of Sale (P.O.S.), shall be cancelled;
  (3) As from January 1, 2013, the issuer commission will be reduced for a period of six months, to an average rate not exceeding 0.75%;
  (4) As from July 1, 2013, the issuer commission will be reduced for a period of one year, to an average rate not exceeding 0.735%;
  (5) As from July 1, 2014 and until the termination of the arrangement period (December 31, 2018) the issuer commission will be reduced to an average rate not exceeding 0.7%.

  The five stages, as detailed above, were implemented on the due dates.

2. **"IsraCard" credit cards clearing arrangement.** On May 14, 2012, IsraCard Ltd. and ICC signed a license agreement, according to which ICC has been granted a non-exclusive license for the clearing of IsraCard credit card transactions in Israel. In accordance with the license, ICC would be entitled to clear transactions made at trading houses in Israel by means of IsraCard credit cards, using the cross-clearing interface, and for this purpose, engage with trading houses in Israel for the supply of clearing services, and to supply services related to the clearing of transactions made through the cards (card services). The agreement will be in force from May 15, 2012 and until May 15, 2017. In consideration for the license, ICC is committed to pay a one-off license fee plus an annual fee computed in accordance with a mechanism determined in the agreement (as a function of the clearing turnover).

Concurrently, the parties signed a cross-clearing agreement with respect to transactions to be effected by IsraCard credit cards, according to which the said clearing will be effected using the joint interface under the terms of the agreement relating to the clearing of transactions made by the VISA and MaterCard credit cards (as they apply from time to time) (hereinafter: "the Arrangement").

The cross-clearing agreement entered into effect upon its approval in accordance with the Antitrust Act, and shall expire on date of expiry of the license or on date of expiry of the Arrangement, whichever is earlier.

On September 13, 2012, the Antitrust Commissioner granted an exemption, for a period of three years, in respect of the arrangement between the company and IsraCard Ltd. as well as to the arrangement between LeumiCard Ltd. and IsraCardLtd., under the terms stated in the Commissioner's decision, including:

- IsraCard will not collect from the company and from LeumiCard any additional payment in excess of the issuer commission, a one-time license fee and an additional payment being a percentage of the turnover of clearing "IsraCard" transactions, as determined in the exemption;
- The cross-clearing commission rates ("issuer commission") payable by the clearing agent of the IsraCard brand to the Issuer of this brand, shall not exceed the rates specified in the cross-clearing arrangement approved on March 7, 2012, in a ruling of the Antitrust Tribunal;
- The cross-clearing of the IsraCard brand shall be subject to the terms for approval of the cross-clearing arrangement for the MasterCard and VISA brands approved by the said ruling.

34. CREDIT CARD ACTIVITY (CONTINUED)

On February 7, 2013, IsraCard applied to the Antitrust Tribunal requesting approval for the terms of arrangement in accordance with the provisions of an agreement between IsraCard and ICC, replacing the terms determined in the decision of the Commissioner. On March 9, 2014, the Antitrust Tribunal decided to admit the standpoint of the Antitrust Commissioner.

3. **A joint issuance agreement between ICC and owner banks.** ICC signed on September 30, 2013 with the Bank on the one hand and with the First International Bank Group on the other hand, an agreement for the joint issue of VISA and MasterCard credit cards, determining also operating arrangement and the granting of services by ICC in respect of credit cards to be issued by it and distributed by the said banks to their customers. This agreement replaces earlier agreements between the said parties. According to the said agreements, a material increase occurred in the rate of royalties that are paid to the Bank and to FIBI. The changes in the terms of the joint issuance agreement with FIBI were implemented with effectfrom the beginning of 2012, while the changes in the terms of the joint issuance agreement with the Bank were implemented with effect from the beginning of 2013. The issuance agreements will be valid for 5-year periods and are extendable under certain circumstances determined in the agreements.

