Q3

CONDENSED FINANCIAL STATEMENTS

30.9.2014

ISRAEL DISCOUNT BANK

REPORT OF THE BOARD OF DIRECTORS

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THE DISCOUNT GROUP - GENERAL OVERVIEW AND PRINCIPAL DATA

At the meeting of the Board of Directors held on November 20, 2014, the unaudited consolidated interim financial statements of Israel Discount Bank Ltd. and its subsidiaries for September 30, 2014 were approved (hereinafter: "the condensed financial statements"). The data presented in the report are consolidated data, unless explicitly stated otherwise.

PRINCIPAL OPERATIONS AND CENTRAL EVENTS DURING THE REPORTED PERIOD

On August 20, 2014, the strategic plan of the Discount Group for the years 2015-2019, was approved. Following the approval of the strategic plan, preparations for its integration have begun (see below). Within the framework of the plan, as part of the efficiency measures, an employee retirement plan has been approved in principal (see Note 21 to the condensed financial statements). Following the formation of the program, it was offered to relevant employees, as from the end of October.

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

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.

PRINCIPAL DATA

PROFITABILITY

	For the nine months ended September 30		
	2014	2013	Change in %
	In NIS millions		
Interest income, net[2]	3,179	3,179	-
Credit loss expenses	80	457	(82.5)
Income before taxes	930	919	1.2
Provision for taxes on income	329	254	29.5
Income after taxes	601	665	(9.6)
Net income attributed to the Bank's shareholders	591	802	(26.3)
Net income attributed to the Bank's shareholders – disregarding changes in the provision for severance pay, net[3]	732	802	(8.7)
Comprehensive income, attributed to the Bank's shareholders	989	390	
Net earnings per one share of NIS 0.1 par value attributed to the Bank's shareholders - in NIS	0.56	0.76	
The ratio of income before taxes to total equity in %[1]	10.2	11.8	
The ratio of income after taxes to total equity in %[1]	6.6	8.5	
Net return on equity attributed to the Bank's shareholders, in %[1]	6.3	9.0	
Net return on equity attributed to the Bank's shareholders, in % - disregarding changes in the provision for severance pay, net[1][3]	7.8	9.0	

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 commission), see Note 1E(1) to the condensed financial statements.

(3) For details regarding the provision for severance pay, net, primarily with respect to the retirement plan, see Note 21 to the condensed financial statements.

BALANCE SHEET

	September 30, 2014	September 30, 2013	December 31, 2013	Change in % compare to	
				September 30, 2013	December 31, 2013
	In NIS millions				
Total assets	199,780	200,025	200,507	(0.1)	(0.4)
Credit to the public, net	118,974	116,498	115,859	2.1	2.7
Securities	39,477	47,124	41,325	(16.2)	(4.5)
Deposits from the public	145,405	152,111	148,928	(4.4)	(2.4)
Equity attributed to the Bank's shareholders	13,214	12,228	12,233	8.1	8.0
Total equity	13,601	12,531	12,538	8.5	8.5

RATIO OF CAPITAL TO RISK ASSETS

	Basel III		Basel II	
	September 30, 2014	January 1, 2014	December 31, 2013	September 30, 2013
	in %			
Ratio of common equity tier 1 to risk assets (2013: core capital ratio)	9.3	8.9	9.3	9.3
Ratio of tier 1 capital to risk assets	10.3	9.7	10.1	10.0
Ratio of total capital to risk assets	14.8	14.2	14.4	14.4

FINANCIAL RATIOS

	September 30, 2014	September 30, 2013	December 31, 2013
	in %		
Ratio of total equity to total assets	6.8	6.3	6.3
Ratio of credit loss expenses to the average balance of credit to the public (1)	0.09	0.51	0.49
Ratio of credit to the public, net to total assets	59.6	58.2	57.8
Ratio of credit to the public, net to deposits from the public	81.8	76.6	77.8
Ratio of deposits from the public to total assets	72.8	76.0	74.3
Ratio of total non-interest income to operating expenses	52.8	59.6	58.5
Ratio of total non-interest income to operating expenses - disregarding changes in the provision for severance pay(3)	55.6	59.6	58.5
Ratio of operating expenses to total income	82.0	76.4	77.5
Ratio of operating expenses to total income - disregarding changes in the provision for severance pay(3)	77.9	76.4	77.5
Risk assets adjusted return(1)(2)	6.9	10.2	8.2
Risk assets adjusted return(1)(2) - disregarding changes in the provision for severance pay(3)	8.5	10.2	8.2

Footnotes:

(1) On an annual basis.

(2) Return on core capital computed on the average balance of risk assets (September 30, 2014 - 8.5%, December 31, 2013 and September 30, 2013 - 8.0%).

(3) For details regarding the provision for severance pay, net, primarily with respect to the retirement plan, see Note 21 to the condensed financial statements.

MARKET SHARE

Based on data relating to the banking industry as of June 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:

	June 30, 2014	December 31, 2013
	In %	
Total assets	15.9	16.1
Credit to the public, net	14.0	14.2
Deposits from the public	15.6	15.8
Interest income, net	17.1	16.9
Total non-interest income	17.9	19.6

Development of the Discount share

	Closing price at end of the trading day			
	November 16, 2014	September 30, 2014	December 31, 2013	Rate of change in the first nine months of 2014 in %
Discount share	596	634	663	(4.3)
The Banks index	1,261.71	1,377.13	1,323.36	4.1
The TA 25 index	1,446.23	1,458.99	1,329.39	9.7
Discount market value (in NIS billions)	6.28	6.68	6.98	(4.3)

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 realistic 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, under which some 250 employees will retire from the Bank during the coming year. The financial statements include a provision for the planned retirement plan. The plan was offered to relevant employees as from the end of October (see Note 21 to the condensed financial statements);
- Changing and leveling out the organizational structure, with the aim of simplifying various processes and making them more efficient, as well as shortening the customer response time. Within this framework, it has been decided at this stage to close down the Dan Region administration and to subject to the other Regions the branches that had been operating under it, as well as closing the Dan business center, and transferring the responsibility for commercial banking customers 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. In addition, a comprehensive examination will be carried out to ensure the most efficient and effective use of the Group’s real estate assets, alongside savings in procurement costs and other expenses;
- Adapting 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 (to date in 2014, five "Discount your way" branches have been closed down).

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. Following the approval of the strategic plan, the preparations for its integration began. 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, 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 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 Bank's hands, 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 Bank's and its subsidiaries point of view 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

Net profit attributed to the Bank's shareholders for the first nine months of 2014 totalled NIS 591 million, compared with NIS 802 million in the corresponding period last year, a decrease of 26.3%.

With the elimination of changes in the provision for severance pay, net, principally the retirement plan, the income for the first nine months of 2014 would have amounted to NIS 732 million and the decrease would have reached a rate of 8.7%.

Return on equity net attributed to the Bank's shareholders for the first nine months of 2014 reached a rate of 6.3%, on an annual basis, compared with a rate of 9.0% for the corresponding period last year, and 7.3% for all of 2013.

With the elimination of changes in the provision for severance pay, net, principally from the retirement plan, the return on equity in the first nine months of 2014 would have reached an annualized rate of 7.8%.

The following are the main factors that had an effect on the business results of the Group in the first nine months of 2014, compared with the corresponding period last year:

a. A decrease in credit loss expenses, of NIS 377 million 82.5%) as a result, mainly, of collections (cancellation of accounting writeoffs) and the reduction in allowances relating to a number of credit portfolios.

b. A decrease in the total non-interest income, of NIS 227 million (8.5%), affected by a decrease of NIS 130 million in non-interest financing income (25.2%), of which a loss in the amount of NIS 98 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.), a decrease of NIS 102 million in commissions[1] (5.0%) and an increase of NIS 5 million in other income (4.1%).

c. An increase of NIS 139 million in operating and other expenses (3.1%), affected, mainly, by an increase of NIS 224 million in payroll and related expenses (8.3%), of which NIS 228 million, the effect of changes in the provision for severance pay at the Bank and at MDB, which was partly offset by a decline of NIS 57 million in other expenses (6.9%) and a decrease of NIS 28 million in the expenses for maintenance and depreciation of buildings and equipment (3.0%).

d. Tax provision of NIS 329 million on earnings in the first nine months of 2014, compared with NIS 254 million in the corresponding period last year.

e. A decrease of NIS 143 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 14).

Following is the condensed statement of comprehensive income:

	For the nine months ended September 30,		
	2014	2013	
	in NIS millions		Change in %
Net income attributed to the Bank's shareholders	591	802	(26.3)
Changes in components of other comprehensive income (loss), attributed to the Bank's shareholders:			
Other comprehensive income (loss), before taxes[(1)]	544	(566)	
Effect of attributed taxes	(146)	154	
Other comprehensive income (loss), attributed to the Bank's shareholders, after taxes	398	(412)	
Comprehensive income, attributed to the Bank's shareholders	**989**	**390**	**153.6**

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 (September 30, 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 13.

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 the first nine months of 2014 and the data of the first nine months of 2013, and between the data of the third and the second quarters of 2014 and between the data of the third 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 1E(1) to the condensed financial statements.

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

Following are the developments in income statement items in the first nine months of 2014, compared to the first nine months of 2013:

	For the nine months ended September 30,		
	2014	2013	Change
	In NIS millions		in %
Interest income[4]	4,384	5,291	(17.1)
Interest expenses	1,205	2,112	(42.9)
Interest income, net	3,179	3,179	-
Credit loss expenses	80	457	(82.5)
Net interest income after credit loss expenses	**3,099**	**2,722**	**13.9**
Non-interest Income			
Non-interest financing income	386	516	(25.2)
Commissions[4]	1,918	2,020	(5.0)
Other income	127	122	4.1
Total non-interest income	**2,431**	**2,658**	**(8.5)**
Operating and other Expenses			
Salaries and related expenses	2,922	2,698	8.3
Maintenance and depreciation of buildings and equipment	903	931	(3.0)
Other expenses	775	832	(6.9)
Total operating and other expenses	**4,600**	**4,461**	**3.1**
Income before taxes	930	919	1.2
Provision for taxes on income	329	254	29.5
Income after taxes	601	665	(9.6)
Bank's share in income of affiliated companies, net of tax effect	(1)(2)23	166	(86.1)
Net income attributed to the non-controlling rights holders in consolidated companies	(33)	(29)	13.8
Net income attributed to Bank's shareholders	**591**	**802**	**(26.3)**
Net return on equity attributed to the Bank's shareholders, in %[3]	6.3	9.0	
Net income attributed to Bank's shareholders – disregarding changes in the provision for severance pay, net	**(5)732**	**802**	**(8.7)**
Net return on equity attributed to the Bank's shareholders, in % - disregarding changes in the provision for severance pay, net[3]	(5)7.8	9.0	

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 14 D to the condensed 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 14E to the condensed financial statements.

(3) On an annual basis.

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

(5) For details regarding changes in the provision for severance pay, net, primarily with respect to the retirement plan, see Note 21 to the condensed financial statements.

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

	2014		2013	Q3 2014 compared to	
	Q3	Q2	Q3	Q2 2014	Q3 2013
	In NIS millions			in %	
Interest income[2]	1,479	1,581	1,865	(6.5)	(20.7)
Interest expenses	418	481	771	(13.1)	(45.8)
Interest income, net	1,061	1,100	1,094	(3.5)	(3.0)
Credit loss expenses (reversal expenses)	40	(35)	171	-	(76.6)
Net interest income after credit loss expenses	**1,021**	**1,135**	**923**	**(10.0)**	**10.6**
Non-interest Income					
Non-interest financing income	148	114	90	29.8	64.4
Commissions[2]	650	637	684	2.0	(5.0)
Other income	48	27	65	77.8	(26.2)
Total non-interest income	**846**	**778**	**839**	**8.7**	**0.8**
Operating and other Expenses					
Salaries and related expenses	914	1,072	889	(14.7)	2.8
Maintenance and depreciation of buildings and equipment	306	299	321	2.3	(4.7)
Other expenses	254	261	275	(2.7)	(7.6)
Total operating and other expenses	**1,474**	**1,632**	**1,485**	**(9.7)**	**(0.7)**
Income before taxes	393	281	277	39.9	41.9
Provision for taxes on income	149	83	47	79.5	217.0
Income after taxes	244	198	230	23.2	6.1
Bank’s share in income of affiliated companies, net of tax effect	3	5	56	(40.0)	(94.6)
Net income attributed to the non-controlling rights holders in consolidated companies	(13)	(11)	(10)	18.2	30.0
Net income attributed to Bank's shareholders	**234**	**192**	**276**	**21.9**	**(15.2)**
Net return on equity attributed to the Bank's shareholders, in %[1]	7.5	6.3	9.5		
Net income attributed to Bank's shareholders – disregarding changes in the provision for severance pay, net	**[3]254**	**[3]313**	**276**	**(18.8)**	**(8.0)**
Net return on equity attributed to the Bank's shareholders, in % - disregarding changes in the provision for severance pay, net[1]	[3]8.2	[3]10.3	9.5		

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 1E(1) to the condensed financial statements.

(3) For details regarding changes in the provision for severance pay, net, primarily with respect to the retirement plan, see Note 21 to the condensed financial statements.

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

Interest income, net. In the first nine months of 2014, interest income, net, amounted to NIS 3,179 million, similar to the corresponding period last year. The positive quantitative effect in the amount of NIS 43 million, was offset by a negative price effect of NIS 43 million (see Schedule "A" to the Management Review, below).

Had it not been for the implementation of the new instruction regarding interest income, the net interest income for the first nine months of 2014, would have amounted to NIS 3,034 million, a decrease of 4.6% as compared with the corresponding period last year.

The interest margin, excluding derivatives, reached a rate of 2.26% in the first nine months of 2014, compared with 2.14% in the corresponding period last year.

The average balance of interest bearing assets has declined by a rate of approx. 2.1%, from an amount of NIS 178,190 million to NIS 174,383 million, and the average balance of interest bearing liabilities has declined by a rate of approx. 5.9%, from an amount of NIS 153,579 million to NIS 144,542 million.

Non-interest financing income. In the first nine months of 2014, non-interest financing income amounted to NIS 386 million, compared to NIS 516 million in the corresponding period last year, a decrease of 25.2%.

The reduction in non-interest financing income is mainly due to a decrease in gains from the sale of available-for-sale bonds and to an impairment provision to available-for-sale bonds (see Note 11 to the condensed financial statements).

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.

Following is the composition of the net financing income:

	2014			2013			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions						
Interest income[1]	1,479	1,581	1,324	1,531	1,865	1,758	1,668
Interest expenses	418	481	306	460	771	717	624
Interest income, net	1,061	1,100	1,018	1,071	1,094	1,041	1,044
Non-interest financing income	148	114	124	116	90	236	190
Total net financing profit	**1,209**	**1,214**	**1,142**	**1,187**	**1,184**	**1,277**	**1,234**

Footnote:

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

Following is an analysis of the total net financing income:

	2014			2013			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	in NIS millions						
Profit from current operations[1]	1,047	1,072	1,017	1,059	1,011	971	985
Net profit from realization and adjustment to fair value of bonds	72	52	105	20	66	197	117
Profit from investments in shares	11	63	18	39	15	24	59
Adjustment to fair value of derivative instruments	11	(1)	(32)	18	59	54	64
Exchange rate differences, options and other derivatives	67	28	34	33	32	30	(1)
Net income on the sale of loans	1	-	-	18	1	1	10
Total net financing income	**1,209**	**1,214**	**1,142**	**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 1E(1) to the condensed financial statements.

Financing income, net, amounted to NIS 3,565 million in the first nine months of 2014, compared to NIS 3,695 million in the corresponding period last year, a 3.5% decrease.

The decrease in the financing income is mainly due to a NIS 151 million decrease in realization gains and fair value adjustments with respect to bonds and to a NIS 199 million decrease in fair value adjustments with respect to derivative instruments, which were partly offset by a NIS 169 million increase in income from current activity, which was affected by the implementation of the FAS 91 guidelines.

Rates of income and expenses. Interest income, net, is presented in Schedule "A" 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 exchange differences and operation in options).

Interest margin, from current operations, including ALM derivatives reached a rate of 1.10% in the first nine months of 2014, compared with 1.06% in the corresponding period last year.

The net financing income amounted to NIS 1,209 million in the third quarter of 2014, compared to NIS 1,184 million in the corresponding quarter last year, a 2.1% increase, and compared to NIS 1,214 million in the second quarter of 2014, a 0.4% decrease.

The interest margin on current operations, including ALM derivatives, reached 1.09% in the third quarter of 2014, compared to 1.06% in the corresponding quarter last year and compared to 1.15% in the second quarter of 2014.

The following is the development of the interest income, net by segments of operations:

	For the three months ended September 30			For the nine months ended September 30		
	2014	2013	Change in %	2014	2013	Change in %
	In NIS millions			In NIS millions		
Retail - household segment	293	(1)307	(4.6)	875	(1)954	(8.3)
Retail - small business segment	199	187	6.4	586	(1)559	4.8
Corporate banking segment	223	248	(10.1)	662	727	(8.9)
Middle market banking segment	144	134	7.5	428	405	5.7
Private banking segment	77	80	(3.8)	240	240	-
Financial management segment	125	(1)138	(9.4)	388	(1)294	32.0
Total	**1,061**	**1,094**	**(3.0)**	**3,179**	**3,179**	**-**

Footnote:

(1) Reclassified, see Note 12 B (3) to the condensed financial statements.

Credit loss expenses in the first nine months of 2014 totalled NIS 80 million, compared with NIS 457 million in the corresponding period last year, a decrease of 82.5%. Expenses in respect of credit losses in the first nine months of 2014, compared with the corresponding period last year, 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 also from a decrease in expenses on a group basis, due primarily to changes in the balance of credit and to a reduction in the allowance coefficients of a subsidiary.

For details as to the components of the credit loss expenses, see Note 3 to the condensed financial statements.

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

	2014			2013			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions						
On a specific basis	(34)	(75)	104	170	102	77	101
On a group basis	74	40	(29)	(47)	69	64	44
Total	**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	0.13%	(0.12%)	0.25%	0.41%	0.58%	0.48%	0.49%
Cumulative rate since the beginning of the year	0.09%	0.07%	0.25%	0.49%	0.51%	0.48%	0.49%

Footnote:

(1) On an annual basis.

Commissions in the first nine months of 2014, amounted to NIS 1,918 million, compared to NIS 2,020 million in the corresponding period last year, a decrease of 5.0%.

Following is the distribution of the commissions:

	For the nine months ended September 30,		
	2014	2013	Change
	in NIS millions		in %
Ledger fees	425	439	(3.2)
Credit cards	695	696	(0.1)
Operations in securities and in certain derivative instruments	249	224	11.2
Commissions from the distribution of financial products	101	85	18.8
Management, operational and trusteeship services for institutional bodies	11	12	(8.3)
Handling credit[1]	89	211	(57.8)
Conversion differences	102	94	8.5
Foreign trade services[1]	38	40	(5.0)
Net income from credit portfolio services	13	12	8.3
Commissions on financing activities[1]	124	139	(10.8)
Other commissions	71	68	4.4
Total commissions	**1,918**	**2,020**	**(5.0)**

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 1E(1) to the condensed financial statements.

Had it not been for the implementation of the new instruction regarding interest income, total commissions for the first nine months of 2014, would have amounted to NIS 2,065 million, an increase of 2.2% as compared with the corresponding period last year.

Salaries and related expenses amounted to NIS 2,922 million in the first nine months of 2014, compared with NIS 2,698 million in the corresponding period last year, an increase of 8.3%. The increase stems, among other things, from the effect of the wage agreement (see "Human resources" below), from the updating of the rates of payroll tax and National Insurance contributions, and from changes in the provision for severance pay, principally the retirement plan (see Note 21 to the condensed financial statements).

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

	For the nine months ended September 30		Change in %
	2014	2013	2014 compared to 2013
	In NIS millions		
Salaries and Related Expenses - as reported	2,922	2,698	8.3
Awards	(56)	(161)	
Changes in the provision for severance pay	(228)	-	
Salaries and Related Expenses - Didregarding certain components	**2,638**	**2,537**	**4.0**

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

	2014			2013			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	In NIS millions						
Salaries and Related Expenses - as reported	914	1,072	936	921	889	933	876
Awards	(22)	(16)	(18)	(68)	(57)	(81)	(23)
Changes in the provision for severance pay	(33)	(195)	-	-	-	-	-
Salaries and Related Expenses - Didregarding certain components	**859**	**861**	**918**	**853**	**832**	**852**	**853**

DEVELOPMENT OF ASSETS AND LIABILITIES

Total assets as at September 30, 2014, amounted to NIS 199,780 million, compared with NIS 200,507 million at the end of 2013, a decrease of 0.4%.

Following are the developments in the principal balance sheet items:

	September 30, 2014	December 31, 2013	
	in NIS millions		Rate of changes in %
Assets			
Cash and deposits with banks	23,149	25,319	(8.6)
Securities	39,477	41,325	(4.5)
Credit to the public, net	118,974	115,859	2.7
Investments in affiliated companies	141	1,668	(91.5)
Liabilities			
Deposits from the public	145,405	148,928	(2.4)
Deposits from banks	5,313	4,213	26.1
Securities loaned or sold under repurchase arrangements	3,785	3,644	3.9
Subordinated debt notes	10,839	11,664	(7.1)
Equity attributed to the Bank's shareholders	13,214	12,233	8.0
Total equity	13,601	12,538	8.5

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

CREDIT TO THE PUBLIC

General. Credit to the public, net, (after provision for credit losses) as at September 30, 2014 totaled NIS 118,974 million, compared with NIS 115,859 million at the end of 2013, an increase of 2.7%.

For details regarding credit risk management, see "Credit risk management" under "Exposure to risks and risk management" hereunder and in the 2013 Annual Report (pp. 141-158). For details regarding the quality of credit, see Note 3 to the condensed financial statements and in the 2013 Annual Report (pp. 400-402). For details regarding the housing credit portfolio at the Discount Group, see "Mortgage Activity" under "Further details as to activity in certain products" and in the 2013 Annual Report (pp. 118-120).

COMPOSITION OF CREDIT TO THE PUBLIC BY LINKAGE SEGMENTS

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

	September 30, 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	73,992	62.2	69,874	60.3	5.9
CPI-linked shekels	15,887	13.4	17,388	15.0	(8.6)
Foreign currency and foreign currency-linked shekels	29,095	24.4	28,597	24.7	1.7
Total	**118,974**	**100.0**	**115,859**	**100.0**	**2.7**

Credit to the public denominated in foreign currency and in Israeli currency linked thereto increased by 1.7% 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$365 million, a decrease of 4.4% as compared to December 31, 2013. The total credit to the public, which includes credit in foreign currency and Israeli currency linked to foreign currency, computed in U.S. dollar terms, increased by a rate of 1.2% 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:

	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	40,577	(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	20,035	19,835	20,190	19,753	19,739	19,540	19,393
Retail - small bussiness segment	13,857	(2)13,555	(2)13,423	(2)13,372	(2)13,180	(2)12,854	(2)12,611
Corporate banking segment	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	21,415	(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	3,716	3,585	3,543	3,384	3,567	3,530	3,432
Total	**118,974**	**115,161**	**115,871**	**115,859**	**116,498**	**115,120**	**116,155**

Footnotes:
(1) Reclassified, see Note 12 B (2) to the condensed financial statements.
(2) Reclassified, see Note 12 B (5) to the condensed financial statements.

COMPOSITION OF THE OVERALL CREDIT TO THE PUBLIC RISK BY ECONOMIC SECTORS

Following are the developments of total credit to the public risk, by main economic sectors:

	September 30, 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	1,195	0.6	1,179	0.6	1.4
Industrial	22,681	11.8	22,662	12.3	0.1
Construction and real estate - construction	15,306	8.0	14,743	8.0	3.8
Construction and real estate - real estate activity	18,581	9.7	17,121	9.3	8.5
Electricity and water	3,505	1.8	3,392	1.8	3.3
Commerce	20,872	10.9	19,838	10.7	5.2
Hotels, hotel services and food	2,645	1.4	2,898	1.6	(8.7)
Transportation and storage	4,099	2.1	4,189	2.3	(2.2)
Communications and computer services	2,619	1.4	2,507	1.4	4.5
Financial services	21,967	11.5	21,504	11.6	2.2
Other business services	8,407	4.4	8,369	4.5	0.5
Public and community services	5,308	2.8	4,876	2.6	8.9
Private individuals - housing loans	21,559	11.3	21,124	11.4	2.1
Private individuals - other	42,642	22.3	40,610	21.9	5.0
Total overall credit to the public risk	**191,386**	**100.0**	**185,012**	**100.0**	**3.4**
Banks	12,598		12,641		
Governments	25,830		28,486		
Total	**229,814**		**226,139**		

The data presented above shows that compared with the end of 2013, the total credit to the public risk increased by 3.4%. The increase in the overall credit to the public risk relates primarily to private individuals, other than for housing loans, and also to the commerce and construction sectors. On the other hand, there was a decrease in credit risk in the hotels, hotel services and food, transportation and storage sectors. For additional details, see Schedule D to the Management review.

DEVELOPMENT OF PROBLEMATIC CREDIT RISK

Problematic credit risk[1] and non performing assets:

	September 30, 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][4]3,355	38	3,393	[3][4]3,873	295	4,168
Substandard credit risk	843	5	848	999	16	1,015
Special mention credit risk[2]	1,632	687	2,319	[5][6]2,085	475	2,560
Total Problematic Credit Risk	**5,830**	**730**	**6,560**	**6,957**	**786**	**7,743**
Of which: Non impaired debts, in arrears for 90 days or more[2]	525			531		
Non-performing assets:						
Impaired debts - non accruing interest income	3,082			3,327		
Assets received in respect of credit settlement	2			2		
Total Non-Performing Assets	**3,084**			**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 16 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 are held by a subsidiary, in an amount of NIS 170 million (December 31, 2013- NIS 13 million).The increase in the balance of problematic balance sheet credit risk with respect to such bonds is due to IDB New York's decision to sell these, as part of the preparations for the implementation of the Basel III instructions in the United States, as of January 1, 2015. The aforesaid increase partly offset the decrease in the recorded amount of impaired problematic credit to the public risk.

(5) Including accruing corporate bonds in an amount of NIS 7 million as at December 31, 2013.

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

Following are details on credit to the public, as specified in Note 3 to the condensed financial statements:

Impaired credit to the public. The balance sheet impaired credit to the public (accruing interest and non- accruing) amounted at September 30, 2014 to approx. NIS 3,169 million, compared to NIS 3,852 million at December 31, 2013, a decrease of 17.7%.

Impaired non-accruing credit to the public. The impaired non-accruing credit to the public which is examined on a specific basis, amounted at September 30, 2014 to approx. NIS 2,896 million, compared to NIS 3,306 million at December 31, 2013, a decrease at a rate of 12.4%.

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

	September 30, 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	22,681	1,317	5.8	22,662	1,623	7.2
Construction and real estate - construction	15,306	925	6.0	14,743	979	6.6
Construction and real estate - real estate activity	18,581	1,069	5.8	17,121	1,478	8.6
Commerce	20,872	980	4.7	19,838	1,043	5.3
Financial services	21,967	617	2.8	21,504	600	2.8
Private individuals - housing loans	21,559	471	2.2	21,124	477	2.3
Private individuals - other	42,642	317	0.7	40,610	357	0.9
Other Sectors	27,778	864	3.1	27,410	1,186	4.3
Total Public	**191,386**	**6,560**	**3.4**	**185,012**	**7,743**	**4.2**
Banks	12,598	-	-	12,641	-	-
Governments	25,830	-	-	28,486	-	-
Total	**229,814**	**6,560**	**2.9**	**226,139**	**7,743**	**3.4**

A decrease in problematic credit risk was recorded in the first nine months of 2014, that arose, inter alia, from the industrial sectors and real estate and commerce operations 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 2,174 million as of September 30, 2014. The balance of this allowance constitutes 1.79% 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 specific allowance for credit losses in respect of impaired credit to the public, examined on a specific basis amounted to NIS 492 million on September 30, 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, the allowance for credit losses in respect of which was calculated according to the extent of arrears, amounted at September 30, 2014 to NIS 1,426 million, compared with NIS 1,417 million on December 31, 2013, an increase of NIS 9 million in the current allowance.

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

	September 30, 2014	September 30, 2013	December 31, 2013
Ratio of balance of impaired credit to the public to balance of credit to the public	2.6%	3.8%	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%	0.5%
Ratio of balance of allowance for credit losses in respect of credit to the public, to balance of credit to the public	1.8%	1.8%	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	68.6%	48.4%	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%	4.6%	4.2%
Ratio of credit loss expenses to the average balance of credit to the public (in annualized terms)	0.09%	0.51%	0.49%
Ratio of net accounting write-offs in respect of credit to the public to the average balance of credit to the public (in annualized terms)	0.1%	0.4%	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 (in annualized terms)	4.0%	20.7%	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	58.9%	43.0%	48.7%
Footnote:			
(1) Disregarding certain bonds of bank holding companies (TRUPS), which are held by a subsidiary	3.3%	4.5%	4.1%

THE RISK CHARACTERIZATION OF THE CREDIT TO THE PUBLIC PORTFOLIO

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

	Nine months ended September 30			
	2014		2013	
sectors	Credit loss expenses (expenses reversal)	Rate from total periodic expenses	Credit loss expenses	Rate from total periodic expenses
	In NIS millions	%	In NIS millions	%
Industrial	(1)	-	96	21.0
Construction and real estate - construction	93	116.3	22	4.8
Construction and real estate - real estate activity	(10)	-	21	4.6
Commerce	(39)	-	196	42.9
Transportation and storage	8	10.0	25	5.5
Communications and computer services	(31)	-	9	2.0
Financial services	20	25.0	8	1.8
Other business services	(5)	-	21	4.6
Private Individuals - Housing Loans	6	7.5	40	8.8
Private Individuals - Other	42	52.5	18	3.9

The data presented above reveal that the decrease in the expenses for credit losses was focused primarily on the industrial, commerce and communications and computer services and in real estate activities sectors. The change in the expense in the commerce sector mainly relates to a single customer whose debt was collected. In addition, the decrease in the expense for credit losses on housing loans is due to a one-time expense incurred in 2013, in the course of implementing directives of the Supervisor of Banks. On the other hand, the expense for credit losses increased with respect to private individuals (other than housing loans) and in the construction sector. The increase in credit loss expenses relating to the private non-housing loans sector, derived, among other things, from the increase in the group provision, in view of the uncertainty regarding the implications of the "Protective Edge" operation.

SECURITIES

General. Securities in the Nosrto portfolio totaled NIS 39,477 million as of September 30, 2014, compared with NIS 41,325 million at the end of 2013, a decrease of 4.5%. It is clarified that the "Nostro" portfolio of the Discount Group as of September 30, 2014, did not include any security the investment in which comprised 5% or over of the value of the total portfolio, except for one security, of the "government variable 520" type, the investment in which amounted to 7.9% of the total portfolio.

As of September 30, 2014, some 57% of the portfolio is invested in Government bonds, and 11% of the portfolio is invested in bonds of U.S. Government Supported Enterprises (GSE). For details regarding the Bank’s investments in bonds, according to economic sectors, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", items 1-3). For details regarding the segmentation 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 3).

For details regarding the Nostro portfolios management policy, see 2013 Annual Report (pp. 28-29).

The First International Bank of Israel Ltd. ("FIBI"). See Note 6E to the financial statements as of December 31, 2013, (pp. 410-413) and Note 14 to the condensed 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 and recognized as income; sale of shares in June 2014 and in September 2014.

COMPOSITION OF THE SECURITIES PORTFOLIO BY LINKAGE SEGMENTS

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

	September 30, 2014	December 31, 2013	Rate of change in %
	In NIS millions		
Non-linked shekels	17,266	20,804	(17.0)
CPI-linked shekels	5,062	5,474	(7.5)
Foreign currency and foreign currency-linked shekels	15,255	14,182	7.6
Shares - non-monetary items	1,894	865	119.0
Total	**39,477**	**41,325**	**(4.5)**

Securities in foreign currency and in Israeli currency linked to foreign currency increase by 7.6%, compared with December 31, 2013. In U.S. dollar terms, the investment in securities in Israeli currency linked to foreign currency and in foreign currency increased by US$43 million, an increase of 1.0% 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 6.7% 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 according to the above categories:

	September 30 ,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	6,961	7,464	6,961	7,174	7,424	7,174
Available for sale	27,246	27,751	27,751	30,940	31,108	31,108
Trading	2,855	2,871	2,871	2,181	2,178	2,178
Shares						
Available for sale	1,875	1,882	1,882	838	852	852
Trading	14	12	12	14	13	13
Total Securities	**38,951**	**39,980**	**39,477**	**41,147**	**41,575**	**41,325**

The growth in the available-for-sale shares item stemmed mainly from the classification of the investment in the shares of FIBI to this portfolio as from March 13, 2014 (see Note 14 E to the condensed financial statements).

The difference between the fair value of the available-for-sale portfolio and its net-adjusted cost in the amount of NIS 512 million as of September 30, 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, of which NIS 14 million, being the Bank's share in reserves of FIBI; see Note 13 to the condensed financial statements). For details as to the classification of the balance of the Bank's share in reserves of FIBI, see Note 14 E to the condensed financial statements.

Corporate bonds. Discount Group's available for sale securities portfolio as of September 30, 2014, includes investments in corporate bonds in the amount of NIS 3,836 million (including an amount of NIS 864 million held by IDB New York, an amount of NIS 1,083 million, held by Mercantile and NIS 1,889 million directly held by the Bank). For additional details, see Annex to the Report of the Board of Directors, comprising an integral part thereof (Part "A", item 1). For details as to the balance of unrealized losses included in the balance of the said bonds, see Note 2 to the condensed financial statements.

INVESTMENTS IN MORTGAGE AND ASSET BACKED SECURITIES

Investments in mortgage and asset backed securities – general. Discount Group’s securities portfolio as of September 30, 2014 includes investment in mortgage backed securities, in the amount of US$2,349 million, which are held by IDB New York, compared to an amount of US$2,326 million as at December 31, 2013. The majority of the mortgage backed securities portfolio is comprised of bonds of various federal agencies (Ginnie Mae, Fannie Mae, Freddie Mac). The investment in the said bonds does not include exposure to the subprime market.

As of September 30, 2014, the portfolio of mortgage backed securities (MBS) and asset backed securities included unrealized net losses of US$26 million.

For details regarding the agencies operating under the auspices of the U.S. Administration, see the 2013 Annual Report (p. 32).

Direct investments in Federal Agencies’ bonds. The securities portfolio of the Discount Group as at September 30, 2014 and December 31, 2013, includes a direct investment in 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.

CLO. During the first nine months of 2014, IDB New York purchased secured bonds of the CLO type, in the total amount of approx. US$100 million. The said securities are rated AA-AAA by at least one rating agency. For details, see Note 2 to the condensed financial statements.

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).

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 "Critical accounting policies and critical accounting estimates" in the 2013 Annual Report (p. 242) and Note 1 to the financial statements as of December 31, 2013 (pp. 357-358).

Based on a review of the impairment of the said securities as of September 30, 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 September 30, 2014, unrealized accumulated losses in respect of available-for sale shares amounted to NIS 5 million. As at September 30, 2013 and December 31, 2013, there were no unrealized accumulated losses in respect of available-for sale shares.

As of September 30, 2014, September 30, 2013 and December 31, 2013, unrealized accumulated losses on available-for-sale mortgage backed securities amounted to total amounts of NIS 120 million, NIS 155 million and NIS 200 million, respectively. For additional details, see Note 2 C and I to the condensed financial statements.

Provision for impairment of TRUPS. The Basel III rules will apply to IDB New York as from January 1, 2015, within the framework of which, the investment in TRUPS bonds will be 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 a part of the said securities. Until September 30, 2014, the investments in Bank of America Corporation, JP Morgan Chase and in Wells Fargo & Co have been sold. In the financial statements as of September 30, 2014, a loss was recorded on the sale of bonds, as stated in an amount of US$22 million (NIS 76 million). In addition, a loss was recognized in respect of impairment of the remainder of the investment in bonds of the TRUPS type, that had not been sold by September 30, 2014 (classification from other comprehensive income) in the amount of approx. US$6 million (NIS 22 million).

For details regarding TRUPS characteristics, see the 2013 Annual Report (pp. 295-296).

DEPOSITS FROM THE PUBLIC

Deposits from the public as at September 30, 2014, totalled NIS 145,405 million, compared with NIS 148,928 million at the end of 2013, a decrease of 2.4%, and compared with NIS 152,111 million as of September 30, 2013, a decrease of 4.4%. The decline derived, mostly, from the classification of assets and liabilities of DBLA as "held for sale" (see note 18 to the condensed financial statements).

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

	September 30, 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	81,959	56.4	85,467	57.4	(4.1)
CPI-linked shekels	8,299	5.7	10,797	7.2	(23.1)
Foreign currency and foreign currency-linked shekels	55,147	37.9	52,664	35.4	4.7
Total	**145,405**	**100.0**	**148,928**	**100.0**	**(2.4)**

Deposits from the public in foreign currency and in Israeli currency linked to foreign currency increased at the rate of 4.7%, compared with December 31, 2013. In dollar terms the deposits from the public in foreign currency and in Israeli currency linked to foreign currency decreased by US$248 million, a decrease of 1.6% compared with December 31, 2013. The 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 at a rate of 4.6%, compared with December 2013.

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

	September 30, 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	64,811	44.6	(1)64,794	43.5	-
Retail - small bussiness segment	15,020	10.3	(1)16,371	11.0	(8.3)
Corporate banking segment	20,007	13.8	23,503	15.8	(14.9)
Middle market banking segment	10,075	6.9	(1)10,678	7.2	(5.6)
Private banking segment	35,492	24.4	(1)33,582	22.5	5.7
Total	**145,405**	**100.0**	**148,928**	**100.0**	**(2.4)**

Footnote:
(1) Reclassified, see Note 12 B (2) to the condensed financial statements.

CAPITAL RESOURCES

IMPLEMENTATION OF BASEL III IN ISRAEL

New 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 apply as from January 1, 2014, and include a requirement for maintaining a minimal Ratio of common equity tier 1 (core capital ratio in Basel II terms) 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.

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 September 30, 2014, on the basis of the data for that date and the transitional instructions as would apply one year after the date of the initial implementation of the guidelines, including the effect of the discount rate in computing employee rights, at the initial implementation date of the instruction regarding employee rights, on January 1, 2015 in accordance with the transitional instructions determined in this respect, but without the consideration of income accumulated during the period, the ratio of common equity tier 1 would have been reduced by 0.3% from 9.3% to 9.0%.

It is noted that the calculation of the impact of the discount rate in calculating employee rights, herewith and further on, is based on returns on CPI-linked government bonds. For details regarding the question of existence of a "deep market" with respect to corporate bonds and the impact this might have on calculations of this type, see "Employee rights" under "Critical accounting policies and critical accounting estimates".

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 September 30, 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 the remaining shares of FIBI held by the Bank) (a situation equal to the situation that will prevail in 2022, approx. nine years after the date of initial implementation of the directive, including the effect of the discount rate in computing employees rights, though without taking into consideration earnings that will accumulate during the period), the ratio of common equity tier 1 would have declined by 0.6%, from 9.3% to 8.7%. (For details regarding the long-term effect, excluding the effect of the change in the discount rate used for the computation of employee rights, see Note 5 to the condensed financial statements).

It should be emphasized that the data presented above forms an estimate only. In view of the Directive's complexity, it is possible that at a later date, when experience in the Directive's implementation is gained, changes will take place in interpretation of the directive or in the policy adopted for its implementation in practice.

Moreover, the said estimates assume a situation of static existence of the data as of September 30, 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 changes in comprehensive income, and of preparation measures adopted by Management of the Bank, if at all. In view of the above, the actual result 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" and its effect on capital adequacy, see Note 5 (c) to the condensed 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.

COMPONENTS OF CAPITAL

Total capital as at September 30, 2014, totalled NIS 13,601 million, compared with NIS 12,538 million at the end of 2013, an increase of 8.5%.

Equity attributed to the Bank’s shareholders as at September 30, 2014, totalled NIS 13,214 million, compared with NIS 12,233 million at the end of 2013, an increase of 8.0%. The change in equity attributed to the Bank’s shareholders in the first nine months of 2014 was affected, among other things, by the net earnings during the period, by an increase of NIS 213 million in the component of net adjustment of available-for-sale securities presented at fair value, net of the tax effect and from an increase in the amount of NIS 183 million in financial statements transactions adjustments.

The ratio of total capital, to total assets as at September 30, 2014, reached a rate of 6.8%, compared with 6.3% at the end of 2013.

COMPONENTS OF THE REGULATORY CAPITAL AS OF SEPTEMBER 30, 2014 (BASEL III)

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 September 30, 2014. Note 5 to the condensed financial statements also include data in Basel II terms, as of December 31, 2013 and September 30, 2013.

Ratio of common equity tier 1 (core capital ratio in Basel II terms) on September 30, 2014, amounted to 9.3%, as compared with 8.9% on January 1, 2014.

Total capital ratio as of September 30, 2014, amounted to 14.8%, as compared with 14.2% on January 1, 2014.

	September 30 2014	1 January 2014
	in NIS millions	
1. Capital for Calculating ratio of capital		
Common equity tier 1 after deductions	13,247	12,364
Additional tier 1 capital after deductions	1,425	1,136
Tier 1 capital	14,672	13,500
Tier 2 capital	6,374	6,124
Total capital	**21,046**	**19,624**
2. Weighted risk assets balance		
Credit risk	125,459	122,592
Market risk	2,820	2,588
CVA risk	1,383	1,144
Operational risk	12,279	12,217
Total weighted risk assets balance	**141,941**	**138,541**
3. Ratio of capital to risk assets		
Ratio of common equity tier 1 to risk assets	9.3	8.9
Ratio of tier 1 capital to risk assets	10.3	9.7
Ratio of total capital to risk assets	14.8	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) 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 Note 5 (c) to the condensed 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 report for the third quarter of 2014 (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 increase of 23% was recorded during the first nine months of 2014 in the M1 money supply (cash held by the public and shekel current account deposits) of which, an increase of 31% was recorded in current account deposits. In particular, the M1 money supply increased in the third quarter by 13%. The increase in the M2 money supply (M1 plus non-linked deposits of up to one year) was more moderate (5%), and reflected (Over and above the increase in the M1 money supply) an increase of 6% in current credit deposits, and on the other hand, a decline of 4% in deposits of up to one year.
These trends, which occurred concurrently with the lowering of the interest rate and the rises on the capital market, led to the shift from bank deposits, on the background of the low interest rate, to liquid assets and to the capital market.
It is noted that the money supplies M1 and M2 increased in the corresponding period last year by 14% and 3.8%, respectively.
During the reviewed period, the monetary base recorded a growth of NIS 9.9 billion, over one half of the growth was recorded in the months of August-September. This, compared to a growth of NIS 2.9 billion in the corresponding period last year. The growth in the reviewed period reflected the supply of money by the Bank of Israel, which was partly offset by absorption by the Government. The supply by the Bank of Israel was created through conversion of foreign currency and by a reduction in the tenders for Shekel deposits, which were partly offset by operations on the open market (the issue of short-term loans MAKAM).

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

	First nine months of		
	2014	2013	change
	In NIS billion		in %
Operations on the Capital Market	(4.3)	(6.8)	(37.2)
The Shekel deposits tender	2.0	17.0	(88.2)
Foreign currency conversion	21.3	13.9	53.0
Government activity	(10.1)	(23.1)	(56.3)

THE BANK

During the first nine months of 2014, the Bank has maintained liquid assets in a volume larger than its total liquid liabilities and the Bank's internal liquidity model has shown significant liquidity surplus.

The following trends were noticed during the first nine months:

- A decline of approx. 6.4% in the volume of unlinked shekel deposits and the CPI-linked deposits (the decrease includes the redemption of debt notes in the amount of NIS 700 million). Overall, the shekel deposits declined by NIS 4.1 billion, of which NIS 2.8 billion corporate deposits and NIS 1.3 billion retail deposits. The decline in the balance of the retail deposits is due to transition to the capital market, as a result of the low interest environment;
- A transition of liquidity from deposits to current accounts, in a volume of NIS 2 billion in the shekel sector, as a result of the low interest environment;
- In foreign currency deposits a decline of approx. US$280 million, mainly in retail deposits.

For additional details, see below in the item "Liquidity risk management" and in the 2013 annual report (pp. 40-42).

Deposits from the public

				Change compared			
	September 30, 2014	September 30, 2013	December 31, 2013	September 30, 2013		December 31, 2013	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	67,667	71,621	70,442	(3,954)	(5.5)	(2,775)	(3.9)
CPI-linked shekels	9,585	11,639	12,128	(2,054)	(17.6)	(2,543)	(21.0)
Foreign currency and foreign currency linked shekels	29,311	28,984	28,608	327	1.1	703	2.5
Total	**106,563**	**112,244**	**111,178**	**(5,681)**	**(5.1)**	**(4,615)**	**(4.2)**
Foreign currency and foreign currency linked shekels - In US$ millions	**7,933**	**8,194**	**8,242**	**(261)**	**(3.2)**	**(309)**	**(3.8)**

Deposits from banks

				Change compared			
	September 30, 2014	September 30, 2013	December 31, 2013	September 30, 2013		December 31, 2013	
	In NIS millions			In NIS millions	in %	In NIS millions	in %
Non-linked shekels	2,157	649	1,000	1,508	232.3	1,157	115.7
CPI-linked shekels	501	617	468	(116)	(18.7)	33	7.1
Foreign currency and foreign currency linked shekels	660	1,004	869	(344)	(34.3)	(209)	(24.1)
Total	**3,318**	**2,270**	**2,337**	**1,048**	**46.2**	**981**	**42.0**

RAISING OF RESOURCES

Subtraction of regulatory capital instruments in 2014. 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 2014-2022. 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 2014-2022. Regulatory capital instruments, which are to be subtracted in the course of October-December 2014, in accordance with the transitional provisions, amount to NIS 140 million.
NIS 1,575 million were deducted in the first nine months of 2014 (of which an amount of NIS 792 million would have been deducted also in accordance with the Basel II instructions).

DISCLOSURE REGARDING DEPOSITS

Deposits from the public of the three largest depositor groups amounted as of September 30, 2014, to NIS 4,117 million.

For additional details, see "Management and measurement of the liquidity risk" under "Exposure to risks and risk management" and Note 4 to the condensed financial statements.

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

ACTIVITY OF THE GROUP ACCORDING TO PRINCIPAL SEGMENTS OF OPERATIONS

GENERAL

Concise data regarding operations in the various segments is presented in Note 12 to the condensed financial statements, pp. 236-239 below.
For details regarding the relevant public reporting instructions and the definition of the segments, and details regarding the principal assumptions, estimates and principles used in the preparation of segment information, see Note 31 to the financial statements as of December 31, 2013 (pp. 515-518).
Changes in the administrative structure. Responsibility for international financial institutions passed in the second quarter from the Corporate Division to the Financial Markets Division, while responsibility for the management of investor relations passed from the Financial Markets Division to the Planning, Strategy and Finance Division. For additional details regarding the administrative structure, see the 2013 annual report (p. 43).
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 F 4 to the condensed 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.

RETAIL SEGMENT - GENERAL

The Bank presents two retail segments: "Household segment" and "Small business segment". For details regarding "Retail Segment - General", see the 2013 Annual Report (pp. 43-46).

DISCOUNT ASSISTS ITS CUSTOMERS IN THE SOUTH DUE TO THE SECURITY SITUATION

As a result of the security situation, the Bank announced at the beginning of July, a serious of reliefs to customers of its branches in the South, who are under a continuous threat.

Enlargement of approved credit facilities. During this period, the Bank allowed business and private customers to increase their approved credit facility up to a rate of 10% of their approved credit facility, and up to an amount of NIS 15,000.

Special loan to private customers. A loan in an amount of up to NIS 30 thousand; at an interest rate starting with prime + 2.5% and up to prime + 3.5%; a repayment period of up to 36 months; the possibility of deferral of up to three months regarding repayments of principal; exemption from credit and collateral handling commissions.

Special loan to small businesses. A loan in an amount of up to NIS 100 thousand; at a nominal annual interest rate of prime + 2.5%; a repayment period of up to 36 months; the possibility of deferral of up to three months regarding repayments of principal.

Relief regarding repayment of mortgage loans. The Bank allowed the deferment of mortgage payments for a period of two months, subject to an application made by the customer through the mortgage telephone center.

Telebank Discount extended the service also to customers who are not subscribers to the service. In this framework, all customers were able to receive information and transact business.

At the same time, the President & CEO and members of the Management visited the Bank branches in the Southern region in order to assist and support Bank customers and employees at this time and realize their needs at first hand.

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.

For additional details, see the 2013 Annual Report (pp. 43-44).

"MAFTEACH DISCOUNT"

In 2014, the Bank is continuing the unique marketing effort in the area of financial consumption – the credit card "Mafteach Discount".

For additional details regarding this move, see the 2013 Annual Report (p. 46).

DEVELOPMENTS IN THE SEGMENT

Direct channels. Responsibility for the direct channels was transferred in the first quarter of 2014 from the Strategy, Planning and Finance Division to the Banking Division.

Changes in branches. At the end of the third quarter, the Bank has 140 branches in operation. The conversion of all the "Discount Home" branches into ordinary branches was completed in the first quarter of the year.

Operational efficiency in the branches. In the first nine months of 2014, the Bank launched a remote check control operation in 100 branches, intending to cover all branches of the Bank until the end of the year. Moreover, by September 30, 2014 (accumulated since its beginning), an activity has been conducted for the conversion of basic documents in a total of 103 of the Bank's branches. For additional details, see the 2013 annual report (p.46).

An agreement for the provision of services to teaching staff and State employees. For details regarding an agreement for the provision of services to teaching staff that has been concluded, and an agreement for the provision of services to State employees, which is about to be concluded, see Note 7B, items 7 and 8, respectively.

RETAIL BANKING SEGMENT - HOUSEHOLD SEGMENT

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 16 to the condensed financial statements.

For details regarding the instruction in the matter of "Non-banking benefits to customers", see "Legislation and Supervision" hereunder.

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

The segment's loss in the first nine months of 2014 amounted to NIS 77 million, compared to a loss in the amount of NIS 27 million in the corresponding period last year. Among other things, the loss was affected by the lowering of the interest rate in 2014.

The credit loss expenses in this segment in the first nine months of 2014 amounted to NIS 37 million, compared to NIS 68 million in the corresponding period last year. Expenses in the first nine months of 2014 have been mainly affected by a one-off allowance required in 2013, in view of the instructions of the Supervisor of Banks (see Note 1D 4.3 to the financial statements as of December 31, 2013, p. 356). The decline in expenses was, among other things, affected by improved control processes from the aspect of credit risk management.

Principal data relating to the operations of the household segment:

	Domestic operations					International operations	
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Total
	in NIS millions						
	For the three months ended September 30, 2014						
Interest income, net							
- From external sources	71	65	-	175	311	(2)-	311
- Intersegmental	134	(6)	-	(146)	(18)	(2)-	(18)
Total Interest income, net	205	59	-	29	293	(2)-	293
Non-interest financing income	-	2	1	-	3	(2)-	3
Commissions and Other income	107	213	67	8	395	(2)-	395
Total Income	**312**	**274**	**68**	**37**	**691**	**(2)-**	**691**
Credit loss expenses (expenses reversal)	12	8	-	7	27	(1)	26
Net Income (loss) attributed to the Bank's shareholders	**(44)**	**25**	**8**	**(5)**	**(16)**	**1**	**(15)**
Return on equity (percentage)	(6.7)	4.0	1.3	(0.8)	(2.4)	0.2	(2.2)
Average Assets	10,934	9,032	-	20,451	40,417	26	40,443
Of which - Average credit to the public	10,934	9,032	-	20,451	40,417	26	40,443
Average Liabilities	64,905	2,860	-	48	67,813	38	67,851
Of which - Average deposits from the public	64,905	39	-	48	64,953	38	64,991
	For the three months ended September 30, 2013						
Interest income, net							
- From external sources	(1)(45)	65	-	302	322	(2)-	322
- Intersegmental	(1)271	(7)	-	(3)(279)	(15)	(2)-	(15)
Total Interest income, net	226	58	-	23	307	(2)-	307
Non-interest financing income	1	4	1	(1)	5	(2)-	5
Commissions and Other income	111	209	59	15	394	(2)-	394
Total Income	**338**	**271**	**60**	**37**	**706**	**(2)-**	**706**
Credit loss expenses (expenses reversal)	1	11	-	(1)	11	(2)-	11
Net Income (loss) attributed to the Bank's shareholders	**(39)**	**39**	**(1)**	**(3)7**	**6**	**(2)-**	**6**
Return on equity (percentage)	(6.8)	7.2	(0.2)	1.3	1.1	-	1.1
Average Assets	(4)9,935	8,385	-	20,046	38,366	18	38,384
Of which - Average credit to the public	(4)9,935	8,385	-	20,046	38,366	18	38,384
Average Liabilities	65,807	2,512	-	35	68,354	53	68,407
Of which - Average deposits from the public	65,808	-	-	35	65,843	53	65,896

Footnotes:
(1) Reclassified, see Note 12 B (1) to the condensed financial statements.
(2) Amounts lower than NIS 1 million.
(3) Reclassified, see Note 12 B (3) to the condensed financial statements.
(4) Reclassified, see Note 12 B (4) to the condensed financial statements.

Principal data relating to the operations of the household segment (continued):

	Domestic operations					International operations	
	Banking and finance	Credit cards	Capital market	Mortgages	Total	Banking and finance	Total
	in NIS millions						
	For the nine months ended September 30, 2014						
Interest income, net							
- From external sources	215	192	-	449	856	(2)-	856
- Intersegmental	414	(21)	-	(374)	19	(2)-	19
Total Interest income, net	629	171	-	75	875	(2)-	875
Non-interest financing income	-	6	4	-	10	(2)-	10
Commissions and Other income	318	619	192	23	1,152	(2)-	1,152
Total Income	**947**	**796**	**196**	**98**	**2,037**	**(2)-**	**2,037**
Credit loss expenses	9	22	-	6	37	(2)-	37
Net Income (loss) Attributed to the Bank's shareholders	**(173)**	**80**	**26**	**(10)**	**(77)**	**(2)-**	**(77)**
Return on equity (percentage)	(25.3)	14.4	105.3	(1.3)	(4.0)	-	(4.0)
Average Assets	10,674	8,914	-	20,231	39,819	26	39,845
Of which - Average credit to the public	10,674	8,914	-	20,231	39,819	26	39,845
Average Liabilities	65,179	2,704	-	44	67,927	40	67,967
Of which - Average deposits from the public	65,179	13	-	44	65,236	40	65,276
	For the nine months ended September 30, 2013						
Interest income, net							
- From external sources	(1)(87)	193	-	724	830	(2)-	830
- Intersegmental	(1)781	(23)	-	(3)(634)	124	(2)-	124
Total Interest income, net	694	170	-	90	954	(2)-	954
Non-interest financing income	2	5	4	-	11	(2)-	11
Commissions and Other income	332	606	164	25	1,127	(2)-	1,127
Total Income	**1,028**	**781**	**168**	**115**	**2,092**	**(2)-**	**2,092**
Credit loss expenses	8	20	-	40	68	(2)-	68
Net Income (loss) attributed to the Bank's shareholders	**(121)**	**93**	**10**	**(3)(9)**	**(27)**	**(2)-**	**(27)**
Return on equity (percentage)	(22.0)	19.3	47.3	(1.8)	(1.7)	-	(1.7)
Average Assets	(4)9,624	8,193	-	19,956	37,773	18	37,791
Of which - Average credit to the public	(4)9,624	8,193	-	19,956	37,773	18	37,791
Average Liabilities	66,303	2,382	-	23	68,708	53	68,761
Of which - Average deposits from the public	66,303	-	-	23	66,326	53	66,379

Footnotes:
(1) Reclassified, see Note 12 B (1) to the condensed financial statements.
(2) Amounts lower than NIS 1 million.
(3) Reclassified, see Note 12 B (3) to the condensed financial statements.
(4) Reclassified, see Note 12 B (4) to the condensed financial statements.

For further details regarding the "Retail banking segment - household segment", see the 2013 Annual Report (pp. 47-53).

RETAIL BANKING SEGMENT - SMALL BUSINESS SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first nine months of 2014 amounted to NIS 165 million, compared to NIS 160 million in the corresponding period last year, an increase of 3.1%.

The credit loss expenses in this segment in the first nine months of 2014 amounted to NIS 23 million, compared to NIS 55 million in the corresponding period last year, a decrease of 58.2%.

Commissions and other income amounted in the first nine months of 2014 to NIS 289 million, as compared with NIS 355 million in the corresponding period last year, a decline of 18.6%. 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 1E (1) to the condensed financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in the first nine months of 2014 to NIS 369 million, an increase of 3.9%.

Principal data relating to the operations of the small business segment:

	Domestic operations					
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total
	in NIS millions					
	For the three months ended September 30, 2014					
Interest income, net						
- From external sources	174	6	-	3	26	209
- Intersegmental	2	(2)	-	13	(23)	(10)
Total Interest income, net	176	4	-	16	3	199
Non-interest financing income	1	-	-	-	-	1
Commissions and Other income	72	14	12	5	1	104
Total Income	**249**	**18**	**12**	**21**	**4**	**304**
Credit loss expenses (expenses reversal)	10	-	-	6	(5)	11
Net Income attributed to the Bank's shareholders	**30**	**9**	**3**	**7**	**4**	**53**
Return on equity (percentage)	12.2	3.5	1.2	2.7	1.6	22.6
Average Assets	11,112	168	-	1,445	855	13,580
Of which - Average credit to the public	11,112	168	-	1,445	855	13,580
Average Liabilities	14,317	332	-	923	3	15,575
Of which - Average deposits from the public	14,317	-	-	923	3	15,243
	For the three months ended September 30, 2013					
Interest income, net						
- From external sources	(1)151	6	-	13	15	185
- Intersegmental	15	(2)	-	(2)	(2)(9)	2
Total Interest income, net	166	4	-	11	6	187
Non-interest financing income	-	-	1	-	-	1
Commissions and Other income	100	11	10	7	-	128
Total Income	**266**	**15**	**11**	**18**	**6**	**316**
Credit loss expenses (expenses reversal)	32	1	-	(1)	(5)	27
Net Income (loss) attributed to the Bank's shareholders	**(1)40**	**(2)**	**2**	**10**	**5**	**55**
Return on equity (percentage)	17.7	(0.8)	0.8	4.2	2.1	24.9
Average Assets	(3)10,746	362	-	968	959	13,035
Of which - Average credit to the public	(3)10,746	362	-	968	959	13,035
Average Liabilities	15,588	756	-	724	2	17,070
Of which - Average deposits from the public	15,588	-	-	724	2	16,314

Footnotes:
(1) Reclassified, see Note 12 B (1) to the condensed financial statements.
(2) Reclassified, see Note 12 B (3) to the condensed financial statements.
(3) Reclassified, see Note 12 B (4) to the condensed financial statements.

Principal data relating to the operations of the small business segment (continued):

	Domestic operations					
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total
	in NIS millions					
	For the nine months ended September 30, 2014					
Interest income, net						
- From external sources	513	17	-	1	86	617
- Intersegmental	7	(5)	-	41	(74)	(31)
Total Interest income, net	520	12	-	42	12	586
Non-interest financing income	2	1	1	-	-	4
Commissions and Other income	218	25	32	13	1	289
Total Income	**740**	**38**	**33**	**55**	**13**	**879**
Credit loss expenses (expenses reversal)	33	-	-	5	(15)	23
Net Income attributed to the Bank's shareholders	**98**	**25**	**6**	**25**	**11**	**165**
Return on equity (percentage)	17.0	54.9	108.2	38.2	22.0	22.0
Average Assets	10,890	312	-	1,245	915	13,362
Of which - Average credit to the public	10,890	312	-	1,245	915	13,362
Average Liabilities	14,323	564	-	867	3	15,757
Of which - Average deposits from the public	14,323	-	-	867	3	15,193
	For the nine months ended September 30, 2013					
Interest income, net						
- From external sources	(1)456	20	-	38	39	553
- Intersegmental	40	(6)	-	(5)	(2)(23)	6
Total Interest income, net	496	14	-	33	16	559
Non-interest financing income	-	-	2	-	-	2
Commissions and Other income	275	33	29	17	1	355
Total Income	**771**	**47**	**31**	**50**	**17**	**916**
Credit loss expenses (expenses reversal)	66	1	-	(4)	(8)	55
Net Income attributed to the Bank's shareholders	**113**	**7**	**2**	**29**	**(2)9**	**160**
Return on equity (percentage)	21.2	14.4	31.2	60.5	18.1	23.3
Average Assets	(3)10,423	368	-	910	967	12,668
Of which - Average credit to the public	(3)10,423	368	-	910	967	12,668
Average Liabilities	15,388	770	-	722	2	16,882
Of which - Average deposits from the public	15,388	-	-	722	2	16,112

Footnotes:

(1) Reclassified, see Note 12 B (1) to the condensed financial statements.

(2) Reclassified, see Note 12 B (3) to the condensed financial statements.

(3) Reclassified, see Note 12 B (4) to the condensed 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 16 to the condensed financial statements.

For details regarding the new Internet website for business customers, see "Corporate banking segment" below.
For further details regarding the "Retail Banking Segment - Small Business Segment", see the 2013 Annual Report (pp. 53-57).

CORPORATE BANKING SEGMENT

REACHING TARGETS AND BUSINESS STRATEGY - FIRST NINE MONTHS OF 2014

The Bank has acted in accordance with the work plan for the corporate banking segment, while focusing on increasing return on risk assets and a customer-focused view. Among other things, the Bank acted to adjust its exposure in accordance with sectorial risk level evaluations, adjust the credit margins to the risk level, reduce exposure to foreign operations, and reduce the concentration risk (to borrower groups and individual borrowers), with a view of improving the credit portfolio.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE SEGMENT

As of September 30, 2014, no deviations existed to the limitations as set in Proper Conduct of Banking Business Directive No 313. Furthermore, as of September 30, 2014, there were no deviations from the limitations on "related persons". 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 the 2013 Annual Report, pp. 233-237).
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 will take 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 the first nine months of 2014 amounted to NIS 278 million, compared with NIS 203 million in the corresponding period last year, an increase of 36.9%. The rise in net income derives principally from the change in credit loss expenses.

The credit loss expenses in this segment in the first nine months of 2014 amounted to a reduction of expense in the amount of NIS 43 million, compared to an expense in the amount of NIS 220 million in the corresponding period last year. The decline in credit loss expenses in the first nine months of 2014, as compared with the corresponding period last year, 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 the first nine months of 2014 to NIS 265 million, as compared with NIS 313 million in the corresponding period last year, a decline of 15.3%. 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 1E (1) to the condensed financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in the first nine months of 2014 to NIS 289 million, a decrease of 7.7%.

Principal data relating to the operations of the corporate banking segment:

	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								
	For the three months ended September 30, 2014								
Interest income, net									
- From external sources	148	4	-	97	249	53	11	64	313
- Intersegmental	(27)	-	-	(39)	(66)	(19)	(5)	(24)	(90)
Total Interest income, net	121	4	-	58	183	34	6	40	223
Non-interest financing income	8	-	1	-	9	-	-	-	9
Commissions and Other income	33	11	12	23	79	9	2	11	90
Total Income	**162**	**15**	**13**	**81**	**271**	**43**	**8**	**51**	**322**
Credit loss expenses (expenses reversal)	(67)	-	-	51	(16)	2	15	17	1
Net Income (loss) attributed to the Bank's shareholders	**84**	**(1)**	**3**	**10**	**96**	**10**	**(12)**	**(2)**	**94**
Return on equity (percentage)	8.7	(0.1)	0.3	1.0	10.0	1.0	(1.2)	(0.2)	9.9
Average Assets	20,815	353	30	9,527	30,725	6,633	1,794	8,427	39,152
Of which - Average credit to the public	20,815	353	30	9,527	30,725	6,633	1,794	8,427	39,152
Average Liabilities	14,738	655	6	1,834	17,233	1,898	500	2,398	19,631
Of which - Average deposits from the public	14,738	-	6	1,834	16,578	1,898	500	2,398	18,976
	For the three months ended September 30, 2013								
Interest income, net									
- From external sources	153	4	-	145	302	48	2	50	352
- Intersegmental	(18)	-	-	(75)	(93)	(14)	3	(11)	(104)
Total Interest income, net	135	4	-	70	209	34	5	39	248
Non-interest financing income	6	-	-	1	7	-	-	-	7
Commissions and Other income	45	9	15	21	90	13	3	16	106
Total Income	**186**	**13**	**15**	**92**	**306**	**47**	**8**	**55**	**361**
Credit loss expenses (expenses reversal)	38	(1)	(1)	26	62	4	1	5	67
Net Income attributed to the Bank's shareholders	**21**	[1]**-**	**3**	**31**	**55**	**11**	[1]**-**	**11**	**66**
Return on equity (percentage)	2.1	-	0.3	3.1	5.6	1.1	-	1.1	6.8
Average Assets	[2]22,167	386	25	11,497	34,075	5,950	2,059	8,009	42,084
Of which - Average credit to the public	[2]22,167	386	-	11,497	34,050	5,950	2,059	8,009	42,059
Average Liabilities	17,671	789	2	1,650	20,112	1,706	464	2,170	22,282
Of which - Average deposits from the public	17,671	-	-	1,650	19,321	1,706	464	2,170	21,491

Footnotes:
(1) Amounts lower than NIS 1 million.
(2) Reclassified, see Note 12 B (4) to the condensed financial statements.

Principal data relating to the operations of the corporate banking segment (continued):

	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								
	For the nine months ended September 30, 2014								
Interest income, net									
- From external sources	426	12	-	262	700	141	28	169	869
- Intersegmental	(57)	-	-	(97)	(154)	(43)	(10)	(53)	(207)
Total Interest income, net	369	12	-	165	546	98	18	116	662
Non-interest financing income	27	1	1	-	29	-	-	-	29
Commissions and Other income	95	22	45	67	229	30	6	36	265
Total Income	**491**	**35**	**46**	**232**	**804**	**128**	**24**	**152**	**956**
Credit loss expenses (expenses reversal)	(118)	-	-	10	(108)	8	57	65	(43)
Net Income (loss) attributed to the Bank's shareholders	**178**	**(7)**	**11**	**110**	**292**	**30**	**(44)**	**(14)**	**278**
Return on equity (percentage)	11.7	(24.8)	152.9	12.0	11.8	7.5	(40.6)	(2.6)	9.3
Average Assets	21,603	389	28	9,605	31,625	6,339	1,774	8,113	39,738
Of which - Average credit to the public	21,603	389	28	9,605	31,625	6,339	1,774	8,113	39,738
Average Liabilities	15,926	693	6	1,998	18,623	1,866	470	2,336	20,959
Of which - Average deposits from the public	15,926	-	-	1,998	17,924	1,866	470	2,336	20,260
	For the nine months ended September 30, 2013								
Interest income, net									
- From external sources	470	11	-	383	864	134	15	149	1,013
- Intersegmental	(61)	-	-	(188)	(249)	(36)	(1)	(37)	(286)
Total Interest income, net	409	11	-	195	615	98	14	112	727
Non-interest financing income	43	-	3	1	47	-	-	-	47
Commissions and Other income	131	27	41	73	272	35	6	41	313
Total Income	**583**	**38**	**44**	**269**	**934**	**133**	**20**	**153**	**1,087**
Credit loss expenses (expenses reversal)	168	(1)	-	30	197	12	11	23	220
Net Income (loss) attributed to the Bank's shareholders	**41**	**6**	**7**	**123**	**177**	**34**	**(8)**	**26**	**203**
Return on equity (percentage)	2.6	16.9	107.1	12.2	6.7	9.7	(7.5)	5.8	6.6
Average Assets	(1)23,200	391	24	11,843	35,458	5,864	1,981	7,845	43,303
Of which - Average credit to the public	(1)23,200	391	-	11,843	35,434	5,864	1,981	7,845	43,279
Average Liabilities	18,032	805	2	1,942	20,781	1,760	360	2,120	22,901
Of which - Average deposits from the public	18,032	-	-	1,942	19,974	1,760	360	2,120	22,094

Note:
(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

DEVELOPMENTS IN THE BUSSINESS SECTOR IN THE FIRST NINE MONTHS OF 2014

In the third quarter, on the background of the "Protective Edge" operation, a regression of 0.4% (annualized) was recorded in the product, this in continuation of the slowdown in economic growth in the first half of the year (2.8%). The business product contracted in the third quarter by 1.4%, compared to a growth of 2.7% in the first half of the year.

Following are the factors which affected the development of the business product in the third quarter of 2014 (the rates of the changes are in annualized terms):

- Regression of 8.1% in investment in fixed assets (excluding ships and aircraft), following regression of 2.3% in the first half of the year. The said regression encompassed both investments in economic sectors (-4.3%) and investments in housing construction (-2.1%);
- A growth of 3.9% in the export of goods and services (excluding startup companies). The export of goods grew by 4.2% reflecting a growth of 53% in the export of diamonds and a fall of 1.7% in industrial exports. The export of services contracted by 9.8%, as a result of a drop of 77% in the export of tourist services;
- Private consumption continued to expand at a fast rate accelerating from 3.2% in the first half of the year to 3.9% in the third quarter. In particular, the fast growth in the purchase of vehicles (40%) continued, following a growth of 17% in the first half of the year. On the other hand, the consumption of services contracted by 5% (for the first time since the end of 2011);
- Public consumption (excluding defense imports) expanded in the third quarter by 3.9%, following a growth of 3.2% in the first half of the year. The said acceleration reflected, among other things, a growth of 25% in purchases from the domestic defence industries, and on the other hand a decline (2%) in civilian consumption.

A steep growth of 17% was recorded in the import of goods and services (excluding defence imports).The import data reflected a growth of 20.6% in the import of goods and a growth of 7.3% in the import of services.

DEVELOPMENTS IN THE DEBT OF THE BUSSINESS SECTOR

The debt of the business sector (excluding banks and insurance companies) amounted to NIS 781 billion at the end of August[1] 2014, a rise of 0.4% compared to the end of December 2013. The entire increase (1.2%) was recorded during July-August, while the balance of the debt decreased by 0.8% during the first half of the year.

The said rise in the debt during the months of January to August, reflected a growth of 2.1% in the debt to foreign residents, while the debt to the financial sector recorded a decrease (0.6% as regards institutional bodies and 0.1% as regards banks). A decrease of 0.5% was also recorded in the debt to households and to corporations (marketable corporate bonds). It is noted that the debt to banks amounted at the end of August to NIS 388 billion, compared to NIS 386 billion at the end of June and NIS 389 billion at the end of December 2013. At the end of August, the weight of the debt to banks in the total debt of the business sector amounted to 49.7%, compared with 50.1% at the end of June 2014 and 49.9% at the end of 2013.

According to the Bank of Israel assessments, in quantitative terms (after eliminating the effects of inflation and changes in exchange rates), the total debt of the business sector recorded stability in the period from January to August. The data reflected an increase of 5.1% in the debt raised through non-marketable bonds and off-banking loans and an increase of 0.1% in the balance of debt raised through marketable bonds, and in contrast, a decline of 0.6% in the debt to banks and 1.3% in the debt raised abroad.

The volume of corporate bond issues (excluding the financial sector) during the first nine months of 2014, amounted to NIS 32.5 billion (approx. 28% of the said increase in the third quarter), compared with NIS 20.7 billion in the corresponding period last year.

The spread between corporate bonds (included in the Tel-Bond 60 Index) and government bonds as of the end of September 2014, amounted to 1.18%, similarly to the end of December 2013, and compared to 1.37% as of the end of June 2014.

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[1] The most updated data available at date of submitting the report to print.

DEVELOPMENTS IN THE SEGMENT'S MARKETS

Economic activity was impaired during the third quarter as a result of the security situation during the "Protective Edge" operation. This impairment mostly affected the industrial and commercial sectors. It is noted that impairment caused by similar security situations in recent years had been short lived and the economy recovered quickly. Following are development directions in the principal economic sectors:

- Industrial sector – an export inclined economic sector affected by foreign demand. Despite the recovery trend that characterized the industry sector at the end of 2013 and the beginning of 2014, a certain deterioration in the industry is being noticed in recent months, with a decline in the industrial production index and in foreign trade data. Notwithstanding, the Shekel was devalued during the third quarter of the year, a fact that might support industrial operations and exports in the future;
- Diamonds – The vigorous activity in this sector during the first half of the year has been halted, among other things, on the background of the "Protective Edge" operation, which impaired exports and affected the arrival in Israel of foreign purchase agents;
- The services sectors – these sectors are varied sectors and partly characterized by changes in regulation and increased competition;
- Transportation sector – persistence of the increased competition in the aviation field due to the implementation of the "open skies" agreement and the increase in passenger traffic to and from Israel served by foreign airline companies. Certain impairment was also caused following the "Protective Edge" operation, both as result of the fall in demand for travel to Israel and as a result of the temporary closure of the Ben-Gurion Airport.
  The marine transportation field has recorded since the beginning of the year a fall in the marine transportation prices index (Baltic Dry Index). Notwithstanding the above, the said Index rose by approx. 20% in the third quarter of the year;
- The commerce sector – The slowdown in the economy and the effects of the "Protective Edge" operation resulted in a significant slowdown in commercial activity in the third quarter, which was reflected in a decline in wholesale trade and in credit card purchases;
- Real estate sector – for details, see below under "Construction and real estate activity" under "Further details as to activity in certain products".

EXPECTED DEVELOPMENTS IN CREDIT TO THE CORPORATE BANKING SEGMENT

Banking credit. The trend of stagnation in the business sector is expected to continue, in view of the requirement to comply with the capital targets and the reduction in concentration risks, as well as in view of:

- The increasing competition on the part of institutional bodies;
- The decline in demand for business credit;
- The continuing moderate growth of the economy alongside a weakness in the industrial sectors.

Off-banking credit. A growth is anticipated in off-banking credit. This, mainly due to fast growth in non-marketable private loans.

The above said in the last two items 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. The foregoing may not materialize in case of different changes in macro-economic conditions, which are not under the Bank's control.

SERVICE TO SEGMENT CUSTOMERS

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.

For further details regarding the "Corporate Banking Segment", see the 2013 Annual Report (pp. 57-66).

MIDDLE MARKET BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income of the segment in the first nine months of 2014 amounted to NIS 120 million, compared with NIS 87 million in the corresponding period last year, an increase of 37.9%.

The credit loss expenses in the first nine months of 2014 amounted to NIS 46 million, compared with NIS 127 million in the corresponding period last year, a decrease of 63.8%.

Commissions and other income amounted in the first nine months of 2014 to NIS 114 million, as compared with NIS 139 million in the corresponding period last year, a decrease of 18.0%. 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 1E (1) to the condensed financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in the first nine months of 2014 to NIS 141 million, an increase of 1.4%.

Principal data relating to the operations of the middle market banking segment:

	Domestic operations						International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions									
	For the three months ended September 30, 2014									
Interest income, net										
- From external sources	73	-	-	32	3	108	69	9	78	186
- Intersegmental	(11)	-	-	(6)	-	(17)	(15)	(10)	(25)	(42)
Total Interest income, net	62	-	-	26	3	91	54	(1)	53	144
Non-interest financing income	3	-	-	-	-	3	-	-	-	3
Commissions and Other income	17	-	3	5	-	25	9	1	10	35
Total Income	**82**	**-**	**3**	**31**	**3**	**119**	**63**	**-**	**63**	**182**
Credit loss expenses (expenses reversal)	-	-	-	-	-	-	15	(11)	4	4
Net Income (loss) attributed to the Bank's shareholders	**11**	**4**	**(1)**	**13**	**2**	**29**	**6**	**14**	**20**	**49**
Return on equity (percentage)	2.2	0.8	(0.2)	2.6	0.4	5.8	1.2	2.8	4.0	9.9
Average Assets	7,450	374	-	3,941	396	12,161	4,459	3,813	8,272	20,433
Of which - Average credit to the public	7,450	374	-	3,941	396	12,161	4,459	3,813	8,272	20,433
Average Liabilities	6,903	682	-	1,159	1	8,745	1,394	889	2,283	11,028
Of which - Average deposits from the public	6,903	-	-	1,159	1	8,063	1,394	889	2,283	10,346
	For the three months ended September 30, 2013									
Interest income, net										
- From external sources	77	1	-	33	4	115	39	30	69	184
- Intersegmental	(19)	-	-	(12)	-	(31)	(12)	(7)	(19)	(50)
Total Interest income, net	58	1	-	21	4	84	27	23	50	134
Non-interest financing income	3	-	-	-	-	3	-	-	-	3
Commissions and Other income	21	2	2	7	-	32	7	7	14	46
Total Income	**82**	**3**	**2**	**28**	**4**	**119**	**34**	**30**	**64**	**183**
Credit loss expenses (expenses reversal)	49	-	-	5	-	54	(3)	7	4	58
Net Income (loss) attributed to the Bank's shareholders	**(10)**	**(1)**	**-**	**8**	**3**	**-**	**12**	**6**	**18**	**18**
Return on equity (percentage)	(2.3)	(0.2)	-	1.9	0.7	-	2.8	1.4	4.3	4.3
Average Assets	[(1)]7,133	101	-	3,367	342	10,943	3,827	3,863	7,690	18,633
Of which - Average credit to the public	[(1)]7,133	101	-	3,367	342	10,943	3,827	3,863	7,690	18,633
Average Liabilities	6,919	211	-	824	1	7,955	1,277	808	2,085	10,040
Of which - Average deposits from the public	6,919	-	-	824	1	7,744	1,277	808	2,085	9,829

Footnote:
(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

Principal data relating to the operations of the middle market banking segment (continued):

	Domestic operations						International operations			
	Banking and finance	Credit cards	Capital market	Construction and real estate	Mortgages	Total	Banking and finance	Construction and real estate	Total	Total
	in NIS millions									
	For the nine months ended September 30, 2014									
Interest income, net										
- From external sources	231	6	-	92	8	337	113	96	209	546
- Intersegmental	(42)	-	-	(15)	(1)	(58)	(36)	(24)	(60)	(118)
Total Interest income, net	189	6	-	77	7	279	77	72	149	428
Non-interest financing income	6	1	-	-	-	7	-	-	-	7
Commissions and Other income	49	12	8	17	-	86	13	15	28	114
Total Income	**244**	**19**	**8**	**94**	**7**	**372**	**90**	**87**	**177**	**549**
Credit loss expenses (expenses reversal)	30	-	-	7	-	37	10	(1)	9	46
Net Income attributed to the Bank's shareholders	**17**	**12**	**1**	**37**	**3**	**70**	**18**	**32**	**50**	**120**
Return on equity (percentage)	4.3	54.0	136.2	13.4	7.1	9.0	5.0	9.2	7.3	8.2
Average Assets	7,464	196	-	3,773	380	11,813	4,305	3,865	8,170	19,983
Of which - Average credit to the public	7,464	196	-	3,773	380	11,813	4,305	3,865	8,170	19,983
Average Liabilities	7,299	354	-	979	1	8,633	1,370	911	2,281	10,914
Of which - Average deposits from the public	7,299	-	-	979	1	8,279	1,370	911	2,281	10,560
	For the nine months ended September 30, 2013									
Interest income, net										
- From external sources	240	3	-	96	8	347	110	88	198	545
- Intersegmental	(64)	-	-	(23)	(2)	(89)	(31)	(20)	(51)	(140)
Total Interest income, net	176	3	-	73	6	258	79	68	147	405
Non-interest financing income	12	-	-	-	-	12	-	-	-	12
Commissions and Other income	67	7	7	21	-	102	19	18	37	139
Total Income	**255**	**10**	**7**	**94**	**6**	**372**	**98**	**86**	**184**	**556**
Credit loss expenses (expenses reversal)	94	-	-	2	(1)	95	12	20	32	127
Net Income Attributed to the Bank's shareholders	**3**	**1**	**-**	**43**	**4**	**51**	**20**	**16**	**36**	**87**
Return on equity (percentage)	0.7	9.6	(26.6)	17.6	13.0	-	7.7	5.2	6.3	6.7
Average Assets	7,172	103	-	3,331	370	10,976	4,171	3,789	7,960	18,936
Of which - Average credit to the public	7,172	103	-	3,331	370	10,976	4,171	3,789	7,960	18,936
Average Liabilities	6,838	215	-	868	1	7,922	1,329	850	2,179	10,101
Of which - Average deposits from the public	6,838	-	-	868	1	7,707	1,329	850	2,179	9,886

Footnotes:

(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

For details regarding the new Internet website for business customers, see "Corporate banking segment" above.

For further details regarding the "Middle Market Banking Segment", see the 2013 Annual Report (pp. 67-70).

PRIVATE BANKING SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Loss of the segment in the first nine months of 2014 amounted to NIS 1 million, compared with a net income of NIS 32 million in the corresponding period last year.

Principal data relating to the operations of the private banking segment:

	Domestic operations			International operations			
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total	Total
	in NIS millions						
	For the three months ended September 30, 2014						
Interest income, net							
- From external sources	(147)	-	(147)	(67)	-	(67)	(214)
- Intersegmental	164	-	164	127	-	127	291
Total Interest income, net	17	-	17	60	-	60	77
Non-interest financing income	1	-	1	1	-	1	2
Commissions and Other income	8	14	22	27	15	42	64
Total Income	**26**	**14**	**40**	**88**	**15**	**103**	**143**
Credit loss expenses	4	-	4	1	-	1	5
Net Income (loss) attributed to the Bank's shareholders	**(11)**	**-**	**(11)**	**(1)**	**5**	**4**	**(7)**
Return on equity (percentage)	(9.1)	-	(9.1)	(0.9)	4.3	3.5	(5.2)
Average Assets	1,183	-	1,183	3,672	-	3,672	4,855
Of which - Average credit to the public	1,183	-	1,183	2,301	-	2,301	3,484
Average Liabilities	16,544	-	16,544	18,327	-	18,327	34,871
Of which - Average deposits from the public	16,544	-	16,544	18,327	-	18,327	34,871
	For the three months ended September 30, 2013						
Interest income, net							
- From external sources	(36)	-	(36)	25	-	25	(11)
- Intersegmental	57	-	57	34	-	34	91
Total Interest income, net	21	-	21	59	-	59	80
Non-interest financing income		-		-	-	-	-
Commissions and Other income	11	12	23	32	12	44	67
Total Income	**32**	**12**	**44**	**91**	**12**	**103**	**147**
Credit loss expenses	2	-	2	-	-	-	2
Net Income (loss) Attributed to the Bank's shareholders	**(2)**	**1**	**(1)**	**5**	**4**	**9**	**8**
Return on equity (percentage)	(1.8)	0.9	(0.9)	4.7	3.7	8.5	7.5
Average Assets	(1)1,398	-	1,398	2,852	-	2,852	4,250
Of which - Average credit to the public	(1)1,398	-	1,398	2,852	-	2,852	4,250
Average Liabilities	15,641	-	15,641	17,435	-	17,435	33,076
Of which - Average deposits from the public	15,641	-	15,641	17,435	-	17,435	33,076

Footnote:
(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

Principal data relating to the operations of the private banking segment (continued):

	Domestic operations			International operations			
	Banking and finance	Capital market	Total	Banking and finance	Capital market	Total	Total
	in NIS millions						
	For the nine months ended September 30, 2014						
Interest income, net							
- From external sources	(72)	-	(72)	79	1	80	8
- Intersegmental	131	-	131	101	-	101	232
Total Interest income, net	59	-	59	180	1	181	240
Non-interest financing income	3	1	4	6	-	6	10
Commissions and Other income	27	41	68	78	45	123	191
Total Income	**89**	**42**	**131**	**264**	**46**	**310**	**441**
Credit loss expenses	5	-	5	2	-	2	7
Net Income (loss) attributed to the bank's shareholders	**(21)**	**2**	**(19)**	**2**	**16**	**18**	**(1)**
Return on equity (percentage)	(18.5)	16.3	(14.9)	1.1	195.3	7.7	(0.1)
Average Assets	1,183	-	1,183	3,732	-	3,732	4,915
Of which - Average credit to the public	1,183	-	1,183	2,449	-	2,449	3,632
Average Liabilities	16,750	-	16,750	18,477	-	18,477	35,227
Of which - Average deposits from the public	16,750	-	16,750	18,477	-	18,477	35,227
	For the nine months ended September 30, 2013						
Interest income, net							
- From external sources	(108)	-	(108)	67	-	67	(41)
- Intersegmental	174	-	174	107	-	107	281
Total Interest income, net	66	-	66	174	-	174	240
Non-interest financing income	1	-	1	13	-	13	14
Commissions and Other income	30	32	62	97	43	140	202
Total Income	**97**	**32**	**129**	**284**	**43**	**327**	**456**
Credit loss expenses (expenses reversal)	(4)	-	(4)	2	-	2	(2)
Net Income (loss) attributed to the bank's shareholders	**(7)**	**(3)**	**(10)**	**37**	**5**	**42**	**32**
Return on equity (percentage)	(7.4)	235.4	(22.8)	(8.7)	18.2	20.3	10.1
Average Assets	(1)1,334	-	1,334	2,782	-	2,782	4,116
Of which - Average credit to the public	(1)1,334	-	1,334	2,782	-	2,782	4,116
Average Liabilities	15,509	-	15,509	17,807	-	17,807	33,316
Of which - Average deposits from the public	15,509	-	15,509	17,807	-	17,807	33,316

Footnote:

(1) Reclassified, see Note 12 B (4) to the condensed financial statements.

DEVELOPMENTS IN THE SEGMENT

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.

For further details regarding the "Private Banking Segment", see the 2013 Annual Report (pp. 70-74).

FINANCIAL MANAGEMENT SEGMENT

SCALE OF OPERATIONS AND NET INCOME OF THE SEGMENT

Net income in the first nine months of 2014, not including the activity of the non-financial companies sub-segment, amounted to NIS 43 million, compared to an income of NIS 273 million in the corresponding period last year. The decrease in the segment's profits is due, inter alia, to a decrease in the contribution of FIBI to the profits of the Group, in light of the fact that, with effect from March 13, 2014, the Bank no longer records a share of FIBI's profits.

Total income in the first nine months of 2014 amounted to NIS 680 million, compared with NIS 637 million in the corresponding period last year, and they include three main components:

1. Income from the Bank's "Nostro" operations in Israel in the net amount of NIS 293 million, net, including a gain of NIS 299 million from the sale of securities (mostly Government bonds) and fair value adjustments of marketable securities, compared to an income of NIS 500 million from nostro activity in the corresponding period last year, including a profit of NIS 378 million from the sale of securities and fair value adjustments of marketable securities.
2. Gain from assets and liabilities management (from positions management and from currency and financial derivatives trading and brokerage) of NIS 299 million, compared to a gain of NIS 123 million in the corresponding period last year.
3. Income from international operations in the amount of NIS 89 million, compared with income of NIS 51 million in the corresponding period last year.

Principal data relating to the operations of the financial management segment:

	Domestic Operations	International Operations	Total	Domestic Operations	International Operations	Total
	2014			2013		
	For the three months ended September 30					
Interest income, net	89	36	125	(1)113	23	136
Non-interest financing income	96	22	118	51	13	64
Commissions and Other income	8	1	9	21	(14)	7
Total Income	**193**	**59**	**252**	**185**	**22**	**207**
Credit loss expenses (expenses reversal)	3	(10)	(7)	4	2	6
Net Income attributed to the Bank's shareholders	**11**	**37**	**48**	**(1)109**	**8**	**117**
Return on equity (percentage)	1.7	5.7	7.0	17.9	1.2	19.3
Average Assets	60,017	14,691	74,708	(2)60,320	18,958	79,278
Average Liabilities	23,443	8,469	31,912	20,843	12,061	32,904
	For the nine months ended September 30					
Interest income, net	260	128	388	(1)235	57	292
Non-interest financing income	300	(40)	260	310	31	341
Commissions and Other income	31	1	32	41	(37)	4
Total Income	**591**	**89**	**680**	**586**	**51**	**637**
Credit loss expenses (expenses reversal)	6	4	10	2	(13)	(11)
Net Income attributed to the Bank's shareholders	**18**	**25**	**43**	**(1)258**	**15**	**273**
Return on equity (percentage)	1.1	11.6	2.2	17.1	6.0	15.7
Average Assets	61,627	15,549	77,176	(2)60,402	20,678	81,080
Average Liabilities	23,335	8,637	31,972	21,723	12,505	34,228

Footnotes:
(1) Reclassified, see Note 12 B (3) to the condensed financial statements.
(2) Reclassified, see Note 12 B (4) to the condensed financial statements.

For further details regarding the "Financial Management Segment", see the 2013 Annual Report (pp. 74-77).

NON-FINANCIAL COMPANIES SUB-SEGMENT

GENERAL

This sub-segment includes the Group's operations in non-financial investments. The greater part of the sub-segment's operations relate to investments made by a subsidiary, Israel Discount Capital Markets and Investments Ltd. (hereinafter: "DCMI") and directly by the Bank itself.

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

As of September 30, 2014, the amount of the Bank's investment in non-financial corporations was less than the restricted amount pursuant to Section 23 A (A) of the Banking Law (Licensing). For further details see the 2013 Annual Report (p. 71).

SCALE OF OPERATIONS AND NET PROFIT OF THE SUB-SEGMENT

The sub-segment's net income in the first nine months of 2014 amounted to NIS 63 million, compared with NIS 74 million in the corresponding period last year, a decrease of 14.9%.

Principal data relating to the operations in the non-financial companies sub-segment:

	For the three months ended September 30		For the nine months ended September 30	
	2014	2013	2014	2013
	in NIS millions			
Interest income, net	-	2	-	2
Non-interest financing income	12	10	66	89
Commissions and Other income	1	1	2	2
Total Income	**13**	**13**	**68**	**93**
Net Income Attributed to the Bank's shareholders	**12**	**6**	**63**	**74**

INVESTMENT OF THE GROUP IN PRIVATE INVESTMENT FUNDS, VENTURE CAPITAL FUNDS AND CORPORATIONS

DCMI is a partner in a number of private and public corporations, private investment funds and venture capital funds. As of September 30, 2014, the net investments of DCMI in these corporations (including dividend paying shares) and funds amounted to approx. US$239.1 million. As of September 30, 2014, the maximum future commitment of DCMI for investment in these corporations and funds amounted to approx. US$74.4 million.

Furthermore, Mercantile Discount Bank is committed to invest in four active venture capital funds. As of September 30, 2014, the investment of Mercantile Discount Bank in these funds amounted to US$1.1 million. As of September 30, 2014, the maximum additional commitment for the future investments in these funds amounted to US$0.8 million.

Investment in dividend paying shares. As of September 30, 2014, DCMI holds the shares of four companies, purchased in off-market transaction, the total value of which amounts to NIS 58.9 million. During the first nine months, DCMI realized the whole of its investment in two companies at a gain of NIS 9 million.

DEVELOPMENTS IN THE SUB-SEGMENT

Realizations. In the first nine months of 2014, DCMI has recognized gains in the total amount of NIS 41 million in respect of realizations in the funds, compared with NIS 81 million in the corresponding period last year.

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

For further details regarding the "Non-financial companies sub-segment", see the 2013 Annual Report (pp. 78-81).

FURTHER DETAILS AS TO ACTIVITY IN CERTAIN PRODUCTS

CREDIT CARD OPERATIONS

GENERAL INFORMATION ON THE OPERATIONS

Following are quantitative data regarding the activity of ICC:

	September 30, 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	1,406	1,195	1,339	1,146
Off-banking cards	819	584	820	576
Total	**2,225**	**1,779**	**2,159**	**1,722**

Transactions turnover	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013	For the year ended December 31, 2013
	in NIS millions		
Bank cards	35,763	33,326	44,928
Off-banking cards	9,864	9,262	12,469
Total	**45,627**	**42,588**	**57,397**

"Bank card" - A credit card issued jointly with the banks in the arrangement and under their responsibility.
"Off-banking card" - A credit card issued by ICC, separately from the banks.
"Valid card" - A valid credit card which is not blocked.
"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.
"Active card" - a credit card through which at least one transaction was made in the last quarter.

SCALE OF OPERATIONS AND NET INCOME

Net income in the first nine months of 2014 amounted to NIS 110 million, compared with NIS 107 million in the corresponding period last year, an increase of 2.8%.

The credit loss expenses amounted in the first nine months of 2014 to NIS 22 million, compared with NIS 20 million in the corresponding period last year.

Principal data relating to the credit cards operations:

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	in NIS millions				
	For the three months ended September 30, 2014				
Interest income, net					
- From external sources	65	6	4	-	75
- Intersegmental	(6)	(2)	-	-	(8)
Total Interest income, net	59	4	4	-	67
Non-interest financing income	2	-	-	-	2
Commissions and Other income	213	14	11	-	238
Total Income	**274**	**18**	**15**	**-**	**307**
Credit loss expenses	8	-	-	-	8
Net Income (loss) attributed to the Bank's shareholders	**25**	**9**	**(1)**	**4**	**37**
Return on equity (percentage)	4.0	3.5	(0.1)	0.8	4.2
Average Assets	9,032	168	353	374	9,927
Average Liabilities	2,860	332	655	682	4,529
	For the three months ended September 30, 2013				
Interest income, net					
- From external sources	65	6	4	1	76
- Intersegmental	(7)	(2)	-	-	(9)
Total Interest income, net	58	4	4	1	67
Non-interest financing income	4	-	-	-	4
Commissions and Other income	209	11	9	2	231
Total Income	**271**	**15**	**13**	**3**	**302**
Credit loss expenses (expenses reversal)	11	1	(1)	-	11
Net Income (loss) attributed to the Bank's shareholders	**39**	**(2)**	[1]**-**	**(1)**	**36**
Return on equity (percentage)	7.2	(0.8)	-	(0.2)	4.5
Average Assets	8,385	362	386	101	9,234
Average Liabilities	2,512	756	789	211	4,268

Footnote:
(1) Amounts lower than NIS 1 million.

Principal data relating to the credit cards operations (continued):

	Households	Small Businesses	Corporate Banking	Middle Market Banking	Total
	in NIS millions				
	For the nine months ended September 30, 2014				
Interest income, net					
- From external sources	192	17	12	6	227
- Intersegmental	(21)	(5)	-	-	(26)
Total Interest income, net	171	12	12	6	201
Non-interest financing income	6	1	1	1	9
Commissions and Other income	619	25	22	12	678
Total Income	**796**	**38**	**35**	**19**	**888**
Credit loss expenses	22	-	-	-	22
Net Income (loss) attributed to the Bank's shareholders	**80**	**25**	**(7)**	**12**	**110**
Return on equity (percentage)	14.4	54.9	(24.8)	54.0	12.6
Average Assets	8,914	312	389	196	9,811
Average Liabilities	2,704	564	693	354	4,315
	For the nine months ended September 30, 2013				
Interest income, net					
- From external sources	(1)193	(1)20	11	3	227
- Intersegmental	(1)(23)	(1)(6)	-	-	(29)
Total Interest income, net	170	14	11	3	198
Non-interest financing income	5	-	-	-	5
Commissions and Other income	606	33	27	7	673
Total Income	**781**	**47**	**38**	**10**	**876**
Credit loss expenses (expenses reversal)	20	1	(1)	-	20
Net Income Attributed to the Bank's shareholders	**93**	**7**	**6**	**1**	**107**
Return on equity (percentage)	19.3	14.4	16.9	9.6	13.7
Average Assets	8,193	368	391	103	9,055
Average Liabilities	2,382	770	805	215	4,172

LEGISLATION AND REGULATIONS

Banking Law (Licensing) (Clearing of Charge Card Transactions). The aforesaid 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 the date for ICC for obtaining a clearing license until March 2015. For further details, see the 2013 Annual Report (pp. 85-87).

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.
At this stage, ICC is unable to assess the implications of the said draft, if and when implemented.
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.

For details regarding a draft amendment of the Banking Rules (Customer service) (Commissions), within the framework of which it is, among other things, proposed to impose certain limitations on the charging of commissions regarding credit card operations, see Note 16 to the condensed financial statements. ICC estimates that if the draft published in this matter would be approved in its present format, its annual income would be adversely affected 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.

For further details as to the legislation concerning the credit card activity, see the 2013 Annual Report (pp. 85-87).

DEVELOPMENTS IN THE OPERATIONS

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 agreement is 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. Certain terms in the agreement are pending, and its validity is subject to the receipt of a permit or exemption by the relevant regulatory authorities.

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 15 to the financial statements.

Agreement with Mizrahi-Tefahot Bank. For details regarding the renewal of the agreement, see the 2013 Annual Report (p. 526) and Note 15 to the condensed 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.

Launch of a service to advance payments to wholesale customers. In the first quarter of 2014, ICC began B2B operations. Within this framework ICC advances payments of retail business customers to wholesale business customers.

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.

For further details regarding the credit card operations, see the 2013 Annual Report (pp. 81-92).