   The grant of an option to FIBI to purchase up to 10% of ICC's share capital. Within the framework of the joint issuance agreement described above, FIBI was granted an option to purchase from ICC, by way of a share issue, up to 121,978 ordinary shares in ICC, comprising at date of the agreement, 10% of the fully diluted ordinary share capital of ICC. The amount of shares allotted may be higher in the event that prior to the exercise of the option, ICC will issue shares at a price reflecting a value lower than market value, in accordance with the formula determined in the agreement.

   The option is exercisable subject to the earlier realization by the First International Bank of most of its holdings in ICC, remaining with a holding rate of less than 10%. The option is exercisable in one lot no later than December 31, 2017, at any time after the average monthly amount of credit transactions made by FIBI customers reaches the minimum amount stated in the agreement. The number of ordinary shares to be allotted within the framework of the exercise of the option shall be computed according to a formula determined in the agreement, which is affected by the volume of operations made by use of credit cards of the First International Bank.

   In consideration for the exercise of the option, FIBI will pay an exercise price in accordance with a formula determined in the agreement, which reflects present company value and certain additional adjustments determined in the agreement.

   The option may be converted into a cash payment to FIBI, according to a formula determined in the agreement, net of the exercise price as stated. The amount to be paid for the redemption of the option shall not exceed an amount of NIS 36 million (this maximum amount is to be determined according to the rate of allotment out of the option shares at date of exercise).

   The manner of exercising the option (whether in cash or by way of the issue of shares) is subject to approval of the Bank's Board of Directors.

4. **A joint issuance agreement with Mizrahi-Tefahot Bank and the updating of its terms.** In continuation of a joint issuance agreement of November 18, 2008, between ICC and Diners, on the one part, and Mizrahi-Tefahot Bank, on the other part, (hereinafter : "the previous agreement"), the parties signed on March 2, 2014, an agreement extending and updating the previous agreement (hereinafter : "the updated agreement"). The updated agreement is in force for a period of five years, from January 1, 2014 to December 31, 2018.

   The updated agreement includes reference and updated of the provisions of the previous agreement, such as operating arrangements and the granting of services, royalties and awards payable by ICC and Diners to Mizrahi-Tefahot Bank, as well as a compensation instrument being an alternative to the option for the purchase of up to 10% of the shares in ICC that had been determined in the previous agreement. According to this instrument, Mizrahi-Tefahot Bank will receive a monetary compensation depending on the growth in turnover of use of credit cards under the joint issuance, as compared to the turnover in 2013.

5. **A joint issue agreement with Union Bank.** On July 1, 2010, ICC and Diners Club signed agreements with Union Bank of Israel Ltd. (hereinafter - "Union Bank"). The agreements are for a period of ten years and they replace a previous agreement between the parties, which expired on that date. Under this agreement, ICC and Diners club will issue credit cards, bank cards and combined cards to customers of Union Bank. The agreement determined operating arrangements and the granting of services by ICC and/or Diners Club for credit cards issued by them and distributed by Union Bank to its customers.

34. CREDIT CARD ACTIVITY (CONTINUED)

The granting of an option to Union Bank to purchase 3% of ICC's share capital. Within the framework the agreement, as described above, Union Bank has been granted a non-transferable option to purchase from ICC 32,934 ordinary shares of NIS 0.0001 par value each in ICC, which comprised at date of the agreement 3% of the issued and paid ordinary share capital of ICC, subject to adjustment events determined in the agreement, and this at date of completion of a public issue of securities of ICC, if such will materialize, and subject to the completion of the issue. The exercise price of the option reflects a discount of 25% on the gross price of the shares as determined in the prospectus for the public offer. ICC, at its own judgment, has the right to exchange the option shares for a one-time payment in an amount equal to the exercise price multiplied by the total number of the option shares as if the option has been fully exercised.

The shares arising from the exercise of the option, if at all, shall not be transferable to a competitor of ICC.

The option is in effect during the period of the agreement, subject to a series of business conditions as determined in the agreement.

ICC's decision to issue shares to Union Bank requires the approval of the Bank's Board of Directors.