OPERATIONS IN THE CAPITAL MARKET

TREND OF EVENTS AND DEVELOPMENTS IN THE MACRO-ECONOMIC ENVIRONMENT

The mutual funds market. The net raising of deposits in the mutual funds market amounted since the beginning of the year to NIS 32.6 billion, compared to net deposits of NIS 42.5 billion raised in the corresponding period last year. However, an examination of the various types of funds indicates acceleration in funds investing in Israeli bonds (to a level of NIS 31.3 billion) and in foreign bonds (to a level of NIS 4.3 billion). Positive raising of deposits were recorded also in funds specializing in equities in Israel (NIS 854 million).

According to the Bank of Israel data, assets of mutual funds investing in bonds increased in the said period by NIS 39.6 billion. Assets of the non-linked funds increased by NIS 20.1 billion, assets of the CPI linked funds increased by NIS 9.9 billion, assets of the equity funds increased by NIS 3.5 billion and the assets of funds investing abroad increased by NIS 5.5 billion.

The provident funds market. In the twelve months ended September 30, 2014, provident funds classified as "personal severance pay and provident funds" achieved a positive average return of 10.23%. The increase in return stemmed from the increases in the various indices in the stock exchange.

According to data published by the Capital Markets Division at the Ministry of Finance, provident funds classified as "personal severance pay and provident funds" showed a net withdrawal of funds in the amount of NIS 2.030 billion, in the twelve months ended September 30, 2014, compared to net accumulated withdrawals of NIS 2.087 billion in the previous twelve months ended September 30, 2013. The volume of provident fund assets as of September 30, 2014 amounted to approx. NIS 189.0 billion, compared to approx. NIS 177.8 billion as of September 30, 2013, an increase of NIS 11.3 billion (approx. 6%).

The new pension funds market. The new pension funds achieved in the twelve months ended September 30, 2014, an average positive return of 9.2%. According to data published by the Capital Market Division at the Ministry of Finance, all the new pension funds showed a positive accumulation of funds in the amount of NIS 19.95 billion in the twelve months ended September 30, 2014, compared to a net positive accumulation of funds of NIS 17.3 billion in the preceding twelve months ended September 30, 2013. The volume of the new pension funds amounted to 181.7 billion as of September 30, 2014, compared to NIS 148.5 billion as of September 30, 2013, an increase of NIS 33.0 billion (approx. 22%).

The ETN market. According to data published by the Tel Aviv Stock Exchange, 590 ETNs were traded in the Stock Exchange in the end of the third quarter of 2014, of which, 25 currency certificates ("Deposit notes"). From the beginning of the year, the public purchased notes tracking a range of international share indices in a net amount of NIS 5.9 billion (all data in net terms). Furthermore, the public has purchased ETN's following local share and bond indices in the amount of NIS 1.8 billion, and currency notes in the amount of NIS 1.8 billion. On the other hand, the public sold ETN's following local share indices in the amount of NIS 0.5 billion.

Capital Market. For details regarding developments in the capital market in the first nine months of 2014, see "Capital market" under "Main developments in Israel and around the world in the first half of 2014" hereunder.

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

Companies Regulations (Announcement and notice regarding a general meeting and a class meeting in a public company) (Amendment), 2014; Companies Regulations (Proof of ownership of shares for the purpose of voting in general meetings) (Amendment), 2014; Companies Regulations (Voting in writing and notices of position) (Amendment), 2014; Companies Order (Amendment of the First Addendum to the Act), 2014. The said amendments were published on the Official Gazette on June 2, 2014. For additional details, see the 2013 annual report (p. 97).

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. For additional details, see the 2013 annual report (p. 99).

Safe harbor protection against 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.

Clarifying the customer's needs and instructions. 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 (see the 2013 annual report, p.97).

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.

Draft Mutual Trust Investment Regulations (Distribution commission) (Amendment), 2013. The Israel Securities Authority published to the public a file containing the comments of Israeli bodies and the position of the Authority regarding these comments. Among other things, it has been determined that banks would be permitted to charge commissions that are not especially designated to mutual funds and/or foreign funds, but which are usually charged for banking services. (For additional details, see the 2013 annual report, p.96).

Foreign funds. Amendment No. 23 to the Mutual Investment Trust Act, 2014, was published on the Official Gazette on July 30, 2014. The Amendment states, as a default option, that foreign funds may not be offered to the public in Israel, through authorizing the Minister of Finance to include in the Regulations conditions, which if exist, it would be possible to offer foreign funds (for additional details, see the 2013 annual report, pp.96-97).

Regulation with respect to voting on the Internet. On September 30, 2014, the Science and Technology Committee of the Knesset approved the Securities Regulations (Voting in writing and proof of ownership of option warrants for the purpose of voting in a meeting of option warrants holders), 2014. Once these Regulations take effect, an electronic voting system established by the Israel Securities Authority will begin operations. For additional details, see the 2013 Annual Report (p.97).

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.

Homogeneous interface. In continuation to the regularization of the uniform interfaces, being part of the process for the removal of technological barriers in the pension savings market, a new version was published on September 17, 2014, of the circular in the matter of the uniform structure for the transfer of information and data in the pension savings market. 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. For additional details regarding the uniform interfaces, see the 2013 Annual Report (p.94).

Pension clearinghouse. Within the framework of the efforts made by the Ministry of Finance to advance and regularize the activities of the clearinghouse as well as regularize the operations of distribution agents, institutional bodies and the saving public through it, the Capital Market, Insurance and Savings Group at the Ministry of Finance issued on August 17, 2014, draft rules regarding the work processes involving the clearinghouse under the various interfaces. For additional details regarding the pension clearinghouse, see the 2013 Annual Report (pp. 94-95).

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 June 18, 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, the draft proposes to shorten the periods determined in the original circular, for obtaining the signature of existing customers of the pension consulting services on power of attorney documents as determined in the circular. 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.

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 16 to the condensed 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. For additional details, see the 2013 Annual Report (pp. 95-96).

For further details regarding legislative restrictions, regulations and special constraints applicable to the operations in the capital market, see 2013 Annual Report (pp. 94-99).

SCALE OF OPERATIONS AND NET INCOME

The net gain recorded from operations in the first nine months of 2014 amounted to NIS 63 million, compared to NIS 21 million in the corresponding period last year, an increase of 200%.

Principal data relating to the operations in the capital market:

	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	in NIS millions								
	For the three months ended September 30, 2014								
Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	1	-	1	-	-	-	2	-	2
Commissions and Other income	67	12	12	3	14	1	109	15	124
Total Income	**68**	**12**	**13**	**3**	**14**	**1**	**111**	**15**	**126**
Net Income (loss) attributed to the Bank's shareholders	**8**	**3**	**3**	**(1)**	**-**	**1**	**14**	**5**	**19**
	For the three months ended September 30, 2013								
Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	1	1	-	-	-	-	2	-	2
Commissions and Other income	59	10	15	2	12	-	98	12	110
Total Income	**60**	**11**	**15**	**2**	**12**	**-**	**100**	**12**	**112**
Net Income (loss) attributed to the Bank's shareholders	**(1)**	**2**	**3**	**-**	**1**	**-**	**5**	**4**	**9**

Principal data relating to the operations in the capital market (continued):

	Domestic operations							International operations:	
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Financial	Total	Private Banking	Total
	in NIS millions								
	For the nine months ended September 30, 2014								
Total Interest income, net	-	-	-	-	-	-	-	1	1
Non-interest financing income	4	1	1	-	1	-	7	-	7
Commissions and Other income	192	32	45	8	41	1	319	45	364
Total Income	**196**	**33**	**46**	**8**	**42**	**1**	**326**	**46**	**372**
Net Income attributed to the Bank's shareholders	**26**	**6**	**11**	**1**	**2**	**1**	**47**	**16**	**63**
	For the nine months ended September 30, 2013								
Total Interest income, net	-	-	-	-	-	-	-	-	-
Non-interest financing income	4	2	3	-	-	-	9	-	9
Commissions and Other income	164	29	41	7	32	5	278	43	321
Total Income	**168**	**31**	**44**	**7**	**32**	**5**	**287**	**43**	**330**
Net Income (loss) attributed to the Bank's shareholders	**10**	**2**	**7**	**-**	**(3)**	**-**	**16**	**5**	**21**

DATA RELATING TO THE SCALE OF OPERATIONS IN DIFFERENT AREAS

Securities. On September 30, 2014, the balance of securities held for the Bank's customers amounted to NIS 154.35 billion, including NIS 7 billion of non-marketable securities, compared to approx. NIS 147.5 billion as at December 31, 2013, including NIS 10.6 billion of non-marketable securities, an increase of approx. 4.6%. It is noted that most of the non-marketable securities are stated as of September 30, 2014, with no revaluation, while they were revalued as of December 31, 2013.

In addition, on September 30, 2014, Mercantile Discount Bank held securities on behalf of customers in an amount of approx. NIS 12.5 billion, compared to NIS 11.5 billion on December 31, 2013, an increase of approx. 8.7%.

Investment portfolio management. On September 30, 2014, Tafnit was managing investment portfolios, which together were valued at approx. NIS 5.9 billion, as compared to approx. NIS 4.8 billion as at December 31, 2013, an increase of approx. 22.9%.

Pension advisory services. Approximately seventy-five thousand advised customers exist as of the end of September 2014, having advised income-producing assets in the amount of NIS 13.026 billion.

For further details regarding the operations in the capital market, see the 2013 Annual Report (pp. 92-104).

CONSTRUCTION AND REAL ESTATE ACTIVITY

DEVELOPMENT IN MARKETS OF THE ACTIVITY

Residential property. A rise of 2.9% in residential units prices took place in the months January to August 2014, as shown by the freehold residential units price index. The uncertainty with respect to the manner of implementation of the "zero VAT" plan of the Israeli Ministry of Finance, led to a slowdown in the sale of new residential units from contractors. A decline of 15.1% was recorded during the months January to September of 2014 in demand for new residential units, as compared with the corresponding period last year.

The average monthly granting of new mortgage loans in the first eight months of 2014, amounted to NIS 4.3 billion, similarly to the average monthly granting in 2013. The outstanding balance of housing loans at the end of August 2014 amounted to NIS 298 billion, an increase of 3.6% since the beginning of the year.

Beginning of construction projects. The construction of some 20,850 new residential units began in the first half of 2014[1], a figure lower by 10.8% compared to the data for the corresponding period last year.

Income producing commercial real estate. Occupancy rates and average rental prices remained stable in the first half of 2014. Notwithstanding, the macro data for the third quarter indicate a certain weakness in the commercial sector and in the operations of the marketing chains and food marketing chains, among other things on the background of the "Protective Edge" operation. The continued deterioration in turnover data may create negative pressure on rental prices in this sector, adversely affecting performance of companies.

Furthermore, a large backlog of approved building plans exists, the realization of which is expected to create surplus supply, which may also lead to a decline in turnover and in rental prices in shopping malls, mostly in the Tel Aviv and central region.

Income producing office premises. The office space market remained stable in the first half of 2014, and no changes were recorded in prices and occupancy rates. This, following a slight decline in average rental prices in 2013. Notwithstanding, the large surplus supply of land designated for office buildings real estate and the high volume of new construction beginnings, mainly in the central region, may lead to surplus supply and to the continued gradual decline trend in rental prices in this sector.

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 No. 315, a limitation applies to sectorial 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 Bank's sectorial credit concentration in the real estate sector stood at a rate of 18.28% as of September 30, 2014.

SCALE OF OPERATIONS AND NET PROFIT

Net profit from operations in the first nine months of 2014 amounted to NIS 160 million, compared with NIS 203 million in the corresponding period last year, a decrease of 21.2%.

The credit loss expenses in the first nine months of 2014, amounted to NIS 78 million, compared with NIS 59 million in the corresponding period last year, an increase of 32.2%.

1 It should be noted that the data is updated as of the second quarter of 2014, because as of date of printing this report more updated data has not been published.

Results of construction and real estate activity were affected by borrowers' activity in the local and international markets, as detailed below:

Local activity – Income in the first nine months of 2014 amounted to NIS 381 million, compared to NIS 413 million in the corresponding period last year, a decrease of 7.7%. A decrease of NIS 172 million was recorded in net income, compared to NIS 195 million in the corresponding period last year.

International activity – Income in the first nine months of 2014 amounted to NIS 111 million, compared to NIS 106 million in the corresponding period last year, an increase of 4.7%, attributed mostly to an increase in interest income.

Principal data relating to the construction and real estate operations:

	Domestic operations				International operatins			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	in NIS millions							
	For the three months ended September 30, 2014							
Interest income, net								
- From external sources	3	97	32	132	9	11	20	152
- Intersegmental	13	(39)	(6)	(32)	(10)	(5)	(15)	(47)
Total Interest income, net	16	58	26	100	(1)	6	5	105
Non-interest financing income	-	-	-	-	-	-	-	-
Commissions and Other income	5	23	5	33	1	2	3	36
Total Income	**21**	**81**	**31**	**133**	**-**	**8**	**8**	**141**
Credit loss expenses (expenses reversal)	6	51	-	57	(11)	15	4	61
Net Income (loss) attributed to the Bank's shareholders	**7**	**10**	**13**	**30**	**14**	**(12)**	**2**	**32**
Return on equity (percentage)	2.7	1.0	2.6	1.7	2.8	(1.2)	0.3	1.4
Average Assets	1,445	9,527	3,941	14,913	3,813	1,794	5,607	20,520
Average Liabilities	923	1,834	1,159	3,916	889	500	1,389	5,305
	For the three months ended September 30, 2013							
Interest income, net								
- From external sources	13	145	33	191	30	2	32	223
- Intersegmental	(2)	(75)	(12)	(89)	(7)	3	(4)	(93)
Total Interest income, net	11	70	21	102	23	5	28	130
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	7	21	7	35	7	3	10	45
Total Income	**18**	**92**	**28**	**138**	**30**	**8**	**38**	**176**
Credit loss expenses (expenses reversal)	(1)	26	5	30	7	1	8	38
Net Income attributed to the Bank's shareholders	**10**	**31**	**8**	**49**	**6**	**-**	**6**	**55**
Return on equity (percentage)	4.2	3.1	1.9	2.9	1.4	-	1.1	2.4
Average Assets	968	11,497	3,367	15,832	3,863	2,059	5,922	21,754
Average Liabilities	724	1,650	824	3,198	808	464	1,272	4,470

Principal data relating to the construction and real estate operations (continued):

	Domestic operations				International operatins			
	Small Businesses	Corporate Banking	Middle Market Banking	Total	Middle Market Banking	Corporate Banking	Total	Total
	in NIS millions							
	For the nine months ended September 30, 2014							
Interest income, net								
- From external sources	1	262	92	355	96	28	124	479
- Intersegmental	41	(97)	(15)	(71)	(24)	(10)	(34)	(105)
Total Interest income, net	42	165	77	284	72	18	90	374
Non-interest financing income	-	-	-	-	-	-	-	-
Commissions and Other income	13	67	17	97	15	6	21	118
Total Income	**55**	**232**	**94**	**381**	**87**	**24**	**111**	**492**
Credit loss expenses (expenses reversal)	5	10	7	22	(1)	57	56	78
Net Income (loss) attributed to the bank's shareholders	**25**	**110**	**37**	**172**	**32**	**(44)**	**(12)**	**160**
Return on equity (percentage)	38.2	12.0	13.4	9.8	9.2	(40.6)	(2.0)	6.9
Average Assets	1,245	9,605	3,773	14,623	3,865	1,774	5,639	20,262
Average Liabilities	867	1,998	979	3,844	911	470	1,381	5,225
	For the nine months ended September 30, 2013							
Interest income, net								
- From external sources	38	383	96	517	88	15	103	620
- Intersegmental	(5)	(188)	(23)	(216)	(20)	(1)	(21)	(237)
Total Interest income, net	33	195	73	301	68	14	82	383
Non-interest financing income	-	1	-	1	-	-	-	1
Commissions and Other income	17	73	21	111	18	6	24	135
Total Income	**50**	**269**	**94**	**413**	**86**	**20**	**106**	**519**
Credit loss expenses (expenses reversal)	(4)	30	2	28	20	11	31	59
Net Income (loss) attributed to the bank's shareholders	**29**	**123**	**43**	**195**	**16**	**(8)**	**8**	**203**
Return on equity (percentage)	60.5	12.2	17.6	11.0	5.2	(7.5)	1.5	8.8
Average Assets	910	11,843	3,331	16,084	3,789	1,981	5,770	21,854
Average Liabilities	722	1,942	868	3,532	(1)850	(1)360	1,210	4,742

For further details regarding the construction and real estate activity, see the 2013 Annual Report (pp. 104-111).

MORTGAGE ACTIVITY

DEVELOPMENTS IN THE MORTGAGE MARKET

	For the nine months ended September 30		
	2014	2013	
	in NIS millions		Change in %
Total housing loans granted by the banks, excluding internal recycling of loans	38,549	38,855	(0.8)
Loans from State funds	138	176	(21.6)

LEGISLATIVE RESTRICTIONS AND REGULATIONS

Amendment of Proper Conduct of Banking Business Directive No. 318 – Collateral data base. The changes in the Directive came into effect on July 1, 2014. The Bank is preparing accordingly. (For additional details, see the 2013 Annual Report, p. 116).

Circular of the Commissioner of Insurance in the matter of renewal of an insurance agreement. The Commissioner of Insurance published on September 30, 2014 a circular according to which insurance companies intending to renew an insurance policy for an additional period will be required to give the insured a notice thirty days prior to the end of the insurance period, which is to include the data stated in the circular. In the event that the consent of the insured to the renewal of the policy is not received, the policy will be cancelled. The provisions of the circular letter do not apply to insurance policies which state that at the end of the insurance period the insurance coverage would be automatically extended.

Amendment of the Banking Order (Early Repayment Commissions), 2002. On August 27, 2014, an amendment of the order was published, which will become effective 180 days from the date of publication. The amendment includes a differentiation in the formula for calculating the commission in respect of loan where the loan interest at date of the early repayment is higher than the average interest at the time of repaying the loan, and a loan where the average interest at the time of taking the loan is lower than the loan interest at date of granting the loan. The amendment requires various topics to be disclosed in the pages of the agreement at the time of making early repayment. The amendment will apply to every early repayment made subsequent to the date of it taking effect.

Statement of position of the Supervisor of Banks in the matter of the recycling of directed loans in the fast channel. On September 10, 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 60. A banking corporation 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.

GUIDELINES AND DIRECTIVES OF THE SUPERVISOR OF BANKS DESIGNED TO RESTRAIN THE MORTGAGE MARKET

For details regarding guidelines and instructions of the Supervisor of Banks in this respect, see the 2013 Annual Report (pp. 116-117).

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.

Concurrently, on July 20, 2014, the Supervisor of Banks published a "questions & answers" file, 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.

Restrictions on the granting of housing loans. For details regarding the requirement for the raising of the Common equity tier 1 target, by a rate reflecting 1% of the outstanding balance of housing loans, see Note 5(c) to the condensed financial statements.

Concurrently with the publication of the said amendment to the directives, an FQA file has been published in the matter of the implementation of Proper Conduct of Banking Business Directive No. 329.

SCALE OF OPERATIONS AND NET PROFIT

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:

	For the nine months ended September 30,			For the year ended December 31,
	2014	2013		2013
	In NIS millions		Change in %	In NIS millions
From bank funds[(1)]	2,259	2,185	3.4	2,901
From Treasury funds[(2)]	7	11	(36.4)	13
Total of new loans	2,266	2,196	3.2	2,914
Recycled loans	679	495	37.2	823
Total	**2,945**	**2,691**	**9.4**	**3,737**

Footnotes:

(1) Including new loans granted, secured by housing mortgages, in the amount of NIS 144 million in the first nine months of 2014, compared to NIS 148 million in the first nine months of 2013 and NIS 197 million in 2013.

(2) Including standing loans in the amount of NIS 4 million in the first nine months of 2014, compared to NIS 8 in the first nine months of 2013 and NIS 7 million in 2013.

The net gain of the segment in the first nine months of 2014 amounted to NIS 4 million, compared to NIS 4 million in the corresponding period last year.

The credit loss expenses. In the first nine months of 2014, an expense reduction in the amount of NIS 9 million was recorded, compared with an expense of NIS 31 million in the corresponding period last year. Expenses in the first nine months of 2013, have been mainly affected by a one-off allowance required in view of the instructions of the Supervisor of Banks (see Note 1D 4.3 to the financial statements as of December 31, 2013, p. 356).

Commissions and other income amounted in the first nine months of 2014 to NIS 24 million, as compared with NIS 26 million in the corresponding period last year, a decline of 7.7%. 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 1E (1) to the condensed financial statements. Had it not been for the implementation of the instruction, commissions and other income would have amounted in the first nine months of 2014 to NIS 29 million, an increase of 11.5%.

Principal data relating to the mortgage activity:

	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	in NIS millions			
	For the three months ended September 30, 2014			
Interest income, net				
- From external sources	175	26	3	204
- Intersegmental	(146)	(23)	-	(169)
Total Interest income, net	29	3	3	35
Non-interest financing income	-	-	-	-
Commissions and Other income	8	1	-	9
Total Income	**37**	**4**	**3**	**44**
Credit loss expenses (expenses reversal)	7	(5)	-	2
Net Income (loss) Attributed to the Bank's shareholders	**(5)**	**4**	**2**	**1**
Return on equity (percentage)	(0.8)	1.6	0.4	0.1
Average Assets	20,451	855	396	21,702
Average Liabilities	48	3	1	52
	For the three months ended September 30, 2013			
Interest income, net				
- From external sources	302	15	4	321
- Intersegmental	(1)(279)	(1)(9)	-	(288)
Total Interest income, net	23	6	4	33
Non-interest financing income	(1)	-	-	(1)
Commissions and Other income	15	-	-	15
Total Income	**37**	**6**	**4**	**47**
Credit loss expenses reversal	(1)	(5)	-	(6)
Net Income attributed to the Bank's shareholders	**7**	**5**	**3**	**15**
Return on equity (percentage)	1.3	2.1	0.7	1.7
Average Assets	20,046	959	342	21,347
Average Liabilities	35	2	1	38

Footnote:
(1) Reclassified, see Note 12 B (3) to the condensed financial statements.

Principal data relating to the mortgage activity (continued):

	Domestic operations			
	Households	Small Businesses	Middle Market Banking	Total
	in NIS millions			
	For the nine months ended September 30, 2014			
Interest income, net				
- From external sources	449	86	8	543
- Intersegmental	(374)	(74)	(1)	(449)
Total Interest income, net	75	12	7	94
Non-interest financing income	-	-	-	-
Commissions and Other income	23	1	-	24
Total Income	**98**	**13**	**7**	**118**
Credit loss expenses (expenses reversal)	6	(15)	-	(9)
Net income (loss) attributed to the Bank's shareholders	**(10)**	**11**	**3**	**4**
Return on equity (percentage)	(1.3)	22.0	7.1	0.4
Average Assets	20,231	915	380	21,526
Average Liabilities	44	3	1	48
	For the nine months ended September 30, 2013			
Interest income, net				
- From external sources	724	39	8	771
- Intersegmental	(1)(634)	(1)(23)	(2)	(659)
Total Interest income, net	90	16	6	112
Non-interest financing income	-	-	-	-
Commissions and Other income	25	1	-	26
Total Income	**115**	**17**	**6**	**138**
Credit loss expenses (expenses reversal)	40	(8)	(1)	31
Net Income (loss) attributed to the Bank's shareholders	**(1)(9)**	**(1)9**	**4**	**4**
Return on equity (percentage)	(1.8)	18.1	13.0	0.4
Average Assets	19,956	967	370	21,293
Average Liabilities	23	2	1	26

Footnote:

(1) Reclassified, see Note 12 B (3) to the condensed 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 11 million as of September 30, 2014 and NIS 9 million as of December 31, 2013).

Following are details regarding the amount of loans and average financing ratios:

	For the nine months ended September 30, 2014	For the year ended December 31, 2013
Average amount of loan (in NIS thousands)	653	638
Average financing ratio for housing loans (in %)	52.7	52.9
Average financing ratio for general purpuse loans (in %)	37.1	37.0

The average ratio of finance granted for housing is declining in recent years, both due to the 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:

	September 30, 2014		December 31, 2013		December 31, 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	17,049	83.6	17,265	85.7	17,014	85.7
Between 1,200 and 4,000	2,969	14.6	2,552	12.7	2,524	12.7
Over 4,000	387	1.9	327	1.6	325	1.6
Total	**(1)(2)20,405**	**100.0**	**(1)(2)20,144**	**100.0**	**(1)(2)19,863**	**100.0**

Footnotes:
(1) As at September 30, 2014 the credit balance includes an amount of NIS 11 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.

It may be seen from the above data, that during the recent years, no material change in the overall mix had taken place in the section of loans of over NIS 1.2 million.

Following are data regarding the volume of problematic debts in housing credit:

As at	Balance of credit to the public[1]	Balance of the problematic credit[1]	Balance of allowances for credit losses[2][3]	Ratio of problematic debt
	In NIS millions			in %
September 30, 2014	20,661	438	183	2.1
December 31, 2013	20,401	449	184	2.2
December 31, 2012	20,092	447	181	2.2

Footnotes:
(1) Recorded amount.
(2) As at September 30, 2014 the balance of the allowance includes an allowance in accordance with the extent of arrears in an amount of NIS 162 million, and also an allowance over the extent of arrears in an amount of NIS 21 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 precentage of 0.35% from the credit balance in respect of which on allowance in accordance with the extent of arrears was not made, in an amount of NIS 73 million as at September 30, 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

	For the nine months ended September 30,				For the year ended December 31,	
	2014		2013		2013	
Loan to value (LTV) ratio[1]	In NIS millions	% of total Credit granted	In NIS millions	% of total Credit granted	In NIS millions	% of total Credit granted
Up to 45%	710	31.4	678	31.0	901	31.1
Between 45% and 60%	859	38.0	978	44.8	1,270	43.8
Over 60%	690	30.5	529	24.2	730	25.2
Total	**2,259**	**100.0**	**2,185**	**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		
	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)
As at September 30, 2014	1,654	7,663	45.7	5,066	5,560	52.1	3	459	2.2	20,405
As at December 31, 2013	992	7,446	41.9	6,273	5,073	56.3	6	354	1.8	20,144
As at December 31, 2012	448	7,249	38.7	6,987	4,765	59.2	4	410	2.1	19,863

Footnotes:

(1) Of which approx. NIS 195 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.

In recent years, 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 September 30, 2014, of the housing loans portfolio according to the present period to maturity of over 20 years, amount to NIS 1,373 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:

	For the nine months ended September 30,				For the year ended December 31,	
	2014		2013		2013	
Ratio of payment to income (PTI)(1)	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit	In NIS millions	% of total Housing Credit
Up to 40%	1,847	94.1	1,721	88.7	2,264	88.8
Over 40%	115	5.9	219	11.3	286	11.2
Total	**1,962**	**100.0**	**1,940**	**100.0**	**2,550**	**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 in recent years in the volume of credit granted with a repayment ratio of over 40%. It is noted in this respect that as from the middle of 2012, the Bank uses a rating model that takes into account additional parameters related to the repayment ability, so that approval of credit is based upon a full picture of the repayment ability and not only on the repayment ratio.

The volume of credit granted in the first nine months of 2014, with a repayment ratio of over 40%, comprised approx. 5.9%. It should be noted that the data for 2013 was affected by a single transaction in this segment.

For further details regarding the mortgage activity - housing loan, see the 2013 Annual Report (pp. 111-120). For details regarding credit risk relating to housing loans, see below under "Exposure to risk and risk management".

INTERNATIONAL OPERATIONS

GENERAL

Discount Group's overseas operations are carried out primarily by the Bank's subsidiaries in the United States and Uruguay (including representative offices in Latin America), by a subsidiary in Switzerland, and by means of the Bank's branch in London.

SCALE OF OPERATIONS AND NET PROFIT

Net profit of the operations in the first nine months of 2014 amounted to NIS 79 million, compared with NIS 119 million in the corresponding period last year, a decrease of 33.6%.

The credit loss expenses in this segment amounted to NIS 80 million in the first nine months of 2014, compared to NIS 44 million in the corresponding period last year, an increase of 81.8%.

Principal data relating to the international operations:

	Households	Corporate Banking	Middle Market Banking	Private Banking	Financial management	Total
			in NIS millions			
		For the three months ended September 30, 2014				
Interest income, net	(1)-	40	53	60	36	189
Non-interest financing income	(1)-	-	-	1	22	23
Commissions and Other income	(1)-	11	10	42	1	64
Total Income	**(1)-**	**51**	**63**	**103**	**59**	**276**
Credit loss expenses (expenses reversal)	(1)	17	4	1	(10)	11
Net Income (loss) attributed to the Bank's shareholders	**1**	**(2)**	**20**	**4**	**37**	**60**
Return on equity (percentage)	0.2	(0.2)	4.0	3.5	5.7	3.0
Average Assets	26	8,427	8,272	3,672	14,691	35,088
Average Liabilities	38	2,398	2,283	18,327	8,469	31,515
		For the three months ended September 30, 2013				
Interest income, net	(1)-	39	50	59	23	171
Non-interest financing income	(1)-	-	-	-	13	13
Commissions and Other income	(1)-	16	14	44	(14)	60
Total Income	**(1)-**	**55**	**64**	**103**	**22**	**244**
Credit loss expenses	(1)-	5	4	-	2	11
Net Income Attributed to the Bank's shareholders	**(1)-**	**11**	**18**	**9**	**8**	**46**
Return on equity (percentage)	-	1.1	4.3	8.5	1.2	2.5
Average Assets	18	8,009	7,690	2,852	18,958	37,527
Average Liabilities	53	2,170	2,085	17,435	12,061	33,804

Footnote:
(1) Amounts lower than NIS 1 million.

Principal data relating to the international operations:

	Households	Corporate Banking	Middle Market Banking	Private Banking	Financial management	Total
			in NIS millions			
			For the nine months ended September 30, 2014			
Interest income, net	[1]-	116	149	181	128	574
Non-interest financing income	[1]-	-	-	6	(40)	(34)
Commissions and Other income	[1]-	36	28	123	1	188
Total Income	**[1]-**	**152**	**177**	**310**	**89**	**728**
Credit loss expenses	[1]-	65	9	2	4	80
Net Income (loss) Attributed to the Bank's shareholders	**-**	**(14)**	**50**	**18**	**25**	**79**
Return on equity (percentage)	[1]-	(2.6)	7.3	7.7	11.6	3.7
Average Assets	26	8,113	8,170	3,732	15,549	35,590
Average Liabilities	40	2,336	2,281	18,477	8,637	31,771
			For the nine months ended September 30, 2013			
Interest income, net	[1]-	112	147	174	57	490
Non-interest financing income	[1]-	-	-	13	31	44
Commissions and Other income	[1]-	41	37	140	(37)	181
Total Income	**[1]-**	**153**	**184**	**327**	**51**	**715**
Credit loss expenses (expenses reversal)	[1]-	23	32	2	(13)	44
Net Income Attributed to the Bank's shareholders	**[1]-**	**26**	**36**	**42**	**15**	**119**
Return on equity (percentage)	-	5.8	6.3	20.3	6.0	6.1
Average Assets	18	7,845	7,960	2,782	20,678	39,283
Average Liabilities	53	2,120	2,179	17,807	12,505	34,664

Footnote:
(1) Amounts lower than NIS 1 million.

DEVELOPMENTS IN THE SEGMENT

Sale of DBLA. For details regarding the examination of the possibility of the sale of DBLA, see Note 18 to the condensed financial statements.

Agreement between the Swiss Authorities and the U.S. Department of Justice. For details, see Note 17 to the condensed financial statements.

The Bank's Extensions in Europe. The Bank's Board of Directors has recently decided to take the necessary measures in order to promote the closing of the London Branch. The Bank's Management is taking steps to implement the decision. The Board has also decided to examine the continuation of the activity in Switzerland.

LEGISLATIVE RESTRICTIONS, REGULATIONS AND SPECIAL CONSTRAINTS APPLICABLE TO THE OPERATIONS

Exposure restriction with regard to overseas extensions. As of September 30, 2014 the calculated rate of the Bank's exposure with respect to overseas offices was 19.96% of the 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.

The Bank reviews developments in the calculated rate of exposure regarding its activity at the overseas extensions.

New regulations regarding the supervision of the British Regulator over branches of foreign banks in England and the licensing of their operations. 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), in England (both of existing branches and of new branches 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.

For further details regarding the "International Operations", see the 2013 Annual Report (pp. 120-125).

EXPOSURE TO RISKS AND RISK MANAGEMENT

RISK PROFILE OF THE DISCOUNT GROUP

For details regarding the risk profile of the Discount Group, see the 2013 Annual Report (pp. 125-129).
For details regarding Risk Management Principles and Tools, and Corporate Governance for risk management, see the 2013 Annual Report (pp. 129-135)

BASEL AND THE REGULATORY CAPITAL REQUIREMENTS

DISCLOSURE IN ACCORDANCE WITH THE THIRD PILLAR OF BASEL

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 report for the second quarter of 2014 (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.
For details regarding Basel III, see the 2013 Annual Report (pp. 138-139).

REGULATORY FRAMEWORK FOR RISK MANAGEMENT

DRAFTS AND INSTRUCTIONS PUBLISHED DURING THE FIRST NINE MONTHS OF 2014

Draft instructions in the matter of credit risk management – see below.
Proper Conduct of Banking Business Directive, a draft amendment of the Reporting to the Public Directives and of the FQA file in the matter of the liquidity coverage ratio – see below.
Amendment of Proper Conduct of Banking Business Directive No. 355 in the matter of business continuity risk management – see below.
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.
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".

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. For general details and for qualitative disclosure regarding credit risk management, see the 2013 Annual Report (pp. 141-148).

Draft amendment of Proper Conduct of Banking Business Directive No. 311 in the matter of "credit risk management". On April 30, 2014, the Supervisor of Banks published a draft amendment of the Directive, according to which, credit control requirements would be integrated into the Directive, and Proper Conduct of Banking Business Directive No. 319 would be 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 draft, 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. According to the draft, the amendment shall take effect as from January 1, 2015 and thereafter.

CREDIT RISK MITIGATION

For details regarding qualitative disclosure regarding credit risk mitigation, see the 2013 Annual Report (pp. 149-150).

A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", item 4, the information included therein is presented herewith by way of reference.

ADDITIONAL DISCLOSURES

QUANTITATIVE DISCLOSURE REGARDING CREDIT RISK

Segmentation of credit risk exposure according to main credit exposure types – gross credit risk exposure

	September 30, 2014	Average for the period[1]	September 30, 2013	Average for the period[1]	December 31, 2013	Average for the period[1]
	Basel III		Basel II		Basel II	
	in NIS millions					
Credit	151,720	149,864	146,870	149,898	149,885	149,895
Bonds	32,355	34,595	38,401	37,664	35,964	37,324
Others[2]	9,148	8,910	8,571	7,997	8,282	8,054
Guarantees and other liabilities on account of clients[3]	61,032	58,657	57,262	58,884	57,706	58,649
Transactions in derivative financial instruments[4]	3,070	2,218	2,048	1,805	1,875	1,819
Total	**257,325**	**254,244**	**253,152**	**256,248**	**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).

A quantitative disclosure in this matter is presented in the Internet document regarding Basel (as defined above), in part "C", items 1-3, and the information included therein is presented herewith by way of reference.

GENERAL DISCLOSURE REGARDING EXPOSURE RELATED TO CREDIT RISK OF A COUNTERPARTY

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. For further details see the 2013 Annual Report (pp. 151-152). 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

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 the 2013 Annual Report (p. 152).

Note 8 to the condensed 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. 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.

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, CLO[1]" types and residential mortgage backed securities (RMBS). For additional details, see the 2013 Annual Report (pp. 152-153), for further details, see Note 2 to the condensed 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.

[1] CLO (Collateralized Loan Obligation): A bond backed up by a loan portfolio.

Developments in world markets. The economy of the Eurozone expanded in the third quarter at a moderate rate of 0.8%, this following a growth of 0.4% and 1.2% in the second and first quarters, respectively. The central bank has lowered the interest rate to 0.05% and in addition announced the purchase of asset backed bonds, on the background of the decline in inflation in the Eurozone to an annual rate of 0.4%. It is noted that the geo-political tension between Russia and the European states has increased during the period, impairing as a result the Eurozone economy. On the background of the weakness in the Eurozone and the expansionary measures taken by the central bank, the decline is continuing in returns on government bonds of the Eurozone countries.

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.

For details regarding the manner of managing credit risk applying to foreign financial institutions, see the 2013 Annual Report (pp. 153-154).

Credit exposure to foreign financial institutions. The Bank's exposure to foreign financial institutions comprises mostly of exposure to banks and investment banks. As seen from the data presented hereunder, about 80% of the exposure as of September 30, 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 September 30, 2014, include, inter-alia, the United States, Great Britain, Germany and France.

In the reporting period, an amount of NIS 98 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 IDB New York's decision to sell them as part of its preparations for the implementation of the Basel III instructions in the United States , as from January 1, 2015 (see Note 2 to the condensed financial statements).

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 September 30, 2014		
Present credit exposure to foreign financial institutions[6]			
External credit rating[7]			
AAA to AA-	2,231	327	2,558
A+ to A-	5,721	144	5,865
BBB+ to BBB-	1,570	13	1,583
BB+ to B-	187	-	187
Not rated[8]	233	105	338
Total present credit exposure to foreign financial institutions	**9,942**	**589**	**10,531**
Of which credit exposure to foreign financial institutions:			
In the USA	2,314	55	2,369
Balance of problematic bonds	170	-	170
	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 8 to the condensed 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 2 to the condensed financial statements).

(7) According to Moody's rating, and in its abesnce, 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 September 30, 2014 and December 31, 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 in 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 143 million and NIS 283 million respectively.

CREDIT RISK IN HOUSING LOANS

General. The activity of granting housing loans by the Group, is mostly done by the Bank and by Mercantile Discount Bank (hereinafter 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 demands and the negative real term interest. For details regarding measures taken by the Group, in order to tighten the control over credit in this area, see the 2013 Annual Report (p. 156).

The volume of the Group's housing loan portfolio as of September 30, 2014, amounted to NIS 20,661 million (December 31, 2013 - NIS 20,401 million).

Following are data regarding certain risk characteristics of the Group's housing loans portfolio:

	September 30, 2014	December 31, 2013
	%	%
Rate of housing loans financing over 75% of the value of the property	8.3	9.6
Rate of housing loans, the monthly repayment amount of each exceeds 35% of the income of the borrower	18.6	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.

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.

As of September 30, 2014, the Bank has no one borrower group the indebtedness of which reaches the said level.

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.

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 investment in securities by each one of the agencies does not reach the said level. For details regarding the said investments of the Bank, see below Schedule "D" to the Management Review.

CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

Credit risk in respect of leveraged finance. The Bank has set limitations on the scope of exposure to leveraged finance in relation to total credit granted by the Bank and in relation to the total equity of the Bank, whichever is lower. 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.

For additional details regarding credit risks in respect of leveraged finance, see the 2013 Annual Report (pp. 157-158). 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 Group'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.

For general details, see the 2013 Annual Report (pp. 158-161).

For details regarding Proper Conduct of Banking Business Directive No. 333 in the matter of "interest risk management" see the 2013 Annual Report (p. 158).

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 in the base exposure.

For details regarding base exposure, see the 2013 Annual Report (pp. 161-162).

Following is the distribution of the Bank's capital between the various linkage segments, compared with the restrictions (the data is presented in relation to capital):

		Third quarter of 2014				2013			
		Range of exposure							
Segment	Limitation	Period end	from	to	average	Year end	from	to	average
CPI linked	50%-(25%)	21.1%	18.5%	25.7%	22.1%	8.5%	4.5%	29.0%	19.3%
Foreign currency	15%-40%	29.5%	25.9%	29.9%	27.6%	25.1%	25.1%	28.1%	26.8%

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 Bank's equity as of September 30, 2014.

	The Bank's capital sensitivity of changes in exchange rates			
	in NIS millions			
Segment	10%	5%	-5%	-10%
USD	331	163	(152)	(303)
EUR	(14)	(9)	2	3
Other Foreign Currencies	(7)	(4)	4	8

(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. For further details, see the 2013 Annual Report (pp. 162-166).

The data presented in item "B" hereunder, 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 "B" to the Management Review, hereunder.

The data presented in item "C" hereunder is used in 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 Bank's economic approach to the management of exposure of the economic value of the Bank's equity to changes in interest rates.

B. Sensitivity analysis to the effect of changes in interest rate based on the fair value of financial instruments

Fair value of financial instruments. For details regarding the fair value of financial instruments, see the 2013 Annual Report (pp. 162-164). For details regarding the main methods and assumptions used in assessing the fair value of financial instruments, see Note 21 to the financial statements as of December 31, 2013 (pp. 481-483) and Note 9 to the condensed financial statements.

Following are certain updates as of September 30, 2014:

- The fair value of impaired debts - increasing the discount interest rate by 1 basis point would have reduced the fair value of the impaired debts by NIS 24 million. Increasing the discount interest rate by 0.1 basis point would have reduced the fair value of the impaired 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 151 million (compared to NIS 112 million as 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 3.77 years on September 30, 2014, compared to 3.38 years, taking into consideration the forecast for early redemptions (compared to 3.74 years and 3.35 years, respectively, as of December 31, 2013);
- 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 48 million (compared to 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 3.5 years on September 30, 2014, compared to 3.32 years, taking into consideration the forecast for early redemption (compared to 3.28 years and 3.10 years, respectively, as of December 31, 2013).

Hybrid financial instruments. For details regarding hybrid financial instruments, see the 2013 Annual Report (pp. 162-163). As of September 30, 2014, the effect of treatment of the option and of the host instrument as two separate instruments was not material.

Following are details regarding fair value of the Bank and its 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			
			September 30, 2014			
Financial assets[1]	109,455	23,483	48,218	4,363	3,947	189,466
Amounts receivable in respect of derivative and off balance sheet financial instruments [3]	93,916	3,471	68,745	16,666	15,571	198,369
Financial liabilities[1]	(96,254)	(18,896)	(53,497)	(7,996)	(4,625)	(181,268)
Amounts payable in respect of derivative and off balance sheet financial instruments [3]	(104,186)	(5,555)	(60,596)	(13,175)	(14,972)	(198,484)
Net fair value of financial instruments	**2,931**	**2,503**	**2,870**	**(142)**	**(79)**	**8,083**
			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**

Following are details regarding the effect of hypothetical changes in interest rate on the fair value of financial instruments of the Bank and its 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 NIS millions	in %
			September 30, 2014						
Immediate parallel increase of 1%	2,749	2,417	2,342	(143)	(79)	-	7,286	(797)	(10%)
Immediate parallel increase of 0.1%	2,915	2,495	2,832	(142)	(79)	-	8,021	(62)	(1%)
Immediate parallel decrease of 1%	3,300	2,601	3,183	(135)	(74)	-	8,875	792	10%
			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 9 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.

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 "B" 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 (for additional details, see 2013 Annual Report, pp. 164-166).

Following are details of the effect of hypothetical changes in interest rates of 100 basis 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		
			September 30, 2014		
An increase of 100BP in interest rates	(8)	1	(85)	(10)	(102)
A decrease of 100BP in interest rates	65	(4)	(137)	4	(72)
			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 limitations determined by the Board for interest risk exposure in the various linkage segments are expressed in terms of maximum damage to economic capital resulting from concurrent movements in the yield curve of 1% in each of the linkage segments.

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 the third quarter of 2014, the Bank and the Group complied with the determined exposure limits.

In addition to the scenario of a parallel shift in the interest graphs, the effect of non-parallel changes in the various interest graphs is also being examined. No deviation was recorded in the third quarter of 2014 from these limitations.

D. The characteristics of interest rate risk in the banking book

For details regarding the risks inherent in the banking book, see the 2013 Annual Report (p. 164).

Following is the effect of a hypothetical change of 100 basis 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		
			September 30, 2014		
An increase of 100BP in interest rates	(11)	15	(83)	12	(67)
A decrease of 100BP in interest rates	64	(19)	(136)	(14)	(105)
			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

(3) THE VALUE AT RISK (VAR)

For details regarding the VaR model, see the 2013 Annual Report (pp. 166-167).

The Board of Directors determined a limitation according to which the VaR of the Group (at a parametric method, for a range of ten days and at a confidence level of 99%) should not exceed 4% of the equity. No deviations from this limitation were recorded in the third quarter of 2014.

(4) LOSS ANALYSIS IN STRESS SCENARIOS (STRESS TESTS)

The limitations on exposure of the Group in terms of erosion in value under stress tests are based on macro-economic evaluations as regards the probability of one or another stress test.

In the third quarter of 2014 no deviations from these limitations were recorded. For further details, see the 2013 Annual Report (p. 167).

(5) THE STANDARD 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 standard approach, as prescribed by Proper Conduct of Banking Business Directive No. 208. For further details, see the 2013 Annual Report (p. 168).

Following are details of capital allocation to market risks according to the standard approach:

	Capital allocation as of	
	September 30, 2014	December 31, 2013
	In NIS millions	
The Bank:		
Interest rate risk*	264	171
Foreign exchange rate risk	53	32
Share risk	3	2
Option risk	33	28
Total for the Banking Group	**353**	**233**
Allocation in risk asset terms	2,820	2,588

* Including the specific risk in the amount of NIS 5.6 million and NIS 8.6 million in the Third Quarter 2014 and Year 2013, respectively.

(6) 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's Board of Directors has set out guidelines regarding the permitted activity in options both as regards to the number of transactions and the overall volume and as regards the maximum loss in extreme scenarios and in moderate scenarios. The boards of directors of the principal banking subsidiaries have also set limitations on the activity in options. No deviations were recorded in the third quarter of 2014 from the limitations set by the Board of Directors.

(7) ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS

The Bank's Board of Directors and the Board of Directors of its main subsidiaries have determined the mode of 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).

The exposure created by this operation, both in respect to linkage base and to interest, is included in the framework of limitations set by the Board of Directors with respect to exposure to linkage base and interest and the 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.

No deviations from the said limitations were recorded in the third quarter of 2014.

Following are data as to the volume of operation in derivative financial instruments (par value) of the Bank and its consolidated subsidiaries

	September 30, 2014	December 31, 2013
	in NIS millions	
Hedging derivatives	2,347	1,869
ALM derivatives	201,951	183,347
Other derivatives	26,330	36,173
SPOT foreign currency swap contracts	2,660	2,078
Total	**233,288**	**223,467**

For further details regarding management and measurement of market risks, see the 2013 Annual Report (pp. 158-170).

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. Whereas this is a situation of uncertainty in which a liquidity risk always exists, the Bank has determined maximum exposure limitations as regards the liquidity risk.

Proper Conduct of Banking Business Directive, a draft amendment of the Reporting to the Public Directives and of the FQA file in the matter of the liquidity coverage ratio. The Supervisor of Banks issued on October 2, 2014, a Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio", in addition to the existing Directive (Proper Conduct of Banking Business Directive No. 342 – "Liquidity risk management"). Within the framework of this Directive, the Supervisor of Banks has adopted the recommendations of Basel III as regards the liquidity coverage ratio. The Directive defines a uniform format for the computation of the liquidity ratio, with the aim of improving the durability of banks in stress scenarios and creating uniformity on an international level. Concurrently, an FAQ file was published as regards the implementation of Proper Conduct of Banking Business Directive No. 221 in the matter of "liquidity coverage ratio".

In continuation thereof, an amendment to the Reporting to the Public Directives has been published. In accordance to the Reporting to the Public Directives, banks, in their directors' report, would be required to provide a quantitative disclosure and a qualitative discussion as regards the liquidity coverage ratio. Furthermore, disclosure would be required within the framework of the note on "capital adequacy and liquidity" with respect to the consolidated liquidity coverage ratio and the liquidity coverage ratio of the material subsidiaries.

For further details regarding the management of the liquidity risk, see the 2013 Annual Report (pp. 171-172).

OPERATIONAL RISKS

An operational risk is defined in the directives of the Bank of Israel as a loss risk resulting from faulty data processing systems, human error and the lack of proper checks and controls.

For additional details regarding Operational risks, see the 2013 Annual Report (pp. 172-176).

PREPARATIONS BY THE BANK FOR BUSINESS CONTINUITY

Principal developments in the third quarter of 2014:

- Completion of the BIA (Business Impact Analysis) survey – a survey has been completed which identifies core processes essential for the establishment of business continuity, their order of preference, determination of recovery periods required for their re-establishment;
- A strategy document for the management of business continuity has been approved. The document details the administrative framework and modes of operation for the implementation of a business continuity management program at the Bank;
- A BCP study course has been established for the training of divisional business continuity supervisors at the Bank and at its subsidiaries – Mercantile Discount Bank and ICC;
- Business continuity management during the "Protective Edge" operation - the Bank and the Group have prepared for the existence of business continuity at all branches and Head Office units.