C. (1) Events regarding the clearing of international electronic trade transactions and other matters. In the second half of 2009 and in the beginning of 2010, ICC faced allegations made by VISA Europe and the Global MasterCard Organization (hereinafter: "the international organizations") with respect to prima facie violations of the rules of these organizations pertaining to the clearing of international electronic trade, in transactions effected by a subsidiary of ICC, ICC International (which had in the meantime been merged with and into ICC). In this framework, fines have been imposed on ICC and its activity in this field of operations has been restricted for a period of several months.

ICC has immediately implemented a reduction plan in order to comply with the requirements of the international organizations, in the framework of which it applied various measures, including changes in the company's management.

A number of trading houses and clusterers had raised demands regarding the burden of monetary sanctions applying to them and the reduction in electronic trade clearing operations conducted with them, which as alleged by them, resulted in heavy damage.

(2) Police investigation. During the period of December 2011 – February 2012, investigators of the Israel Police entered the ICC offices in Givataim and seized various documents and computer material. The search warrant presented by the investigators indicated an investigation in the matter of "reasonable suspicion regarding the felony of false entries in corporate documents, money laundering and fraudulent possession".

(3) Notice by the State Prosecutor. On December 3, 2014, ICC received a notice from the economic department of the State Attorney Office, informing that a file with regards to an investigation of suspicions against ICC, had been delivered for perusal of the State Attorney. It was further noted, that to the extent that the study of the investigation material would lead to the possibility of serving an indictment against ICC, the matter would be brought to the attention of ICC, and ICC shall be invited, if it so wishes, to submit a reasoned request in writing stating why the filing of an indictment against it should be avoided, or requesting an oral hearing by means of its representatives.

Except as stated in item 2 above, ICC and the Bank have no knowledge of which suspicions were investigated by the police, what were the findings of the investigation, and what are the recommendations of the police to the Office of the Prosecutor. Accordingly, it is not possible to estimate as to whether an indictment would be served, what would the charges be and against whom. In view of the above, at this stage it is not possible to estimate what would be the results of the proceedings instituted, if at all, and their implication upon ICC.

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY

On March 19, 2013, the team examining the increase of competition in the banking industry submitted its final report, the team, headed by the Supervisor of Banks ("Zaken Committee"), who was appointed in December 2011, by the Governor of the Bank of Israel and the Minister of Finance, following the recommendation of the Committee for Social-Economic Change ("Trachtenberg Committee").

The team has examined ways and means for increasing competition in the banking industry, focusing on services provided to households and small businesses. The final report includes recommendations regarding various issues, intended to increase competition in the banking industry, among which were increasing the number of market participants, improving the credit data area, increasing the power of the customer and simplification of the banking product.

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

The final report includes recommendations made in the interim report as well as reference to matters relating to the implementation of the recommendations, including:

1) Simplifying the closing of a bank account and the transfer to another bank, by means of improving and facilitating the process of transferring the authorizations to charge the account;
2) The establishment of an interoffice team headed by the Capital Market, Savings and Insurance department at the Ministry of Finance, for the formation of measures for the granting of retail credit from pension savings sources and the removal of regulatory barriers existing at the present time;
3) Recommendation for changing the definition of the small business population to which the retail tariff will apply.

Since publication of the interim report, the team is acting towards the implementation of the recommendations, which involves amendment of instructions that are the authority of the Supervisor of Banks and the Governor of the Bank of Israel. Concurrently, the team is furthering the implementation of the recommendations, the implementation of which require amendments of principal legislation. Furthermore, the Supervisor of Banks is taking further action intended to improve competition and increase transparency in the management of current accounts.

Banking Rules (Customer service) (Commissions) (Amendment No. 2), 2012. The Amendment was published in the Official Gazette on June 24, 2013. Its principal provisions are:

- A change in the definition of the term "small business" – increasing the maximum turnover of a small business from NIS 1 million to NIS 5 million;
- A determination according to which the commission that a banking corporation may charge for a service included in the full price-list, should not exceed the amount or rate of commission charged for such service to corporation which is not a small business.

The Amendment entered into effect on August 1, 2013. The Bank has made the necessary changes required by the Amendment.

Banking Law (Customer service) (Amendment No. 19) Bill, 2013. The Supervisor of Banks published this Bill on July 8, 2013.

The principal provisions of the Bill are:

- A change in the definition of the term "customer" – according to which a customer would be an individual which is not a business as well as a small business as determined by the Governor in the Rules (based on business turnover);
- Authorizing the Supervisor of Banks to publish data regarding interest rates applied by banks to deposits and credit.

Amendment to the Banking Rules (Customer service) (Commissions), 2008. The Amendment was published in the Official Gazette on November 28, 2013. The Amendment will take effect on April 1, 2014. However, effect of the Section dealing with the change in the definition of "small business", was delayed until the date on which the relevant section in the amendment to the Banking Act (Service to customer), 1981, will take effect (see above).

The principal provisions of the Amendment are:

- Change in the definition of the term "small business" – in accordance with the Amendment, also individual customers, being a business, are to be classified as a "small business" on condition that the banking corporation did not find out that their business turnover exceeds NIS 5 million. For this purpose, in the circumstances detailed in the amendment, the banking corporation may require such an individual to provide an annual report, as defined in the rules and if it's demand has not been answered, the banking corporation would be entitled to classify it as a business that is not a small business;
- Reduced minimum commission relating to a direct lane transaction and teller operation – it is determined that the price of the minimum commission will be an amount that does not exceed the price of one teller transaction (instead of two teller transactions);
- Commission tracks:
    - Banking corporations will be required to offer customers (individuals/small businesses) two commission tracks (uniform services assortments for the management of current accounts): the basic track (includes one teller transaction and ten direct track transactions) and an extended lane (includes up to ten teller transactions and up to fifty direct track transactions);
    - In addition, a banking corporation may offer a third track: an extended-plus track (includes the services provided by the extended track as well as additional services, as determined by the banking corporation);

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

- On October 8, 2013, the Supervisor of Banks issued a letter in the matter of service tracks, according to which, the amendment in its final version as will be published in the Official Gazette will enter into effect on April 1, 2014. According to that stated in the letter, a banking corporation has to provide to the Supervisor, until February 10, 2014, data regarding the price of each service track of the banking corporation, the manner of determining the pricing in each track together with the grounds thereto as well as the list of services included in "extended plus" track (to the extent that the banking corporation offers such track). The Bank has delivered the said information to the Supervisor of Banks.

Banking Order (Service to customer) (Supervision over basic track service), 2014. This Order, which was published on the Official Gazette on March 26, 2014, imposes supervision over the basic service track and determines that its maximum cost would be NIS 10. The Order is effective as from April 1, 2014.

The Bank is preparing for the implementation of the amendment to the commission rules and the said Order, and accordingly the commission tracks at the Bank became effective on April 1, 2014.

The Deputy Supervisor of Bank's letter regarding service tracks. In order to verify that the banking corporations are integrating the Amendment relating to commission tracks and bringing it to the awareness of the public, the Deputy Supervisor of Bank instructed the banking corporation on May 7, 2014, to take several actions: to distribute until May 31, 2014, to customers of the banking corporation to whom the commission rules apply, an explanatory letter regarding the basic and expanded tracks, as well as publish by May 21, 2014, the contents of this letter on the Internet website of the banking corporation; submit to the Supervisor of Banks monthly information and data regarding the number of customers who had joined the various tracks; the guidelines provided to representatives of the banking corporation with respect to the manner of joining the commission tracks; control measures instituted with respect to these guidelines; marketing or advertising activities made in order to make customers aware of the commission track service.

The Bank is preparing to implement the requirements of the letter.

On October 20, 2014, the Supervisor of Banks instituted an information service through the media, the object of which is increasing the awareness of the public to the tracks service. Banking corporations have been instructed to prepare for a timely and appropriate response to customers wishing to join these tracks, providing them with all the necessary information required by them.

Amendment to the Banking Rules (Customer service) (Commissions), 2008. The Governor of the Bank of Israel approved the Amendment on January 21, 2015. The Amendment took effect on February 1, 2015 (except for certain provisions which would become effective at a later date, see below).