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; a requirement to safeguard a principal critical location against earthquake damage; 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.

For details regarding environmental risks, see the 2013 Annual Report (p. 178).

COMPLIANCE RISKS

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 is rectifying the deficiencies indicated by the report and to implement the requirements included therein.

For additional details regarding compliance risks, see the 2013 Annual Report (pp. 179-182).

IT RISKS

DRAFT INSTRUCTIONS REGARDING THE MANAGEMENT OF CYBERNETIC RISK AND THE REPORTING OF A CYBERNETIC INCIDENT

On August 21, 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" and 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 IMPLICATIONS OF DATA PROTECTION RISKS AND CYBERNETIC INCIDENTS

During the first nine months of 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. The Bank is preparing for the realization of the implementation program, in accordance with guidelines of the Supervisor of Banks in the matter.

For additional details, see the 2013 Annual Report (pp. 177-178).

LEGAL RISKS

On November 10, 2014 the Bank's Board of Directors approved an updated legal risk management policy document of the Discount Group.

For additional details regarding IT risks, see the 2013 Annual Report (pp. 176-178).
For details regarding regulation risks, see the 2013 Annual Report (p. 179).

EFFECT OF EXTERNAL FACTORS

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY AND AROUND THE WORLD IN THE FIRST NINE MONTHS OF 2014

DEVELOPMENTS IN THE GLOBAL ECONOMY

General. Uneven and also unbalanced trends were recorded during the first nine months of 2014 in the rate of expansion of the global economy. Moreover, during the reviewed period, the IMF updated downward the growth forecasts for the global economy and international trade.

The U.S. economy shrank in the first quarter at a rate of 2.1%, among other things, on the background of severe weather conditions which existed at the beginning of the year; however, in continuation economic growth has recorded significant expansion. The U.S. product grew in the second and third quarters by 4.6% and 3.5%, respectively. Concurrently, the rate of unemployment declined from 6.7% at the end of 2013 to 5.9% at the end of September 2014. Economic recovery in the U.S. covered all areas of business activity, excluding the real estate market, which did not show a clear trend of continuing improvement.

The economy of the Eurozone expanded in the third quarter at a moderate rate of 0.8%, following a growth of 0.4% and 1.2% in the second and first quarters, respectively. Exceptionally weak were the large economies of the Eurozone. In particular, the German product expanded in the third quarter by only 0.4%, following contraction at the same rate in the second quarter. The Italian economy entered a recession and a moderate growth of 1.2% was recorded in France in the third quarter, following a standstill and contraction in the earlier two quarters. However, noteworthy of mentioning is the Spanish economy, which continued to grow at a rate of 2%. The unemployment rate in the Eurozone steadied at a high level (11.5% in September 2014). Notwithstanding, this is a certain decline compared with the end of 2013.

It should be noted that in contrast to the slow growth in the Eurozone, the British economy continued to expand at a relatively fast rate (2.8%-3.6%). It is further noted that the Japanese economy has entered into a recession. This following a fast growth in the first quarter and the contraction of the product further on in the year.

The BRICS countries recorded a slowdown in the growth trend, with a significant differentiation between the countries. India reflected an accelerated growth rate rising from 4.6% at the end of 2013 to 5.7% in the second quarter, while the growth rate in China slowed down to 7.3% in the third quarter (compared to 7.7% in the last quarter of 2013). A significant slowdown in growth was recorded in the Russian economy, and Brazil has even recorded the shrinking of the product in the second quarter.

At the same time, during the first quarter, on the background of concerns regarding the implications of the monetary contraction in the U.S., alongside the increasing geo-political tension between Russia and the neighboring Ukraine, concerns regarding a crisis in the developing markets were growing. These concerns were expressed by a steep devaluation of the local currencies and in a decline in the capital markets of the developing countries in that quarter. Later on in the year, the concerns regarding the implications of the effect of the U.S. monetary policy on the developing markets have receded, however the geo-political tension in Eastern-Europe continued and even escalated in the third quarter. Furthermore, on the background of the said escalation, the Western countries and Russia institutes mutual sanctions. The impact of these sanctions included, among other things, impairment of the economic recovery in the Eurozone and a significant devaluation of the Russian currency.

The inflationary environment around the world continued to be moderate in the reviewed period, though characterized by differences in the rate of rising prices, both as between countries and over the period of time. While in the U.S. the rate of inflation accelerated in the first half of the year and slowed down in the third quarter, a consistent downward trend was recorded in the Eurozone (to a low level since the end of 2009). A decline in inflation was also recorded in China. On the other hand, Russia and Brazil recorded a significant acceleration in the rate of price increases.

The slow economic recovery alongside the moderate inflation rate, have supported the continuation of the expansionary monetary policy, though different in most of the developed economies in the world. In the U.S., the FED has begun the plan of contracting the quantitative expansion at a volume of US$10 billion per month. Concurrently, the interest rate in the U.S. remained at a low level of 0.25%. It is noted that in the reviewed period, the FED lowered expectations for a long-term equilibrium interest rate, though on the other hand has raised the interest outline for the coming years.

In the Eurozone, towards the end of the first half of the year, the Governor of the ECB has lowered the basic interest rate from 0.25% to 0.15%, and in the third quarter lowered the interest rate to a record low of 0.05%. Concurrently, the deposit interest for commercial banks was also lowered, and a new plan was put into action whereby banks could borrow funds for a period of four years at a fixed interest rate, this in order to encourage the granting of loans to the business sector (it should be noted that the plan had limited success). Furthermore, the ECB announced that it would examine the possibility of instituting a plan for the purchase of asset backed bonds.

As an immediate reaction to the financial crisis in the first quarter and to the tension in Eastern Europe, and in order to stabilize the currency exchange rates, several central banks in the developing markets have raised the interest rate; this included Turkey, Russia, India and Brazil.

Financial markets. Trading on the global equities markets was typified during the first nine month of the year by the differences in the leading share indices. While the S&P 500 Index in the U.S. has recorded increases in each of the quarters, the German DAX Index fell in the third quarter, following a rise in the second quarter and a standstill in the first quarter. The developing markets index also dropped in the third quarter, following a steep rise in the first half (the entire rise being recorded in the second quarter). The said trends in share prices were, on the one hand, affected by the low interest rate environment and the economic recovery in the U.S., and on the other hand, by the crisis in the developing markets (at the beginning of the year), the events in the Ukraine, the weakness in the Eurozone and signs of economic slowdown in China.

Following are the changes in selected share indices recorded during the first nine months of the years 2014 and 2013:

	Change during the first nine months of	
Index	2014	2013
S&P 500	6.7%	17.8%
DAX	(0.8%)	12.9%
MSCI Emerging Markets	0.3%	(6.4%)

During the reviewed period, a trend of declining returns on U.S. government bonds for ten years was recorded. The said trend was supported by the shift to safe assets (on the background of the crisis in the developing markets and in the Ukraine), alongside the continuing low interest rate environment and the downwards updating of the long-term interest rate in the country. A decline in return on bonds was also recorded in the Eurozone, among other things, on the background of the expansionary measures adopted by the ECB. It is noted that in July, on the background of the announcement made by a holding company in Portugal, which owns the second largest bank in the country (BES), regarding the deferment in the payment of the short-term bonds, a rise was recorded in returns on the Portuguese government bonds and in additional peripheral countries. The said rise in returns was temporary only, though it emphasized the lack of success to date, in preventing the negative influence between banks and government bonds in the Eurozone, and that concern still exists of its spreading to other countries, peripheral countries in particular.

Following are the returns on government bonds:

Return on bonds for 10 years	September 30, 2014	December 31, 2013
U.S.A.	2.5%	3.0%
Germany	0.95%	1.93%

The trade in the U.S. dollar against the Euro was typified by the strengthening trend of the U.S. currency. In particular, the Euro lost ground against the dollar in the third quarter, falling by 8.4%. The strengthening trend resulted mostly from the lowering of the interest rate in the Eurozone and from additional expansionary measures taken by the ECB. It is noted that in the said quarter the US dollar gained ground against all leading currencies in the world.

Following are the changes in the U.S. dollar against selected currencies:

	Change during the first nine months of	
Exchange rate	2014	2013
EUR	9.2%	(2.5%)
JPY	4.2%	13.4%
GBP	2.1%	0.4%

The global commodities index GSCI has recorded an uneven trend. Whilst during the first half of the year the index rose by 4%, it dropped at a steep rate of 13% in the third quarter. The said fall in the index related to all its components, in particular a 14% drop in prices of energy commodities and a 16% drop in prices of agricultural commodities was recorded. The fall in prices of commodities resulted, among other things, from the strengthening of the U.S. dollar and from the slowdown in economic activity around the world.

Following are changes in selected commodities indexes:

	Change during the first nine months of	
	2014	2013
The commodities index - GSCI	(9.2%)	(2.2%)
The oil price (BRENT)	(14.6%)	(2.5%)
The oil price (WTI)	(7.4%)	11.1%
Gold		(20.0%)

MAIN DEVELOPMENTS IN THE ISRAELI ECONOMY

GENERAL

Economic activity in the third quarter (months of July-August) was conducted in the shadow of the "Protective Edge" operation. As a result thereof, the product recorded a contraction of 0.4% (annualized rate) in this. This, in continuation to the slowdown in economic growth in the first half of the year (2.8%). Moreover, the business product contracted in the third quarter by 1.4%. The data for the third quarter reflected, among other things, a regression in investments in fixed assets, a decline in industrial exports and a decline in the export of tourist services. On the other hand, private consumption continued to grow at a fast rate.
The number of employed persons in the third quarter of the year was higher by approx. sixty thousand, compared with the last quarter of 2013. However, in this quarter, the rate of accepting new employees was slowed down significantly compared with the first half of the year. The rate of unemployment in the third quarter amounted to 6.4%, compared with 5.8% at the end of 2013.

DEVELOPMENTS IN ECONOMIC SECTORS[1]

In the months of July-August 2014, the average industrial production increased by 1.4%, compared with the second quarter of the year, this despite the military operation in that period. In total for the period from January to August the average industrial production remained unchanged compared with the monthly average in the first nine month period last year.

[1] The most updated data available at the time of submitting the report to print.

The average wholesale and retail trade turnover in July-August fell by 4%, compared with the second quarter. However, in all the eight month period, turnover has increased by 1% compared with the average monthly turnover in the period from January to September last year.

DEVELOPMENTS IN FOREIGN ACTIVITIES OF THE ISRAELI ECONOMY[1]

A significant growth was recorded in the first eight months of the year in the average monthly volume of financial investments by foreign residents in marketable Israeli securities (traded on the Tel Aviv Stock Exchange and abroad), compared with the period from January to September last year. The said growth related to both investments in equities and in bonds. It is noted that the monthly average in the months of July-August was 55% higher compared with the monthly average in the first half of the year. The average monthly direct investments in Israel (through banks) by foreign residents were 11% higher in the period from January to August of the year, as compared with the first nine months of 2013. Nevertheless, a decline of 33% was recorded in the months of July-August compared with the monthly average in the first half of the year.
Financial investments abroad by Israeli residents recorded in the period from January to August of the year, a steep rise (on an average), as compared with the period from January to September last year. The said increase related to all segments – business, institutional investors and households. It is noted that in the months of July-August, the average monthly volume of financial investments was higher by 9% compared with the first half of the year.

Following are the changes recorded in investments of the Israeli economy abroad:

	Monthly average		
Investments in Israel by foreign residents	January to August 2014	January to September 2013	Change
	US$ billion		
Total direct investments through banks	0.8	0.7	11.0%
Total financial investments	0.7	0.1	725.0%
Of which: Government bonds and MAKAM	0.4	(0.2)	–
Shares	0.3	0.2	77.4%
Investments abroad by Israeli residents	2014	2013	Change
	US$ billion		
Total direct investments through banks	0.0	–	–
Total financial investments (excluding banks)	2.4	0.7	261.2%

DEVELOPMENTS IN INFLATION AND FOREIGN EXCHANGE RATES

An uneven trend was recorded in the reviewed period in the trading of the Shekel against the U.S. dollar. Whilst until the month of August, the Shekel strengthened against the dollar by 1.2% (in contrast to the global strengthening of the dollar), the Shekel later weakened by 7.9%. The said weakening of the Shekel in August and September resulted from a number of factors, mostly the effect of declining interest rate differentials, the global strengthening of the dollar and the aggressive intervention by the Bank of Israel.
The inflationary environment in the reviewed period continued to be very moderate with a negative inflation rate of -0.3% for the twelve months ended in September 2014. It is noted that residential units prices (not included in the CPI) continued to rise, though at a more moderate rate than that of the end of 2013.

FISCAL AND MONETARY POLICY

Fiscal policy. Budget execution in the reviewed period has been uneven. Whilst until the month of May, the fiscal situation improved, particularly with a surplus revenues collection of NIS 4.2 billion (in relation to forecasts) and a decline in the accumulated deficit in the last twelve months (in terms of product) from 3.2% in December 2013 to 2.4% in May 2014, this improvement was halted in the later period. In particular, the months of June to September revenues collection was short by NIS 1.1 billion and the accumulated deficit for the last twelve months amounted to 2.7% in September 2014. The weakness in revenues collection and the rise in deficit reflected mostly the slowdown in economic activity and the negative implications of the "Protective Edge" operation.

Monetary policy. The monetary policy of the Bank of Israel in the reviewed period, continued to be expansionary. It included the lowering of the interest rate on three occasions (in the months of March, August and September), at a cumulative rate of 0.75%, the interest rate in September dropping to a historical low of 0.25%. Supporting the lowering of the interest rate were the low inflationary environment and low expectations for inflation, the strengthening of the Shekel, with its negative effect on the commercial sector and on exports in particular and concern regarding a further slowdown in economic activity due to the military operations in the third quarter.

CAPITAL MARKET

A steep rise has been recorded during the third quarter (and in particular in September) in most of the leading share indices (despite the military operations), this in continuation of the positive trend existing in the first half of the year.

Following are the changes recorded in selected share indices during the first nine months of 2013 and 2014:

	Change during the first nine months of	
Index	2014	2013
General share index	11.8%	9.6%
TA 25	9.7%	6.7%
TA 100	8.1%	8.9%
TA banks	4.1%	6.7%
TA Bluetech	(7.9%)	6.3%
Real-estate 15	7.4%	19.8%

On the background of the said developments, the market value of shares and convertibles rose during the first nine months of the year by 10%. A rise of 3.8% was recorded in the third quarter. As a result thereof, the market value of shares and convertibles amounted at the end of September 2014, to NIS 778 billion. The average daily trading turnover in shares and convertibles amounted in the reviewed period to NIS 1.16 billion (an increase of 4% compared with the corresponding period last year).

Trading in government bonds in the period from January to September reflected a decline in returns (namely, a rise in bond indices). The said trend was affected by the lowering of interest rates and expectations for the continuation of the low interest policy, by the continued decline in the CDS premium in Israel (except during the "Protective Edge" operation period) and by the decline in returns on the U.S. and Eurozone bonds. In total for the period the general government bond index has recorded a rise of 6.7%. During the third quarter the index rose by 2.1%.

Trading trend in corporate bonds derived mostly from the trading trend in government bonds, alongside the growing demand for risky assets, on the background of the low returns on government bonds.

It is noted that the margin in returns between the Tel-Bond 60 Index and the linked government bonds declined during the third quarter, following a growing margin in the first half of the year (in total for the nine months, the margin remained unchanged). The margin of returns between the Shekel Tel-Bond index and non-linked government bonds increased during the period (mostly during the first half of the year).

Following are the changes recorded in bonds indices during the first nine months of 2013 and 2014:

	Change during the first nine months of	
Index	2014	2013
General bonds	5.8%	3.9%
General Government bonds	6.7%	2.1%
Shekel Government bonds	6.8%	2.7%
Linked Government bonds	6.5%	1.4%
General Corporate bonds	4.3%	7.2%
Linked Corporate bonds	4.1%	7.5%
Shekel Tel-Bond	5.1%	5.0%

During the first nine months of 2014, the raising of capital by means of corporate bond offers, amounted to NIS 46 billion, an increase of 67% compared with the corresponding period last year. In particular, an amount of NIS 17 billion was raised in the third quarter (compared to NIS 7.9 billion in the third quarter last year). Bond offerings to institutional bodies amounted in the period January to September to NIS 13 billion, compared to NIS 1.7 billion in the corresponding period last year.

The daily trading turnover in bonds amounted on an average to NIS 4.1 billion, a decrease of 7% compared with the corresponding period last year. On the other hand, a rise of 3.8% was recorded in the daily trading turnover in short-term loans (MAKAM) amounting on an average to NIS 655 million. It is noted that the trading turnover in bonds and MAKAM during the third quarter of the year were 7% and 14%, respectively, higher than the average monthly turnover in the first half of the year.

THE ASSET PORTFOLIO HELD BY THE PUBLIC[1]

The value of the financial assets portfolio held by the public increased during the first eight months of 2014 by 5%, amounting at the end of August 2014 to NIS 3.1 trillion. The said growth related to the value of all classes of assets, except for equities in Israel.

Following is the distribution of the asset portfolio held by the public:

	August 31, 2014	December 31, 2013
Shares	24.0%	24.2%
Non-linked assets	33.8%	33.7%
CPI linked assets	31.2%	31.4%
Foreign currency linked assets	11.1%	10.8%

PRINCIPAL ECONOMIC DEVELOPMENTS IN OCTOBER AND NOVEMBER 2014[2]

Economic activity indicators continued to indicate an unbalanced growth of the global economy, and even concern regarding an additional economic slowdown around the world. In October, the International Monetary Fund once again updated downwards the global growth forecast and the world trade forecast for 2014, to rates of 3.3% and 3.8%, respectively. It is noted that while the growth forecast for the U.S. economy was raised to 2.2%, the forecast for the Eurozone was lowered to 0.8%.

Indicators for economic activity in the U.S. have been mostly positive, pointing to the continued recovery in the employment market and in other areas. On the other hand, the data for the Eurozone continued to indicate weakness in the economy and growing pessimism as regards the future, particularly in industry. The data for China showed a mixed view. It is noted that the geo-political tension in Eastern Europe continued in the reviewed period and in particular between Russia and Western countries.

1 The most updated data available at the time of submitting the report to print.

2 All data relate to the period from October 1, 2014 and until November 17, 2014.

The inflationary environment around the world continued to be moderate, with even increasing concern as to deflation, with reduced expectations for inflation. The monetary policy in the developed countries continued to be expansionary. In the U.S., the central bank has concluded its acquisition plan, with the interest outline, declared in the third quarter, remaining unchanged. In the Eurozone, the ECB left the interest rate unchanged and has started to purchase asset backed bonds. The purchase of bonds was intended, among other things, to accelerate inflationary expectations, and the bank has even announced that it would take additional expansionary measures where required. The central bank of Japan announced acceleration of the quantitative expansion, in view of the low inflationary environment and the weak demand. The monetary policy in the developing countries was uneven. While in China and India the interest rate remained unchanged, it has been raised in Russia and in Brazil.

Concerns regarding a weakening global economy have led to sharp fluctuations in the equities markets. In total for the period, the S&P 500 Index has risen by 3.5%, while the German DAX Index and the developing markets equities index have dropped by 1.5% and 1.9%, respectively. The U.S. dollar continued to gain ground as against all leading currencies. In particular, by 0.2% against the Euro. During the reviewed period, the commodities index (GSCI) recorded a drop of 9.3%. In particular, oil prices dropped by up to 17%.

High volatility characterized also the trading in government bonds around the world. In particular, U.S. government bonds for ten years were traded at a range of between 2.43% and 2.13%, when in total for the period, the return declined by 17 basis points to a level of 2.32%. It is noted also that the return on U.S. government bonds for two years has also declined, this despite the termination of the acquisition plan and the approaching date for the raising of the interest rate in the country. Returns on the long-term bonds of Germany declined by 16 basis points. Falling returns have also been recorded in Italy and Spain.

Economic activity in Israel has been conducted under the continued recovery following the "Protective Edge" operation. Preliminary indicators for economic activity in October show that the export of goods has increased alongside an increase in the incoming tourist trade. Concurrently, the business confidence index showed a slight improvement alongside stability in the consumer confidence index. The cumulative deficit in the last twelve months ended in October, amounted to 2.5% of the product.

The inflation in October was 0.3% with a cumulative inflation rate of (-0.3%) for the twelve months ended in that month. Residential units prices (which are not included in the CPI) have recorded moderation in the annual increase rate. It should be noted that during the reviewed period inflationary expectations were lowered with respect to all time ranges.

The Shekel continued to weaken against the leading world currencies and particularly against the U.S. dollar and against the Euro at rates of 3.5% and 2.8%, respectively. The monetary policy continued to be expansionary, with the interest rate remaining at a level of 0.25% in the months of October and November.

During the reviewed period, the TA 25 Index and the TA 100 Index dropped by up to 0.8%. Returns on the long-term non-linked government bonds fell by 25 basis points to a level of 2.12%. This occurred mostly on the background of falling returns on long-term U.S. bonds, alongside the falling inflationary expectations and expectations for the further lowering of the interest rate in Israel. Returns of the Tel-Bond 60 Index recorded an increase in the reviewed period, with a growing spread as against the CPI linked government bonds.

LEGISLATION AND SUPERVISION

Following is a summary of legislation changes and relevant legislation initiatives during the reviewed period, which affect or might have a significant effect on the Bank's operations.

BANKING LAWS

BANKING ACT (SERVICE TO CUSTOMER)(AMENDMENT NO.19)(NOTICE TO THE CUSTOMER AS TO THE INSTIGATION OF ACTION WITH RESPECT TO A LOAN), 2014

The Act was published on the Official Gazette and entered into effect on September 10, 2014. For additional details, see the 2013 Annual Report (p.192); (the proposal to require banking corporations to include in their notice to customers explanations regarding the implications of conducting collection operations, has not been included in the final version of the Act). See also details regarding the amendment of Proper Conduct of Banking Business Directive No. 453.

PROHIBITION OF MONEY LAUNDERING AND PROHIBITION OF THE FINANCING OF TERROR ACTIVITIES

PROHIBITION OF MONEY LAUNDERING

Prohibition of Money Laundering Act (Amendment No. 11), 2014. The Act was approved by the Knesset on July 30, 2014. For details regarding the Act, see the 2013 Annual Report (p.194). Simultaneously with the passing of the Act, a rule of ethics was determined whereby a lawyer or accountant is not permitted to perform an action if he is under the impression that it would lead to a violation of the provisions of this Act. The provisions of the Act will take effect upon entry into effect of an order to be proclaimed by the Minister of Justice.

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), 2014. The Order was published on the Official Gazette on June 30, 2014. The Order stipulates new procedures for providers of currency services as regards the duty of identifying customers, the recording of transactions and the reporting of certain of the operations to the Israel Money Laundering and Terror Financing Prohibition Authority. This Order abolishes the previous Order in this matter and it becomes effective nine months after date of 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. See additional details in the 2013 Annual Report (p.193).

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 THE FINANCING OF TERROR ACTIVITIES

The Struggle against the Nuclear Program of Iran Regulations (Issue of notices and work procedures), 2013. 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. For additional details, see the 2013 annual report (p. 195).

ANTITRUST

CONSORTIUM AGREEMENTS FOR THE GRANTING OF CREDIT

The Antitrust Authority announced the extension of its announcement of February 28, 2011, regarding consortium arrangements for the granting of credit made between banks and insurance companies and between themselves until December 31, 2014.
For additional details, see the 2013 Annual Report (p.193).

EXEMPTION FROM A BINDING ARRANGEMENT AS REGARDS THE HOLDINGS AND JOINT OPERATIONS WITHIN THE FRAMEWORK OF AUTOMATIC BANK SERVICES AND THE CENTRAL BANKING CLEARING

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.

VARIOUS LEGISLATION MATTERS

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.

THE UNIFORM CONTRACTS BILL (AMENDMENT NO. 4), 2010

The Knesset discussed the Bill on February 25, 2014, as part of the preparations for its second and third readings. The proposed 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.

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.

U.S. LEGISLATION

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.

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 16 to the condensed 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. 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.

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 recommendations of the Committee apply to public corporations, reporting corporations and corporations the financial credit of which exceeds NIS 50 million. The Committee recommends the establishment of a structured layout that would improve the debt arrangement process between corporations to which the recommendations apply and their creditors. The layout is composed of three stages, the first of which is voluntary and is subject to the exclusive decision of the corporation and the other two stages include enforcing components.

At this stage, the Committee invited comments from the public with respect to the conclusions included in the interim report, and stated that thereafter it intends to issue a final report, which will become obligatory by means of the relevant regulators and legislation amendments, where required.

THE DIRECTIVES OF THE SUPERVISOR OF BANKS

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.

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 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 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 will be applied gradually, so that for example: the quarterly reports in 2014 shall be published within fifty-five days from balance sheet date and the annual report for 2014 shall be published until March 10, 2015.

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.

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 liquidation 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. 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 will enter 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.

GUIDELINES REGARDING OPERATION "PROTECTIVE EDGE"

In light of the declaration of a special situation on the home front, following operation "Protective Edge", the Supervisor of Banks declared an emergency situation on July 9, 2014, and issued guidelines regarding the opening of branches and the granting of relief to populations mentioned in Proper Conduct of Banking Business Directive No. 355 "Business continuity management" concerning: deviation from credit facilities, online banking services, conducting business outside the offices of the corporation, instructions by telephone and authorized charging of account. Furthermore, the Supervisor of Banks stated that as regards certain accounts and populations, no restrictions on an account or an account holder due to dishonored checks is to be made. Updated guidelines were issued on July 27, 2014.

On July 27 and 29, 2014, the Supervisor issued instructions regarding the allowance for credit losses and accounting write-offs in the second and third quarters of 2014, regarding debts of small businesses and private individuals, due to the uncertainty created by the security situation, relating to the prospects of collection from customers, as stated.

On July 24, 2014, the Government made a decision regarding measures to fortify the home front in the following matters: the granting of State guaranties in the amount of NIS 100 million, in favor of loans to small and medium businesses in places that had been declared as being under special situation in the home front; deferment of two monthly repayments of mortgage loans to borrowers all over the country, who had received a State mortgage loan; the stopping of eviction measures against mortgage loan borrowers all over the country, who had received a State mortgage loan.

On September 3, 2014, the Supervisor of Banks issued guidelines for the return to operation under normal conditions.

On August 3, 2014, against the background of Operation “Protective Edge”, a collective agreement was signed between the Presidium of Business Organizations (in which the Association of Banks in Israel is also a member), the government of Israel and the Labor Federation. The collective agreement has entered into effect and will apply during the period between July 8, 2014 through August 31, 2014 or until the conclusion of Operation “Protective Edge”, whichever is the earlier of the two. Pursuant to the collective agreement, which is conditional upon the Regulations becoming effective, the employers will pay employees their salary, including social benefits, for the employee’s absence from work on any of the days during the period of the agreement, provided that one of the conditions set forth in the agreement is fulfilled with regard to the employee.

On September 14, 2014, the Minister for Economic Affairs signed an Expansion Order to the said collective agreement.

On July 30, 2014, the Dishonored Checks Regulations (Limits on the application of the Act), 2014, in relation to military reserve personnel, were published.

On October 26, 2014, the Dishonored Checks Regulations (Limits on the application of the Act), 2014, in relation to individuals or corporations located in a declared area or whose bank account is managed at a bank branch located in a declared area, were published.

On August 7, 2014, the Property Tax and Compensation Fund Regulations (Payment of compensation) (War and consequential damage) (Provisional instruction), 2014, were published, which state the rules for entitlement to compensation as well as the list of locations and dates in respect of which employers would be entitled to compensation.

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.

For details regarding tax legislation, see “Taxation” below.
For further details regarding "Legislation and Supervision", see the 2013 Annual Report (pp. 183-202).

ADDITIONAL ISSUES IN THE DESCRIPTION OF THE GROUP

MAIN INVESTEE COMPANIES

The total contribution of both domestic and overseas investee companies to the Bank's business results amounted to earnings of NIS 386 million in the first nine months of 2014, compared to NIS 561 million in the corresponding period last year, and an income of NIS 586 million in all of 2013.

Since March 13, 2014, the investment in FIBI is no longer stated by the equity method (for details see Note 14 to the condensed financial statements).

Following are the major developments in the Bank's main investee companies.

DISCOUNT BANCORP, INC.

Discount Bancorp, Inc. ("Bancorp") is a wholly-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). IDB New York is the largest Israeli bank operating overseas. The data presented hereunder in this section have been taken from Bancorp's financial statements.

	In US$ millions		
Balance sheet items	September 30, 2014	December 31, 2013	Change in %
Total assets	9,774	9,604	1.8
Total credit	4,686	4,448	5.4
Total deposits	6,617	6,474	2.2
Total equity	808	794	1.8
Ratio of total capital to risk assets	13.5%	13.9%	
Income statement items for the first nine months of the year	2014	2013	
Net income attributed to the shareholders	28	29	(3.4)
Return on equity	4.8%	4.7%	

The contribution of the Bank's investment in Bancorp to the Bank's business results amounted to an income of NIS 79 million in the first nine months of 2014 (after deducting a provision for tax of NIS 14 million), compared with an income of NIS 104 million (after deducting a provision for tax of NIS 9 million) in the corresponding period last year.

The difference between the net income and the contribution to the Bank's business results, was among other things, affected by differences in the implementation of accounting principles: a loss was recognized in the financial statements in respect of the impairment of all securities of the TRUPS type, while IDB New York recognized a loss only in respect of impairment of securities that had been decided to put up for sale (under the rules of the U.S. Standard FAS 157-2, which had not been adopted in Israel). For additional details, see "Securities" above.

For details regarding investments by IDB New York in mortgage backed securities, see "Development of assets and liabilities" above and Note 2 to the condensed financial statements hereunder.

Distribution of dividend. In the first nine months of 2014, Bancorp distributed dividend to Discount Bank in a total amount of US$55 million.

The sale of holdings in DBLA. For details, see Note 18 to the condensed financial statements.

MERCANTILE DISCOUNT BANK LTD.

Mercantile Discount Bank Ltd. ("Mercantile Discount") is a wholly-owned subsidiary of the Bank.

	In NIS millions		
Balance sheet items	September 30, 2014	December 31, 2013	Change in %
Total assets	27,337	28,446	(3.9)
Total credit to the public, net	18,498	17,792	4.0
Total deposits from the public	22,786	23,964	(4.9)
Total equity	2,017	1,931	4.5
Ratio of total capital to risk assets	14.8%	14.6%	
Income statement items for the first nine months of the year	2014	2013	
Net income attributed to the shareholders	129	136	(5.1)
Return on equity	8.9%	9.8%	

The decrease in income in the first nine months of 2014 was affected, inter alia, from an increase of NIS 54 million in interest income; by a decrease in the amount of NIS 48 million in non-interest financing income, stemming mainly from a decrease in the amount of NIS 39 million in the gains on fair value adjustments of derivative financial instruments; from a decrease in the amount of NIS 88 million in credit loss expenses, which is explained by exceptional allowances recorded in the corresponding period last year, in respect to a small number of customers of the corporate division, and the decrease in the allowances for credit losses on a group basis; and from a decrease of NIS 46 million in commission income and from an increase of NIS 36 million in operating and other expenses, effected mainly by a provision of NIS 33 million, in respect of the encouragement of early retirement plan (see Note 21 to the condensed financial statements).

Dividend. During the first nine months of 2014 Mercantile Discount Bank has distributed a dividend in the amount of NIS 45 million.

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 12.8 to the financial statements as of December 31, 2013 (pp. 465-466) and Note 4.7 to the condensed 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, in the matter of commission regarding the handling of credit and collateral, a unilateral increase in the interest rate on credit taken within an approved credit facility, the charging of commission with respect to the conversion of foreign currency, foreign currency transfer and handling commissions see Note 19 C, items 13.5, 13.8, 13.9 and 13.11, to the financial statements as of December 31, 2013 respectively (pp. 468-470) and Note 7, items 4.14, 4.16, 5.2, 5.4 and 5.7 to the condensed financial statements, respectively.

ISRAEL CREDIT CARDS LTD.

Israel Credit Cards Ltd. ("ICC") is a subsidiary of the Bank. As of September 30, 2014, the Bank owned 71.8% of the equity and 79.0% of the voting rights in ICC, the remainder of the shares held by FIBI.

	In NIS millions		
Balance sheet items	September 30, 2014	December 31, 2013	Change in %
Total assets	10,004	9,589	4.3
Total equity	1,192	1,078	10.6
Ratio of total capital to risk assets	16.3%	16.4%	
Income statement items for the first nine months of the year	2014	2013	
Total Income	853	836	2.0
Net income attributed to the shareholders	116	104	11.5
The contribution to the Bank's business results	79	72	9.7
Return on equity	14.3%	13.0%	

Dividend. During the first nine months of 2014, ICC distributed dividends in the amount of NIS 60 million (the Bank's share is NIS 43 million).

For details regarding lawsuits and motions to approve them as class action suits filed against ICC, with respect of the following matters: the withdrawal of money from ATMs (the withdrawal there from was approved in January 2014), the granting of credit by means of the "You Active" charge card (the withdrawal there from was approved in January 2014), the marketing of gift cards and the charging of excess amounts in respect of refueling of vehicles (that an agreement for the withdrawal therefrom has been filed for approval with the Court), the granting of credit by means of the "Active" credit card, two binding arrangements in the field of immediate debit cards ("debit") and pre paid cards ("pre-paid"), see Note 19 C to the financial statements as of December 31, 2013, items 12.10, 12.14, 13.3, 13.7 and 13.10 respectively (pp. 466-470) and Note 7, items 4.11, 4.15, 5.3 and 5.6 to the condensed financial statements, respectively.

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, Note 34 to the financial statements as of December 31, 2013 (pp. 523-526) and Note 15 to the condensed financial statements.

For details regarding a police investigation and seizing of documents and computer material, see Note 33 C to the financial statements as of December 31, 2013 (p. 526).

ISRAEL DISCOUNT CAPITAL MARKETS AND INVESTMENTS LTD.

Israel Discount Capital Market and Investments Ltd. ("DCMI"), a wholly owned and controlled subsidiary of the Bank, is engaged in investment in companies, in private investment funds and venture capital funds, investment banking in the field of securities distribution and in the underwriting and management of public offerings of securities (through a subsidiary).

	In NIS millions		
Balance sheet items	September 30, 2014	December 31, 2013	Change in %
Total assets	1045.1	1012.4	3.2
Total equity	314.0	228.5	37.4
Income statement items for the first nine months of the year	2014	2013	
Net income attributed to the shareholders	84.0	91.9	(8.6)
The contribution to the Bank's business results[1]	75.4	86.6	(12.9)

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

In the first nine months of 2014, DCMI participated, via its subsidiary, in 43 public offerings, of which, one with underwriting, and 6 private placements amounting in total to NIS 13.3 billion and in 9 brokerage transactions. This, compared with 48 public offerings and 7 private placements amounting to NIS 10 billion and 7 brokerage transactions, in the corresponding period last year.

TAXATION - CHANGES IN GLOBAL LEGISLATION REGARDING THE PREVENTION OF TAX OFFENCES

CHANGES IN THE U.S. TAX LEGISLATION

On April 6, 2014, the Supervisor of Banks issued a letter in the matter of the preparations for the implementation of the FATCA instructions, requiring 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 and 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.

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.

The Ministry of Finance published on May 19, 2014, a Memorandum for the Income Tax Ordinance Amendment Bill, 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. 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 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.

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.

The Bank continues the preparations for the implementation of the FATCA instructions and is updating the procedures, where required, in order to match the implementation to the instructions of the interstate agreement.

For further details in this matter and in the matter of taxation generally, see the 2013 annual report (pp. 214-215).

EXCHANGE OF INFORMATION BETWEEN COUNTRIES

On January 29, 2014, the Government published on the Official Gazette an 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 Commissioner.

A memorandum for the Income Tax Ordinance Amendment Bill was published on April 13, 2014, which adds a new section to the Ordinance authorizing the Minister of Finance to legislate Regulations enabling the identification of owners of accounts held with financial institutions, in addition to the identification required under the Prohibition of Money Laundering Act. This is required in order to allow compliance by the State of Israel with its obligations under international treaties, which the Sate is expected to sign.

The OECD countries, including Israel, ratified of April 6, 2014, the multilateral declaration regarding tax evasion, and the bilateral exchange of information between countries. In continuation thereof, Israel is expected to sign agreements with OECD and other countries with respect to the automatic exchange of information, 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.

FOREIGN RESIDENT CUSTOMER ACCEPTANCE POLICY

The Bank operates in an environment of changing global regulation. As part of these changes, and among other things, greater emphasis is being put on exterritorial enforcement of reporting duties and on the payment of taxes in respect of bank accounts held outside the country of residence or of country of citizenship of the owner of the account. Therefore, in addition to the Bank complying with the provisions of the Israeli legislation, the Bank, in its operations, respects also foreign regulation, including the matter of customer compliance with tax payments applying to them as citizens or residents of foreign countries, in respect of accounts managed at the Bank.

In accordance with that stated above, and among other things, in continuation of the Bank's actions regarding the implementation of the United States 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, and that this policy would be adopted also by the Bank's subsidiaries in Israel and abroad, mutatis mutandis.

On July 29, 2014, the Board of Directors of MDB approved a policy document entitled “Rules for Opening and Managing Bank Accounts for Foreign Residents”, which deals with compliance aspects of the tax laws applicable to them.

HUMAN RESOURCES

Preparations of the Bank for the implementation of Amendment 24 of the Wage Protection Act. 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 will take effect in respect of all the Bank employees (excluding limited exceptions determined in the agreement) following a pilot project of five months which began on May 1, 2014, to be conducted at several units of the Bank having different types of operations. The pilot project will test the implementation in practice of the agreement and will settle all matters that would require attention as a result thereof. The date fixed for the full application of the agreement is January 1, 2015. In addition the Bank is required to prepare the supporting computer system. At this stage, the pilot project is to continue until the system is put into operation.

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.

Collective agreement in the matter of an update of the salary table for entitled employees of DMB. 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.

Collective agreement in the matter of personal employment agreements. 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.

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.

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.

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.

Labor relations at MDB. The 2013 annual report (pp. 224-225) describes negotiations regarding a labor agreement to replace the agreement that expired on December 31, 2013. On July 8, 2014, 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.

Advisory assistance during Operation "Protective Edge". During Operation "Protective Edge", the Human Resources and Properties Division supported branches in the South and in the Lowlands – visiting units, helping through personal and group involvement and advising managers and employees experiencing emotional difficulty. In addition, support and ongoing assistance has been provided to families of Bank employees, whose relatives have been injured in the war.

RETIREMENT PLAN

For details regarding retirement plan at the Bank and at MDB, see Note 21 to the condensed financial statements. It should be noted that, during 2015-2019, it is anticipated that 570 tenured employees will retire due to natural retirement (viz., due to their age).

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.

The Bank will take action to formulate remuneration plans for Officers for the years 2015-2017, which would reflect the challenges and goals derived from the strategic plan approved on August 20, 2014.

REMUNERATION POLICY IN A BANKING CORPORATION

As detailed in the 2013 Annual Report (pp. 226-227, 272), the Bank has made preparations to implement the requirements that it is subject to as a result of Amendment No. 20 to the Companies Act.

As detailed in immediate reports dated January 7, 2014 and February 17, 2014 (Ref. Nos. 2014-01-066526 and 2014-01-040990) the information included therein is presented here by way of reference, the special meeting of shareholders held on February 17, 2014, decided to approve the remuneration policy for the Bank's officers, in accordance with Section 267A of the Companies Act, 1999 (see also Note 16 L to the financial statements as of December 31, 2013, pp. 445-446).

For details regarding the Remuneration for Officers of Financial Corporations Bill, see “Legislation and Supervision” above.

A new instruction in the matter of the remuneration policy of a banking corporation. For details regarding the instruction, see 2013 Annual Report (p.226). The instruction states that, no later than June 30, 2014, banks have to approve a remuneration policy complying with the requirements of the instruction, and which would apply to all employees of the banking corporation and to all classes of remuneration. Accordingly, in June 2014, the Bank approved a remuneration policy for all employees of the Bank has been approved, including in respect of central employees, as well as the group 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 required in accordance with the Supervisor’s directive. Moreover, within the framework of the Group policy, principles have been prescribed regarding the fixed and variable remuneration of officers of controlled corporations in accordance with the Supervisor's directive with regard to remuneration policy. The remuneration policy, approved as above, includes the remuneration policy for the Bank's officers, as approved by the general meeting of shareholders held in February 2014.

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, DCMI and Tafnit) 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.

TRANSACTIONS INVOLVING THE BANK'S SHARES

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), presented here by way of reference.

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). The said immediate reports are presented here by way of reference. 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).

For further details regarding the holdings in the Bank of the Bronfman Group, see the 2013 annual report (pp. 223-237), including the permit of the Governor of the Bank of Israel for the holding of means of control in the Bank.

CRITICAL ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The Bank's financial statements are prepared according to generally accepted accounting principles (summarized in Note 1 to the financial statements as of December 31, 2013) 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 fields in Israel. The instructions and guidelines of the Supervisor of Banks are comprehensive, detailed and at times even dictate the wording to be used by banking corporations. Nonetheless, there are areas where implementation of the accounting policy involves a high level of evaluation and assessment performed by management of the banking corporation in the course of the preparation of the financial statements.

Implementation by management of the accounting principles and the instructions and guidelines of the Supervisor of Banks, sometimes requires 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.

The Bank's 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 knowledge and professional judgment.

A summary review of evaluations and assessments made regarding "critical" matters is included in the 2013 Annual Report (pp. 239-248).

MEASUREMENT OF FINANCIAL INSTRUMENTS ACCORDING TO THEIR FAIR VALUE

The credit risk. The adjustment of credit risk relating to assets and liabilities in respect of derivative instruments led, in the first nine months of 2014, to a loss of NIS 6 million, compared to a loss of NIS 9 million in 2013.

Following are details regarding the adjustments made to assets and liabilities in respect of derivative instruments, as stated above:

	September 30, 2014	December 31, 2013
	in NIS millions	
Assets in respect of derivative instruments	5,119	4,131
Adjustment in respect of credit risk regarding assets relating to derivative instruments	(14)	(10)
Liabilities in respect of derivative instruments	5,240	4,913
Adjustment in respect of credit risk regarding liabilities relating to derivative instruments	(8)	(10)

For additional details regarding the measurement of financial instruments according to their fair value, see the 2013 Annual Report (pp. 242-245).

EMPLOYEE RIGHTS

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 1D to the condensed financial statements.

Retirement plan. For details regarding the approved retirement plan within the framework of the Bank's strategic plan, see Note 21 to the condensed financial statements.

Updated actuarial opinion. In view of the material changes in the actuarial computations, on the background of a change in the assessment and the approval of the retirement plan, an updated actuarial opinion as of June 30, 2014, has been prepared in respect of employee rights: severance pay and jubilee awards.

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 assumptions and parameters on which the actuarial assessment as of December 31, 2013 was based were detailed in the 2013 annual report (pp.246-247).

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 21 to the condensed 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 real term salary anticipated – 1.8% per year (see above) and the discount rate (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 past. It has been assumed that the voluntary retirement rates for the years 2017-2028 will amount to 2% per year at the most.

It should be noted that, in the framework of the actuarial computation performed, retirements within the framework of the retirement plan that had been approved in principle, through the end of 2014 was assumed. Assumptions were also made regarding the retirement rates at each age level, in the 55-62 age range, for men and women. It should be noted that changes, if any, in the actual scope of retirements and/or in the characteristics of the retiring population, compared to those assumed as aforesaid, could necessitate the revision of the actuarial assessment in the future.

Presenting the actuary's opinion for perusal. The opinion of the Actuary[1] 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 Report as of June 30, 2014.

The capitalization rate used in actuarial computations. Within the framework of the actuarial computations (see the 2013 Annual Report pp. 245-247), 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 the opinion of the actuary, the actuary noted as follows: "the computation assumes a discount rate of 4% per annum, in accordance with instructions of the Bank of Israel. These instructions remained in effect despite the decline in interest rates around the world and in Israel. A reduction in the discount rate would result in an increase of the reserves".

At the Bank's request, the actuary has assessed the theoretical effect of replacing the above mentioned discount rate by the rate of return on CPI-linked government bonds with a maturity period similar to the average maturity of the liability. According to the said assessment, the liability in respect of employee rights as of September 30, 2014, would have increased by an amount of NIS 1,162 million (pre-tax). The after-tax effect of the said theoretical change is assessed at NIS 724 million. It should be noted that the increase in the estimated amounts, as stated, in comparison with the data published by the Bank in the financial statements as of December 31, 2013 (p. 247), stems mainly from the decrease in returns of CPI linked government bonds.

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[1] The English translation of the Opinion is available for perusal at the Bank's website.

Change in accounting treatment. For details regarding the Directive in the matter of the adoption of U.S. accounting principles relating to employee rights, see Note 1 F 3 to the condensed 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 five years.

Question of whether a “deep market” exists in corporate bonds. A public-professional discussion has developed in recent months 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").

In the beginning of 2013 the Israel Securities Authority made a request to the Israel Accounting Standards Board (“IASB”) that the IASB publish a decision, based on an economic-financing opinion, regarding whether a deep market does or does not exist in Israel for high quality corporate bonds, for the purpose of determining the discount rate for a defined benefit obligation in accordance with the Standard.

The IASB selected a renowned expert ("the expert"), who has submitted in May 2014 his draft opinion. The draft opinion states that a deep market does indeed exist in Israel for corporate bonds. During the process of receiving responses from the public to the draft opinion, the opinion of another renowned expert was submitted to the IASB. This opinion concludes that, due to the differences in the average period to maturity between high quality corporate bonds and the pension obligations, it is not possible to assert that a deep market exists for high quality corporate bonds for the purpose of calculating the pension obligation and therefore the pension obligation should continue to be discounted at the market yields on government bonds. On June 5, 2014, the professional committee of the IASB published its proposed decision on this topic, which is based on an assumption that the aforesaid deep market does exist in Israel. The IASB announced that on July 29, 2014, the IASB had received a letter from the chairman of the Israel Securities Authority, according to which the chairman of the Authority had decided to withdraw the Authority’s request to the IASB for an examination of the deep market issue in Israel, and to pass the matter to an internal examination by the staff of the Authority.

On September 1, 2014, the Israel Securities Authority published a draft 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. The draft is based upon the opinion provided by the expert, as well as on reasonableness tests and validation performed by the staff of the Authority. In accordance with the draft, the staff of the Authority is of the opinion that a "deep market" exists in Israel for good quality CPI-linked corporate bonds.

To the Bank's best knowledge, the Supervisor of Banks is presently also considering the issue of determining the discount rate to be used in computing the liability for employee rights by the banking industry.

Had the "deep market" approach been implemented as of September 30, 2014, the discount coefficient would have been higher than the coefficient based on the return on CPI-linked government bonds (hereinafter: "the government bonds approach") and lower than the discount coefficient being used at the present time (4%). Correspondingly, the liability in respect of employee rights would have been higher compared to its present amount, however, at a lower amount than that stemming from the use of the government bonds approach, as stated above. For illustration purposes, reducing the discount coefficient by 1% would have increased the liability by an amount of NIS 350 million, before taxes, an amount of NIS 210 million after the tax effect.

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	January 21, 2014
	Subordinate capital notes[1]	il A+	Stable	January 21, 2014
	Upper tier 2 capital (Series 1)	il A-	Stable	January 21, 2014
	Hybrid tier 1 capital (Series "A")	il BBB	Stable	January 21, 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	Stable	January 21, 2014
	Issuer rating Long-term	BBB-	Stable	January 21, 2014
The international rating agency Moody's	Long-term foreign currency deposits	A-3	Negative	October 21, 2014
	Bank Financial Strength Rating	D+ (BFSR)	Negative	October 21, 2014
	Mercantile Discount Bank			
Standard & Poor's, Ma'alot	Issuer rating (including deposits)	il AA-	Stable	January 21, 2014 [2]
	Subordinate capital notes	il A+	Stable	January 21, 2014
	Discount Bank Latin America			
The international rating agency S&P	Issuer rating (including deposits)	BB+[3]	Stable	June 22, 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.

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.

DIVIDENDS

For details as to limitations on the distribution of dividends, see Note 13 E to the financial statements as of December 31, 2013 (p. 426). The Bank's Management believes that it would not be possible to distribute a dividend in 2014. For further details see the 2013 Annual Report (p. 209).
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.