The main provisions of the Amendment are as follows:

- Commission tracks: A banking corporation has to allow any customer to join a commission track by informing the bank at the branch or via fax or by the customer's account on the Internet or by a recorded telephone message. The customer will be entitled to cancel his joining by giving notice by the same aforesaid means; bank transactions exceeding the number of transactions determined for the commission tracks, are subject to the notes stated in the full pricelist relating to transactions effected at the counter at a price of a direct channel transaction; total commissions which a bank may charge in respect of account closing operations as detailed in the full price list does not include commissions in respect of tracks; the full price list has to add that the basic track is under supervision;
- **Change in the "small business" definition** – the classification of a corporation as a "small business" will not be limited to a year and the corporation will not be required to furnish the bank with an additional annual report in order for the classification to continue (except in the circumstances specified below); if the banking corporation has reasonable grounds for assuming that the business turnover of that corporation exceeded NIS 5 million in the last year, it will be entitled to send a written demand to the corporation that it provide the bank with an annual report. If the corporation fails to respond to the bank's demand, the bank will be entitled to classify the corporation as a business that is not a "small business";
- In respect of a transfer by the RTGS system of an amount of up to NIS 1 million, a teller operation commission will be charged, while the commission stated in the full pricelist in respect of a transfer by the RTGS system would apply to a transfer of amounts of over NIS 1 million;
- No commission may be charged in respect of a direct channel operation in respect of charge transaction using an immediate debit card;

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

- Commission regarding the handling of cash by a teller – in the case of providing service which includes a combination of two or more of the transactions included in the service, the Bank would be entitled to charge one commission only, the higher of the commissions in respect of these transactions;
- A commission may be charged for the issue of an ownership confirmation starting with the second confirmation in a calendar year;
- Housing loan ledger fees and collection fees in respect of non-housing loans granted immediately prior to the application of the new rules, will be abolished;
- A change in the definition of "small business" for the purpose of the application of those parts of the pricelist applying to the clearing of transactions made by debit cards and discounting services for trading houses. For this purpose, a business of a private individual or of a corporation during the first year since the beginning of its operations, or which the clearing turnover of transactions by debit cards made on its behalf by the banking corporation does not exceed NIS 3 million, shall be considered a small business. Examination of the clearing turnover shall be performed in accordance with the data existing in the hands of the banking corporation;
- A definition of "change" has been added – the handing of a note or coins or a combination of the two in exchange for receiving a note or coins or a combination of the two in a value equal to the amount denominated therein, excluding the exchange of an old legal tender for a new legal tender;
- An addendum to the definition of "the start of obtaining the service" as regards the clearing of debit cards – upon the signing by the customer of the clearing agreement. The change takes effect on February 1, 2015;
- Excluding the commission in respect of clearing services for debit transactions from the rule, according to which, a commission which a banking corporation is entitled to charge for a service included in the pricelist for small businesses shall not exceed that determined in the pricelist for a large business. This instruction will take effect on July 1, 2015;
- The duty has been set for the presentation of a summarized pricelist also to customers obtaining from the corporation clearing services for debit card transactions, and also an addendum to the rules regarding the format of the summarized pricelist has been added;
- The part of the credit cards in the full pricelist: a deferred payment commission will be abolished; changes apply to currency conversion service commissions in respect of transactions made abroad and to commissions on cash withdrawals abroad by means of an automatic teller machine. The changes will take effect on April 1, 2015;
- Section 12 of the full list price includes a list of services regarding the clearing of debit card transactions field, in respect of which commissions are chargeable in accordance with the price list;
- Section 13 of the pricelist has been added – "discounting services for trading houses";
- A summary price list was added for customers receiving from the bank clearing services for debit card transactions;
- Entering into effect of Sections 12 and 13 of the pricelist, presentation of the summarized pricelist to customers receiving clearing services, and the change in the definition of a "small business" as regards Sections 12 and 13 of the pricelist, shall take effect on July 1, 2015.