LEGAL PROCEEDINGS

As for details regarding "Outstanding claims against the Bank" and "Debt recoveries procedures" see the 2013 Annual Report (p. 249), Note 19 C to the financial statements as of December 31, 2013 (pp. 463-470) and Note 7 to the condensed financial statements.

ADDITIONAL LEGAL PROCEEDINGS TO WHICH THE BANK IS A PARTY

Legal proceedings regarding the Lehman Brothers Group. On January 10, 2014, the New York Bankruptcy Court approved the agreement with Lehman Brothers Holdings Inc., and according to which, the setoff of debt balances between the parties and the refund of a monetary deposit and bonds by the Bank had been approved. For additional details, see the 2013 Annual Report (p. 249).
Legal proceedings against IDB (Swiss) Bank. The 2013 Annual Report (p. 250), described a claim filed against IDB (Swiss) Bank with the Geneva Labor Court and a claim by way of an originating summons filed at the Tel Aviv District Court against the Bank and against IDB (Swiss) Bank. 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 amount of the claim in respect of the whole group members is estimated by the Claimant at NIS 40 million. For additional details, see the 2013 Annual Report (p. 250).
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 the Bank has now to file its response within forty-five days. Following submission of the Bank's response, the Court will rule in the motion for approval of the suit as a class action suit.
An appeal by the Chairman of the National Committee of the Bank's Employees against the decision to terminate his employment with the Bank. On February 20, 2014, the Chairman of the National Committee of the Bank's Employees filed with the Regional Labor

Court in Tel Aviv, a motion for temporary relief against the decision of the Bank to terminate his employment on March 31, 2014. Within these premises, the Chairman of the National Committee filed also for a temporary and permanent declaratory relief for the voidance of the decision of the Bank to terminate his employment on March 31, 2014, and this, prior to the end of his term of office as member of the Employee's Committee. The Chairman of the Committee alleges that the decision to terminate his employment is affected by improper considerations, and among other things, had been taken on the background of his activity in the employees' organization and due to his age.

On March 31, 2014, the Regional Labor Court dismissed the motion filed by the chairman of the national committee of the Bank's employees. As a result of the above, the employment at the Bank of the chairman of the national committee was terminated as planned, on March 31, 2014.

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 THE THIRD QUARTER OF 2014

For details regarding the approval of a compromise agreement, given on July 1, 2014, in the matter of a motion for approval of a class action suit against the Bank, ABS and other banks, see Note 7 B item 4.8 to the condensed financial statements.

For details regarding the granting a validity of a judgment to a settlement agreement that was granted on July 3, 2014, with respect to a claim against the Bank, pursuant to which the Bank is to pay NIS 5.6 million for the withdrawal of the claim, see item 4.1 of Note 7 B to the condensed financial statements.

PROCEEDINGS REGARDING AUTHORITIES

1. For details regarding various proceedings conducted by the Antitrust Commissioner and the Antitrust Tribunal concerning the Group's activities in the credit card field, see Note 34 B 1 to the financial statements as of December 31, 2013 (pp. 524-526) and Note 15 to the condensed financial statements.
2. For details regarding the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, according to which a binding arrangements had existed between the Bank, Bank Hapoalim, Bank Leumi, Mizrahi-Tefahot Bank and FIBI regarding the communication of information with respect to commissions, and for details regarding an agreed Order, for the conclusion of the process, that had been approved by the Antitrust Tribunal, see Note 7 B item 6 to the condensed 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 E (1) to the financial statements as of December 31, 2013 (pp. 410-412), for details regarding the sale of a part of the Bank`s holdings in FIBI, see Note 14 G to the condensed financial statements.

4. For details regarding the police investigation and the seizure of documents and computer material of ICC, see Note 34 C to the financial statements as of December 31, 2013 (p. 526).
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 17 to the condensed 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.

ISSUES REGARDING CORPORATE GOVERNANCE

CORPORATE GOVERNANCE CODE FOR THE DISCOUNT GROUP

In September of 2014, the Board of Directors discussed the Code and updates to the document were approved. For further details, see 2013 Annual Report (p. 254).

THE INTERNAL AUDIT IN THE GROUP

Details regarding the internal audit in the Group, including the professional standards according to which the internal audit operates, the annual work programs and the considerations at its basis were included in the 2013 Annual Report (pp. 256-259).

Updates. During the third quarter of 2014 the following periodic reports were submitted and discussed:
- The quarterly report on the activities of the internal audit in the first quarter of 2014 was submitted on 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.

INVOLVEMENT WITH AND CONTRIBUTION TO THE COMMUNITY

Since its formation, Israel Discount Bank has been active in community affairs, having an overall management philosophy, according to which activities beneficial to the community form part of a business, social and cultural obligation. The social work and involvement in the community was carried out by the Bank through "Lema'an" Project, donations and sponsorships.

"LEMA'AN" PROJECT - DISCOUNT EMPLOYEES FOR THE COMMUNITY

The varied activity continued in the third quarter of 2014, while focusing on voluntary activities within the framework of various associations active among a wide range of populations in risk and distress situations. The following projects conducted in the third quarter of 2014 deserve special mention:

Bazaar for the sale of products made by persons with special needs. Towards 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.

Activities towards the Jewish New Year. Voluntary activities by the Bank's employees and well wishing events were held for children, old people, military service personnel, sick and others, at volunteer centers.

"Protective Edge" Operation. The Bank dispatched gift parcels to Bank employees that had been called-up for active service and to employees whose family members had been called-up. Also products were sent to the personnel of Squadron 916 and the fighting men of "Namer" Battalion - military units adopted by the Bank.

ARTS

Guided tours. Guided tours of the Bank's art collection, are conducted on Friday mornings at the Discount Tower. 6 guided tours of the Bank's art collection were conducted in the third quarter, in which some 130 visitors participated.

"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.

Lending of works from the collection of the Bank. Works of the artist Elham Rokni are on loan to the Ashdod Museum of Art until the end of 2014.

SPONSORSHIPS

Sponsorships were granted during the third quarter of 2014 to activities in various fields. Especially noted are the following sponsorships:

The Stage Award for Children and Youth Festival. Sponsorship for the Festival held in August at the Habima Theatre.

The Spirit of Israel Association. Under this sponsorship, the Association held its annual fundraising event in September, at the Herzlilinblum Museum (see below). An art catalogue was published containing works of the Israeli artists whose works were exhibited at the Museum.

Mentor for Life. Sponsorship for the Association which had initiated a self-fortifying expedition of IDF solitary veterans to the summit of Mount Elbrus.

"HERZELILINBLUM" - BANKING AND TEL AVIV NOSTALGIA MUSEUM

Tours. About 4,000 visitors toured the Museum during the third quarter, within the framework of some 140 tours and seminars conducted in the Museum for children, students, servicemen and adults.

Tours and events. During the quarter, the Museum hosted some 21 events and tours initiated by the Bank for Bank customers, Bank units, corporations, forums and business organizations, including:

- Event for the Ramon Foundation for Excellence – launching ceremony of the Ramon Excellence Award.
- Shema Organization event, for deaf and hearing problems children, accompanied by their parents.
- Bulgarian Jewry event, commemorating the liberation of Bulgarian Jews from the Nazis by the Allies.

Exhibition and fundraising event in aid of "The Spirit of Israel (SOI)" Association. The sale of works of art donated by the artists in aid of the Association for children at risk. Some 300 participants took part in the event and over one half of the works have been sold.

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.

The Bank joined the Global Compact initiative of the United Nations in 2010. Social Responsibility Report No. 3 also constitutes the annual update for this initiative with respect to 2013.

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 as of December 31, 2013 (pp.495-496 and 499-501).

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).

The data detailed in the all the abovementioned immediate reports is presented here by way of reference.

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), the information included therein in this matter is presented here by way of reference.

Terms of office and engagement of the Chairman of the Board. As described in Note 22F to the financial statements as of December 31, 2013 (p.495), 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) the details contained therein in this matter are presented herewith by way of reference. For Additional detail, see Note 19 to the condensed financial statements.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Bank's President & CEO and its Chief Accounting Officer have evaluated in conjunction with the Bank's Management, the efficiency of the controls and procedures relating to disclosure at the Bank as of the end of the reporting period. Based on this evaluation, the President & CEO and Chief Accounting Officer have reached the conclusion that as of the end this period, the controls and procedures relating to disclosure at the Bank operate efficiently in order to record, process, summarize and report the information that the Bank is required to disclose in its quarterly report, in accordance with the directives of the Supervisor of Banks in the matter of reporting to the public and at such date indicated therein.

CHANGES IN INTERNAL CONTROL

During the quarter ended September 30, 2014, no change occurred in the internal control over the financial reporting at the Bank and at Mercantile Discount Bank, which had a material effect or which is expected to have a material effect on 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 e (1) to the condensed 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.

MISCALENIOUS

ACCESSIBILITY

Modification of building, infrastructure and environmental accessibility. 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).

Modification of service accessibility. 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).

REVIEW BY THE INDEPENDENT AUDITORS

In their review report of the interim consolidated condensed unaudited financial statements for the three and nine months periods ended on September 30, 2014, the independent auditors drew attention to Note 7 B items 4.4 and 5 regarding requests to approve certain actions and with regard to other claims as a class action suits against the Bank and investee companies.

BOARD OF DIRECTORS AND MANAGEMENT

CHANGES IN 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, the period of office of a Director, who is not an external Director, terminates 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 is 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 as the rules hitherto stated. Notwithstanding the above, 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.

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 annual meeting of the Bank's 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).

The date of entry into office of the said directors shall not precede the date of obtaining the approval of the Supervisor of Banks or of his non-objection (and as regards directors who had been officiating at date of the general meeting of shareholders and who have been elected for an additional period - at a date not preceding the date of termination of their present office).

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 twenty months 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, 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 Ms. Rotbard and Messrs. Zafran and Aish 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.

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 2014-01-045225) and March 4, 2014 (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 report 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).
The detailed information provided in all immediate reports mentioned above in this item, is included herewith by way of reference.
The Chairman of the Board, the Board of Directors and the President & CEO thank Mr. Avidan, Mr. Vardi and Mr. Perets for their work and contribution during their term of office at the Bank and wish success to the new members of Management.

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.

MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In the first nine months of 2014, the Board of Directors held 27 meetings. In addition, 81 meetings of committees of the Board of Directors were held.

November 20, 2014	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:

	September 30, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Non goverment bonds				
Various sectors*	864	890	28	2
Financial services[1]	10,399	10,372	99	126
Total non government bonds	**11,263**	**11,262**	**127**	**128**
Government bonds				
U.S. government	185	177	-	8
Israel Government	15,499	16,010	512	1
Other Governments	299	302	3	-
Total government bonds	**15,983**	**16,489**	**515**	**9**
Total bond in the available-for-sale portfolio	**27,246**	**27,751**	**642**	**137**

*There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 390 million.

(1) Following are details regarding bonds in the financial services sector in the available-for-sale portfolio:

	September 30, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
Banks and banking holding companies[2]	2,784	2,839	61	6
Insurance and provident funds	80	82	2	-
Ginnie Mae	3,293	3,263	11	41
Freddie Mac	1,212	1,195	7	24
Fannie Mae	2,622	2,580	13	55
Other*	408	413	5	-
Total financial services	**10,399**	**10,372**	**99**	**126**

* In the said group there is no investment in bonds which exceeds NIS 37 million.

1. AVAILABLE FOR SALE BONDS - DATA ACCORDING TO ECONOMIC SECTORS (CONTINUED)

(2) Following are details according to geographical areas of investment in bonds of banks and banking holding companies in the available-for-sale portfolio:

	September 30, 2014			
			Accumulated other comprehensive income	
	Amortized cost	Fair value	Gains	Losses
	In NIS millions			
North America(3)	415	431	16	-
Western Europe(4)	1,553	1,581	34	6
Israel	623	629	6	-
Australia	193	198	5	-
Total banks and banking holding companies	**2,784**	**2,839**	**61**	**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	31	33	2	-
A+ to A-	56	56	-	-
BBB+ to BBB-	243	250	7	-
BB+ to B-	48	49	1	-
Not rated	37	43	6	-
Total	**415**	**431**	**16**	**-**

(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	605	620	19	4
Switzerland	225	227	2	-
France	319	320	3	2
Netherlands	168	174	6	-
Other*	236	240	4	-
Total	**1,553**	**1,581**	**34**	**6**

* Fair value amounts lower than NIS 100 million per country.

2. HELD-TO-MATURITY BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding the distribution of bonds in the held-to-maturity bonds portfolio according to economic sectors:

	September 30, 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	*1,947	2,041	102	8
Financial services[(1)]	1,477	1,475	26	28
Total non government bonds	**3,492**	**3,584**	**128**	**36**
Total Government bonds	**3,469**	**3,880**	**411**	**-**
Total held-to-maturity bonds	**6,961**	**7,464**	**539**	**36**
(1) Following are details of Held-to-maturity bonds in the financial services sector:				
Ginnie Mae	438	438	7	7
Freddie Mac	493	485	2	10
Fannie Mae	240	231	-	9
Other Government Agencies	94	92	-	2
Other**	212	229	17	-
Total financial services	**1,477**	**1,475**	**26**	**28**

*Most ot 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 219-209 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 94 million.

3. TRADING BONDS - DATA ACCORDING TO ECONOMIC SECTORS

Following are details regarding the distribution of bonds in the trading portfolio according to economic sectors:

	September 30, 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)]	99	99	1	1
Financial services	60	60	-	-
Total non government bonds	**159**	**159**	**1**	**1**
Total government bonds	**2,696**	**2,712**	**17**	**1**
Total bonds in the trading portfolio	**2,855**	**2,871**	**18**	**2**

(1) There is no sector in the said group the fair value of investments in its related bonds exceeds NIS 57 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 57 million as of September 30, 2014, compared with NIS 64 million as of December 31, 2013, a decrease of 10.9%. These securities are classified to the financial services economic sector. The collateral pertaining to these securities is all located in the United States (for further details see the 2013 Annual Report, p. 249).
As of September 30, 2014, there was no impairment as regards the said securities.

5. DETAILS REGARDING CERTAIN BONDS HELD BY IDB NEW YORK IN THEIR AVAILABLE FOR SALE PORTFOLIO

In the financial statements as of March 31, 2014 and December 31, 2013, were presented details regarding certain bonds, held by IDB New York in their available for sale portfolio, with a ratio of unrealized loss of a temporary nature to amortized cost in excess of 20%, during a period which exceeds 12 months, which were related to Trust Preferred Securities (hereinafter: "TRUPS"), issued by financial institutions.
As detailed in the item "Securities" above, in view of the effect of the implementation of the Basel III rules, as from January 1, 2015, IDB New York decided to sell a part of the securities of the TRUPS type. The financial statements as of September 30, 2014, recognized a loss in respect of impairment of all securities of the TRUPS type. In view of the above, the presentation of details as stated above is no longer required.

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 are 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 is included. The required information as above is reflected in the following table.

Table No.	Topic	Location*	Page No. in 2013 Annual Report	Page No. in this Report
Table 1	Scope of implementation	Basel II - The implementation in Israel of the Basel committee recommendations	135-138	67
Table 2	Capital structure – qualitative and quantitative disclosure	Capital resources Note 14(4) to the financial statements Internet document – parts "A" and "B"	 35-40 428	
Table 3a	Capital adequacy - qualitative disclosure	Capital resources	33-35	22-23
Table 3b,d,e,f	Capital adequacy - quantitative disclosure	Capital resources Note 14(2) to the financial statements Interim report – Note 5 Internet document – part "C"	40 426	 197

* 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. in 2012 Annual Report	Page No. in this Report
Table 3g,h,i	Capital adequacy - quantitative disclosure	Capital resources Note 14(1), 14(3) to the financial statements Interim report – Note 5	36-38 426-427	24 196-199
Section 824	General qualitative disclosure	Risk management policy and objectives, The structure and organization of the risk management function, factors involved in risk management	125-140	67
Table 4a	Credit risk - qualitative disclosure	Credit risk management	141-158	68-72
Table 4b	Credit risk - exposure according to main exposure types	Credit risk management - Quantitative disclosure regarding credit risk	150	68
Table 4c	Credit risk - main geographic distribution of exposures	Management review - Schedule "F", Interim report – Schedule "C"	320-323	 136-140
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", Interim report – Schedule "D"	318-319	 141-143
Table 4g	Credit risk - problematic debts classified according to main geographical areas	Management review - Schedule "F", Interim report – Schedule "C"	320-323	 136-140
Table 4h	Credit risk – change in the balance of allowance for credit losses	Note 4 A to the financial statements, Interim report – Note 3 A	386-389	 174-177
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"	150-152	69
Table 9	Securitization exposure	Credit risk management – Securitization exposure Internet document – part "C"	152-153	69
Table 10	Market risk	Management of market and liquidity risks	158-170	73-78
Table 12	Operational risks	Operational risks	172-176	78-79
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	158-170	73-78

* 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

(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 September 30, 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	434	446
With an A+ rating	191	36
With an A rating	836	921
With an A- rating	478	182
With a BBB+ rating	223	160
With a BBB rating	45	1
Not rated	25	18
Total against foreign banks	**2,232**	**1,764**
Total against Israeli banks	**1,482**	**1,093**
Total Balance-sheet balances of assets deriving from transactions in derivative instruments	**3,714**	**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 September 30, 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	37	105
With an A+ rating	28	6
With an A rating	48	134
With an A- rating	11	15
With an BBB+ rating	17	19
With an BBB rating	2	3
Not rated	-	1
Total against foreign banks	**143**	**283**
Total against Israeli banks	**46**	**50**
Total Off Balance-sheet balances of assets deriving from transactions in derivative instruments	**189**	**333**

1. ACTIVITY IN DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(3) Following are details of the column "Other" in Note 8 B to the condensed financial statements according to the total credit to the public risk per economic sectors:

		As of September 30, 2014		As of September 30, 2013		As of December 31, 2013
				in NIS million		
Agriculture		1		2		2
Industry:						
Machines, electrical and electronic equipment	122		106		18	
Mining, chemical industry and oil products	55		95		101	
Other	34		38		38	
Total industry		211		239		157
Construction and real estate:						
Acquisition of real estate for construction	13		59		55	
Real estate holdings	12		80		39	
Other	7		5		11	
Total Construction and real estate		32		144		105
Electricity and water		250		362		417
Commerce		32		105		67
Hotels, hotel services and food		1		3		1
Transporation and storage		50		81		53
Communications and computer services		62		13		10
Financial services:						
Financial institution (excluding banks)	121		(1)158		263	
Private customers active on the capital market	358		469		405	
Financial holding institutions	238		195		183	
Insurance and provident fund services	302		227		185	
Total financial services		1,019		1,049		1,036
Business and other services		4		32		77
Public and community services		27		2		3
Private individuals - housing loans		6		-		-
Private individuals - other		115		(1)27		27
Total		**1,810**		**2,059**		**1,955**
Credit risk mitigation in respect of financial instruments		(543)		(212)		(444)
Total credit risk in respect of derivative instruments		**1,267**		**1,847**		**1,511**

Footnote:

(1) Reclassified - improving classification in different sectors.

2. CREDIT RISK IN RESPECT OF LEVERAGED FINANCE

Following are data regarding credit risk in respect of leveraged finance. Disclosure is focused on exposures, each of which exceeds NIS 50 million.

The Bank's exposure to leveraged finance according to the economic sector of the acquired corporation:

	Balance sheet credit as of	
	September 30, 2014	December 31, 2013
Sector	In NIS millions	
Industry	933	*1,383
Construction and real estate	874	1,364
Electricity and water	-	26
Commerce	426	510
Transportation and storage	135	194
Communications and computer services	-	134
Financial services	132	*317
Total	**2,500**	**3,928**

* Reclassified in respect of a reclassification of exposure in different sectors.

Exposure to leveraged finance as of September 30, 2014 amounted to NIS 2,500 million, compared to NIS 3,928 million for December 31, 2013, a decrease of 36.4%. The reduction in exposure in the first nine months of 2014 derives mainly from the repayment of credit. 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 September 30, 2014, amounted to NIS 500 million (December 31, 2013 – NIS 541 million).

3. DETAILS OF THE INVESTMENT IN GOVERNMENT BONDS

Note 2 A to the condensed 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:

	September 30, 2014		December 31, 2013	
	Book value	Fair value(1)	Book value	Fair value(1)
	In NIS millions			
Of the Israeli Government	22,191	22,602	25,689	25,967
U.S. government	214	214	159	159
Other governments	265	(2)265	176	(2)176
Total	**22,670**	**23,081**	**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 76 million as of September 30, 2014 (NIS 51 million as of December 31,2013).

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1]

Part "A" - Average balances and interest rates - assets

	For the three months ended September 30					
	2014			2013		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:[3]						
In Israel	93,199	1,064	4.65	92,563	1,313	5.80
Outside Israel	18,777	164	3.54	17,315	153	3.58
Total credit to the public	**111,976**	***1,228**	**4.46**	**109,878**	***1,466**	**5.44**
Credit to the Government:						
In Israel	1,592	8	2.03	1,791	23	5.24
Outside Israel	42	1	9.87	65	1	6.30
Total credit to the Government	**1,634**	**9**	**2.22**	**1,856**	**24**	**5.27**
Deposits with banks:						
In Israel	2,598	3	0.46	2,572	6	0.94
Outside Israel	2,475	6	0.97	1,980	6	1.22
Total deposits with banks	**5,073**	**9**	**0.71**	**4,552**	**12**	**1.06**
Deposits with central banks:						
In Israel	11,271	14	0.50	10,733	33	1.24
Outside Israel	1,395	1	0.29	857	1	0.47
Total deposits with central banks	**12,666**	**15**	**0.47**	**11,590**	**34**	**1.18**
Securities borrowed or purchased under resale agreements:						
In Israel	728	1	0.55	241	[10]-	-
Total securities borrowed or purchased under resale agreements	**728**	**1**	**0.55**	**241**	**-**	**-**
Bonds held for redemption and available for sale:[4]						
In Israel	23,554	119	2.04	27,996	219	3.17
Outside Israel	13,577	86	2.56	16,105	86	2.15
Total bonds held for redemption and available for sale	**37,131**	**205**	**2.23**	**44,101**	**305**	**2.80**
Trading bonds:[4]						
In Israel	2,648	7	1.06	2,816	19	2.73
Outside Israel	45	1	9.19	57	[10]-	-
Total trading bonds	**2,693**	**8**	**1.19**	**2,873**	**19**	**2.67**
Other assets:						
Outside Israel	610	4	2.65	614	5	3.30
Total other assets	**610**	**4**	**2.65**	**614**	**5**	**3.30**
Total interest bearing assets	**172,511**	**1,479**	**3.47**	**175,705**	**1,865**	**4.31**
Debtors in respect of credit card operations	5,640			5,734		
Other non-interest bearing assets[5]	16,046			15,254		
Total assets	**194,197**			**196,693**		
Of which: Total interest bearing assets attributable to operations outside Israel	36,921	263	2.88	36,993	252	2.75

* Commissions included in interest income from credit to the public[12]		76			40	

For footnotes see page 127.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[(1)] (CONTINUED)

Part "B" - Average balances and interest rates - liabilities and equity

	For the three months ended September 30					
	2014			2013		
	Average balance[(2)]	Interest expenses	Rate of expense	Average balance[(2)]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	17,135	3	0.07	[(11)]14,967	[(11)]8	0.21
In Israel - Time deposits	82,726	170	0.82	[(11)]92,597	[(11)]397	1.73
Total deposits from the public in Israel	**99,861**	**173**	**0.69**	**107,564**	**405**	**1.51**
Outside Israel - On call	12,143	14	0.46	13,076	14	0.43
Outside Israel - Time deposits	9,309	17	0.73	7,744	19	0.99
Total deposits from the public outside Israel	**21,452**	**31**	**0.58**	**20,820**	**33**	**0.64**
Total deposits from the public	**121,313**	**204**	**0.67**	**128,384**	**438**	**1.37**
Deposits from the Government:						
In Israel	365	1	1.10	360	1	1.12
Outside Israel	592	1	0.68	648	1	0.62
Total deposits from the Government	**957**	**2**	**0.84**	**1,008**	**2**	**0.80**
Deposits from banks:						
In Israel	3,117	11	1.42	2,320	10	1.74
Outside Israel	1,038	5	1.94	1,637	5	1.23
Total deposits from banks	**4,155**	**16**	**1.55**	**3,957**	**15**	**1.52**
Securities loaned or sold under repurchase agreements:						
Outside Israel	3,571	35	3.98	4,356	39	3.63
Total securities loaned or sold under repurchase agreements	**3,571**	**35**	**3.98**	**4,356**	**39**	**3.63**
Subordinated debt notes:						
In Israel	10,863	164	6.18	12,092	274	9.38
Total Subordinated debt notes	**10,863**	**164**	**6.18**	**12,092**	**274**	**9.38**
Other liabilities:						
In Israel	153	[(9)](3)	(7.62)	160	[(9)]3	7.71
Total other liabilities	**153**	**(3)**	**(7.62)**	**160**	**3**	**7.71**
Total interest bearing liabilities	**141,012**	**418**	**1.19**	**149,957**	**771**	**2.07**
Non-interest bearing deposits from the public	25,886			20,404		
Creditors in respect of credit card operations	6,229			6,296		
Other non-interest bearing liabilities[(6)]	8,471			7,873		
Total liabilities	**181,598**			**184,530**		
Total capital resources	**12,599**			**12,163**		
Total liabilities and capital resources	**194,197**			**196,693**		
Interest margin		**1,061**	**2.28**		**1,094**	**2.24**
Net return on interest bearing assets:[(7)]						
In Israel	135,590	870	2.59	138,712	920	2.68
Outside Israel	36,921	191	2.09	36,993	174	1.89
Total net return on interest bearing assets	**172,511**	**1,061**	**2.48**	**175,705**	**1,094**	**2.51**
Of which: Total interest bearing liabilities attributable to operations outside Israel	26,653	72	1.08	27,461	78	1.14

For footnotes see page 127.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME 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

	For the three months ended September 30					
	2014			2013		
	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 %
Non-linked shekels:						
Total interest bearing assets	98,285	883	3.64	97,727	978	4.06
Total interest bearing liabilities	(78,153)	(128)	(0.66)	(81,174)	(243)	(1.20)
Interest margin		**755**	**2.98**		**735**	**2.86**
CPI-linked shekels:						
Total interest bearing assets	22,666	231	4.14	24,664	519	8.69
Total interest bearing liabilities	(17,324)	(194)	(4.56)	(19,817)	(418)	(8.71)
Interest margin		**37**	**(0.42)**		**101**	**(0.02)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	14,639	102	2.82	16,321	116	2.87
Total interest bearing liabilities	(18,882)	(24)	(0.51)	(21,505)	(32)	(0.60)
Interest margin		**78**	**2.31**		**84**	**2.27**
Total operations in Israel:						
Total interest bearing assets	135,590	1,216	3.64	138,712	1,613	4.73
Total interest bearing liabilities	(114,359)	(346)	(1.22)	(122,496)	(693)	(2.28)
Interest margin		**870**	**2.42**		**920**	**2.45**

For footnotes see next page.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[(1)] (CONTINUED)

Part "D" – Analysis of changes in interest income and expenses

	For the three months ended September 30		
	2014 Compared to 2013		
	Increase (decrease) due to change[(8)]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	7	(256)	(249)
Outside Israel	13	(2)	11
Total credit to the public	**20**	**(258)**	**(238)**
Other interest bearing assets:			
In Israel	(13)	(135)	(148)
Outside Israel	(8)	8	-
Total other interest bearing assets	**(21)**	**(127)**	**(148)**
Total interest income	**(1)**	**(385)**	**(386)**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	(13)	(219)	(232)
Outside Israel	1	(3)	(2)
Total deposits from the public	**(12)**	**(222)**	**(234)**
Other interest bearing liabilities:			
In Israel	(5)	(110)	(115)
Outside Israel	(11)	7	(4)
Total other interest bearing liabilities	**(16)**	**(103)**	**(119)**
Total interest expenses	**(28)**	**(325)**	**(353)**
Interest income, net	**27**	**(60)**	**(33)**

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 13 million and NIS 534 million, respectively; 2013 – NIS 4 million and NIS 169 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) An amount lower than NIS 1 million.

(11) Reclassified, following an examination of the terms of certain deposits.

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

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "E" - Average balances and interest rates - assets

	For the nine months ended September 30					
	2014			2013		
	Average balance[2]	Interest income	Rate of income	Average balance[2]	Interest income	Rate of income
	In NIS millions		In %	In NIS millions		In %
Interest bearing assets:						
Credit to the public:[3]						
In Israel	92,667	3,102	4.49	93,391	3,683	5.29
Outside Israel	18,661	494	3.55	17,386	462	3.56
Total credit to the public	**111,328**	***3,596**	**4.33**	**110,777**	***4,145**	**5.02**
Credit to the Government:						
In Israel	1,754	11	0.84	1,710	37	2.90
Outside Israel	48	2	5.59	72	2	3.72
Total credit to the Government	**1,802**	**13**	**0.96**	**1,782**	**39**	**2.93**
Deposits with banks:						
In Israel	2,744	9	0.44	2,409	23	1.28
Outside Israel	2,467	19	1.03	2,114	19	1.20
Total deposits with banks	**5,211**	**28**	**0.72**	**4,523**	**42**	**1.24**
Deposits with central banks:						
In Israel	13,441	74	0.73	11,779	135	1.53
Outside Israel	1,297	3	0.31	1,591	4	0.34
Total deposits with central banks	**14,738**	**77**	**0.70**	**13,370**	**139**	**1.39**
Securities borrowed or purchased under resale agreements:						
In Israel	592	2	0.45	335	3	1.20
Total securities borrowed or purchased under resale agreements	**592**	**2**	**0.45**	**335**	**3**	**1.20**
Bonds held for redemption and available for sale:[4]						
In Israel	23,914	363	2.03	27,064	581	2.87
Outside Israel	13,979	265	2.54	16,313	249	2.04
Total bonds held for redemption and available for sale	**37,893**	**628**	**2.22**	**43,377**	**830**	**2.56**
Trading bonds:[4]						
In Israel	2,164	19	1.17	3,357	69	2.75
Outside Israel	49	1	2.73	52	[10]-	-
Total trading bonds	**2,213**	**20**	**1.21**	**3,409**	**69**	**2.71**
Other assets:						
In Israel	-	[9]6	-	-	[9]9	-
Outside Israel	606	14	3.09	617	15	3.25
Total other assets	**606**	**20**	**4.42**	**617**	**24**	**5.22**
Total interest bearing assets	**174,383**	**4,384**	**3.37**	**178,190**	**5,291**	**3.98**
Debtors in respect of credit card operations	5,568			5,589		
Other non-interest bearing assets[5]	16,088			15,140		
Total assets	**196,039**			**198,919**		
Of which: Total interest bearing assets attributable to operations outside Israel	37,107	798	2.88	38,145	751	2.63
* Commissions included in interest income from credit to the public[12]		216			114	

For footnotes see page 131.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "F" - Average balances and interest rates - liabilities and equity

	For the nine months ended September 30					
	2014			2013		
	Average balance[2]	Interest expenses	Rate of expense	Average balance[2]	Interest expenses	Rate of expense
	In NIS millions		In %	In NIS millions		In %
Interest bearing liabilities:						
Deposits from the public:						
In Israel - On call	16,875	14	0.11	[11]14,468	[11]34	0.31
In Israel - Time deposits	86,296	518	0.80	[11]95,804	[11]1,125	1.57
Total deposits from the public in Israel	**103,171**	**532**	**0.69**	**110,272**	**1,159**	**1.40**
Outside Israel - On call	12,183	42	0.46	13,241	41	0.41
Outside Israel - Time deposits	9,451	48	0.68	8,150	62	1.02
Total deposits from the public outside Israel	**21,634**	**90**	**0.56**	**21,391**	**103**	**0.64**
Total deposits from the public	**124,805**	**622**	**0.67**	**131,663**	**1,262**	**1.28**
Deposits from the Government:						
In Israel	381	3	1.05	376	4	1.42
Outside Israel	590	3	0.68	648	3	0.62
Total deposits from the Government	**971**	**6**	**0.82**	**1,024**	**7**	**0.91**
Deposits from banks:						
In Israel	2,557	22	1.15	2,446	35	1.91
Outside Israel	1,282	14	1.46	1,437	16	1.49
Total deposits from banks	**3,839**	**36**	**1.25**	**3,883**	**51**	**1.76**
Securities loaned or sold under repurchase agreements:						
Outside Israel	3,689	104	3.78	4,754	128	3.61
Total securities loaned or sold under repurchase agreements	**3,689**	**104**	**3.78**	**4,754**	**128**	**3.61**
Subordinated debt notes:						
In Israel	11,083	433	5.24	12,100	655	7.28
Total Subordinated debt notes	**11,083**	**433**	**5.24**	**12,100**	**655**	**7.28**
Other liabilities:						
In Israel	155	[9]4	3.46	155	[9]9	7.82
Total other liabilities	**155**	**4**	**3.46**	**155**	**9**	**7.82**
Total interest bearing liabilities	**144,542**	**1,205**	**1.11**	**153,579**	**2,112**	**1.84**
Non-interest bearing deposits from the public	24,516			19,183		
Creditors in respect of credit card operations	6,123			6,150		
Other non-interest bearing liabilities[6]	8,343			8,034		
Total liabilities	**183,524**			**186,946**		
Total capital resources	**12,515**			**11,973**		
Total liabilities and capital resources	**196,039**			**198,919**		
Interest margin		**3,179**	**2.26**		**3,179**	**2.14**
Net return on interest bearing assets:[7]						
In Israel	137,276	2,592	2.53	140,045	2,678	2.56
Outside Israel	37,107	587	2.11	38,145	501	1.76
Total net return on interest bearing assets	**174,383**	**3,179**	**2.44**	**178,190**	**3,179**	**2.39**
Of which: Total interest bearing liabilities attributable to operations outside Israel	27,195	211	1.04	28,230	250	1.18

For footnotes see page 131.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "G" - Average balances and interest rates – additional information regarding interest bearing assets and liabilities attributed to operations in Israel

	For the nine months ended September 30					
	2014			2013		
	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 %
Non-linked shekels:						
Total interest bearing assets	98,645	2,715	3.69	98,519	3,085	4.20
Total interest bearing liabilities	(79,731)	(477)	(0.80)	(82,661)	(862)	(1.39)
Interest margin		**2,238**	**2.89**		**2,223**	**2.81**
CPI-linked shekels:						
Total interest bearing assets	23,590	542	3.08	24,881	1,105	5.96
Total interest bearing liabilities	(18,424)	(449)	(3.26)	(19,978)	(894)	(6.01)
Interest margin		**93**	**(0.18)**		**211**	**(0.05)**
Foreign Currency (including foreign currency-linked shekels):						
Total interest bearing assets	15,041	329	2.93	16,645	350	2.81
Total interest bearing liabilities	(19,192)	(68)	(0.47)	(22,710)	(106)	(0.62)
Interest margin		**261**	**2.46**		**244**	**2.19**
Total operations in Israel:						
Total interest bearing assets	137,276	3,586	3.50	140,045	4,540	4.35
Total interest bearing liabilities	(117,347)	(994)	(1.13)	(125,349)	(1,862)	(1.99)
Interest margin		**2,592**	**2.37**		**2,678**	**2.36**

For footnotes see next page.

SCHEDULE "A" - RATES OF INTEREST INCOME AND EXPENSES AND ANALYSIS OF CHANGES IN INTEREST INCOME AND EXPENSES - CONSOLIDATED[1] (CONTINUED)

Part "H" – Analysis of changes in interest income and expenses

	For the nine months ended September 30		
	2014 Compared to 2013		
	Increase (decrease) due to change[8]		
	Quantity	Price	Net change
	In NIS millions		
Interest bearing assets:			
Credit to the public:			
In Israel	(24)	(557)	(581)
Outside Israel	34	(2)	32
Total credit to the public	**10**	**(559)**	**(549)**
Other interest bearing assets:			
In Israel	(22)	(351)	(373)
Outside Israel	(38)	53	15
Total other interest bearing assets	**(60)**	**(298)**	**(358)**
Total interest income	**(50)**	**(857)**	**(907)**
Interest bearing liabilities:			
Deposits from the public:			
In Israel	(37)	(590)	(627)
Outside Israel	1	(14)	(13)
Total deposits from the public	**(36)**	**(604)**	**(640)**
Other interest bearing liabilities:			
In Israel	(29)	(212)	(241)
Outside Israel	(28)	2	(26)
Total other interest bearing liabilities	**(57)**	**(210)**	**(267)**
Total interest expenses	**(93)**	**(814)**	**(907)**
Interest income, net	**43**	**(43)**	**-**

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 7 million and NIS 371 million, respectively; 2013 – NIS (8) million and NIS 303 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) An amount lower than NIS 1 million.

(11) Reclassified, following an examination of the terms of certain deposits.

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

SCHEDULE "B" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED

	As at September 30, 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	Over 5 years and up to 10 years
	in NIS millions					
Non linked Israeli currency						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1]	77,532	14,849	8,337	3,243	2,221	2,138
Derivative financial instruments (except for options)	18,103	33,294	15,557	10,388	9,673	5,168
Options (in terms of base assets)	270	316	888	119	40	33
Total fair value	**95,905**	**48,459**	**24,782**	**13,750**	**11,934**	**7,339**
Financial liabilities and amounts payable in respect of derivative instruments						
Financial liabilities[1]	70,714	8,624	10,420	4,547	1,343	473
Derivative financial instruments (except for options)	21,316	34,117	20,117	12,237	8,954	5,534
Options (in terms of base assets)	329	513	929	74	-	-
Off-balance sheet financial instruments	-	2	5	1	1	-
Total fair value	**92,359**	**43,256**	**31,471**	**16,859**	**10,298**	**6,007**
Financial instruments, net						
Exposure to changes in interest rates in the segment	3,546	5,203	(6,689)	(3,109)	1,636	1,332
Cumulative exposure in the segment	**3,546**	**8,749**	**2,060**	**(1,049)**	**587**	**1,919**
CPI linked Israeli currency						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1]	422	1,289	4,519	6,610	4,870	4,753
Derivative financial instruments (except for options)	201	166	1,027	725	750	572
Options (in terms of base assets)	-	4	6	14	-	-
Total fair value	**623**	**1,459**	**5,552**	**7,349**	**5,620**	**5,325**
Financial liabilities and amounts payable in respect of derivative instruments						
Financial liabilities[1]	290	483	3,160	5,641	2,682	6,189
Derivative financial instruments (except for options)	176	1,016	1,963	867	867	646
Options (in terms of base assets)	-	2	3	9	-	-
Off-balance sheet financial instruments	-	1	4	1	-	-
Total fair value	**466**	**1,502**	**5,130**	**6,518**	**3,549**	**6,835**
Financial instruments, net						
Exposure to changes in interest rates in the segment	157	(43)	422	831	2,071	(1,510)
Cumulative exposure in the segment	**157**	**114**	**536**	**1,367**	**3,438**	**1,928**

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 September 30, 2014						As at September 30, 2013			As at December 31, 2013		
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	Total fair value	Internal rate of return In %	Effective average duration In years
in NIS millions											
711	15	409	109,455	2.81%	0.50	108,469	3.51%	0.60	109,194	3.46%	0.61
65	-	-	92,248		1.21	90,000		1.38	91,339		1.31
2	-	-	1,668		0.01	1,552		0.01	1,501		0.01
778	**15**	**409**	**203,371**		[2] **0.82**	**200,021**		[2] **0.95**	**202,034**		[2] **0.93**
133	-	-	96,254	0.53%	0.29	97,968	0.92%	0.27	98,157	0.95%	0.26
57	-	-	102,332		1.19	98,456		1.30	98,993		1.30
-	-	-	1,845		0.01	1,148		0.01	1,127		0.01
-	-	-	9		0.01	8		0.01	8		0.01
190	**-**	**-**	**200,440**		[2] **0.76**	**197,580**		[2] **0.76**	**198,285**		[2] **0.76**
588	15	409	2,931			2,441			3,749		
2,507	**2,522**	**2,931**									
915	83	22	23,483	1.56%	3.48	25,887	2.04%	3.33	25,682	2.09%	3.38
6	-	-	3,447		2.72	3,341		3.13	3,162		3.09
-	-	-	24		0.01	27		0.01	17		0.01
921	**83**	**22**	**26,954**		[2] **3.38**	**29,255**		[2] **3.31**	**28,861**		[2] **3.35**
451	-	-	18,896	0.88%	3.71	21,537	0.96%	3.65	21,860	0.98%	3.54
-	-	-	5,535		1.97	6,604		2.09	6,814		1.72
-	-	-	14		0.01	98		0.01	57		0.01
-	-	-	6		0.73	7		0.72	7		0.64
451	**-**	**-**	**24,451**		[2] **3.32**	**28,246**		[2] **3.27**	**28,738**		[2] **3.10**
470	83	22	2,503			1,009			123		
2,398	**2,481**	**2,503**									

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 9 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 "B" - EXPOSURE TO CHANGES IN INTEREST RATES - CONSOLIDATED (CONTINUED)

	As at September 30, 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	Over 5 years and up to 10 years
	in NIS millions					
Foreign currency[4]						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1]	27,655	8,389	4,666	4,543	3,398	5,159
Derivative financial instruments (except for options)	21,292	35,935	23,200	3,487	3,160	2,953
Options (in terms of base assets)	936	1,639	7,922	401	-	-
Total fair value	**49,883**	**45,963**	**35,788**	**8,431**	**6,558**	**8,112**
Financial liabilities and amounts payable in respect of derivative instruments						
Financial liabilities[1]	42,071	7,791	9,255	3,282	2,822	833
Derivative financial instruments (except for options)	15,769	32,931	16,886	4,422	3,168	4,882
Options (in terms of base assets)	874	1,446	7,850	445	33	27
Off-balance sheet financial instruments	-	-	1	-	-	-
Total fair value	**58,714**	**42,168**	**33,992**	**8,149**	**6,023**	**5,742**
Financial instruments, net						
Exposure to changes in interest rates in the segment	(8,831)	3,795	1,796	282	535	2,370
Cumulative exposure in the segment	**(8,831)**	**(5,036)**	**(3,240)**	**(2,958)**	**(2,423)**	**(53)**
Total exposure to changes in interest rates						
Financial assets and amounts receivable in respect of derivative instruments						
Financial assets[1],[3]	105,618	24,527	17,522	14,396	10,489	12,050
Derivative financial instruments (except for options)	39,596	69,395	39,784	14,600	13,583	8,693
Options (in terms of base assets)	1,206	1,959	8,816	534	40	33
Total fair value	**146,420**	**95,881**	**66,122**	**29,530**	**24,112**	**20,776**
Financial liabilities and amounts payable in respect of derivative instruments						
Financial liabilities[1]	113,084	16,898	22,835	13,470	6,847	7,495
Derivative financial instruments (except for options)	37,261	68,064	38,966	17,526	12,989	11,062
Options (in terms of base assets)	1,203	1,961	8,782	528	33	27
Off-balance sheet financial instruments	-	3	57	2	1	-
Total fair value	**151,548**	**86,926**	**70,640**	**31,526**	**19,870**	**18,584**
Financial instruments, net						
Exposure to changes in interest rates in the segment	(5,128)	8,955	(4,518)	(1,996)	4,242	2,192
Cumulative exposure in the segment	**(5,128)**	**3,827**	**(691)**	**(2,687)**	**1,555**	**3,747**

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 September 30, 2014						As at September 30, 2013			As at December 31, 2013		
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	Total fair value	Internal rate of return In %	Effective average duration In years
in NIS millions											
2,273	-	445	56,528	2.50%	1.53	55,679	2.89%	1.58	55,381	2.75%	1.56
57	-	-	90,084		0.66	79,484		0.65	75,625		0.59
-	-	-	10,898		0.01	7,236		0.01	6,418		0.01
2,330	**-**	**445**	**157,510**		**(2)0.93**	**142,399**		**(2)0.98**	**137,424**		**(2)0.95**
64	-	-	66,118	0.65%	0.45	63,947	0.56%	0.52	63,514	0.56%	0.48
6	-	-	78,064		0.89	68,775		0.84	65,154		0.80
2	-	1	10,678		0.01	7,511		0.01	6,698		0.01
-	-	-	1		0.67	1		0.67	1		0.67
72	**-**	**1**	**154,861**		**(2)0.64**	**140,234**		**(2)0.65**	**135,367**		**(2)0.61**
2,258	-	444	2,649			2,165			2,057		
2,205	**2,205**	**2,649**									
3,899	98	2,770	191,369	2.56%	1.18	190,910	3.13%	1.26	191,125	3.07%	1.26
128	-	-	185,779		0.97	172,825		1.08	170,126		1.02
2	-	-	12,590		0.01	8,815		0.01	7,936		0.01
4,029	**98**	**2,770**	**389,738**		**(2)1.04**	**372,550**		**(2)1.15**	**369,187**		**(2)1.13**
648	-	-	181,277	0.61%	0.70	183,459	0.80%	0.76	183,534	0.82%	0.73
63	-	-	185,931		1.09	173,835		1.15	170,961		1.13
2	-	1	12,537		0.01	8,757		0.01	7,882		0.01
-	-	-	63		0.08	84		0.07	83		0.06
713	**-**	**1**	**379,808**		**(2)0.87**	**366,135**		**(2)0.92**	**362,460**		**(2)0.90**
3,316	98	2,769	9,930			6,415			6,727		
7,063	**7,161**	**9,930**									

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 9 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 "C" - 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 the Bank's equity, the lower of the two

	September 30, 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	1,260	3,042	614
United Kingdom	-	2,631	133
Switzerland	-	818	472
PIIGS[5]	-	7	6
Other	282	3,877	3,096
Total exposure to foreign countries	**1,542**	**10,375**	**4,321**
Of which - Total exposure to LDC countries	85	791	631

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% the equity, whichever is lower.

As of September 30, 2014 the Bank had no such exposure.

C. Information regarding balance sheet exposure to foreign countries having liquidity problems, for the period of nine months ended September 30, 2014

1. As of September 30, 2014 the Bank had no such exposure.

It should be noted that in the 2013 annual report (Schedule F, p. 320) an exposure is presented with respect to Ireland in an amount of NIS 56 million. Ireland is no longer defined as a foreign country with liquidity problems and therefore no balance is presented with respect thereto.

2. Information regarding balance-sheet exposures that have undergone restructuring

As of September 30, 2014 the Bank had no such exposure.

September 30, 2014									
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country						Off-balance sheet exposure(2)(3)		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									
28,278	18,426	9,852	14,768	556	286	7,213	3	4,279	637
1,035	79	956	3,720	374	370	102	-	2,071	693
1,115	246	869	2,159	16	5	138	-	783	507
-	-	-	13	2	-	7	-	5	8
2,020	2,020	-	7,255	110	179	631	3	4,378	2,877
32,448	**20,771**	**11,677**	**27,915**	**1,058**	**840**	**8,091**	**6**	**11,516**	**4,722**
-	-	-	1,507	6	1	159	3	1,026	481

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 "C" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1] (CONTINUED)

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 the Bank's equity, the lower of the two.

	September 30, 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	1,337	2,258	[6]799
United Kingdom	-	2,092	111
PIIGS[5]	-	3	15
Other	300	4,630	[6]4,342
Total exposure to foreign countries	**1,637**	**8,983**	**5,267**
Of which - Total exposure to LDC countries	124	813	795

	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	3,413	[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**	**10,404**	**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 – sorting between countries.

September 30, 2013									
Balance sheet exposure(2)						Off-balance sheet exposure(2)(3)		Across the border balance sheet exposure(2)	
Balance sheet exposure to local resident customers of extensions of a banking corporation in a foreign country									
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 commercial criticized exposure	Impaired debts	Total off-balance sheet exposure	Of which off-balance sheet commercial criticized exposure	Due up to one year	Due over one year
In NIS millions									
27,052	20,248	6,804	(6)11,198	662	251	(6)6,822	-	3,847	(6)547
929	103	826	3,029	553	552	64	-	1,439	764
-	-	-	18	-	-	16	-	9	9
2,472	1,897	575	(6)9,847	612	610	(6)1,163	4	4,583	(6)4,689
30,453	**22,248**	**8,205**	**24,092**	**1,827**	**1,413**	**8,065**	**4**	**9,878**	**6,009**
1,641	1,641	-	1,732	29	28	247	1	992	740

December 31, 2013									
Balance sheet exposure(2)						Off-balance sheet exposure(2)(3)		Across the border balance sheet exposure(2)	
Balance sheet exposure to local resident customers of extensions of the banking corporation in a foreign country									
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									
25,833	16,993	8,840	(6)14,424	642	248	(6)6,761	-	4,395	(6)1,189
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
29,688	**19,397**	**10,291**	**26,475**	**1,213**	**818**	**8,038**	**4**	**10,507**	**5,677**
-	-	-	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)

SCHEDULE "C" - EXPOSURE TO FOREIGN COUNTRIES - CONSOLIDATED[1] (CONTINUED)

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.