Draft Amendment of the Banking Rules (Customer service) (Commissions), 2008. On February 22, 2015, the bank-customer committee of the Supervisor of Banks discussed an additional amendment to the commission rules. The draft proposes:

- to abolish the commission charged to the depositor in respect of a dishonored check;
- to apply control to "notices" commission, the intention of the Supervisor of Banks being to determine a maximum price for such a commission, in accordance with the direct cost involved therein;
- to determine that "card fees" shall not be charges in respect of an immediate debit card issued to a customer who has already a credit card issued by that same banking corporation.

Banking Rules (Customer service) (Proper disclosure and delivery of documents) (Amendment), 2014. The Amendment to the Rules was published on October 7, 2014. The principal elements of the Amendment are:

- A banking corporation has to publish also on its Internet website, various data that under these rules have to be published on a notice board in the bank's branches;

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

- Requiring a banking corporation to provide to anyone wishing to open an account for business purposes, an explanatory paper, in a separate paper, that includes, among other things, clarifications regarding the practical meaning of the classification of an account as a "small business" account with respect to the services price list;
- Requiring the banking corporation to provide to each customer wishing to join this lane, prior to his joining, information in writing regarding commission amounts charged to him during the quarter before the quarter preceding the date of submission of the joining application, in respect of services included in this lane, in the manner detailed in the Amendment;
- Authorization of The Supervisor of Banks to determine various instructions as regards the information to be provided to a customer, as above.

The Amendment entered into effect in full on November 7, 2014.

Amendment of Banking Rules (Customer service) (Proper disclosure and submission of documents), 1992. The Amendment was published in the Official Gazette on December 30, 2014.

The principal provisions of the Amendment are:

- Granting the Commissioner the power to determine types of account and terms, which, if in existence, the signature of the customer on certain types of agreements stated in the rules, would not be required;
- Requiring the banking corporation to publish on its Internet website agreements of the certain types stated in the rules, and which are considered uniform contracts, as defined in the law;
- Requiring the banking corporation to deliver to the customer or to present in the account of the customer on the website of the banking corporation a copy of an agreement or a document of the types detailed in the rules, which did not required the customers signature, proximately after obtaining his approval to their contents or alternatively present it in the account of the customer on the bank's website or their delivery by Email, subject to allowing him the possibility of printing and keeping the agreement/document, as stated. With respect to an agreement or document prepared in the presence of the customer, the possibility has been added of presenting it in the account of the customer on the bank's website or of delivery thereof by Email, subject to obtaining in writing the specific agreement of the customer to the delivery in the said manner.
- Determining various changes relating to the notices which a banking corporation has to deliver to customers regarding changes in the terms of managing their accounts;
- Determining an additional exception to the instruction with respect to the non-delivery of notices under the rules to a customer residing abroad, and who has not provided an address in Israel for delivery of notices, and this in case where the customer has asked to receive notices via the Internet website of the banking corporation;
- Determination that a banking corporation is required to inform the data that has to be delivered under the rules, in respect of a loan for a period exceeding one year, which is repayable in installments, once in each year and no later than February 28.

The rules enter into effect of January 1, 2015, except for the sections dealing with types of accounts and terms under which certain agreements with the customer shall not require his signature and by presenting agreements or documents in the customer's account on the bank's website or delivering them by Email.

The amendment regarding notices to certain customers pertaining to changes in the terms of management of their accounts will enter into effect on April 1, 2015.

Proper Conduct of Banking Business Directive No. 414 in the matter of disclosure of services in securities costs. The instruction was published by the Supervisor of Banks on April 3, 2014. The principal items of the directive are: the duty to present to a customer who was charged with Israeli and/or foreign securities commission, within the framework of the semi-annual statement of commissions. Comparative data regarding commissions paid by customers holding deposits of similar value to that of the deposit held by the customer, this in the manner as detailed in the instruction; the duty to present on the Internet website of the Bank the said comparative data relating to the data for a period of six months; the duty to present to the customer, within the framework of the semiannual statement of commissions, detailed data relating to securities commission charged to him during a period of six months in the manner detailed in the directive. The directive will become effective on January 1, 2015. The Bank is implementing the requirements in accordance with the directive.