The total exposure to foreign countries as of September 30, 2013, includes exposure on a consolidated basis to Switzerland, amounting to NIS 1,877 million and as of December 31, 2013, amounting to NIS 1,894 million.

C. Information regarding exposure to foreign countries having liquidity problems for the period of nine months ended September 30, 2013 and 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 nine months ended September 30, 2013	For the year ended December 31, 2013
	Ireland	
	In NIS millions	
Amount of exposure at the beginning of year	9	9
Changes in remaining exposure:	-	-
Added exposure	-	51
Amounts collected	(5)	(5)
Other changes (including provisions and write-offs)	1	1
Amount of exposure at period end	**5**	**56**

2. Information regarding balance-sheet exposures that have undergone restructuring

As of September 30, 2013 and December 31, 2013, the Bank had no such exposure.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED

	September 30, 2014								
	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	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	1,064	21	1,064	822	21	17	(5)	-	17
Industry	15,313	1,244	15,053	10,687	1,234	496	1	87	324
Construction and Real Estate - Construction	[7]14,452	554	14,431	5,838	553	253	26	(31)	219
Construction and Real Estate - Real Estate Activity	11,253	631	11,178	9,250	630	520	(6)	28	112
Electricity and Water	3,119	18	2,494	1,630	18	9	1	1	4
Commerce	14,886	955	14,739	11,888	955	335	65	10	344
Hotels, Hotel Services and Food	1,982	242	1,966	1,580	242	230	5	2	21
Transportation and Storage	3,066	138	3,011	2,406	134	81	11	(2)	43
Communication and Computer Services	2,346	267	2,125	1,509	268	126	(31)	(22)	29
Financial Services	10,250	323	8,336	6,765	324	183	11	(1)	144
Other Business Services	6,289	93	6,259	4,489	93	52	6	10	74
Public and Community Services	2,479	23	2,473	1,754	23	15	(4)	(1)	10
Total Commercial	**86,499**	**4,509**	**83,129**	**58,618**	**4,495**	**2,317**	**80**	**81**	**1,341**
Private Individuals - Housing Loans	21,487	467	21,487	20,223	467	-	6	6	254
Private Individuals - Other	40,720	317	40,689	19,906	317	85	34	39	336
Total Public	**148,706**	**5,293**	**145,305**	**98,747**	**5,279**	**2,402**	**120**	**126**	**1,931**
Banks in Israel	2,305	-	714	501	-	-	-	-	1
Israeli Government	24,370	-	1,769	1,468	-	-	-	-	-
Total Lending Activity in Israel	**175,381**	**5,293**	**147,788**	**100,716**	**5,279**	**2,402**	**120**	**126**	**1,932**
Lending Activity Outside of Israel									
Agriculture	131	-	131	126	-	-	(1)	-	2
Industry	7,368	73	7,267	4,657	73	5	(2)	(2)	52
Construction and Real Estate - Construction	854	371	854	809	371	371	67	18	105
Construction and Real Estate - Real Estate Activity	7,328	438	7,278	5,581	438	283	(4)	(27)	95
Electricity and Water	386	-	365	149	-	-	(1)	-	1
Commerce	5,986	25	5,978	4,072	25	-	(104)	(106)	54
Hotels, Hotel Services and Food	663	-	663	660	-	-	(2)	(2)	5
Transportation and Storage	1,033	18	1,009	792	7	7	(3)	29	9
Communication and Computer Services	273	28	251	171	28	26	-	(1)	13
Financial Services	11,717	[6]294	2,601	1,791	124	112	9	23	35
Of which: Federal agencies in the U.S. [8]	8,254	-	-	-	-	-	-	-	-
Other Business Services	2,118	16	2,103	1,422	16	3	(11)	-	19
Public and Community Services	[9]2,829	-	818	786	-	-	2	-	9
Total Commercial	**40,686**	**1,263**	**29,318**	**21,016**	**1,082**	**807**	**(50)**	**(68)**	**399**
Private Individuals - Housing Loans	72	4	72	66	4	-	-	-	1
Private Individuals - Other	1,922	-	1,913	1,319	-	-	8	8	13
Total Public	**42,680**	**1,267**	**31,303**	**22,401**	**1,086**	**807**	**(42)**	**(60)**	**413**
Banks Outside of Israel	10,293	-	5,981	5,459	-	-	2	-	4
Governments Outside of Israel	1,460	-	27	27	-	-	-	-	-
Total Lending Activity Outside of Israel	**54,433**	**1,267**	**37,311**	**27,887**	**1,086**	**807**	**(40)**	**(60)**	**417**
Total	**229,814**	**6,560**	**185,099**	**128,603**	**6,365**	**3,209**	**80**	**66**	**2,349**
Excluding balances classified as assets and liabilities held for sale – see Note 18	4,527	5	2,518	2,398	5	5	-	-	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 128,603, 37,968, 953, 5,081, 57,209 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), held by a subsidiary in an amount of NIS 170 million.
(7) Including acquisition groups in an amount of NIS 700 millions.
(8) Including mortgage backed securities in the amount of NIS 3,715 millions, issued by GNMA and in the amount of NIS 4,539 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 4,643 million.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (CONTINUED)

	September 30, 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	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	997	38	995	770	38	27	-	4	20
Industry	15,996	1,484	15,715	11,514	1,455	533	88	45	282
Construction and Real Estate - Construction	[7]13,659	684	13,640	5,789	684	380	15	15	184
Construction and Real Estate - Real Estate Activity	9,803	723	9,746	8,212	723	576	38	14	128
Electricity and Water	3,066	24	2,364	1,807	24	10	(2)	-	5
Commerce	14,259	969	14,053	11,376	969	201	136	19	279
Hotels, Hotel Services and Food	2,129	281	2,125	1,834	281	269	2	3	17
Transportation and Storage	3,202	86	3,097	2,543	77	39	6	7	23
Communication and Computer Services	2,441	367	2,298	1,729	363	116	(2)	(5)	39
Financial Services	9,276	326	7,471	5,940	325	178	(8)	(20)	172
Other Business Services	6,572	155	6,549	4,744	156	104	12	10	80
Public and Community Services	2,150	26	2,148	1,504	25	7	1	1	14
Total Commercial	**83,550**	**5,163**	**80,201**	**57,762**	**5,120**	**2,440**	**286**	**93**	**1,243**
Private Individuals - Housing Loans	20,883	521	20,883	19,949	521	-	40	1	264
Private Individuals - Other	38,576	357	38,548	18,249	357	98	3	39	345
Total Public	**143,009**	**6,041**	**139,632**	**95,960**	**5,998**	**2,538**	**329**	**133**	**1,852**
Banks in Israel	2,740	-	1,556	1,284	-	-	-	-	2
Israeli Government	30,376	-	2,196	1,797	-	-	-	-	-
Total Lending Activity in Israel	**176,125**	**6,041**	**143,384**	**99,041**	**5,998**	**2,538**	**329**	**133**	**1,854**
Lending Activity Outside of Israel									
Agriculture	262	-	262	222	-	-	1	-	3
Industry	7,371	339	7,339	4,488	339	271	8	-	106
Construction and Real Estate - Construction	1,121	512	1,113	1,070	512	510	7	55	104
Construction and Real Estate - Real Estate Activity	7,459	1,043	7,329	6,082	1,036	804	(17)	7	53
Electricity and Water	448	-	448	396	-	-	(1)	-	2
Commerce	5,791	157	5,788	3,973	157	157	60	98	72
Hotels, Hotel Services and Food	885	132	885	879	132	132	-	1	12
Transportation and Storage	842	48	841	725	48	48	19	-	40
Communication and Computer Services	183	25	182	124	25	25	11	-	13
Financial Services	14,045	[6]245	2,581	1,706	135	135	16	8	49
Of which: Federal agencies in the U.S. [8]	9,131	-	-	-	-	-	-	-	-
Other Business Services	1,910	78	1,893	1,304	78	26	9	30	30
Public and Community Services	[9]2,446	5	353	349	-	-	1	-	3
Total Commercial	**42,763**	**2,584**	**29,014**	**21,318**	**2,462**	**2,108**	**114**	**199**	**487**
Private Individuals - Housing Loans	54	1	54	53	1	-	-	-	-
Private Individuals - Other	2,055	21	2,024	1,353	21	14	15	7	22
Total Public	**44,872**	**2,606**	**31,092**	**22,724**	**2,484**	**2,122**	**129**	**206**	**509**
Banks Outside of Israel	9,683	18	5,701	5,456	-	-	(1)	-	2
Governments Outside of Israel	1,354	-	59	59	-	-	-	-	-
Total Lending Activity Outside of Israel	**55,909**	**2,624**	**36,852**	**28,239**	**2,484**	**2,122**	**128**	**206**	**511**
Total	**232,034**	**8,665**	**180,236**	**127,280**	**8,482**	**4,660**	**457**	**339**	**2,365**

Footnotes:

(1) Balance Sheet and Off-Balance Sheet Credit Risk, including in respect of derivative instruments. Including: Debts, investments in bonds, securities borrowed or purchased under resale agreements, assets in respect of derivative instruments, and credit risk in respect of off-balance sheet financial instruments, as calculated for single borrower liability limitation, of NIS 127,280, 46,329, 312, 3,398, 54,715 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 in respect of the public, which is impaired, substandard or under special mention, including in respect of housing loans, in respect of which a allowance is made according to the period in arrears, and housing loans in respect of which no allowance is made according to the period in 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), held by a subsidiary in an amount of NIS 110 million.

(7) Including acquisition groups in an amount of NIS 648 millions.

(8) Including mortgage backed securities in the amount of NIS 2,906 millions, issued by GNMA and in the amount of NIS 6,225 millions, issued by FNMA and FHLMC.

(9) Including mainly municipal bonds and U.S. Government bonds.

(10) Including credit facilities guaranteed by banks outside the Group in the amount of NIS 4,608 million.

SCHEDULE "D" - OVERALL CREDIT RISK IN RESPECT OF THE PUBLIC CLASSIFIED BY ECONOMIC SECTORS - CONSOLIDATED (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	15,763	1,546	15,563	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	**84,083**	**5,028**	**80,640**	**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	**143,925**	**5,846**	**140,455**	**96,960**	**5,806**	**2,773**	**475**	**202**	**1,938**
Banks in Israel	2,718	-	1,404	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 18	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), 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.

CERTIFICATION

I, Lilach Asher-Topilsky, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of September 30, 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 interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in 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 to the internal control of the Bank 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) We established 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;
   (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; and
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 and to the Audit 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

November 20, 2014

CERTIFICATION

I, Joseph Beressi, certify that:

1. I have reviewed the quarterly report of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of September 30, 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 interim financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations (including the comprehensive income), changes in 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 to the internal control of the Bank 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) We established 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;
   (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; and
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 and to the Audit 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

November 20, 2014

Somekh Chaikin

REVIEW REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF ISRAEL DISCOUNT BANK LTD.

INTRODUCTION

We have reviewed the accompanying financial information of Israel Discount Bank Ltd. and its subsidiaries (hereinafter: "the Bank") comprising of the condensed consolidated interim balance sheet as at September 30, 2014 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three and nine months periods then ended. The Board of Directors and management are responsible for the preparation and presentation of the financial data for these interim periods in accordance with Israeli GAAP regarding financial reporting for this interim period and in accordance with the guidelines and directives of the Supervisor of Banks. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

SCOPE OF REVIEW

We have conducted our review in accordance with Standard on Review Engagements 1, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" of the Institute of Certified Public Accountants in Israel, and a review standard applied in the review of banking institutions according to the guidelines and directives of the Supervisor of Banks. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with the instructions and directives of the Supervisor of Banks.

EMPHASIS OF A MATTER

Without qualifying our above conclusion, we call attention to the Note 7 B items 4.5 and 5 concerning motion to approve certain lawsuits as class action suits and with regard to other claims against the Bank and investee companies.

Somekh Chaikin	Ziv Haft
Certified Public Accountants (Isr.)	Certified Public Accountants (Isr.)
November 20, 2014	

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited September 30, 2014	Unaudited September 30, 2013	Audited December 31, 2013
		in NIS millions		
Assets				
Cash and deposits with banks		23,149	22,758	25,319
Securities (of which: 5,222, 6,226, 6,047 respectively, pledged to lenders)	2	39,477	47,124	41,325
Securities borrowed or purchased under resale agreements		953	312	102
Credit to the public	3	121,148	118,684	117,993
Allowance for credit losses	3	(2,174)	(2,186)	(2,134)
Credit to the public, net		118,974	116,498	115,859
Credit to Governments		1,495	1,856	1,835
Investments in affiliated companies	14	141	1,822	1,668
Buildings and equipment		2,546	2,762	2,696
Intangible assets and goodwill		142	142	142
Assets in respect of derivative instruments	8	5,080	3,392	4,080
Other assets		3,227	3,349	3,277
Noncurrent assets held for sale	18	4,596	10	4,204
Total assets		**199,780**	**200,025**	**200,507**
Liabilities and Equity				
Deposits from the public	4	145,405	152,111	148,928
Deposits from banks		5,313	3,833	4,213
Deposits from the Government		969	1,019	972
Securities loaned or sold under repurchase agreements		3,785	4,227	3,644
Subordinated capital notes		10,839	12,089	11,664
Liabilities in respect of derivative instruments	8	5,218	4,381	4,898
Other liabilities (1)		10,355	9,834	9,719
Liabilities held for sale	18	4,295	-	3,931
Total liabilities		186,179	187,494	187,969
Equity attributed to the Bank's shareholders		13,214	12,228	12,233
Non-controlling rights in consolidated companies		387	303	305
Total equity		13,601	12,531	12,538
Total Liabilities and Equity		**199,780**	**200,025**	**200,507**

Footnote:
(1) Of which NIS 170 million, NIS 175 million and NIS 184 million, as of September 30, 2014, September 30, 2013 and December 31, 2013, respectively, allowance for credit losses in respect of off-balance sheet credit instruments.

The notes to the condensed financial statements form an integral part thereof.

November 20, 2014

Joseph Beressi
Senior Executive Vice President,
Chief Accountant

Lilach Asher-Topilsky
President &
Chief Executive Officer

Dr. Yossi Bachar
Chairman of the
Board of Directors

CONDENSED CONSOLIDATED STATEMENT OF INCOME

		Unaudited				Audited
		For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	Notes	2014	2013	2014	2013	2013
		in NIS millions				
Interest income[2]		1,479	1,865	4,384	5,291	6,822
Interest expenses		418	771	1,205	2,112	2,572
Interest income, net	10	1,061	1,094	3,179	3,179	4,250
Credit loss expenses	3a	40	171	80	457	580
Net interest income after credit loss expenses		**1,021**	**923**	**3,099**	**2,722**	**3,670**
Non-interest Income						
Non-interest financing income	11	148	90	386	516	632
Commissions[2]		650	684	1,918	2,020	2,704
Other income		48	65	127	122	183
Total non-interest income		**846**	**839**	**2,431**	**2,658**	**3,519**
Operating and other Expenses						
Salaries and related expenses		914	889	2,922	2,698	3,619
Maintenance and depreciation of buildings and equipment		306	321	903	931	1,247
Other expenses		254	275	775	832	1,152
Total operating and other expenses		**1,474**	**1,485**	**4,600**	**4,461**	**6,018**
Income before taxes		393	277	930	919	1,171
Provision for taxes on income		149	47	329	254	305
Income after taxes		244	230	601	665	866
Bank's share in income of affiliated companies, net of tax effect		3	56	[1][3]23	166	[1]45
Net income:						
Before attribution to non-controlling rights holders in consolidated companies		247	286	624	831	911
Attributed to the non-controlling rights holders in consolidated companies		(13)	(10)	(33)	(29)	(37)
Net income attributed to the Bank's shareholders		**234**	**276**	**591**	**802**	**874**
Earnings per share of NIS 0.1 par value (in NIS)						
Total earnings per share attributed to the Bank's shareholders		**0.22**	**0.26**	**0.56**	**0.76**	**0.83**

Footnotes:

(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 14 C and D.

(2) For details regarding the effect of the implementation of the instruction regarding the measurement of interest income (classification of certain commissions), see Note 1E(1).

(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 14E.

The notes to the condensed financial statements form an integral part thereof.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME[(1)]

	Unaudited				Audited
	For the three months ended September 30,		For the nine months ended September 30,		For the year ended December 31,
	2014	2013	2014	2013	2013
	in NIS millions				
Net income before attribution to non-controlling rights holders in consolidated companies	247	286	624	831	911
Net income attributed to non-controlling rights holders in consolidated companies	(13)	(10)	(33)	(29)	(37)
Net income attributed to the Bank's shareholders	**234**	**276**	**591**	**802**	**874**
Other comprehensive income (loss), before taxes:					
Adjustments, net, for presentation of available-for- sale securities at fair value	87	39	358	(404)	(407)
Financial statements translation adjustments, net after hedge effects	204	(71)	182	(168)	(223)
Net income in respect of cash flows hedge	2	-	4	6	7
Other comprehensive income (loss), before taxes	**293**	**(32)**	**544**	**(566)**	**(623)**
Effect of attributed taxes	(21)	(7)	(146)	154	167
Other comprehensive income (loss) attributed to the Bank's shareholders, after taxes	**272**	**(39)**	**398**	**(412)**	**(456)**
Comprehensive income, before attribution to non-controlling interests holders in consolidated companies	519	247	1,022	419	455
Comprehensive income, attributed to non-controlling interests holders in consolidated companies	(13)	(10)	(33)	(29)	(37)
Comprehensive income, attributed to the Bank's shareholders	**506**	**237**	**989**	**390**	**418**

Footnote:

(1) See Note 13.

The notes to the condensed financial statements form an integral part thereof.

CONDENSED STATEMENT OF CHANGES IN EQUITY

A. For the three months ended September 30 2014 and 2013 (unaudited)
Balance at June 30, 2014
Net income for the period
Dividend to non-controlling interests holders in consolidated companies
Sale of shares in subsidiary companies to non-controlling interests holders
Other comprehensive income, net after tax effect
Balance at September 30, 2014
Balance at June 30, 2013
Net Income for the period
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive loss, net after tax effect
Balance at September 30, 2013
B. For the nine months ended September 30, 2014 and 2013 (unaudited)
Balance at December 31, 2013 (audited)
Net income for the period
Dividend to non-controlling interests holders in consolidated companies
Sale of shares in subsidiary companies to non-controlling interests holders
Other comprehensive income, net after tax effect
Balance at September 30, 2014
Balance at December 31, 2012 (audited)
Net income for the period
Dividend to non-controlling interests holders in consolidated companies
Other comprehensive loss, net after tax effect
Balance at September 30, 2013
C. For the year of 2013 (audited)
Balance at December 31, 2012
Net income for the year
Dividend to non-controlling interests holders in consolidated companies
Provision for tax on an investment in an affiliated company in respect of items recorded in the equity
Other comprehensive loss, net after tax effect
Balance at December 31, 2013

The notes to the financial statements are an integral part thereof.

	Capital reserves							
Share capital	Share premium	Other	Total paid up share capital and reserves	Accumulated other comprehensive income (loss)	Retained earnings	Equity attributed to the Bank's shareholders	Non-controlling interests holders in consolidated subsidiaries	Total equity
				in NIS millions				
665	3,434	212	4,311	(6)	8,411	12,716	314	13,030
-	-	-	-	-	234	234	13	247
-	-	-	-	-	-	-	(31)	(31)
-	-	-	-	-	(8)	(8)	91	83
-	-	-	-	272	-	272	-	272
665	**3,434**	**212**	**4,311**	**266**	**8,637**	**13,214**	**387**	**13,601**
665	3,434	212	4,311	(49)	7,729	11,991	300	12,291
-	-	-	-	-	276	276	10	286
-	-	-	-	-	-	-	(7)	(7)
-	-	-	-	(39)	-	(39)	-	(39)
665	**3,434**	**212**	**4,311**	**(88)**	**8,005**	**12,228**	**303**	**12,531**
665	3,434	212	4,311	(132)	8,054	12,233	305	12,538
-	-	-	-	-	591	591	33	624
-	-	-	-	-	-	-	(42)	(42)
-	-	-	-	-	(8)	(8)	91	83
-	-	-	-	398	-	398	-	398
665	**3,434**	**212**	**4,311**	**266**	**8,637**	**13,214**	**387**	**13,601**
665	3,434	212	4,311	324	7,203	11,838	296	12,134
-	-	-	-	-	802	802	29	831
-	-	-	-	-	-	-	(22)	(22)
-	-	-	-	(412)	-	(412)	-	(412)
665	**3,434**	**212**	**4,311**	**(88)**	**8,005**	**12,228**	**303**	**12,531**
665	3,434	212	4,311	324	7,203	11,838	296	12,134
-	-	-	-	-	874	874	37	911
-	-	-	-	-	-	-	(28)	(28)
-	-	-	-	-	(23)	(23)	-	(23)
-	-	-	-	(456)	-	(456)	-	(456)
665	**3,434**	**212**	**4,311**	**(132)**	**8,054**	**12,233**	**305**	**12,538**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended
	2014	2013	2014	2013	31.12.13
	in NIS millions				
Cash Flows from Operating Activities					
Net profit before attribution to non-controlling rights holders in consolidated companies	247	286	624	831	911
Adjustments necessary to present cash flows from current operations:					
Bank's share in undistributed income of affiliated companies	(3)	(41)	(23)	(121)	(159)
Depreciation of buildings and equipment (including impairment in value)	160	149	434	446	619
Provision for impairment of securities	(3)	3	40	11	33
Credit loss expenses	166	295	615	822	1,036
Loss (gain) on sale of credit portfolio	(1)	(1)	(1)	(12)	(30)
Gain on sale of available-for-sale and held to maturity securities	(55)	(76)	(274)	(450)	(511)
Realized and non realized gain from adjustment to fair value of trading securities	(17)	4	(37)	(12)	(10)
Provision for impairment of company[(1)]	-	-	-	-	185
Gain from realization at an investment in investee companies	-	-	-	(8)	(23)
Gain on realization of buildings and equipment	-	-	(5)	-	-
Net deferred taxes	(12)	(30)	46	(146)	(214)
Severance pay – increase in execess of provision over the deposits	34	(12)	275	35	(42)
Net change in current assets:					
Deposits with banks	132	(109)	(718)	29	(401)
Credit to the public, net	(3,596)	(1,673)	(3,169)	738	496
Credit to the Government	375	(32)	340	(160)	(163)
Securities borrowed or purchased under resale agreements	(295)	(243)	(851)	75	285
Assets in respect of derivative instruments	(1,426)	211	(1,000)	335	(353)
Trading securities	(454)	1,153	(661)	103	773
Other assets	37	(100)	(562)	(383)	(282)
Noncurrent assets held for sale	-	-	-	-	(977)
Effect of changes in exchange rate on cash and cash equivalent balances	134	(27)	135	(133)	(185)
Accrual differences included in investment and financing activities	(1,324)	436	(704)	1,169	1,828
Net change in current liabilities:					
Deposits from banks	1,518	(320)	1,100	113	508
Deposits from the public	(91)	2,174	(3,737)	(752)	90
Deposits from the Government	16	15	(3)	14	(33)
Securities borrowed or purchased under resale agreements	264	69	141	(1,225)	(1,808)
Liabilities in respect of derivative instruments	967	(209)	320	(322)	197
Other liabilities	450	327	806	-	14
Adjustments in respect of exchange rate differences on current assets and liabilitiest	40	(42)	32	(53)	(73)
Net Cash Flows from Operating Activities	**(2,737)**	**2,207**	**(6,837)**	**944**	**1,711**

Footnote:
(1) For details regarding the provision for impairment in value of the investment in FIBI, see Note 14.
The notes to the condensed financial statements are an integral part thereof.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended
	2014	2013	2014	2013	2013
	in NIS millions				
Cash Flows from Investing Activities					
Acquisition of held-to-maturity bonds	-	-	(73)	(1,162)	(1,125)
Proceeds from redemption of held-to-maturity bonds	61	82	444	513	658
Acquisition of available-for-sale securities	(3,558)	(2,885)	(10,040)	(17,755)	(21,960)
Proceeds from sale of available-for-sale securities	2,949	1,636	8,689	9,960	14,083
Gain on sale of credit portfolio	5	434	5	547	547
Proceeds from redemption of available-for-sale securities	2,074	1,623	6,083	6,344	8,819
Reduction of (additional) investment in an activity in an investee company	-	-	-	(31)	(24)
Proceeds of the sale of investments in investee companies and dividend	-	-	37	53	53
Acquisition of buildings and equipment	(112)	(72)	(282)	(258)	(396)
Proceeds from sale of buildings and equipment	-	-	11	-	4
Net Cash Flows from Investing Activities	**1,419**	**818**	**4,874**	**(1,789)**	**659**
Cash Flows from Financing Activities					
Redemption of subordinated capital notes	(164)	(152)	(896)	(468)	(884)
Dividend to non-controlling rights holders in consolidated companies	(31)	(7)	(42)	(22)	(28)
Net cash flows from Financing Activities	**(195)**	**(159)**	**(938)**	**(490)**	**(912)**
Increase (decrease) in cash	(1,513)	2,866	(2,901)	(1,335)	1,458
Cash balance at beginning of period	22,364	18,086	23,765	22,265	22,265
Effect of changes in exchange rate on cash and cash equivalent balances	25	1	12	23	42
Cash balance at end of period	**20,876**	**20,953**	**20,876**	**20,953**	**23,765**
Interest and taxes paid and/or received					
Interest received	1,506	1,542	4,874	5,225	6,944
Interest paid	(512)	(588)	(1,671)	(2,068)	(2,763)
Dividends received	8	12	87	74	80
Taxes on income paid	(118)	(117)	(351)	(392)	(474)

The notes to the condensed financial statements are an integral part thereof.

ANNEX - INVESTING AND FINANCIAL ACTIVITIES NOT IN CASH IN THE REVIEWED PERIOD

	Unaudited				Audited
	For the three months ended September 30		For the nine months ended September 30		For the year ended
	2014	2013	2014	2013	31.12.13
	in NIS millions				
Purchase of fixed assets	(2)	12	-	7	28
Lending of securities	387	(696)	564	(964)	798

The notes to the condensed financial statements are an integral part thereof.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

A. GENERAL. The condensed consolidated interim financial statements (hereinafter: "the interim financial statements") of Israel Discount Bank Ltd. (hereinafter: "the Bank") as of September 30, 2014, include the financial statements of the Bank and of its subsidiaries (hereinafter: "the Group"). The interim financial statements are prepared in accordance with Israeli GAAP regarding financial reporting for interim periods and in accordance with directives and guidelines of the Supervisor of Banks with respect to the "quarterly report of a banking corporation", and they do not include all the information required to be presented in full annual financial statements. These financial statements should be read in conjunction with the annual financial statements as of December 31, 2013 and the accompanying notes.

The interim financial statements have been prepared on the basis of the same accounting principles used for the preparation of the audited financial statements as of December 31, 2013 except as detailed in item E hereunder.

The interim financial statements were approved for publication by the Bank's Board of Directors on November 20, 2014.

B. PRINCIPLES OF FINANCIAL REPORTING

The interim 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) and the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) relating thereto, 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 principles detailed in the financial statements as of December 31, 2013.

C. USE OF ASSESSMENTS AND DISCRETION

In preparing the interim financial statements in accordance with Israeli GAAP and in accordance 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 assessments, 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 assessments.

Discretion of Management in applying the accounting policy and the principal assumptions used in assessments involving uncertainty, are consistent with those applied in the preparation of the annual financial statements.

D. 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.

E. INITIAL IMPLEMENTATION OF ACCOUNTING STANDARDS, UPDATES OF ACCOUNTING STANDARDS AND DIRECTIVES OF THE SUPERVISOR OF BANKS

As from the period beginning 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 1 below);

1. ACCOUNTING POLICIES (CONTINUED)

(2) Instruction in the matter of "Reporting amounts that had been reclassified out of accumulated other comprehensive income" (see item 2 below).

Following is a description of the changes in the accounting policy adopted in these interim financial statements and a description of the manner and effect of the initial implementation, if at all:

1. **Instructions regarding the adoption of accounting principles accepted by U.S. banks in the matter of the measurement of interest income (FAS 91).** Instructions were issued on December 29, 2011, intended to modify the public reporting instructions for the purpose of adoption of the rules determined within the framework of generally accepted accounting principles in the U.S. regarding "non-refundable commissions and other costs".

   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.

   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 initial implementation and its effect. The directives are implemented as from January 1, 2014.

1. ACCOUNTING POLICIES (CONTINUED)

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 periods of the three and nine months ended September 30, 2014.

	Unaudited					
	For the three months ended September 30,2014			For the nine months ended September 30,2014		
	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	1,431	48	1,479	4,239	145	4,384
Commissions	695	(45)	650	2,065	(147)	1,918
Net income	232	2	234	592	(1)	591

2. **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.

F. NEW ACCOUNTING STANDARDS AND NEW DIRECTIVES OF THE SUPERVISOR OF BANKS IN THE PERIOD PRIOR TO THEIR IMPLEMENTATION

1. **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:

1. ACCOUNTING POLICIES (CONTINUED)

- Topic 480 regarding "Distinguishing Liabilities From Equity";
- Topic 470-20 regarding "Debt with Conversion and Other Options"; and
- Topic 505-30 regarding "Treasury stock".

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 he 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.

2. **Group allowance for credit losses.** On July 18, 2013, a draft in the matter of "group allowance for credit losses" was submitted for discussion of the Advisory Committee. The draft extends the validity of the provisional instruction in the matter of computation of the group allowance for credit losses, based on segmentation according to economic sectors, it states guidelines and clarifications as to the manner of computing the rate of past losses and determines comprehensive requirements regarding the inclusion in the allowance coefficient of adjustments in respect of environmental factors. Furthermore, the draft enlarges the documentation requirements supporting the group allowance coefficient and the overall fairness of the allowance and the reporting to Management and the Board of Directors.

   The expected effect regarding the implementation of the guidelines applying to the computation of the rate of past credit losses shall be treated by way of a change in assessment and shall be charged to the statement of income.

   According to the draft, the time-table for the implementation of the new instructions would be graded. The date of initial implementation has not yet been finally determined.

   The Bank is preparing for the implementation of the instruction. In view of its complexity and unclarity with respect to certain of its components it is not possible at this stage to evaluate its impact.

3. **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 includes certain updates of the reporting to public instructions, but does not include all the updates required to the instructions following the adoption of the said principles. These matters, including additional clarifications, if required, will be dealt with separately.

   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.

   The circular states, among other things, the discount rate for computing the liabilities in respect of employees rights, shall be based on the market return on Israeli government bonds. Following this, the provisional instruction included in the existing instructions, determining the discount rate for computing the provisions for employee rights, will be abolished (according to which a discount rate of 4% has been used).

   In accordance with the circular published by the Supervisor of Banks, it is required to, at least, include in its interim financial statements for 2014, a disclosure of an estimate of the quantitative effect on the equity of the computation of the liability in respect of employee rights, using discount rates based on market returns at the reporting date on Israeli government bonds.

   An FQA file on the subject was published on July 10, 2014, 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. ACCOUNTING POLICIES (CONTINUED)

The Bank estimates that the expected effect on its equity at September 30, 2014, of only the change in the discount rate amounts to NIS 724 million, after-tax effect. It is emphasized that the adoption of the U.S. accounting principles in the matter of employee rights may have additional implications on the Bank, including implications on its equity. The effect mentioned above does not include such additional implications, and reflects solely the effect of the use of discount rates, as stated above.

4. **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.

The requirement shall apply as from the annual report for 2015 to balance sheet data only, and shall apply in full starting with the report for the first quarter of 2016. The amendment included relief as regards the classification to segments applying to the presentation of comparative data.

In addition, a FAQ file in the matter was distributed November 6, 2014.

In the opinion of the Bank, the implementation of the new instructions is not expected to have a material effect, save for a change in the disclosure format.

2. SECURITIES - CONSOLIDATED

A. Composition

	Unaudited				
	September 30 ,2014				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[1]
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,469	3,469	411	-	3,880
Of Israeli financial institutions	86	86	8	-	94
Of foreign financial institutions	89	89	-	1	88
Mortgage-backed-securities or Assets -backed-securities◌	1,209	1,209	18	25	1,202
Of others abroad[6]	2,108	2,108	102	10	2,200
Total held-to-maturity bonds	**6,961**	**[2]6,961**	**539**	**36**	**7,464**

	Unaudited				
	September 30 ,2014				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[1]
	In NIS millions				
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	16,010	15,499	512	1	16,010
Of foreign governments	479	484	3	8	479
Of Israeli financial institutions	722	709	13	-	722
Of foreign financial institutions	2,219	2,170	55	6	2,219
Mortgage-backed-securities or Assets -backed-securities◌	7,427	7,516	31	120	7,427
Of others in Israel	809	782	28	1	809
Of others abroad[7]	85	86	-	1	85
Total bonds	27,751	27,246	642	137	[2]27,751
Shares	1,882	1,875	12	5	[4][9]1,882
Total available-for-sale securities	**29,633**	**29,121**	**[3]654**	**[3]142**	**29,633**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	September 30 ,2014				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value(1)
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,712	2,696	17	1	2,712
Of Israeli financial institutions	2	2	-	-	2
Of foreign financial institutions	12	12	-	-	12
Mortgage-backed-securities or Assets -backed-securities⁽⁷⁾	46	46	-	-	46
Of others in Israel	85	84	1	-	85
Of others abroad	14	15	-	1	14
Total bonds	2,871	2,855	18	2	2,871
Shares	12	14	-	2	12
Total trading securities	**2,883**	**2,869**	**(5)18**	**(5)4**	**2,883**
Total securities(8)	**39,477**	**38,951**	**1,211**	**182**	**39,980**

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) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 824 million (approx. US$ 223 million) and from the available for sale protfolio with a market value of NIS 3,607 million (approx. US$ 976 million).

(3) Included in "Accumulated other comprehensive income".

(4) Including shares , the fair value of which is not readily available, stated at cost of NIS 774 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in an amount of NIS 2,041 million (book value).

(7) Including U.S. Government agencies, in an amount of NIS 64 million (Book value).

(8) Excluding balances classified as assets and liabilities held for sale - see Note 18.

(9) For details regarding the classification of the investment in shares of FIBI, see Note 14E.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	September 30,2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value(1)
	In NIS millions				
(1) Held-to-maturity bonds					
Bonds and loans:					
Of the Israeli Government	3,729	3,729	251	-	3,980
Of foreign governments	6	6	1	-	7
Of Israeli financial institutions	87	87	6	-	93
Of foreign financial institutions	65	65	1	3	63
Mortgage-backed-securities or Assets - backed-securities	1,389	1,389	25	29	1,385
Of others abroad(6)	2,147	2,147	67	70	2,144
Total held-to-maturity bonds	**7,423**	**(2)7,423**	**351**	**102**	**7,672**

	Unaudited				
	September 30,2013				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value(1)
	In NIS millions				
(2) Available for sale securities					
Bonds and loans:					
Of the Israeli Government	21,612	21,239	375	2	21,612
Of foreign governments	973	984	4	15	973
Of Israeli financial institutions	637	618	19	-	637
Of foreign financial institutions	3,178	3,301	31	154	3,178
Mortgage-backed-securities or Assets - backed-securities	8,828	8,933	50	155	8,828
Of others in Israel	685	650	35	-	685
Of others abroad(7)	60	69	-	9	60
Total bonds	35,973	35,794	514	335	(2)35,973
Shares	866	855	11	-	(4)866
Total available-for-sale securities	**36,839**	**36,649**	**(3)525**	**(3)335**	**36,839**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Unaudited				
	September 30,2013				
	Book value	Amortized cost (in shares - cost)	Unrealized gains from adjustment to fair value	Unrealized losses from adjustment to fair value	Fair value[(1)]
	In NIS millions				
(3) Trading Securities					
Bonds and loans:					
Of the Israeli Government	2,736	2,731	6	1	2,736
Of foreign governments	4	4	-	-	4
Of Israeli financial institutions	10	10	-	-	10
Of foreign financial institutions	11	11	-	-	11
Mortgage-backed-securities or Assets - backed-securities	43	44	-	1	43
Of others in Israel	48	47	1	-	48
Of others abroad	8	9	-	1	8
Total bonds	2,860	2,856	7	3	2,860
Shares	2	4	-	2	2
Total trading securities	**2,862**	**2,860**	**(5)7**	**(5)5**	**2,862**
Total securities	**47,124**	**46,932**	**883**	**442**	**47,373**

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) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 1,029 million (approx. US$ 291 million) and from the available for sale protfolio with a market value of NIS 4,015 million (approx. US$ 1,135 million).

(3) Included in "Accumulated other comprehensive income".

(4) Including shares, the fair value of which is not readily available, stated at cost of NIS 776 million.

(5) Recorded in the statement of income.

(6) Including U.S. Government agencies and municipal bonds and bonds of states in the U.S.A, in amount of NIS 2,129 million (book value).

(7) Including U.S. Government agencies, in amount of NIS 54 million (book value).

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Audited				
	December 31, 2013				
	Book value	Amortized cost	Unrecognized gains from adjustment to fair value	Unrecognized losses from adjustment to fair value	Fair value[1]
	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 Assets - backed-securities	1,298	1,298	20	41	1,277
Of others abroad[6]	1,988	1,988	61	71	1,978
Total held-to-maturity bonds	**7,174**	**[2]7,174**	**365**	**115**	**7,424**

	Audited				
	December 31, 2013				
			Accumulated other comprehensive income		
	Book value	Amortized cost (in shares - cost)	Profits	Losses	Fair value[1]
	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 Assets - backed-securities	6,724	6,900	24	200	6,724
Of others in Israel	693	659	34	-	693
Of others abroad[7]	52	61	-	9	52
Total bonds	31,108	30,940	544	376	[2]31,108
Shares	852	838	15	1	[4]852
Total available-for-sale securities	**31,960**	**31,778**	**[3]559**	**[3]377**	**31,960**

For footnotes see next page.

2. SECURITIES - CONSOLIDATED (CONTINUED)

A. Composition (Continued)

	Audited				
	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(1)
	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 Assets - backed-securities(7)	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**	(5)**4**	(5)**8**	**2,191**
Total securities(8)	**41,325**	**41,147**	**928**	**500**	**41,575**

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) Including securities sold by overseas consolidated subsidiary under buy-back terms from held to maturity protfolio at a reduced cost of NIS 837 million (approx. US$ 241 million) and from the available for sale protfolio with a market value of NIS 3,475 million (approx. US$ 1,001 million).

(3) Included in "Accumulated other comprehensive income".

(4) Including shares, the fair value of which is not readily available, stated at cost of NIS 751 million.

(5) Recorded in the statement of income.

(6) 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).

(7) Including U.S. Government agencies, in an amount of NIS 52 million (book value).

(8) Excluding balances classified as assets and liabilities held for sale - see Note 18.

2. SECURITIES - CONSOLIDATED (CONTINUED)

B. 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

	Unaudited							
	September 30, 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	-	-	-	-	33	1	-	1
Mortgage-backed-securities and Assets - backed-securities◌	130	2	-	2	781	23	-	23
Of others abroad	16	*-	-	-	509	10	-	10
Total held-to-maturity bonds	**146**	**2**	**-**	**2**	**1,323**	**34**	**-**	**34**

	Unaudited							
	September 30, 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	-	-	-	-	32	3	-	3
Mortgage-backed-securities and Assets - backed-securities◌	869	27	-	27	83	2	-	2
Of others abroad	802	70	-	70	12	*-	-	-
Total held-to-maturity bonds	**1,671**	**97**	**-**	**97**	**127**	**5**	**-**	**5**

	Audited							
	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 and Assets - backed-securities◌	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**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

C. 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

	Unaudited							
	September 30, 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	503	1	-	1	-	-	-	-
Of foreign governments	103	*-	-	-	177	8	-	8
Of foreign financial institutions	288	2	-	2	233	4	-	4
Mortgage-backed-securities and Assets - backed-securities	1,577	8	-	8	3,239	112	-	112
Of others in Israel	108	1	-	1	-	-	-	-
Of others abroad	-	-	-	-	64	1	-	1
Total bonds	2,579	12	-	12	3,713	125	-	125
Shares	1,031	5	-	5	16	*-	-	-
Total available-for-sale securities	**3,610**	**17**	**-**	**17**	**3,729**	**125**	**-**	**125**

	Unaudited							
	September 30, 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	88	2	-	2	-	-	-	-
Of foreign governments	454	15	-	15	-	-	-	-
Of foreign financial institutions	501	5	2	7	903	120	27	147
Mortgage-backed-securities and Assets - backed-securities	3,956	114	-	114	1,373	41	-	41
Of others in Israel	27	*-	-	-	7	*-	-	-
Of others abroad	54	9	-	9	-	-	-	-
Total bonds	5,080	145	2	147	2,283	161	27	188
Shares	16	*-	-	-	-	-	-	-
Total available-for-sale securities	**5,096**	**145**	**2**	**147**	**2,283**	**161**	**27**	**188**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

C. 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 (Continued)

	Audited							
	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 and Assets - backed-securities	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.

D. The securities portfolio, as of September 30, 2014, includes investments in asset backed securities, primarily investment in mortgage - backed securities (MBS), which are held mainly by a consolidated subsidiary abroad. Details regarding the terms "Mortgage-backed Securities - MBS", "Mortgage Pass - Through" and "Collateralized Mortgage Obligation - CMO" were brought in Note 3 to the financial statements as of December 31, 2013.

E. Most of the unrealized losses at September 30, 2014 are attributed to certain factors, including changes in market interest rate subsequent to 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's 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 debt securities, might not be until maturity), the Bank and the relevant consolidated subsidiaries do not view the impairment in value of these investments to be other than temporarily impaired at September 30, 2014.

F. The securities portfolio of the Discount Group as at September 30, 2014, includes a direct investment in bonds of the Federal Home Loan Bank (FHLB), Fannie Mae and Freddie Mac (hereinafter: "the Federal Agencies"), which are being held by IDB New York, in an amount of US$25 million (NIS 93 million) similar to December 31, 2013 (NIS 87 million).

G. **Fair value presentation.** The balances of securities as of September 30, 2014, September 30, 2013 and December 31, 2013, include securities amounting to NIS 31,742 million, NIS 38,925 million and NIS 33,400 million, respectively, that are presented at fair value.

2. SECURITIES - CONSOLIDATED (CONTINUED)

H. Additional details (consolidated) regarding mortgage and asset backed securities

	Unaudited			
	September 30,2014			
	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	1,475	6	3	1,478
Securities issued by FHLMC and FNMA	1,912	15	29	1,898
Total mortgage-backed pass-through securities	**3,387**	**21**	**32**	**3,376**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	3,740	9	87	3,662
Other mortgage-backed securities	20	-	1	19
Total available-for-sale other mortgage-backed securities	**3,760**	**9**	**88**	**3,681**
Total available-for-sale MBS securities	**7,147**	**30**	**120**	**7,057**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	46	3	-	49
Securities issued by FHLMC and FNMA	35	3	-	38
Total mortgage-backed pass-through securities	**81**	**6**	**-**	**87**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,090	4	25	1,069
Other mortgage-backed securities	38	8	-	46
Total held-to-maturity other mortgage-backed securities	**1,128**	**12**	**25**	**1,115**
Total held-to-maturity MBS securities	**1,209**	**18**	**25**	**1,202**
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	45	-	*-	45
Total mortgage-backed trading securities (MBS)	**46**	**-**	**-**	**46**
Total mortgage-backed securities (MBS)	**8,402**	**48**	**145**	**8,305**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	369	1	*-	370
Total asset-backed available-for-sale securities (ABS)	**369**	**1**	***-**	**370**
Total mortgage and asset-backed securities	**8,771**	**49**	**145**	**8,675**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available for sale securities-accumulated other comperhensive income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

H. Additional details (consolidated) regarding mortgage and asset backed securities (continued)

	Unaudited			
	September 30,2013			
	Amortized cost	Unrecognized gains from adjustment to fair value(1)	Unrecognized 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	140	2	2	140
Securities issued by FHLMC and FNMA	2,580	33	43	2,570
Total mortgage-backed pass-through securities	**2,720**	**35**	**45**	**2,710**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	5,132	12	110	5,034
Other mortgage-backed securities	20	-	*-	20
Total available-for-sale other mortgage-backed securities	**5,152**	**12**	**110**	**5,054**
Total available-for-sale MBS securities	**7,872**	**47**	**155**	**7,764**
Held-to-maturity securities				
A. Mortgage pass-through securities:				
Securities guaranteed by GNMA	57	3	-	60
Securities issued by FHLMC and FNMA	46	2	-	48
Total mortgage-backed pass-through securities	**103**	**5**	**-**	**108**
B. Other mortgage-backed securities (including CMO, REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1,241	11	29	1,223
Other mortgage-backed securities	45	9	-	54
Total held-to-maturity other mortgage-backed securities	**1,286**	**20**	**29**	**1,277**
Total held-to-maturity MBS securities	**1,389**	**25**	**29**	**1,385**
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	43	-	1	42
Total mortgage-backed trading securities (MBS)	**44**	**-**	**1**	**43**
Total mortgage-backed securities (MBS)	**9,305**	**72**	**185**	**9,192**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	1,061	3	*-	1,064
Total asset-backed available-for-sale securities (ABS)	**1,061**	**3**	***-**	**1,064**
Total mortgage and asset-backed securities	**10,366**	**75**	**185**	**10,256**

*Loss amount lower then NIS 1 million.

Footnote:

(1) For available for sale securities-accumulated other comperhensive income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

H. Additional details (consolidated) regarding mortgage and asset backed securities (continued)

	Audited			
	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 comperhensive income.

2. SECURITIES - CONSOLIDATED (CONTINUED)

I. Additional details (consolidated) regarding mortgage and asset backed securities

Additional details regarding mortgage and asset backed securities in unrealized loss position:

	Unaudited			
	September 30,2014			
	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	709	3	53	*-
Securities issued by FHLMC and FNMA	190	1	809	28
Total mortgage-backed pass-through securities	**899**	**4**	**862**	**28**
B. Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	567	4	2,358	83
Other MBS securities	-	-	19	1
Total other mortgage-backed securities	**567**	**4**	**2,377**	**84**
Total available-for-sale MBS securities	**1,466**	**8**	**3,239**	**112**
Held-to-maturity securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	127	2	758	23
Total other mortgage-backed securities	**127**	**2**	**758**	**23**
Total held-to-maturity MBS securities	**127**	**2**	**758**	**23**
Trading securities				
Other mortgage-backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	1	*-	24	*-
Total mortgage-backed trading securities (MBS)	**1**	***-**	**24**	***-**
Total mortgage-backed securities (MBS)	**1,594**	**10**	**4,021**	**135**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	111	*-	-	-
Total asset-backed available-for-sale securities (ABS)	**111**	***-**	**-**	**-**
Total mortgage and asset-backed securities	**1,705**	**10**	**4,021**	**135**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

I. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued):

	Unaudited			
	September 30,2013			
	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	102	2	-	-
Securities issued by FHLMC and FNMA	1,055	43	-	-
Total mortgage backed pass through securities	**1,157**	**45**	**-**	**-**
B.Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	2,610	69	1,373	41
Other MBS securities	20	*-	-	-
Total other mortgage backed securities	**2,630**	**69**	**1,373**	**41**
Total available-for-sale MBS securities	**3,787**	**114**	**1,373**	**41**
Held-to-maturity securities				
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	843	27	81	2
Total other mortgage backed securities	**843**	**27**	**81**	**2**
Total held-to-maturity MBS securities	**843**	**27**	**81**	**2**
Trading securities				
Other mortgage backed securities (including CMO,REMIC and STRIPPED MBS):				
Securities issued or guaranteed by FHLMC, FNMA and GNMA	26	1	3	*-
Total mortgage-backed trading securities (MBS)	**26**	**1**	**3**	***-**
Total mortgage-backed securities (MBS)	**4,656**	**142**	**1,457**	**43**
2. Asset-backed available-for-sale securities (ABS)				
Collaterized bonds CLO	169	*-	-	-
Total asset backed available-for-sale securities (ABS)	**169**	***-**	**-**	**-**
Total mortgage and asset backed securities	**4,825**	**142**	**1,457**	**43**

*Loss amount lower then NIS 1 million.

2. SECURITIES - CONSOLIDATED (CONTINUED)

I. Additional details (Consolidated) regarding mortgage and asset backed securities (continued)

Additional details regarding mortgage and asset backed securities in unrealized loss position (continued):

	Audited			
	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.

J. Information regarding impaired bonds - consolidated

	Unaudited		Audited
	September 30, 2014	September 30, 2013	December 31, 2013
	In NIS millions		
Recorded amount of non accruing interest income impaired bonds	186	41	21

Footnote:
The increase in the balance of such impaired bonds stems from IDB New York's decision to sell bonds of the TRUPS type, as part of its preparations for the implementation of the Basel III instructions in the United States as of January 1, 2015.

3. 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

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	Three months ended September 30, 2014					
Balance of allowance for credit losses, as at June 30, 2014 (1)	1,699	254	338	2,291	4	2,295
Credit loss expenses	9	5	25	39	1	40
Accounting write-offs	(64)	(4)	(60)	(128)	-	(128)
Collection of debts written-off in previous years	80	-	46	126	-	126
Net accounting write-offs	16	(4)	(14)	(2)	-	(2)
Financial statements translation adjustments	16	-	-	16	-	16
Balance of allowance for credit losses, as at September 30, 2014(1)	**1,740**	**255**	**349**	**2,344**	**5**	**2,349**
Of which: In respect of off-balance sheet credit instruments	136	1	33	170	-	170
	Three months ended September 30, 2013					
Balance of allowance for credit losses, as at June 30, 2013	1,618	266	372	2,256	4	2,260
Expenses (expenses reversal) for credit loss	158	(1)	14	171	-	171
Accounting write-offs	(113)	(1)	(71)	(185)	-	(185)
Collection of debts written-off in previous years	72	-	52	124	-	124
Net accounting write-offs	(41)	(1)	(19)	(61)	-	(61)
Financial statements translation adjustments	(5)	-	-	(5)	-	(5)
Balance of allowance for credit losses, as at September 30, 2013	**1,730**	**264**	**367**	**2,361**	**4**	**2,365**
Of which: In respect of off-balance sheet credit instruments	140	1	34	175	-	175

Footnote:

(1) Excludind balance classified as assets and liabilities held for sale - see Note 18.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

A. Debts and off-balance sheet credit instruments (continued)

1. Change in the balance of the allowance for credit losses – Consolidated (continued)

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	Nine months ended September 30, 2014					
Balance of allowance for credit losses, as at December 31, 2013(1) (audited)	1,709	255	354	2,318	3	2,321
Credit loss expenses	30	6	42	78	2	80
Accounting write-offs	(400)	(6)	(195)	(601)	-	(601)
Collection of debts written-off in previous years	387	-	148	535	-	535
Net accounting write-offs	(13)	(6)	(47)	(66)	-	(66)
Financial statements translation adjustments	14	-	-	14	-	14
Balance of allowance for credit losses, as at September 30, 2014(1)	**1,740**	**255**	**349**	**2,344**	**5**	**2,349**
Of which: In respect of off-balance sheet credit instruments	136	1	33	170	-	170
	Nine months ended September 30, 2013					
Balance of allowance for credit losses, as at December 31, 2012 (audited)	1,636	225	395	2,256	5	2,261
Expenses (expenses reversal) for credit loss	400	40	18	458	(1)	457
Accounting write-offs	(497)	(1)	(206)	(704)	-	(704)
Collection of debts written-off in previous years	205	-	160	365	-	365
Net accounting write-offs	(292)	(1)	(46)	(339)	-	(339)
Financial statements translation adjustments	(14)	-	-	(14)	-	(14)
Balance of allowance for credit losses, as at September 30, 2013	**1,730**	**264**	**367**	**2,361**	**4**	**2,365**
Of which: In respect of off-balance sheet credit instruments	140	1	34	175	-	175

Footnote:

(1) Excludind balance classified as assets and liabilities held for sale - see Note 18.

3. 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

	Unaudited					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
	September 30, 2014					
Recorded amount of debts:						
Examined on a specific basis	60,269	-	4,561	64,830	5,692	70,522
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	371	20,278	-	20,649	-	20,649
Group - other	18,994	11	16,664	35,669	1,763	37,432
Total debts	**79,634**	**20,289**	**21,225**	**121,148**	**7,455**	**128,603**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	1,346	-	62	1,408	1	1,409
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	2	(1)254	-	256	-	256
Group - other	256	-	254	510	4	514
Total allowance for Credit Losses	**1,604**	**254**	**316**	**2,174**	**5**	**2,179**
	September 30, 2013					
Recorded amount of debts:						
Examined on a specific basis	(2)61,950	60	(2)4,522	(2)66,532	5,753	(2)72,285
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	291	19,886	-	20,177	-	20,177
Group - other	(2)16,839	56	(2)15,080	(2)31,975	2,843	(2)34,818
Total debts	**79,080**	**20,002**	**19,602**	**118,684**	**8,596**	**127,280**
Allowance for Credit Losses in respect of debts:						
Examined on a specific basis	(2)1,369	1	(2)91	(2)1,461	1	(2)1,462
Examined on a group basis:						
The allowance in respect thereof is computed by the extent of arrears	1	(1)253	-	254	-	254
Group - other	(2)220	9	(2)242	(2)471	3	(2)474
Total allowance for Credit Losses	**1,590**	**263**	**333**	**2,186**	**4**	**2,190**

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 21 million (September 30, 2013 – NIS 20 million), computed on a group basis in an amount of NIS 73 million (September 30, 2013 – NIS 69 million).

(2) Reclassified – improvement of the classification to examine routs.

3. 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 (continued)

	Audited					
	December 31,2013					
	Credit to the public					
	Commercial	Private Individuals - Housing Loans	Private Individuals - Other Loans	Total	Banks and Governments	Total
	In NIS millions					
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**	**126,832**
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 17 million, computed on a group basis in an amount of NIS 70 million.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts

1. Credit quality and arrears – consolidated

	Unaudited					
	September 30, 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	5,511	87	240	5,838	6	8
Construction and Real Estate - Real Estate Activity	8,667	72	511	9,250	2	9
Financial Services	6,444	138	183	6,765	1	-
Commercial - Other	34,218	1,198	1,349	36,765	33	34
Total Commercial	**54,840**	**1,495**	**2,283**	**58,618**	**42**	**51**
Private Individuals - Housing Loans	19,756	(5)467	-	20,223	434	79
Private Individuals - Other Loans	19,594	227	85	19,906	45	59
Total Public - Lending Activity in Israel	**94,190**	**2,189**	**2,368**	**98,747**	**521**	**189**
Banks in Israel	501	-	-	501	-	-
Government of Israel	1,468	-	-	1,468	-	-
Total Lending Activity in Israel	**96,159**	**2,189**	**2,368**	**100,716**	**521**	**189**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,586	156	648	6,390	-	-
Commercial - Other	14,355	118	153	14,626	-	1
Total Commercial	**19,941**	**274**	**801**	**21,016**	**-**	**1**
Private Individuals	1,381	4	-	1,385	4	3
Total Public - Lending Activity Outside of Israel	**21,322**	**278**	**801**	**22,401**	**4**	**4**
Foreign banks	5,459	-	-	5,459	-	-
Foreign governments	27	-	-	27	-	-
Total Lending Activity Outside of Israel	**26,808**	**278**	**801**	**27,887**	**4**	**4**
Total public	**115,512**	**2,467**	**3,169**	**121,148**	**525**	**193**
Total banks	**5,960**	**-**	**-**	**5,960**	**-**	**-**
Total governments	**1,495**	**-**	**-**	**1,495**	**-**	**-**
Total	**122,967**	**2,467**	**3,169**	**128,603**	**525**	**193**

For footnotes see p. 180.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Unaudited					
	September 30, 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	5,353	84	352	5,789	6	10
Construction and Real Estate - Real Estate Activity	7,531	109	572	8,212	1	7
Financial Services	5,615	146	179	5,940	1	1
Commercial - Other	34,629	1,899	1,293	37,821	27	65
Total Commercial	**53,128**	**2,238**	**2,396**	**57,762**	**35**	**83**
Private Individuals - Housing Loans	19,427	[5]521	-	19,948	486	102
Private Individuals - Other Loans	17,900	252	98	18,250	44	68
Total Public - Lending Activity in Israel	**90,455**	**3,011**	**2,494**	**95,960**	**565**	**253**
Banks in Israel	1,284	-	-	1,284	-	-
Government of Israel	1,797	-	-	1,797	-	-
Total Lending Activity in Israel	**93,536**	**3,011**	**2,494**	**99,041**	**565**	**253**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	5,673	178	1,301	7,152	-	4
Commercial - Other	13,288	173	705	14,166	-	-
Total Commercial	**18,961**	**351**	**2,006**	**21,318**	**-**	**4**
Private Individuals	1,384	8	14	1,406	1	5
Total Public - Lending Activity Outside of Israel	**20,345**	**359**	**2,020**	**22,724**	**1**	**9**
Foreign banks	5,456	-	-	5,456	-	-
Foreign governments	59	-	-	59	-	-
Total Lending Activity Outside of Israel	**25,860**	**359**	**2,020**	**28,239**	**1**	**9**
Total public	**110,800**	**3,370**	**4,514**	**118,684**	**566**	**262**
Total banks	**6,740**	**-**	**-**	**6,740**	**-**	**-**
Total governments	**1,856**	**-**	**-**	**1,856**	**-**	**-**
Total	**119,396**	**3,370**	**4,514**	**127,280**	**566**	**262**

For footnotes see next page.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

B. Debts (continued)

1. Credit quality and arrears – consolidated (continued)

	Audited					
	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 3.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 amoumt of NIS 94 millions (September 30, 2013 - NIS 129 million, December 31, 2013 - NIS 93 million) are classified as unimpaired problematic debts.

(5) Including housing loans in amoumt of NIS 10 million (September 30, 2013 - NIS 7 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.

3. 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

	Unaudited				
	September 30, 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	163	80	77	240	3,463
Construction and Real Estate - Real Estate Activity	143	14	368	511	1,798
Financial Services	146	36	37	183	530
Commercial - Other	708	221	641	1,349	5,053
Total Commercial	**1,160**	**351**	**1,123**	**2,283**	**10,844**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	37	11	48	85	446
Total Public - Lending Activity in Israel	**1,197**	**362**	**1,171**	**2,368**	**11,290**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,197**	**362**	**1,171**	**2,368**	**11,290**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	532	105	116	648	1,134
Commercial - Other	63	25	90	153	303
Total Commercial	**595**	**130**	**206**	**801**	**1,437**
Private Individuals	-	-	-	-	-
Total Public - Lending Activity Outside of Israel	**595**	**130**	**206**	**801**	**1,437**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**595**	**130**	**206**	**801**	**1,437**
Total public	**1,792**	**492**	**1,377**	**3,169**	**12,727**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**1,792**	**492**	**1,377**	**3,169**	**12,727**
Of which:					
Measured according to present value of cash flows	799	243	561	1,360	
Debts under troubled debt restructurings	922	263	685	1,607	

For footnotes see p. 183.

3. 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)

	Unaudited				
	September 30, 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	66	27	286	352	3,999
Construction and Real Estate - Real Estate Activity	203	27	369	572	1,963
Financial Services	155	65	24	179	524
Commercial - Other	473	119	820	1,293	6,316
Total Commercial	**897**	**238**	**1,499**	**2,396**	**12,802**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	51	14	47	98	472
Total Public - Lending Activity in Israel	**948**	**252**	**1,546**	**2,494**	**13,274**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**948**	**252**	**1,546**	**2,494**	**13,274**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	960	50	341	1,301	1,920
Commercial - Other	574	149	131	705	1,060
Total Commercial	**1,534**	**199**	**472**	**2,006**	**2,980**
Private Individuals	14	11	-	14	18
Total Public - Lending Activity Outside of Israel	**1,548**	**210**	**472**	**2,020**	**2,998**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**1,548**	**210**	**472**	**2,020**	**2,998**
Total public	**2,496**	**462**	**2,018**	**4,514**	**16,272**
Total banks	**-**	**-**	**-**	**-**	**-**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,496**	**462**	**2,018**	**4,514**	**16,272**
Of which:					
Measured according to present value of cash flows	1,102	321	955	2,057	
Debts under troubled debt restructurings	982	119	1,078	2,060	

For footnotes see next page.

3. 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)

	Audited				
	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.

3. 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

	Unaudited					
	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	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	239	1	1	288	3	2
Construction and Real Estate - Real Estate Activity	533	7	6	586	15	13
Financial Services	200	-	-	231	1	-
Commercial - Other	1,392	11	9	1,523	27	21
Total Commercial	**2,364**	**19**	**16**	**2,628**	**46**	**36**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	90	1	1	97	4	2
Total Public - Lending Activity in Israel	**2,454**	**20**	**17**	**2,725**	**50**	**38**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**2,454**	**20**	**17**	**2,725**	**50**	**38**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	677	1	-	606	4	1
Commercial - Other	176	1	1	252	4	3
Total Commercial	**853**	**2**	**1**	**858**	**8**	**4**
Private Individuals	1	-	-	4	-	-
Total Public - Lending Activity Outside of Israel	**854**	**2**	**1**	**862**	**8**	**4**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**854**	**2**	**1**	**862**	**8**	**4**
Total	**3,308**	**(3)22**	**18**	**3,587**	**(3)58**	**42**

For footnotes see next page

3. 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 (continued)

	Unaudited					
	Three months ended September 30, 2013			Nine months ended September 30, 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	378	4	3	561	7	5
Construction and Real Estate - Real Estate Activity	555	5	3	572	6	3
Financial Services	182	-	-	207	-	-
Commercial - Other	1,354	8	6	1,450	23	13
Total Commercial	**2,469**	**17**	**12**	**2,790**	**36**	**21**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	107	3	2	134	9	5
Total Public - Lending Activity in Israel	**2,576**	**20**	**14**	**2,924**	**45**	**26**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**2,576**	**20**	**14**	**2,924**	**45**	**26**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	1,312	6	6	1,355	7	6
Commercial - Other	742	5	4	768	6	4
Total Commercial	**2,054**	**11**	**10**	**2,123**	**13**	**10**
Private Individuals	-	-	-	15	-	-
Total Public - Lending Activity Outside of Israel	**2,054**	**11**	**10**	**2,138**	**13**	**10**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**2,054**	**11**	**10**	**2,138**	**13**	**10**
Total	**4,630**	(3)**31**	**24**	**5,062**	(3)**58**	**36**

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) Total interest income that would have been recognized had such credit accrued interest according to its original terms is in amoumt of NIS 45 millions and NIS128 millions for the three and nine months ended September 30, 2014 (NIS 48 millions and NIS 162 millions for the three and nine months ended September 30, 2013), respectively.

3. 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

	Unaudited				
	September 30, 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	142	-	-	16	158
Construction and Real Estate - Real Estate Activity	295	-	-	19	314
Financial Services	39	-	-	20	59
Commercial - Other	529	3	1	112	645
Total Commercial	**1,005**	**3**	**1**	**167**	**1,176**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	29	-	-	35	64
Total Public - Lending Activity in Israel	**1,034**	**3**	**1**	**202**	**1,240**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**1,034**	**3**	**1**	**202**	**1,240**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	292	-	12	34	338
Commercial - Other	8	20	-	1	29
Total Commercial	**300**	**20**	**12**	**35**	**367**
Private Individuals	-	-	-	-	-
Total Public - Lending Activity Outside of Israel	**300**	**20**	**12**	**35**	**367**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**300**	**20**	**12**	**35**	**367**
Total	**1,334**	**23**	**13**	**237**	**1,607**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

3. 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)

	Unaudited				
	September 30, 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	155	-	2	40	197
Construction and Real Estate - Real Estate Activity	269	-	-	64	333
Financial Services	19	-	-	32	51
Commercial - Other	479	-	7	204	690
Total Commercial	**922**	**-**	**9**	**340**	**1,271**
Private Individuals - Housing Loans	-	-	-	-	-
Private Individuals - Other Loans	30	-	1	45	76
Total Public - Lending Activity in Israel	**952**	**-**	**10**	**385**	**1,347**
Banks in Israel	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total Lending Activity in Israel	**952**	**-**	**10**	**385**	**1,347**
Lending Activity Outside of Israel					
Public - Commercial					
Construction and Real Estate	634	21	22	11	688
Commercial - Other	7	-	-	12	19
Total Commercial	**641**	**21**	**22**	**23**	**707**
Private Individuals	6	-	-	-	6
Total Public - Lending Activity Outside of Israel	**647**	**21**	**22**	**23**	**713**
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total Lending Activity Outside of Israel	**647**	**21**	**22**	**23**	**713**
Total	**1,599**	**21**	**32**	**408**	**2,060**

Footnotes:
(1) Accruing interest income.
(2) Included in impaired debts.

3. 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)

	Audited				
	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.

3. 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)

	Unaudited					
	Three months ended September 30, 2014			Nine months ended September 30, 2014		
	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	14	1	1	70	7	4
Construction and Real Estate - Real Estate Activity	-	-	-	9	86	86
Financial Services	3	(1)-	(1)-	10	1	1
Commercial - Other	105	19	18	365	110	107
Total Commercial	**122**	**20**	**19**	**454**	**204**	**198**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	649	10	10	2,028	33	32
Total Public - Lending Activity in Israel	**771**	**30**	**29**	**2,482**	**237**	**230**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**771**	**30**	**29**	**2,482**	**237**	**230**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	-	-	-	2	293	293
Commercial - Other	2	7	7	4	8	8
Total Commercial	**2**	**7**	**7**	**6**	**301**	**301**
Private Individuals	1	-	-	1	-	-
Total Public - Lending Activity Outside of Israel	**3**	**7**	**7**	**7**	**301**	**301**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**3**	**7**	**7**	**7**	**301**	**301**
Total	**774**	**37**	**36**	**2,489**	**538**	**531**

Footnote:
(1) An amount lower than NIS 1 million.

3. 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)

	Unaudited					
	Three months ended September 30, 2013			Nine months ended September 30, 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	20	8	8	59	48	47
Construction and Real Estate - Real Estate Activity	4	1	1	4	1	1
Financial Services	2	11	11	3	14	14
Commercial - Other	119	15	14	361	140	136
Total Commercial	**145**	**35**	**34**	**427**	**203**	**198**
Private Individuals - Housing Loans	-	-	-	-	-	-
Private Individuals - Other Loans	719	11	11	2,717	39	37
Total Public - Lending Activity in Israel	**864**	**46**	**45**	**3,144**	**242**	**235**
Banks in Israel	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total Lending Activity in Israel	**864**	**46**	**45**	**3,144**	**242**	**235**
Lending Activity Outside of Israel						
Public - Commercial						
Construction and Real Estate	-	-	-	6	102	98
Commercial - Other	3	13	13	11	73	70
Total Commercial	**3**	**13**	**13**	**17**	**175**	**168**
Private Individuals	-	-	-	3	8	8
Total Public - Lending Activity Outside of Israel	**3**	**13**	**13**	**20**	**183**	**176**
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total Lending Activity Outside of Israel	**3**	**13**	**13**	**20**	**183**	**176**
Total	**867**	**59**	**58**	**3,164**	**425**	**411**

3. 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)

	Unaudited			
	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Failure of restructured debts[1]			
	Number of contracts	Recorded amount	Number of contracts	Recorded amount
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	3	[2]-	9	[2]-
Construction and Real Estate - Real Estate Activity	-	-	1	[2]-
Financial Services	1	[2]-	1	[2]-
Commercial - Other	29	5	82	8
Total Commercial	**33**	**5**	**93**	**8**
Private Individuals - Other	319	2	1,253	7
Total Public - Activity in Israel	**352**	**7**	**1,346**	**15**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total Activity in Israel	**352**	**7**	**1,346**	**15**
Lending Activity Outside of Israel				
Public - Commercial				
Construction and Real Estate	1	138	1	138
Commercial - Other	-	-	-	-
Total Commercial	**1**	**138**	**1**	**138**
Private Individuals	-	-	-	-
Total Public - Activity Outside of Israel	**1**	**138**	**1**	**138**
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total Activity Outside of Israel	**1**	**138**	**1**	**138**
Total	**353**	**145**	**1,347**	**153**

For footnotes see next page.

3. 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)

	Unaudited			
	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Failure of restructured debts[1]			
	Number of contracts[3]	Recorded amount[3]	Number of contracts	Recorded amount
	In NIS millions			
Lending Activity in Israel				
Public - Commercial				
Construction and Real Estate - Construction	5	[2]-	14	2
Construction and Real Estate - Real Estate Activity	1	[2]-	2	10
Financial Services	-	-	1	[2]-
Commercial - Other	53	2	114	11
Total Commercial	**59**	**2**	**131**	**23**
Private Individuals - Other	681	4	2,759	14
Total Public - Activity in Israel	**740**	**6**	**2,890**	**37**
Banks in Israel	-	-	-	-
Government of Israel	-	-	-	-
Total Activity in Israel	**740**	**6**	**2,890**	**37**
Lending Activity Outside of Israel				
Public - Commercial				
Commercial - Other	-	-	2	[2]-
Total Commercial	**-**	**-**	**2**	**[2]-**
Total Public - Activity Outside of Israel	**-**	**-**	**2**	**[2]-**
Foreign banks	-	-	-	-
Foreign governments	-	-	-	-
Total Activity Outside of Israel	**-**	**-**	**2**	**[2]-**
Total	**740**	**6**	**2,892**	**37**

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.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND PROVISION FOR CREDIT LOSSES - CONSOLIDATED (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

	September 30, 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	93.9%	97.7%	98.5%	95.4%	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	2.2%	2.3%	1.1%	2.0%	2.8%	2.4%	1.3%	2.5%
Ratio of the balance of impaired credit to the public to the balance of credit to the public	3.9%	-	0.4%	2.6%	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	2.0%	1.3%	1.5%	1.8%	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)	28.8%	54.0%	99.8%	34.2%	23.3%	53.3%	91.0%	28.4%

3. 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 period in arrears of debt 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 examined on a specific basis is classified as impaired when payments of principal or interest in respect thereof are in arrears of ninety days or over, except where the debt is well secured and is in the process of collection.

A principal indication for the quality of the Bank's credit portfolio is the ratio of performing debts to problematic debts. During the reported period, the rate of performing credit to the public increased, stemming mainly from the commercial sector. This increase was accompanied by a decline in impaired credit and in unimpaired problematic credit.

Balances for the period end, according to Loan-to-Value (LTV)[(1)] 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			
		Unaudited			
		September 30, 2014			
First degree pledge: financing ratio	Up to 60%	12,244	288	8,164	313
	Over 60%	7,767	77	5,337	40
Second degree pledge or without pledge		650	20	340	1,191
Total		**20,661**	**385**	**13,841**	**1,544**
		Unaudited			
		September 30, 2013			
First degree pledge: financing ratio	Up to 60%	11,433	241	7,689	256
	Over 60%	8,413	76	5,717	88
Second degree pledge or without pledge		544	(2)15	(2)318	942
Total		**20,390**	**332**	**13,724**	**1,286**
		Audited			
		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**

Footnotes:
(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.
(2) Reclassified due to improvement of the data.

3. CREDIT RISK, CREDIT TO THE PUBLIC AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

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:

	Unaudited									
	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									
	For the three months ended September 30, 2014					For the three months ended September 30, 2013				
Loans acquired	114	-	-	42	156	-	-	-	15	15
Loans sold	5	-	-	-	5	434	-	-	-	434
	For the nine months ended September 30, 2014					For the nine months ended September 30, 2013				
Loans acquired	296	-	-	80	376	-	-	-	146	146
Loans sold	5	-	-	-	5	547	-	-	-	547

For details regarding net profits (losses) on the sale of loans, see Note 11 below.

4. DEPOSITS FROM THE PUBLIC

A. Type of deposits according to location of raising the deposit and type of depositor

	Unaudited		Audited
	September 30		December 31
	2014	2013	2013
	In NIS millions		
In Israel			
Demand deposits:			
Non-interest bearing	19,692	(1)15,110	17,159
Interest bearing	19,075	17,343	16,470
Total demand deposits	**38,767**	**32,453**	**33,629**
Time deposits	82,704	(1)94,280	93,176
Total deposits in Israel*	**121,471**	**126,733**	**126,805**
* Of which:			
Private individuals deposits	75,447	72,725	75,231
Institutional bodies deposits	5,536	(2)9,847	(2)7,692
Corporations and others deposits	40,488	(2)44,161	(2)43,882
Outside Israel (3)			
Demand deposits:			
Non-interest bearing	4,697	3,984	4,139
Interest bearing	12,473	13,888	11,085
Total demand deposits	**17,170**	**17,872**	**15,224**
Time deposits	6,764	7,506	6,899
Total deposits outside Israel	**23,934**	**25,378**	**22,123**
Total deposits from the public	**145,405**	**152,111**	**148,928**

Notes:
(1) Reclassified, following an examination of the terms of certain deposits.
(2) 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.
(3) Not including balances classified as assets and liabilities held for sale, see Note 18.

4. DEPOSITS FROM THE PUBLIC (CONTINUED)

B. Deposits from the public according to size, on a consolidated basis

	Unaudited		Audited
	September 30		December 31
	2014	2013	2013
Deposit limit	Balance		
In NIS millions	In NIS millions		
Up to 1	54,207	54,945	55,174
Over 1 up to 10	34,607	35,065	35,186
Over 10 up to 100	16,904	16,657	16,603
Over 100 up to 500	12,795	10,888	(1)11,570
Over 500	26,892	34,556	(1)30,395
Total	**145,405**	**152,111**	**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.

5. CAPITAL ADEQUACY IN ACCORDANCE WITH DIRECTIVES OF THE SUPERVISOR OF BANKS

(a) Guideline in the matter of the minimum core capital ratios. On March 28, 2012, the Supervisor of Banks delivered to all banking corporations a guideline, according to which, all banking corporations will be required to attain a minimum core capital ratio of 9% as from January 1, 2015.

The core capital ratio is supposed to be computed in accordance with the instructions of Basel III and adjustments to be determined by the Supervisor of Banks.

(b) Adoption of the Basel III instructions as of January 1, 2014. 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". The data presented below (as of January 1, 2014 and March 31, 2014) reflects deductions, in accordance with the transitional instructions. 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. 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%.

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.

In addition, on August 29, 2013, the Supervisor of Banks published a circular in the matter of "Basel disclosure requirements regarding the composition of capital", which stated the updated disclosure requirements, which banks will be required to include, as part of the adoption of the Basel III instructions. Accordingly, as part of the Note on capital adequacy in interim financial statements in 2014, disclosure of comparative data for prior periods has been included prepared in accordance with the Basel II instructions, as adopted by the Supervisor of Banks, as well as a disclosure of the audited comparative data as of January 1, 2014, presented in accordance with the Basel III instructions.

(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.

5. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

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 September 30, 2014, the said requirement is expected to increase the minimum equity capital requirement by approx. 0.15%

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1. Capital for calculating ratio of capital

	Unaudited	Audited	Audited	Unaudited
	Basel III		Basel II	
	September 30, 2014	January 1, 2014	December 31, 2013	September 30, 2013
	in NIS millions			
Common equity tier 1 after deductions	13,247	12,364	12,266	12,272
Additional tier 1 capital after deductions	1,425	1,136	1,016	944
Tier 1 capital	14,672	13,500	13,282	13,216
Tier 2 capital	6,374	6,124	5,663	5,856
Total capital	**21,046**	**19,624**	**18,945**	**19,072**

2. Weighted risk assets balance

	Unaudited	Audited	Audited	Unaudited
	Basel III		Basel II	
	September 30, 2014	January 1, 2014	December 31, 2013	September 30, 2013
	in NIS millions			
Credit risk	125,459	122,592	117,138	117,711
Market Risk	2,820	2,588	2,588	2,210
CVA risk	1,383	1,144	--	--
Operational risk	12,279	12,217	12,217	12,335
Total weighted risk assets balance	**141,941**	**138,541**	**131,943**	**132,256**

5. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

3. Ratio of capital risk assets

	Unaudited	Audited	Audited	Unaudited
	Basel III		Basel II	
	September 30, 2014	January 1, 2014	December 31, 2013	September 30, 2013
	In %			
A. The Bank				
Ratio of common equity tier 1 to risk assets (2013: ratio of core capital)	9.3	8.9	9.3	9.3
Ratio of tier 1 capital to risk assets	10.3	9.7	10.1	10.0
Ratio of total capital to risk assets	14.8	14.2	14.4	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	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)	10.8	10.6	10.5	10.4
Ratio of tier 1 capital to risk assets	10.8	10.6	10.5	10.4
Ratio of total capital to risk assets	14.8	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	9.0
2. Discount Bakcorp Inc. (1)				
Ratio of common equity tier 1 to risk assets	--	--	--	--
Ratio of tier 1 capital to risk assets	12.5	-	12.9	13.7
Ratio of total capital to risk assets	13.5	-	13.9	14.8
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	(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	15.4
Ratio of total capital to risk assets	16.3	16.4	16.2	16.8
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	(3)9.0

Footnotes to the table, see after item 5.

5. CAPITAL ADEQUACY IN ACCORDANCE WITH INSTRUCTIONS OF THE SUPERVISOR OF BANKS (CONTINUED)

4. Capital components for the purpose of calculating the capital ratio

	Unaudited	Audited	Audited	Unaudited
	Basel III		Basel II	
	September 30, 2014	January 1, 2014	December 31, 2013	September 30, 2013
	in NIS millions			
A. Common equity tier 1				
Common equity	13,601	12,538	12,538	12,531
Difference between common equity and common equity tier 1	(32)	35	(90)	(77)
Total common equity tier 1 before supervisory adjustments and deductions	13,569	12,573	12,448	12,454
Supervisory adjustments and deductions				
Goodwill and other intangible assets	142	142	142	142
Deferred tax assets	78	32	–	–
Investment in capital of financial corporations that are not consolidated in reports to the public	100	35	34	33
Supervisory adjustments and other deductions	2	–	6	7
Total supervisory adjustments and deductions	**322**	**209**	**182**	**182**
Total common equity tier 1 after supervisory adjustments and deductions	**13,247**	**12,364**	**12,266**	**12,272**
B. Additional tier 1 capital				
Additional tier 1 capital before deductions	1,425	1,425	1,781	1,783
Deductions	-	289	765	839
Total additional tier 1 capital after deductions	**1,425**	**1,136**	**1,016**	**944**
C. Tier 2 capital				
Instruments before deductions	4,874	4,874	(5)6,208	(5)6,474
Provision before deductions	1,567	1,542	254	254
Total tier 2 capital before deductions	6,441	6,416	6,462	6,728
Deductions				
Total deductions	67	292	799	872
Total tier 2 capital	**6,374**	**6,124**	**5,663**	**5,856**

5. The effect of the transitional instructions on the ratio of common equity tier 1

	Unaudited	Audited
	September 30, 2014	January 1, 2014
	In %	
Ratio of common equity tier 1 to risk assets before imlementation of the effect of the provisional instructions in directive No.299.	8.9	7.8
Effect of the provisional instructions	0.4	1.1
Ratio of common equity tier 1 to risk assets after imlementation of the effect of the provisional instructions in directive No.299.	9.3	8.9

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.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED

	Unaudited						
	September 30, 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	16,698	124	4,111	576	1,640	-	23,149
Securities	17,266	5,062	14,259	885	111	1,894	39,477
Securities borrowed or purchased under resale agreements	953	-	-	-	-	-	953
Credit to the public, net	73,992	15,887	25,133	2,819	1,143	-	118,974
Credit to the Government	125	1,343	27	-	-	-	1,495
Investments in affiliated companies	2	2	-	-	-	137	141
Buildings and equipment	-	-	-	-	-	2,546	2,546
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,472	177	2,147	106	85	93	5,080
Other assets	1,584	51	975	17	457	143	3,227
Noncurrect assets held for sale	-	-	3,860	114	568	54	4,596
Total assets	**113,092**	**22,646**	**50,512**	**4,517**	**4,004**	**5,009**	**199,780**
Liabilities							
Deposits from the public	81,959	8,299	43,299	7,846	4,002	-	145,405
Deposits from banks	3,596	172	1,476	56	13	-	5,313
Deposits from the Government	188	105	676	-	-	-	969
Securities loaned or sold under repurchase agreements	-	-	3,785	-	-	-	3,785
Subordinated debt notes	2,620	8,219	-	-	-	-	10,839
Liabilities in respect of derivative instruments	2,723	335	1,774	246	51	89	5,218
Other liabilities	9,527	143	472	16	46	151	10,355
Liabilities held for sale	-	-	3,597	114	584	-	4,295
Total liabilities	**100,613**	**17,273**	**55,079**	**8,278**	**4,696**	**240**	**186,179**
Difference	12,479	5,373	(4,567)	(3,761)	(692)	4,769	13,601
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(9,854)	(1,932)	7,677	3,582	527	-	-
Options in the money, net (in terms of underlying asset)	(106)	-	35	26	45	-	-
Options out of the money, net (in terms of underlying asset)	(73)	-	59	22	(8)	-	-
Total	**2,446**	**3,441**	**3,204**	**(131)**	**(128)**	**4,769**	**13,601**
Options in the money, net (discounted par value)	(105)	-	56	(19)	68	-	-
Options out of the money, net (discounted par value)	(710)	-	728	(59)	41	-	-

Footnote:

(1) Includes those linked to foreign currency.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

	Unaudited						
	September 30, 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	15,584	241	4,804	450	1,679	-	22,758
Securities	23,531	5,228	16,711	407	379	868	47,124
Securities borrowed or purchased under resale agreements	312	-	-	-	-	-	312
Credit to the public, net	68,525	17,974	24,080	4,274	1,645	-	116,498
Credit to the Government	75	1,722	50	-	9	-	1,856
Investments in affiliated companies	1	2	-	-	-	1,819	1,822
Buildings and equipment	-	-	-	-	-	2,762	2,762
Intangible assets and goodwill	-	-	-	-	-	142	142
Assets in respect of derivative instruments	2,325	154	367	291	205	50	3,392
Other assets	1,580	86	985	2	530	166	3,349
Noncurrect assets held for sale	-	-	-	-	-	10	10
Total assets	**111,933**	**25,407**	**46,997**	**5,424**	**4,447**	**5,817**	**200,025**
Liabilities							
Deposits from the public	85,469	10,110	43,722	8,384	4,426	-	152,111
Deposits from banks	1,792	270	1,668	67	36	-	3,833
Deposits from the Government	227	106	686	-	-	-	1,019
Securities loaned or sold under repurchase agreements	-	-	4,227	-	-	-	4,227
Subordinated debt notes	2,990	9,099	-	-	-	-	12,089
Liabilities in respect of derivative instruments	2,802	523	344	410	253	49	4,381
Other liabilities	8,700	155	726	25	82	146	9,834
Total liabilities	**101,980**	**20,263**	**51,373**	**8,886**	**4,797**	**195**	**187,494**
Difference	9,953	5,144	(4,376)	(3,462)	(350)	5,622	12,531
Effect of non-hedging derivative instruments:							
Derivative instruments (except for options)	(7,993)	(2,894)	7,214	3,469	204	-	-
Options in the money, net (in terms of underlying asset)	129	-	(158)	(3)	32	-	-
Options out of the money, net (in terms of underlying asset)	111	-	(46)	(50)	(15)	-	-
Total	**2,200**	**2,250**	**2,634**	**(46)**	**(129)**	**5,622**	**12,531**
Options in the money, net (discounted par value)	169	-	(209)	2	38	-	-
Options out of the money, net (discounted par value)	67	-	162	(125)	(104)	-	-

Footnote:
(1) Includes those linked to foreign currency.

6. ASSETS AND LIABILITIES ACCORDING TO LINKAGE TERMS - CONSOLIDATED (CONTINUED)

	Audited						
	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 to the Government	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
Noncurrect 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS

A. Off balance Sheet Financial Instruments

	Unaudited		Unaudited		Audited	
	Balance[1]	Provision[2]	Balance [1]	Provision [2]	Balance [1]	Provision [2]
	September 30, 2014[4]		September 30, 2013		December 31, 2013[4]	
	in NIS millions					
Transactions in which the balance represents credit risk:						
Letters of credit	1,201	5	1,155	3	1,146	12
Credit guarantees	2,596	35	2,850	38	2,675	33
Guarantees for home purchasers	4,816	7	5,567	15	5,181	9
Other guarantees and obligations	4,523	29	4,232	36	4,295	42
Unutilized facilities for transactions in derivative instruments	1,398	-	1,319	-	1,356	-
Unutilized facilities credit line for credit cards	17,459	25	17,284	24	16,831	24
Unutilized current loan account facilities and other credit facilities in on-call accounts	8,093	22	7,513	19	7,647	19
Irrevocable commitments to extend credit approved but not yet granted[3]	17,008	42	14,352	35	15,353	40
Commitment to issue guarantees	3,527	5	2,648	5	2,782	5

(1) Contract balance or their stated amounts at period end before the effect of allowance for credit loss.

(2) Balance of allowance for credit losses at period 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 Conduct of Banking Business Directive No. 451 "Procedures for the granting of housing loans".

(4) Excluding balances classified as assets held for sale - see note 18.

B. Contingent liabilities and other special commitments

	Unaudited		Audited
	September 30		December 31
	2014	2013	2013
	in NIS millions		
1. Long-term lease contracts - rent payable in future years:			
First year	139	109	115
Second year	127	102	106
Third year	100	83	87
Fourth year	78	67	70
Fifth year	61	57	62
Sixth year and thereafter	311	291	312
Total	**816**	**709**	**752**
2. Commitment to acquire buildings and equipment	81	43	41
3. Commitment to invest in private investment funds and in venture capital funds	278	294	308

4. Various actions against the Bank and its consolidated subsidiaries:

   As detailed in Note 19 C 12 to the financial statements as at December 31, 2013, various actions are pending against the Bank and its consolidated subsidiaries, including class action suits and requests to approve actions as class action suits. 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 legal counsels, respectively, as the - case may be, adequate provisions have been included in the financial statements, where required.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

The total exposure with respect to claims filed against the Bank and its consolidated subsidiaries, whose prospects of materializing, in whole or in part, have been assessed as reasonably possible, amounted to approx. NIS 1,680 million.

A description of material legal proceedings being conducted against the Bank and Group companies was brought in Note 19 C sections 12 through 15 to the financial statements as at December 31, 2013. The criteria under which a legal proceeding will usually be defined by the Bank as material is brought in Note 1 D 17 to the financial statements as at December 31, 2013.

Following is a summary of significant updates regarding material legal actions against the Bank and its subsidiaries:

4.1 Note 19 C 12.3 to the financial statements as of December 31, 2013, described a lawsuit filed with the Tel Aviv District Court on September 1, 2004, in a sum of NIS 500 million brought by the liquidators of a company against forty defendants, one of which was the Bank.

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.

4.2 Note 19 C 12.4 to the financial statements as of December 31, 2013, described a lawsuit 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 4.3 below decided that the hearing in the procedure described in item 4.3 will be transferred to the Court that is deliberating the procedure described in this item.

The parties to the case are conducting negotiations for reaching a compromise in the matter.

4.3 Note 19 C 12.5 to the financial statements as of December 31, 2013, described lawsuit filed on November 23, 2006, 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 4.2 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 item 4.2 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 17, 2014, the Court ruled that the banks will respond to the motion within seven days.

4.4 Note 19 C 13.2 to the financial statements as of December 31, 2013 described an action filed against the Bank, Bank Leumi, Bank Hapoalim, Mizrahi-Tefahot Bank and the First International Bank ("FIBI") together with a motion to approve the action as a class action suit received by the Bank on May 12, 2009.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

The action is based on the statement of the Antitrust Commissioner (see item 6 below) according to which binding arrangements regarding the communication of information with respect to commissions had existed between the defendant banks.

The total damage for all the defendant banks is assessed for the purpose of the action at approximately NIS 1 billion, with no allocation between them.

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 item 4.5 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, submitted by the banks to the Antitrust Tribunal (see item 6 hereunder).

On June 15, 2014, a consent decree was granted at the request of the Antitrust Commissioner, see item 6 below. In light of the aforesaid and with the consent of the parties, the preliminary hearing has been postponed until December 8, 2014.

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. 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 6 hereunder.

4.5 Note 19 C 12.6 to the financial statements as of December 31, 2013, described a motion filed on June 30, 2008, 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 issues 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 claim an overall damage for all member of the group of NIS 3.5 billion. The Bank's share in the claimed amount is approx. NIS 770 million.

According to the decision of the District Court of October 7, 2009, the claim will be heard together with the claim described in Section 4.4 above.

The Court ordered a stay in the hearing of the motion for approval until a decision is given in the appeal against the Commissioner's ruling, submitted by the banks to the Antitrust Tribunal (see item 6 hereunder). On June 15, 2014, a consent decree was granted at the request of the Antitrust Commissioner, see item 6 below. With the consent of the parties and in view of the said in item 6 hereunder, the preliminary hearing has been postponed for December 8, 2014.

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. 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 6 hereunder.

4.6 Note 19 C 12.7 to the financial statements as of December 31, 2013, described a lawsuit filed with the Tel Aviv District Court on June 2, 2009, 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 seven years preceding the filing of the claim, 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

On May 1, 2012, the Court ruled for the dismissal of the claim and the motion. 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.

4.7 Note 19 C 12.8 to the financial statements as of December 31, 2013, described a lawsuit filed by two companies on October 29, 2009, 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.

4.8 Note 19 C 12.9 to the financial statements as of December 31, 2013, described a motion filed on July 13, 2011, 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 argue 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 Claimants argue that charging the commission by the banks is forbidden. The damage claimed in respect of the group as a whole is 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.

4.9 Note 19 C 12.13 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for approval of the suit as a class action suit, 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. According to the Claimants, the banks attribute a different value date to such payments, which is later than the date on which these amounts are received 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

4.10 Note 19 C 12.15 to the financial statements as of December 31, 2013, described two claims submitted by the Liquidator of a construction group in February and March 2013, which were filed with the Jerusalem District Court against the Bank and other parties. One claim, on behalf of one company in the group, is for an amount of NIS 75 million against all Respondents. The other claim, on behalf of another company in the group, is for an amount of NIS 45 million against all Respondents.

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 December 24, 2014.

4.11 Note 19 C 13.3 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for approval of the suit as a class action suit that were 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).

4.12 Note 19 C 13.4 to the financial statements as of December 31, 2013, described a lawsuit that 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.

The Bank`s response was submitted on May 5, 2014. The hearing of the Claimants in this case was fixed for January 22, 2015.

4.13 Note 19 C 13.6 to the financial statements as of December 31, 2013, described 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, that 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 counter 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

On May 4, 2014, the Court decided that this motion will be heard together with the motion described in item 5.4 below. The Banks will submit their responses until November 27, 2014. A preliminary hearing has been set for January 21, 2015.

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 5.7 below. The Banks' response to the motion for consolidation of the hearings will be filed until December 10, 2014.

4.14 Note 19 C 13.5 to the financial statements as of December 31, 2013, described a lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit that 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.

4.15 Note 19 C 13.7 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for approval of the suit as a class action suit received at ICC on October 13, 2013, and that were filed 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.

The Court instructed the Attorney General to the Government to submit his position in the matter of the withdrawal arrangement until December 2, 2014.

4.16 Note 19 C 13.8 to the financial statements as of December 31, 2013, described a lawsuit together with a motion for its approval as a class action suit which were filed 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 case was deferred for submission of conclusion briefs, and will be heard by the Judge on November 26, 2014.

5. Class action suits and requests to approve certain actions as class action suits as well as other actions are pending against the Bank and its consolidated subsidiaries, which, in the opinion of the Bank's Management, based on legal opinions and/or on the opinion of managements of its consolidated subsidiaries, which are based on the opinions of their legal counsels, respectively, as the case may be, it is not possible at this stage to evaluate their prospects of success, and therefore no provision have been included in respect therewith.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

5.1 Note 19 C 13.1 to the financial statements as of December 31, 2013, described a petition for approval of an action as a class action suit filed with the Tel Aviv District Court On June 19, 2000 by two borrowers of DMB against DMB and against the Israel Phoenix Insurance Co. Ltd., where the properties of the borrowers are insured. The action is for the amount of NIS 105 million (on June 28, 2012, Discount Mortgage Bank was merged with and into the Bank). The borrowers claim, inter alia, that DMB has insured their properties for amounts which exceed their reinstatement value, 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 whereas the arguments in this case are similar to those argued in another class action suit, as described in item 12.1 to Note 19 C to the financial statements as of December 31, 2013, the hearing of the said case will be postponed until a decision is given in the other case. On December 5, 2011, the Court that hears the other motion, gave the compromise agreement the validity of a Court verdict between the parties.

5.2 Note 19 C 13.9 to the financial statements as of December 31, 2013, described a lawsuit against Mercantile Discount Bank together with a motion for its approval as a class action suit which were 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.

5.3 Note 19 C 13.10 to the financial statements as of December 31, 2013, described a lawsuit, together with a motion for approval of the lawsuit as a class action suit which were 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. ICC submitted its response to the motion on November 10, 2014.

A preliminary hearing was fixed for February 18, 2015.

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.

5.4 Note 19 C 13.11 to the financial statements as of December 31, 2013, described a lawsuit against DMB and other banks, as well as a motion for the approval of the lawsuit as a class action suit, which were filed on March 2, 2014, with the Tel Aviv Jaffa 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 2.07 billion.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

In accordance with the ruling of the Tel Aviv District Court, this motion will be heard together with the motion described in item 4.13 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 5.7 hereunder. All the respondent banks have submitted a motion for an extension until November 15, 2014, of the date for submission of the response to the motion for consolidation.

5.5 Note 19 C 13.12 to the financial statements as of December 31, 2013, described a lawsuit filed on March 4, 2014, against the Bank with the Central-Lod District Court, together with a motion for its approval as a class action suit.

According to the Claimant, 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 Claimant 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 December 18, 2014.

5.6 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.

ICC has to submit its response to the motion until December 21, 2014. A preliminary hearing was fixed for April 19, 2015.

5.7 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.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

Moreover, a motion has been filed to unite the hearing of this motion with the motions described in item 4.13 above. The Banks' response to the motion for consolidation of the hearings will be filed until December 10, 2014.

5.8 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.

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.

6. Note 19 C 15 to the financial statements as of December 31, 2013, described the decision of the Antitrust Commissioner regarding binding arrangements between banks, following an investigation conducted since 2004 by the Antitrust Authority.

On April 26, 2009, the decision of the Antitrust Commissioner, given under Section 43(a)(1) of the Antitrust Law, 1988, was published according to which the Commissioner states that binding arrangements had existed between the banks regarding the communication of information with respect to commissions (the Commissioner's decision).

In the wake of the publication of the Statement, the Bank and the other banks submitted appeals against the statement of the Commissioner.

On March 27, 2014, the banks and the Commissioner signed an agreed order ("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.

Subject to the approval of the agreed order by the Antitrust Tribunal and to the deposit of the payment by the banks, the decision would be 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.

On May 1, 2014, the Antitrust Commissioner submitted to the Court an agreed motion for granting the power of a Court Order to the agreement between the Commissioner and the banks, under Section 50B of the Antitrust Act.

On June 16, 2014 the Antitrust Tribunal approved the agreed order. Following the approval, as stated, and in accordance with agreements between the parties, the Antitrust Commissioner informed the Banks in a letter dated October 2, 2014, of the cancellation of the notice of July 29, 2012, regarding his intention to act under his authority and publish a complementary decision in the matter.

7. CONTINGENT LIABILITIES AND SPECIAL COMMITMENTS (CONTINUED)

B. Contingent liabilities and other special commitments (continued)

7. **An agreement for provision of services to the teaching staff.** Note 19C(18) to the financial statements as of December 31, 2013 includes a description of the main items of the agreement for the provision of services to educational staff and the extensions signed in respect thereof. 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.