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

Proper Conduct of Banking Business Directive No. 421 in the matter of reduction or addition to interest rates. The Directive was published by the Supervisor of Banks on September 9, 2013. Its main topics are: maintaining the reduction or addition to the basic interest rate granted to the customer upon granting credit, loan, credit facilities or upon depositing funds with the bank, also in the case of a change in interest rates or upon renewal of the deposit. The Directive will become effective on January 1, 2014. The Supervisor of Banks has deferred to July 1, 2014, the date on which the instruction is to take effect regarding deposits.

Proper Conduct of Banking Business Directive No. 425 in the matter of "Annual reports to customers of banking corporations". The Supervisor of Banks published on November 19, 2014, a Proper Conduct of Banking Business Directive in the matter of "annual reports to customers of banking corporations", comprising the implementation of the Zaken Committee recommendations in the matter of "bank identity card".

The directive is designed to regularize the annual reporting duty of the corporation for customers matching the definition of "individual" and "small business", as regards all assets and liabilities of the customer with the banking corporation, including his total income and expenses during the year regarding assets, liabilities and current operation in his account.

The annual report is intended to assist customers in making educated consumer decisions, to improve the ability of customers to follow their activity in the account and to increase their ability to compare various banking products and services.

The Supervisor of Banks stated that the directive requires indirect amendments and certain adjustments of the proper disclosure rules, which shall be made further on.

It should be noted that the implementation of the various procedures as described above, will require the Bank to make wide range computerized preparations, training of staff and determination and absorption of work procedures, at a financial cost that cannot be assessed at this stage, and all this within a relatively short period of time.

The Directive takes effect on February 28, 2016, with respect to the 2015 annual report. However, it is further stated in the directive that the data regarding the credit rating will not be presented until an explicit instruction is issued by the Supervisor of Banks, though the banks must be ready to present this data starting with the said date.

Amendment of Proper Conduct of Banking Business Directive No. 439 in the matter of account charging authorization. On September 1, 2014, the Supervisor of Banks published the amendment to the Directive. The object of the amendment is to face the difficulties involved in the process of transferring a charge authorization relating to an existing account with one bank to a new account with another bank, a matter identified as a central barrier facing customers wishing to change banks. The principal items of the amendment are: a new chapter "Submitting an application for establishment of an authorization to charge an account" has been included, which regularizes the process of submitting an application for authorization to charge an account, directly by the customer or by the beneficiary (subject to obtaining a written consent of the customer). Among other things, this chapter determines a mechanism for the transfer of a list of items from the customer or from the beneficiary to the bank, using each one of the communication means defined in the amendment; instructions have been determined regularizing the response to the customer and to the beneficiary within five business days, and stating that where the response is positive, the bank has to establish the authorization within the said time period; the chapter "Application for a change of account charged by authorization" has been updated and a new process has been determined, within the framework of which, for the transfer of authorization to charge an account from one bank to another, which includes several stages: submission of an application by the customer for the transfer of charges by authorization, examination of the authorization data and the establishment and transfer of information to the beneficiary.

The effective date for the amendment has been fixed for October 1, 2015.

Law Memorandum – Regulation of Off-Banking Loans Act (Amendment No. 3) (Institutional lenders, maximum interest and penalties), 2014. In February 2014, the Ministry of Justice published for public comment the Law Memorandum prepared in the wake of the recommendations of the Zaken Committee. In the framework of the Memorandum it is proposed to apply also to banks the limitation existing in the law in respect of off-banking entities. At this stage it is not yet possible to assess the effect of the Amendment upon the Bank.

35. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

Proper Conduct of Banking Business Directive No. 418 in the matter of the opening of accounts via the Internet. On July 15, 2014, the Supervisor of Banks published the Directive, constituting an additional layer in the adoption of the Zaken Committee recommendations. The Directive details the matters required from banking corporations, which are interested in allowing the opening online of bank accounts for customers, and determines limitations on operations in such accounts, designed to reduce the risks involved in conducting an online account. According to the Directive, an account may be opened on the basis of a copy of an identity card, a copy of an additional identification document, and an online signature on a declaration under the Prohibition of Money Laundering Order. In addition, identification of the customer shall be made by a visual meeting as part of performing a broader "know your customer" process.

Accounts of this type would be limited in scope of their monetary operations. In addition, it would not be possible to appoint an "authorized signatory" for such an account, and checks issued to the owner of such an account shall be limited in endorsement. These limitations would be withdrawn only after a full face to face identification of the customer is made at the branch, in accordance with the provisions of the Prohibition of Money Laundering Order (Duties of identification, reporting and maintenance of records by banking corporations for the prevention of money laundering and terror financing), 2001.

Implementation of the Directive has been postponed until the amendment to the proper disclosure rules of December 30, 2014 takes effect (see above), and to the publication of the circular of the Supervisor of Banks dated January 4, 2015, in the matter of types of accounts and terms under which an agreement with the customer shall not require his signature.

Circular of the Supervisor of Banks in the matter of types of accounts and terms under which an agreement with the customer shall not require his signature. Further to the amendment of proper disclosure rules (see above), the circular was published on January 4, 2015, taking effect on date of publication, and stated that with respect to agreements as detailed below, the customer's signature would not be required, on condition that the customer would be able to confirm on the website of the banking corporation that he had been given the possibility of reviewing the agreements:

Agreements regarding general business terms or the opening and managing of a current account, including an agreement which includes general terms for the provision of various banking services as detailed in the proper disclosure rules, to be opened online as prescribed in Proper Conduct of Banking Business Directive No. 418; an agreement for the deposit of funds for a specified period exceeding one year; agreement in the matter of telephonic instructions.

Amendment of Proper Conduct of Banking Business Directive No. 435 in the matter of telephonic instructions. The amendment to the Directive was published on January 4, 2015, and took effect upon the publication thereof. In accordance with the amendment, it is possible to present to a customer on the Internet website an agreement for the giving of telephonic instructions, and the confirmation by the customer on the said website, that he had been given the possibility of reviewing the agreement and that this will serve instead of his signature on the agreement.

Draft in the matter of licensing process and the establishment of banking associations in Israel. On June 16, 2014, the Supervisor of Banks published a draft, which includes an outline for the establishment of banking associations in Israel. This move comprises an additional layer in the adoption of the recommendations of the team which examined the increase in competition in the banking industry. The draft is intended to regularize the licensing process for the establishment of banking associations and the requirements that would apply to them, with a view of increasing competition in the field of providing retail banking services.

Details regarding Banking Rules (Customer service)(Commissions)(Amendment), 2012, and the Letter of the Supervisor of Banks regarding the re-pricing of commissions in respect of securities operations, which entered into effect in the beginning of 2013, were brought in the 2013 Annual Report.

At this stage, prior to the completion of the required legislation and regulation amendment process, it is not possible to evaluate the impact of the various moves. The Bank estimates that the income of the Group will be adversely affected by an amount assessed at approx. NIS 100 million per year.

36. EARNINGS PER SHARE

	Consolidated		
	2014	2013	2012
Basic earnings per share of NIS 0.1 (in NIS)			
Total net income, attributed to bank's shareholders	0.57	0.83	0.76
Total number of shares of NIS 0.1 par value, used for the above computation (in thousands)	1,053,869	1,053,869	1,053,869

37. INFORMATION BASED ON NOMINAL DATA FOR TAX PURPOSES - THE BANK

	December 31,	
	2014	2013
	in NIS millions	
Balance Sheet		
Total assets	140,786	139,119
Total liabilities	127,806	127,208
Equity capital attributed to the Bank's shareholders	12,980	11,911

	For the Year Ended on December 31	
	2014	2013
	in NIS millions	
Statement of Income		
Net income	659	884

38. PUBLICATION OF A SHELF PROSPECTUS

On May 23, 2014, the Bank published a shelf Prospectus, allowing the raising of funds through a variety of instruments. It is noted that at this stage, the Bank has no plans to raise funds in accordance with the shelf Prospectus.

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Israel Discount Capital Markets & Investments
Discount Underwriting & Issuing

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Diners Club
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