8. **An agreement for provision of services to government employees.** Note 19C(17) to the financial statements as of December 31, 2013 includes a description of the main items of the agreement for provision of services to government employees. 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 party successful in the tender will be required to sign an agreement for the provision of credit and banking services to State employees in accordance with the provisions of the tender for a period of seven years, starting on January 1, 2015 and ending on December 31, 2021. 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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES

A. Volume of activity on a consolidated basis

1. Par value of derivative instruments

	Unaudited					
	September 30, 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	-	2,347	-	-	-	2,347
Total	**-**	**2,347**	**-**	**-**	**-**	**2,347**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,347				
B. ALM derivatives[1][2]						
Futures contracts	-	2,956	-	-	-	2,956
Forward contracts	5,809	2,250	20,269	-	-	28,328
Marketable option contracts						
Options written	-	-	1,361	-	-	1,361
Options purchased	-	-	1,402	-	-	1,402
Other option contracts						
Options written	-	2,900	10,502	-	-	13,402
Options purchased	-	500	10,302	[3]-	-	10,802
Swaps	30	81,549	62,121	-	-	143,700
Total	**5,839**	**90,155**	**105,957**	**-**	**-**	**201,951**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	30	42,865				
C. Other derivatives[1]						
Futures contracts	-	-	-	-	18	18
Forward contracts	-	-	4,170	-	4	4,174
Marketable option contracts						
Options written	-	-	9	7,198	-	7,207
Options purchased	-	-	9	7,198	-	7,207
Other option contracts						
Options written	-	149	289	383	110	931
Options purchased	-	153	285	393	111	942
Swaps	-	5,197	654	-	-	5,851
Total	**-**	**5,499**	**5,416**	**15,172**	**243**	**26,330**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,599				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,660			

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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

1. Par value of derivative instruments (continued)

	Unaudited					
	September 30, 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	-	1,805	-	-	-	1,805
Total	**-**	**1,805**	**-**	**-**	**-**	**1,805**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	1,805				
B. ALM derivatives(1)(2)						
Futures contracts	-	156	-	-	-	156
Forward contracts	6,163	5,438	19,601	-	-	31,202
Marketable option contracts						
Options written	-	-	1,023	-	-	1,023
Options purchased	-	-	1,070	-	-	1,070
Other option contracts						
Options written	-	700	9,198	265	-	10,163
Options purchased	-	1,000	9,266	(3)-	-	10,266
Swaps	-	73,552	53,195	-	-	126,747
Total	**6,163**	**80,846**	**93,353**	**265**	**-**	**180,627**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	35,678				
C. Other derivatives(1)						
Futures contracts	-	-	-	-	34	34
Forward contracts	-	-	2,346	-	26	2,372
Marketable option contracts						
Options written	-	-	112	3,947	-	4,059
Options purchased	-	-	112	3,947	-	4,059
Other option contracts						
Options written	-	90	251	327	154	822
Options purchased	-	93	290	329	154	866
Swaps	-	4,792	11	-	-	4,803
Total	**-**	**4,975**	**3,122**	**8,550**	**368**	**17,015**
Of which: interest rate swap contracts, where the banking corporation agreed to pay a fixed interest rate	-	2,396				
D. Credit derivatives and SPOT foreign currency swap contracts						
SPOT foreign currency swap contracts			2,311			

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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

1. Par value of derivative instruments (continued)

	Audited					
	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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments

	Unaudited					
	September 30, 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	-	29	-	-	-	29
Negative gross fair value	-	46	-	-	-	46
B. ALM derivatives[1]						
Positive gross fair value	78	2,562	2,227	[4]-	-	4,867
Negative gross fair value	98	2,946	1,956	-	-	5,000
C. Other derivatives						
Positive gross fair value	-	36	80	107	[4]-	223
Negative gross fair value	-	36	52	106	[4]-	194
D.Total						
Positive gross fair value[2]	78	2,627	2,307	107	-	5,119
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**78**	**2,627**	**2,307**	**107**	**-**	**5,119**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	51	85	[4]-	136
Negative gross fair value [3]	98	3,028	2,008	106	-	5,240
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**98**	**3,028**	**2,008**	**106**	**-**	**5,240**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	119	85	[4]-	204

For footnotes see page 218.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments (continued)

	Unaudited					
	September 30, 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	-	41	-	-	-	41
Negative gross fair value	-	32	-	-	-	32
B. ALM derivatives[1]						
Positive gross fair value	8	2,255	1,017	-	-	3,280
Negative gross fair value	77	2,543	1,608	1	-	4,229
C. Other derivatives						
Positive gross fair value	-	36	23	58	3	120
Negative gross fair value	-	36	36	58	3	133
D. Total						
Positive gross fair value[2]	8	2,332	1,040	58	3	3,441
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of assets stemming from derivative instruments[2]	**8**	**2,332**	**1,040**	**58**	**3**	**3,441**
Of which: Balance sheet balance of assets in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	[5]48	47	1	96
Negative gross fair value [3]	77	2,611	1,644	59	3	4,394
Amounts of fair value offset in the balance sheet	-	-	-	-	-	-
Balance sheet balance of liabilities stemming from derivative instruments[3]	**77**	**2,611**	**1,644**	**59**	**3**	**4,394**
Of which: Balance sheet balance of liabilities in respect of derivative instruments not subject to net settlement arrangement or similar arrangements	-	-	192	[5]47	[5]1	240

For footnotes see next page.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

A. Volume of activity on a consolidated basis (continued)

2. Gross fair value of derivative instruments (continued)

	Audited					
	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 39 million (September 30, 2013: NIS 49 million; December 31, 2013: NIS 51 million) positive gross fair value of assets stemming from embedded derivative instruments.

(3) Of which: NIS 22 million (September 30, 2013: NIS 13 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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis

	Unaudited					
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	September 30, 2014					
Balance sheet balance of assets in respect of derivative instruments[2]	33	3,714	29	27	1,316	5,119
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(2)	(3,125)	(4)	(19)	(543)	(3,693)
Credit risk mitigation in respect of cash collateral received	-	(291)	-	[4]-	-	(291)
Net amount of assets in respect of derivative instruments	**31**	**298**	**25**	**8**	**773**	**1,135**
Off-balance sheet credit risk in respect of derivative instruments[1][5]	-	189	30	-	494	713
Total credit risk in respect of derivative instruments	**31**	**487**	**55**	**8**	**1,267**	**1,848**
Balance sheet balance of liabilities in respect of derivative instruments[3]	27	4,194	44	19	956	5,240
Gross amounts not offset in the balance sheet:						
Financial instruments	(2)	(3,125)	(4)	(19)	(543)	(3,693)
Pledged cash collateral	-	(818)	(7)	-	-	(825)
Net amount of liabilities in respect of derivative instruments	**25**	**251**	**33**	**-**	**413**	**722**
	September 30, 2013					
Balance sheet balance of assets in respect of derivative instruments[2]	38	2,639	10	18	736	3,441
Gross amounts not offset in the balance sheet:						
Credit risk mitigation in respect of financial instruments	(1)	(2,463)	(3)	(1)	(212)	(2,680)
Credit risk mitigation in respect of cash collateral received	-	(51)	-	-	-	(51)
Net amount of assets in respect of derivative instruments	**37**	**125**	**7**	**17**	**524**	**710**
Off-balance sheet credit risk in respect of derivative instruments[1]	-	291	52	87	1,323	1,753
Total credit risk in respect of derivative instruments	**37**	**416**	**59**	**104**	**1,847**	**2,463**
Balance sheet balance of liabilities in respect of derivative instruments[3]	30	3,623	12	1	728	4,394
Gross amounts not offset in the balance sheet:						
Financial instruments	(1)	(2,463)	(3)	(1)	(212)	(2,680)
Pledged cash collateral	-	(846)	(8)	-	-	(854)
Net amount of liabilities in respect of derivative instruments	**29**	**314**	**1**	**-**	**516**	**860**

For footnotes see next page.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

B. Derivative Instruments credit risk based on the counterparty to the contract, on a consolidated basis (continued)

	Audited					
	Stock Exchange	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	In NIS millions					
	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]	-	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 5,080 million included in the item assets in respect of derivative instruments September 30, 2013: NIS 3,392 million; December 31, 2013: NIS 4,080 million).

(3) Of which: a balance sheet balance of standalone derivative instruments in the amount of NIS 5,218 million included in the item liabilities in respect of derivative instruments (September 30, 2013: NIS 4,381 million; December 31, 2013: NIS 4,898 million).

(4) An amount lower than NIS 1 million

(5) 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.

8. DERIVATIVE INSTRUMENTS ACTIVITY - VOLUME, CREDIT RISK AND DUE DATES (CONTINUED)

C. Due dates - Par value: consolidated period end balances

	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
	In NIS millions				
	Unaudited				
	September 30, 2014				
Interest rate contracts					
Shekel/CPI	1,170	2,537	1,830	302	5,839
Other	8,243	22,550	46,298	20,910	98,001
Foreign currency contracts	70,820	33,411	5,898	3,904	114,033
Contracts on shares	14,076	683	413	-	15,172
Commodities and other contracts	73	148	22	-	243
Total	**94,382**	**59,329**	**54,461**	**25,116**	**233,288**
	Unaudited				
	September 30, 2013				
Total	**70,654**	**53,402**	**51,017**	**26,685**	**201,758**
	Audited				
	December 31, 2013				
Total	**95,760**	**51,201**	**50,240**	**26,266**	**223,467**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS

A. Composition - consolidated

	Unaudited				
	September 30, 2014				
	Book value	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	23,149	8,298	-	14,710	23,008
Securities[2]	39,477	23,884	15,322	774	39,980
Securities borrowed or purchased under resale agreements	953	-	-	953	953
Credit to the public, net	118,974	2,307	3	117,402	119,712
Credit to Governments	1,495	-	-	1,547	1,547
Assets in respect of derivative instruments	5,080	109	3,774	1,197	5,080
Other financial assets	1,650	9	39	1,602	1,650
Financial assets held for sale[4]	4,518	1,721	1,987	810	4,518
Total financial assets	**[3]195,296**	**36,328**	**21,125**	**138,995**	**196,448**
Financial liabilities					
Deposits from the public	145,405	16,368	95,552	33,789	145,709
Deposits from banks	5,313	1	4,922	488	5,411
Deposits from the Government	969	-	791	199	990
Securities loaned or sold under repurchase agreements	3,785	-	-	4,119	4,119
Subordinated debt notes	10,839	10,297	94	2,253	12,644
Liabilities in respect of derivative instruments	5,218	109	4,711	398	5,218
Other financial liabilities	8,150	896	22	7,232	8,150
Financial liabilities held for sale[4]	4,254	1,132	-	3,122	4,254
Total financial liabilities	**[3]183,933**	**28,803**	**106,092**	**51,600**	**186,495**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	47	-	-	47	47

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 2.

(3) Of which: assets and liabilities in the amount of NIS 54,652 million and NIS 68,274 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 9 B - 9 C.

(4) See Note 18.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

A. Composition - consolidated (continued)

	Unaudited				
	September 30, 2013				
	Book value	Fair value			
		Level 1[1]	Level 2[1]	Level 3[1]	Total
	in NIS millions				
Financial assets					
Cash and deposits with banks	22,758	6,836	-	15,939	22,775
Securities[2]	47,124	29,148	17,449	776	47,373
Securities borrowed or purchased under resale agreements	312	-	-	312	312
Credit to the public, net	116,498	2,113	6	114,805	116,924
Credit to Governments	1,856	-	-	1,860	1,860
Assets in respect of derivative instruments	3,392	77	2,678	637	3,392
Other financial assets	1,666	9	[4]49	[4]1,608	1,666
Total financial assets	**[3]193,606**	**38,183**	**20,182**	**135,937**	**194,302**
Financial liabilities					
Deposits from the public	152,111	17,628	97,382	37,592	152,602
Deposits from banks	3,833	23	3,136	718	3,877
Deposits from the Government	1,019	3	815	212	1,030
Securities loaned or sold under repurchase agreements	4,227	-	-	4,652	4,652
Subordinated debt notes	12,089	11,029	340	2,419	13,788
Liabilities in respect of derivative instruments	4,381	77	3,756	548	4,381
Other financial liabilities	7,510	259	13	7,238	7,510
Total financial liabilities	**[3]185,170**	**29,019**	**105,442**	**53,379**	**187,840**
Off-balance sheet financial instruments					
Transactions in which the balance represents credit risk	82	-	-	82	82

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 2.

(3) Of which: assets and liabilities in the amount of NIS 56,422 million and NIS 59,070 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 9 B - 9 C.

(4) Reclassified – transfer from level 3 to level 2.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

A. Composition - consolidated (continued)

	Audited				
	December 31, 2013				
	Book value	Fair 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 2.

(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 9 B - 9 C.

(4) See Note 18.

(5) Reclassified following classification of certain assets by a subsidiary.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated

1. Items measured at fair value on a recurring basis

	Unaudited					
	September 30, 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	14,700	1,310	-	-	16,010	16,010
Of foreign governments	169	310	-	-	479	479
Of Israeli financial institutions	667	55	-	-	722	722
Of foreign financial institutions	-	2,219	-	-	2,219	2,219
Mortgage-backed-securities or Assets -backed-securities	-	7,427	-	-	7,427	7,427
Of others in Israel	637	172	-	-	809	809
Of others abroad	-	85	-	-	85	85
Shares	1,108	-	-	-	1,108	1,108
Total available-for-sale securities	**17,281**	**11,578**	**-**	**-**	**28,859**	**28,859**
Trading Securities						
Of the Israeli Government	2,527	185	-	-	2,712	2,712
Of foreign governments	-	-	-	-	-	-
Of Israeli financial institutions	2	-	-	-	2	2
Of foreign financial institutions	4	8	-	-	12	12
Mortgage-backed-securities or Assets -backed-securities	-	46	-	-	46	46
Of others in Israel	85	-	-	-	85	85
Of others abroad	-	14	-	-	14	14
Shares	11	1	-	-	12	12
Total trading securities	**2,629**	**254**	**-**	**-**	**2,883**	**2,883**
Credit to the public in respect of securities loaned	2,307	3	-	-	2,310	2,310
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	78	-	78	78
Other Interest Rate Contracts	-	2,486	141	-	2,627	2,627
Foreign Exchange Contracts	19	1,271	978	-	2,268	2,268
Shares Contracts	90	17	-	-	107	107
Commodity and other Contracts	-	-	-	-	-	-
Total assets in respect of derivative instruments	109	3,774	1,197	-	5,080	5,080
Other	-	39	-	-	39	39
Assets in respect of the "Maof" market operations	9	-	-	-	9	9
Total assets	**22,335**	**15,648**	**1,197**	**-**	**39,180**	**39,180**
Liabilities						
Deposits from the public in respect of securities borrowed	1,107	13	-	-	1,120	1,120
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	98	-	98	98
Other Interest Rate Contracts	-	3,025	-	-	3,025	3,025
Foreign Exchange Contracts	19	1,686	300	-	2,005	2,005
Shares Contracts	90	-	-	-	90	90
Commodity and other Contracts	-	-	-	-	-	-
Total liabilities in respect of derivative instruments	109	4,711	398	-	5,218	5,218
Other	-	22	-	-	22	22
Commitments in respect of the "Maof" market operations	9	-	-	-	9	9
Short sales of securities	887	-	-	-	887	887
Total liabilities	**2,112**	**4,746**	**398**	**-**	**7,256**	**7,256**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Unaudited					
	September 30, 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	20,885	727	-	-	21,612	21,612
Of foreign governments	138	835	-	-	973	973
Of Israeli financial institutions	578	59	-	-	637	637
Of foreign financial institutions	34	3,144	-	-	3,178	3,178
Mortgage-backed-securities or Assets -backed-securities	-	8,828	-	-	8,828	8,828
Of others in Israel	550	135	-	-	685	685
Of others abroad	-	60	-	-	60	60
Shares	90	-	-	-	90	90
Total available-for-sale securities	**22,275**	**13,788**	**-**	**-**	**36,063**	**36,063**
Trading Securities						
Of the Israeli Government	2,736	-	-	-	2,736	2,736
Of foreign governments	-	4	-	-	4	4
Of Israeli financial institutions	10	-	-	-	10	10
Of foreign financial institutions	-	11	-	-	11	11
Mortgage-backed-securities or Assets -backed-securities	-	43	-	-	43	43
Of others in Israel	48	-	-	-	48	48
Of others abroad	6	2	-	-	8	8
Shares	-	2	-	-	2	2
Total trading securities	**2,800**	**62**	**-**	**-**	**2,862**	**2,862**
Credit to the public in respect of securities loaned	2,113	6	-	-	2,119	2,119
Assets in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	8	-	8	8
Other Interest Rate Contracts	-	2,269	63	-	2,332	2,332
Foreign Exchange Contracts	29	396	566	-	991	991
Shares Contracts	48	10	-	-	58	58
Commodity and other Contracts	-	3	-	-	3	3
Total assets in respect of derivative instruments	77	2,678	637	-	3,392	3,392
Other	-	(1)49	(1)-	-	49	49
Assets in respect of the "Maof" market operations	9	-	-	-	9	9
Total assets	**27,274**	**16,583**	**637**	**-**	**44,494**	**44,494**
Liabilities						
Deposits from the public in respect of securities borrowed	1,255	8	-	-	1,263	1,263
Liabilities in respect of derivative instruments						
Shekel/CPI Interest Rate Contracts	-	-	77	-	77	77
Other Interest Rate Contracts	-	2,608	-	-	2,608	2,608
Foreign Exchange Contracts	28	1,145	471	-	1,644	1,644
Shares Contracts	49	2	-	-	51	51
Commodity and other Contracts	-	1	-	-	1	1
Total liabilities in respect of derivative instruments	77	3,756	548	-	4,381	4,381
Other	-	13	-	-	13	13
Commitments in respect of the "Maof" market operations	9	-	-	-	9	9
Short sales of securities	250	-	-	-	250	250
Total liabilities	**1,591**	**3,777**	**548**	**-**	**5,916**	**5,916**

Note:
(1) Reclassified – transfer from level 3 to level 2.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

1. Items measured at fair value on a recurring basis (continued)

	Audited					
	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**

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

B. Items measured at fair value - Consolidated (continued)

2. Items measured according to fair value not on a recurring basis

	Unaudited					
	September 30, 2014					
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the three months ended September 30, 2014	Profit (Loss) for the nine months ended September 30, 2014
	In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	1,804	1,804	28	(7)
Other	-	-	16	16	(1)	1

	Unaudited					
	September 30, 2013					
	Level 1	Level 2	Level 3	Total fair value	Profit (Loss) for the three months ended September 30, 2013	Profit (Loss) for the nine months ended September 30, 2013
	In NIS millions					
Impaired credit the collection of which is collateral dependent	-	-	(1)2,423	2,423	(1)(28)	(1)(194)
Other	-	-	(2)16	16	-	(2)-

Notes:

(1) Reclassified - change in the contents of collateral-dependent credit presented in the framework of the item.

(2) Reclassified, following classification by subsidiaries.

	Audited				
	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.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated

1. For a period of three months ended September 30, 2014:

	Unaudited								
	Fair value as at June 30, 2014	Total realized and non realized gains (losses) included in the statement of income	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at September 30, 2014	Non realized gains (losses) in respect of held instruments as at September 30, 2014
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	(21)	(1)4	-	-	(3)	-	-	(20)	(1)(2)
Other Interest Rate Contracts	133	(1)31	-	-	(50)	27	(3)-	141	(1)34
Foreign Exchange Contracts	164	(1)483	(4)	(10)	54	(4)	(5)	678	(1)499
Total	**276**	**518**	**(4)**	**(10)**	**1**	**23**	**(5)**	**799**	**531**

2. For a period of three months ended September 30, 2013:

	Unaudited								
	Fair value as at June 30, 2013	Total realized and non realized gains (losses) included in the statement of income	Issuances	Acquisitions	Clearings	Transfers from level 3	Transfers to level 3	Fair value as at September 30, 2013	Non realized gains (losses) in respect of held instruments as at September 30, 2013
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments(2)									
Shekel/CPI Interest Rate Contracts	(59)	(1)(10)	-	-	-	-	-	(69)	(1)(9)
Foreign Exchange Contracts	(329)	(1)(15)	-	-	18	-	-	(326)	(1)(17)
Total	**(388)**	**(25)**	**-**	**-**	**18**	**-**	**-**	**(395)**	**(26)**

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income"
(2) Excluding (with the approval of the Supervisor of Banks) derivative instruments, in respect of which the credit risk is determined on the basis of unobservable inputs, which have been transferred to Level 3, in accordance with a clarification of the Supervisor of Banks.
(3) An amount lower than NIS 1 million.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated (continued)

3. For a period of nine months ended September 30, 2014:

	Unaudited								
	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 September 30, 2014	Non realized gains (losses) in respect of held instruments as at September 30, 2014
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments									
Shekel/CPI Interest Rate Contracts	(52)	(1)39	-	-	(7)	-	-	(20)	(1)29
Other Interest Rate Contracts	111	(1)106	-	-	(75)	(1)	(3)-	141	(1)106
Foreign Exchange Contracts	279	(1)522	1	(120)	16	(13)	(7)	678	(1)667
Total	**338**	**667**	**1**	**(120)**	**(66)**	**(14)**	**(7)**	**799**	**802**

4. For a period of nine months ended September 30, 2013:

	Unaudited								
	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 September 30, 2013	Non realized gains (losses) in respect of held instruments as at September 30, 2013
	in NIS millions								
Net Assets (Liabilities) in respect of derivative instruments(2)									
Shekel/CPI Interest Rate Contracts	(64)	(1)(17)	-	-	12	-	-	(69)	(1)(13)
Foreign Exchange Contracts	(433)	(1)(28)	-	-	135	-	-	(326)	(1)(35)
Total	**(497)**	**(45)**	**-**	**-**	**147**	**-**	**-**	**(395)**	**(48)**

Footnotes:
(1) Included in the statement of income in the item "Non-interest financing income"
(2) Excluding (with the approval of the Supervisor of Banks) derivative instruments, in respect of which the credit risk is determined on the basis of unobservable inputs, which have been transferred to Level 3, in accordance with a clarification of the Supervisor of Banks.
(3) An amount lower than NIS 1 million

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

C. Changes in items measured at fair value on a recurring basis included in level 3 - Consolidated (continued)

5. For the year ended December 31, 2013:

	Audited								
	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**

Footnote:
(1) Included in the statement of income in the item "Non-interest financing income".

D. Transfers between hierarchy levels of fair value

Immaterial transfers to or from level 3 were made in the first nine months of 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.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. 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

	Unaudited			
	Fair value as at September 30, 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	1804	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	16	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	141	Discounted cash flow	Counterparty credit risk (CVA)	From 0.00% to 10.55% (0.33%)
Foreign Exchange Contracts	678	Discounted cash flow	One year period inflation expectations	From -0.06% to 1.26% (0.54%)
			Counterparty credit risk (CVA)	From 0.00% to 7.88% (1.01%)
Net Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	20	Discounted cash flow	One year period inflation expectations	From -0.06% to 1.25% (0.6%)
			Counterparty credit risk (CVA)	From 0.00% to 8.62% (2.17%)

	Unaudited			
	Fair value as at September 30, 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)2,423	Discounted cash flow, assessments and evaluation	Discount rate, real estate market inputs	
Other	(2)16	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 Liabilities in respect of derivative instruments				
Shekel/CPI Interest Rate Contracts	69	Discounted cash flow	One year period inflation expectations	From 0.94% to 3.54% (1.69%)
Foreign Exchange Contracts	326	Discounted cash flow	One year period inflation expectations	From 0.90% to 3.54% (1.51%)

For footnotes see next page.

9. BALANCES AND FAIR VALUE ESTIMATES OF FINANCIAL INSTRUMENTS (CONTINUED)

E. Additional details regarding significant unobservable inputs and valuation techniques used for the measurement of fair value of items classified to level 3 (continued)

1. Quantitative information regarding the measurement of fair value at level 3 (continued)

	Audited			
	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)	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%)

Footnotes:
(1) Reclassified - change in the contents of collateral dependent credit presented in the framework of the item.
(2) Reclassified following classification by subsidiaries.

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.

10. INTEREST INCOME AND EXPENSES - CONSOLIDATED

	Unaudited			
	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
	in NIS millions			
A. Interest Income[2]				
Credit to the public[4]	1,228	1,466	3,596	4,145
Credit to the Governments	9	24	13	39
Deposits with the Bank of Israel and cash	15	34	77	139
Deposits with Banks	9	12	28	42
Securities borrowed or purchased under resale agreements	1	[5]-	2	3
Bonds[1]	213	324	648	899
Other assets	4	5	20	24
Total interest income	**1,479**	**1,865**	**4,384**	**5,291**
B. Interest Expenses[2]				
Deposits from the public	(204)	(438)	(622)	(1,262)
Deposits from the Government	(2)	(2)	(6)	(7)
Deposits from banks	(16)	(15)	(36)	(51)
Securities loaned or sold under repurchase agreements	(35)	(39)	(104)	(128)
Subordinated debt notes	(164)	(274)	(433)	(655)
Other liabilities	3	(3)	(4)	(9)
Total interest expenses	**(418)**	**(771)**	**(1,205)**	**(2,112)**
Interest Income, Net	**1,061**	**1,094**	**3,179**	**3,179**
C. Details of the net effect of hedge derivative instruments on interest income and expenses:				
Interest income (expenses)[3]	(11)	(11)	(56)	53
D. Accrual basis, interest income from bonds:				
Held-to-maturity	63	81	177	210
Available-for-sale	142	224	451	620
Trading	8	19	20	69
Total included in interest income	**213**	**324**	**648**	**899**

Footnotes:

(1) Financing income generated by mortgage backed securities (MBS) - in US $ millions	13	10	40	28
Financing income generated by mortgage backed securities (MBS) - in NIS millions	45	37	140	102

(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 1E(1).

(5) An amount lower than NIS 1 million.

11. NON-INTEREST FINANCING INCOME - CONSOLIDATED

	Unaudited			
	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
	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)]	486	(74)	301	(516)
Total from operations in derivative instruments	**486**	**(74)**	**301**	**(516)**
2. From investments in bonds [(3)]:				
Gains on sale of available-for-sale bonds	55	74	286	377
Losses on sale of available-for-sale bonds	[(7)]-	(3)	(56)	(5)
Provision for impairment of available-for-sale bonds	-	-	(45)	(3)
Total from investments in bonds	**55**	**71**	**185**	**369**
3. Net exchange rate differences	**(429)**	**76**	**(257)**	**525**
4. Net profit (losses) from investments in shares:				
Gains on sale of available-for-sale shares[(3)]	2	6	50	87
Losses on sale of available-for-sale shares[(3)]	(2)	(1)	(6)	(9)
Reversal of provision (provision) for impairment of available-for-sale shares	3	(3)	5	(8)
Dividends from available-for-sale shares	8	12	50	19
Profit on sale of shares and activities of affiliated companies	-	-	-	8
Total from investment in shares	**11**	**14**	**99**	**97**
5. Net income in respect of loans sold	**1**	**1**	**1**	**12**
Total non-interest financing income from operations not for trading purposes	**124**	**88**	**329**	**487**
B. Non-interest financing income from operations for trading purposes[(5)]:				
Net income in respect of other derivative instruments	7	6	20	17
Net realized and non-realized income (loss) on adjustment of trading bonds to fair value[(1)]	17	(5)	44	11
Net realized and non-realized income (loss) on adjustment of trading shares to fair value[(2)]	[(7)]-	1	(7)	1
Total from trading operations[(6)]	**24**	**2**	**57**	**29**
Details of non-interest financing income from operations for trading purposes, according to risk exposure:				
Interest rate exposure	18	(1)	51	21
Foreign currency exposure	3	[(7)]-	6	[(7)]-
Share exposure	3	3	-	8
Total according to risk exposure	**24**	**2**	**57**	**29**
Total non-interest financing income	**148**	**90**	**386**	**516**

Footnotes:

(1) Of which, a part of the income relating to trading bonds that are still on hand at balance sheet date	12	8	20	4
(2) Of which, a part of the income relating to trading shares that are still on hand at balance sheet date	[(7)]-	1	[(7)]-	1
(3) Reclassified from accumulated other comprehensive income, see Note 13:				
Of which, net gains on sale of available-for-sale bonds	55	71	185	369
Of which, net gains (losses) on sale of available-for-sale shares	(1)	-	1	-

(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 10, above.
(7) An amount lower than NIS 1 million.

12. BUSINESS SEGMENTS - CONSOLIDATED

A. General. Equity is being allocated to each segment according to risk assets of the particular segment, in respect of which the segment is credited with theoretical interest. The return of each segment is computed according to the amount of equity allocated to the segment. As detailed in Note 31 B 3 to the financial statements as of December 31, 2013, in 2013 the equity allocated to the various segments was at the rate of 8%. Beginning with January 1, 2014, equity is allocated to the different segments at the rate of 8.5%, in accordance with goals determined by the Board of Directors.

B. Changes in classification

(1) Following the clarifications of the Supervisor of Banks, received by Mercantile Discount Bank during 2013, according to which, in the opinion of the Supervisor, it is right and proper to maintain a correlation between the amounts of credit reported in the Management Review for the "private individuals" sector and the amounts of credit reported in the Note on "business segments" in the "household" segment and in the "private banking" segment – Mercantile Discount Bank improved during the reported period the data base serving the various reports regarding business segments, in order to adjust the credit reports (and the income stemming from it) in this field, to reports on the distribution of credit by economic sectors, included in the Management Review;

(2) Improvement of the data relating to the average balances at the London Branch;

(3) A change in the "price of money" in the allocation of resources to the segments in a manner that has increased the spread relating to mortgage operations from 0.3% to 0.7%.

(4) Inclusion of the average balance of credit bearing no interest in the average balance of assets.

(5) Reclassified, improvement of the classification to the relating segments of the outstanding credit balance in credit cards.

12. BUSINESS SEGMENTS - CONSOLIDATED (CONTINUED)

	Unaudited							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
	For the three months ended September 30, 2014							
Interest income, net								
- From external sources	311	209	313	186	(214)	-	256	1,061
- Intersegmental	(18)	(10)	(90)	(42)	291	-	(131)	-
Total Interest income, net	293	199	223	144	77	-	125	1,061
Non-interest financing income	3	1	9	3	2	12	118	148
Commissions and Other income	395	104	90	35	64	1	9	698
Total income	**691**	**304**	**322**	**182**	**143**	**13**	**252**	**1,907**
Credit loss expenses (expenses reversal)	26	11	1	4	5	-	(7)	40
Net Income (loss) Attributed to the bank's shareholders	**(15)**	**53**	**94**	**49**	**(7)**	**12**	**48**	**234**
Return on equity (percentage)	**(2.2)**	**22.6**	**9.9**	**9.9**	**(5.2)**	**45.5**	**7.0**	**7.5**
Average Assets	40,443	13,580	39,152	20,433	4,855	1,026	74,708	194,197
Average Liabilities	67,851	15,575	19,631	11,028	34,871	730	31,912	181,598
	For the three months ended September 30, 2013							
Interest income, net								
- From external sources	(2)322	(2)185	352	184	(11)	2	60	1,094
- Intersegmental	(1)(2)(15)	(1)(2)2	(104)	(50)	91	-	(1)(2)76	-
Total Interest income, net	307	187	248	134	80	2	136	1,094
Non-interest financing income	5	1	7	3	-	10	64	90
Commissions and Other income	394	128	106	46	67	1	7	749
Total income	**706**	**316**	**361**	**183**	**147**	**13**	**207**	**1,933**
Credit loss expenses	11	27	67	58	2	-	6	171
Net Income Attributed to the bank's shareholders	**6**	**55**	**66**	**18**	**8**	**6**	**117**	**276**
Return on equity (percentage)	**1.1**	**24.9**	**6.8**	**4.3**	**7.5**	**26.0**	**19.3**	**9.5**
Average Assets	(3)38,384	(3)13,035	(3)42,084	(3)18,633	(3)4,250	1,029	(3)79,278	196,693
Average Liabilities	68,408	17,071	22,282	10,040	33,076	751	32,904	184,530

Notes:

(1) Reclassified, see B (3) above.

(2) Reclassified, see B (1) above.

(3) Reclassified, see B (4) above.

12. BUSINESS SEGMENTS - CONSOLIDATED (CONTINUED)

	Unaudited							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	in NIS millions							
	For the nine months ended September 30, 2014							
Interest income, net								
- From external sources	856	617	869	546	8	-	283	3,179
- Intersegmental	19	(31)	(207)	(118)	232	-	105	-
Total Interest income, net	875	586	662	428	240	-	388	3,179
Non-interest financing income	10	4	29	7	10	66	260	386
Commissions and Other income	1,152	289	265	114	191	2	32	2,045
Total income	**2,037**	**879**	**956**	**549**	**441**	**68**	**680**	**5,610**
Credit loss expenses (expenses reversal)	37	23	(43)	46	7	-	10	80
Net Income (loss) Attributed to the bank's shareholders	**(77)**	**165**	**278**	**120**	**(1)**	**63**	**43**	**591**
Return on equity (percentage)	**(4.0)**	**22.0**	**9.3**	**8.2**	**(0.1)**	**74.8**	**2.2**	**6.3**
Average Assets	39,845	13,362	39,738	19,983	4,915	1,020	77,176	196,039
Average Liabilities	67,967	15,757	20,959	10,914	35,227	728	31,972	183,524
	For the nine months ended September 30, 2013							
Interest income, net								
- From external sources	[1]830	[1]553	1,013	545	(41)	2	277	3,179
- Intersegmental	[1]124	[1]6	(286)	(140)	281	-	[1]15	-
Total Interest income, net	954	559	727	405	240	2	292	3,179
Non-interest financing income	11	2	47	12	14	89	341	516
Commissions and Other income	1,127	355	313	139	202	2	4	2,142
Total income	**2,092**	**916**	**1,087**	**556**	**456**	**93**	**637**	**5,837**
Credit loss expenses (expenses reversal)	68	55	220	127	(2)	-	(11)	457
Net Income (loss) Attributed to the bank's shareholders	**(27)**	**160**	**203**	**87**	**32**	**74**	**273**	**802**
Return on equity (percentage)	**(1.7)**	**23.3**	**6.6**	**6.7**	**10.1**	**85.2**	**15.7**	**9.0**
Average Assets	[2]37,791	[2]12,668	[2]43,303	[2]18,936	[2]4,116	1,025	[2]81,080	198,919
Average Liabilities	68,761	16,882	22,901	10,101	33,316	757	34,228	186,946

Footnote:

(1) Reclassified, see B (3) above.

(2) Reclassified, see B (4) above.

12. BUSINESS SEGMENTS - CONSOLIDATED (CONTINUED)

	Audited							
						Financial		
	Households	Small Businesses	Corporate Banking	Middle Market Banking	Private Banking	Non-Financial Companies	Financial management	Total Consolidated
	For the year ended December 31, 2013							
	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	-	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
Net Income (loss) Attributed to the bank's shareholders	**(20)**	**202**	**278**	**170**	**(13)**	**96**	**161**	**874**
Return on equity (percentage)	**(0.9)**	**21.5**	**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
Average Liabilities	(1)67,976	(1)17,395	23,265	10,118	(1)33,401	756	34,186	187,097

Footnote:

(1) Reclassified, see B (2) above.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

A. Changes in other comprehensive income (loss) attributed to the bank's shareholders[(1)]

	Adjustments, net, for presentation of available-for- sale securities at fair value	Financial statements translation adjustments, net after hedge effects[(2)]	Net income (loss) in respect of cash flows hedge	Total
	in NIS millions			
1. For the three months ended September 30, 2014 and 2013 (unaudited)				
Balance at June 30, 2014	325	(326)	(5)	(6)
Net change during the period	67	204	1	272
Balance at September 30, 2014	**392**	**(122)**	**(4)**	**266**
Balance at June 30, 2013	137	(180)	(6)	(49)
Net change during the period	32	(70)	(1)	(39)
Balance at September 30, 2013	**169**	**(250)**	**(7)**	**(88)**
2. For the nine months ended September 30, 2014 and 2013 (unaudited)				
Balance at December 31, 2013 (audited)	179	(305)	(6)	(132)
Net change during the period	213	183	2	398
Balance at September 30, 2014	**392**	**(122)**	**(4)**	**266**
Balance at December 31, 2012 (audited)	415	(81)	(10)	324
Net change during the period	(246)	(169)	3	(412)
Balance at September 30, 2013	**169**	**(250)**	**(7)**	**(88)**
3. For the year 2013 (audited)				
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)**

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.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (CONTINUED)

B. Changes in other comprehensive income (loss) attributed to the bank's shareholders[(1)]

	Unaudited					
	For the three months ended					
	September 30, 2014			September 30, 2013		
	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	141	(38)	103	122	(35)	87
Loss (income) on available-for-sale securities reclassified to the statement of income[(3)]	(54)	18	(36)	(83)	28	(55)
Net change during the period	**87**	**(20)**	**67**	**39**	**(7)**	**32**
Translation adjustments						
Financial statements translation adjustments[(2)]	204	-	204	(69)	(1)	(70)
Hedge	-	-	-	(2)	2	-
Net change during the period	**204**	**-**	**204**	**(71)**	**1**	**(70)**
Cash flow hedging						
Net income (loss) in respect of cash flow hedging	2	(1)	1	(1)	-	(1)
Net loss (income) in respect of cash flow hedging reclassified to the statement of income	-	-	-	1	(1)	-
Net change during the period	**2**	**(1)**	**1**	**-**	**(1)**	**(1)**
Total net changes during the period	**293**	**(21)**	**272**	**(32)**	**(7)**	**(39)**

	Unaudited						Audited		
	For the nine months ended						For the year ended		
	September 30, 2014			September 30, 2013			December 31, 2013		
	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	582	(232)	350	9	13	22	27	10	37
Loss (income) on available-for-sale securities reclassified to the statement of income[(3)]	(224)	87	(137)	(413)	145	(268)	(434)	161	(273)
Net change during the period	**358**	**(145)**	**213**	**(404)**	**158**	**(246)**	**(407)**	**171**	**(236)**
Translation adjustments									
Financial statements translation adjustments[(2)]	182	1	183	(172)	3	(169)	(227)	-	(227)
Hedge	-	-	-	4	(4)	-	4	(1)	3
Net change during the period	**182**	**1**	**183**	**(168)**	**(1)**	**(169)**	**(223)**	**(1)**	**(224)**
Cash flow hedging									
Net income (loss) in respect of cash flow hedging	7	(3)	4	2	(1)	1	1	-	1
Net (income) loss in respect of cash flow hedging reclassified to the statement of income	(3)	1	(2)	4	(2)	2	6	(3)	3
Net change during the period	**4**	**(2)**	**2**	**6**	**(3)**	**3**	**7**	**(3)**	**4**
Total net change during the period	**544**	**(146)**	**398**	**(566)**	**154**	**(412)**	**(623)**	**167**	**(456)**

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 on non-interest financing income.

14. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI")

A. Data regarding the investment in FIBI

On September 30, 2014 the Bank's holdings in FIBI were 18.24% in the equity and in the voting rights (December 31, 2013: 26.45%; June 30, 2014: 21.45%; for details regarding the sale of part of the shares, see below).

The market value of the Bank's holdings in FIBI totaled on September 30, 2014: NIS 1,031 million. The market value of this investment at November 16, 2014: NIS 977 million.

B. 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 directions of FIBI from among candidates recommended by Discount Bank. 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 FIBI, were brought in Note 6 E (1) to the financial statements as of December 31, 2013.

C. 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 above), 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 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, a provision for impairment of the value of the investment in shares of FIBI in respect of the anticipated loss amounting to net NIS 158 million.

D. 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.

E. 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.

F. Dividend. On April 16, 2014 FIBI distributed a dividend in a total amount of NIS 130 million. The Bank's share in the said dividend amounts to NIS 34 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.

G. Sale of shares. Further to that stated in item B above, on June 1, 2014, the Bank entered into a transaction for the sale of 5,017,921 shares of FIBI, comprising 5% of the share capital of FIBI. The transaction was consummated on June 2, 2014. The sale was effected in an off- market transaction at a price of NIS 55.8 per share, reflecting a discount of 2.5% of the market price of the shares at the end of the June 1, 2014 trading day. As a result of this sale, the Bank recognized a loss of NIS 4 million (included in non-interest financing income). As part of the transaction, the Bank is committed not to sell additional shares of FIBI, at a price lower than the transaction price, during a period of three months from date of the transaction.

14. THE INVESTMENT IN THE FIRST INTERNATIONAL BANK ("FIBI") (CONTINUED)

On September 15, 2014, the Bank sold 3,214,286 shares of FIBI, comprising 3.2% of the share capital of FIBI. The sale was effected in an off-market transaction at a price of NIS 56.0 per share, reflecting a discount of 2% of the market price of the shares at the end of the September 14, 2014 trading day. As a result of this sale, the Bank recognized a loss of NIS 2 million (included in non-interest financing income). As part of the transaction, the Bank is committed not to sell additional shares of FIBI, at a price lower than the transaction price, during a period of 30 days from date of the transaction.

15. CREDIT CARD ACTIVITY

Amended cross clearing arrangement – reduction of the issuer commission rate. Note 34 B (1) to the financial statements as of December 31, 2013, described, among other things, an amended cross clearing arrangement. The agreement determined, among other things, that 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.

The Antitrust Tribunal approved on March 7, 2012, the said compromise arrangement. On April 29, 2012, Clalit Health Services ("Clalit") filed an appeal with the Supreme Court against the decision of the Antitrust Tribunal. The appeal focused on Clalit arguments, with regard to its non-classification in the bottom category of trading houses. On March 17, 2014, the Supreme Court dismissed the appeal.

The effect of the reduction in the cross commission results from various parameters, including: the scope of commissions collected from trading houses, the scope of royalties paid to banks with whom ICC is engaged in a joint issuance agreement, various operating commissions, the volume of clearing operations, including the opening to competition of the IsraCard credit card market, and more. It is difficult to evaluate each one of the said parameters in itself and to evaluate their combined effect and particularly in view of the fact that their effect is reflected gradually over a period of time. In view of the above, ICC believes that it is not possible to assess the scope of the effect of the reduction in the cross commission on its business results. However, ICC and the Bank are of the opinion that the business results of ICC will be materially adversary affected as a result of the said reduction in the cross commission.

Changes in the terms of the agreement for the sale of the Diners shares and in the terms of the YOU Club agreement. 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.

15. CREDIT CARD ACTIVITY (CONTINUED)

In view of the reduction in the PUT option to which the Dor Alon Group is entitled, the accounting treatment (as described in Note 1D 2.2 to the financial statements as of December 31, 2013) has changed: The PUT option is no longer presented as a liability (an amount of NIS 83 million was reclassified 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 will recognize its share in earnings based of the proportion to which it is entitled (an amount of NIS 11 million was reclassified from "Retained earnings" to "Non-controlling rights").

Furthermore, 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.

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.

16. 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.

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.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

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);
    - 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.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

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.

Draft amendment to the Banking Rules (Customer service) (Commissions), 2008. On July 29, 2014, the Supervisor of Banks published an updated draft of the Amendment.

The principal items of the draft are:

- 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;
- 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;
- 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;
- Section 12 of the full list price will include 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; in addition, a summary price list will be added for customers receiving from the bank clearing services for debit card transactions.

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:

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

- 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;
- 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.

Draft Amendment of Banking Rules (Customer service) (Proper disclosure and submission of documents), 1992. The Supervisor of Banks issued an updated draft of the Amendment on October 7, 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.

  Within the framework of the said amendment, the Supervisor of Banks issued on October 7, 2014, a draft circular headed "Types of accounts and terms under which an agreement with the customer shall not require his signature", the object of which is to facilitate the process of opening of a bank account through the Internet. According to the said draft circular, an agreement for the opening and management of a current account, opened on-line under Proper Conduct of Banking Business Directive No. 418, shall not require the signature of the customer, on condition that the customer is able to state in the proper place on the Internet website of the banking corporation that he had read the agreement and accepts its terms. The circular will become effective upon the publication of the amendment to the proper disclosure rules.

  The Supervisor of Banks has stated that during the current progress of the work, he will examine the possibility of applying the provisions of the circular to additional agreements and\or additional lines of communication;
- 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, subject to obtaining the written consent of the customer in advance and to allowing him the possibility of printing and keeping the agreement/document, as stated;
- 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 March 31.

In accordance with the draft, the rules enter into effect of January 1, 2015. Notwithstanding, the amendment regarding types of accounts and terms under which certain agreements with the customer shall not require his signature as well as the requirement to present or deliver to the customer a copy of an agreement or document not requiring the customer's signature, enters into effect immediately.

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.

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

Proper Conduct of Banking Business Directive No. 414 in the matter of disclosure of service cost. 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 acting to implement the requirements in accordance with the directive.

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.

Draft Proper Conduct of Banking Business Directive No. 425 in the matter of "Annual report to customers of banking corporations". The Supervisor of Banks published on September 10, 2014, an updated version of a draft proper conduct of banking business directive in the matter of "annual report to customers of banking corporations", comprising the implementation of the Zaken Committee recommendations in the matter of "bank identity card".

The draft directive is designed to regularize the annual reporting duty of the corporation to its customers, 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. In accordance with the updated draft, banking corporations will be required to deliver the annual report to all their customers.

The annual report is intended 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 draft 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.

In accordance with the updated draft, the instruction will become effective upon its publication, and the annual reports for 2014 shall be presented until June 30, 2015. However, it is further stated in the draft 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).

16. REPORT OF THE TEAM FOR EXAMINING THE INCREASE IN COMPETITION IN THE BANKING INDUSTRY (CONTINUED)

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.

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. Entry into effect of the Directive has been postponed following the absence of legislation of the amendments required to the Banking Rules (Customer service) (Proper disclosure and delivery of documents), 1992. The Bank is making preparations for accounts to be opened over the Internet in accordance with the directive.

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. It should be noted in this respect that difficulties arose in masking this assessment, among other things, due to the low level of activity at this time, including with respect to the securities field, which does not necessarily reflect the average multi-annual level of activity. Furthermore, uncertainty exists with respect to the manner of implementation of certain moves.

17. AGREEMENT BETWEEN THE SWISS AUTHORITIES AND THE U.S. DEPARTMENT OF JUSTICE

On August 29, 2013, the Swiss Authorities and the U.S. Department of Justice announced a program for the settlement of the disputes regarding deposits of U.S. citizens with Swiss banks (Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks). The program is limited to 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 bank categories, the main differentiation being between banks that declare to the U.S. Department of Justice, that since August 2008 they did not violate any duty relating to tax laws with respect to their U.S. customers and that they did not assist them in evading taxes, when this declaration is to be based upon an examination performed by an independent examiner, and banks that are of the opinion that they are unable to make such declaration.

In accordance with the plan, and clarifications of the U.S. Department of Justice further thereto, a bank that that would declare that he had not committed violations as above, could apply to the U.S. Department of Justice, as from July 1, 2014 and until December 31, 2014, requesting the issue of a confirmation that it is not being a target for enforcement actions by the Department (Non-Target Letter). In the event that it is found retroactively that the report of the examiner does not support the original declaration made by this bank, the matter would be left to the discretion of the U.S. Department of Justice.

A bank that is of the opinion that a violation, as stated above, may have been committed by it, was allowed under the program apply to the U.S. Department of Justice until December 31, 2013, with a request to sign an agreement avoiding criminal proceedings against the bank (Non-Prosecution Agreement), and this after receipt and examination by the Department of Justice of the report by the independent examiner submitted by the bank, and subject to the consent by the bank to pay a fine, the amount of which is derived from the volume of funds held by its U.S. customers.

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 a "non-prosecution agreement" detailed information regarding the said accounts will be required.

In continuation to that stated above, 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.

In the opinion of the Bank and IDB (Swiss) Bank, following the changes occurring in the present financial environment in Switzerland, business and regulatory risks exist, which might affect the financial position and business results of IDB (Swiss) Bank, and which at this stage cannot be assessed.

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.

18. ASSETS HELD FOR SALE - CONSOLIDATED

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, have been classified as held for sale.

In the framework of the above mentioned, the financial statements as of December 31, 2013 recorded a provision for the impairment of available-for-sale securities of DBLA in the net amount of US$3.1 million (approx. NIS 11 million).

In April 2014, the entity with whom negotiations have been conducted in this matter, informed of the withdrawal from his intention to purchase DBLA (due to circumstances that are not related to the Bank, Bancorp, IDB New York or to DBLA). In continuation and within the framework of the decision of the Bank, Bancorp and IDB New York to continue the effort to promote the sale, a due diligence review of DBLA has recently begun by a new party, with whom negotiating are being conducted. It should be noted that a sale of this sort is subject to various regulatory permits. At this stage, the above stated does not constitute any indication as to the possibility of sale and its consummation.

18. ASSETS HELD FOR SALE - CONSOLIDATED (CONTINUED)

Following are data regarding assets and liabilities classified as held for sale (which includes also assets of the Bank in a negligible amount):

	Unaudited		Audited
	September 30		December 31
	2014	2013	2013
	in NIS millions		
Assets classified as held for sale			
Cash and deposits with banks	1,968	-	1,659
Securities	2,009	-	1,935
Credit granted to the public, Net	522	-	500
Credit to Governments	19		24
Buildings and equipment	54	10	58
Other assets	24	-	28
Total	**4,596**	**10**	**4,204**
Liabilities classified as held for sale			
Deposits from the public	4,238	-	3,872
Deposits from banks	15	-	15
Other liabilities	42	-	44
Total	**4,295**	**-**	**3,931**
Guarantees and Unutilized credit facilities	**118**	**-**	**129**

19. APPROVAL OF TRANSACTIONS

An award to the Chairman of the Board for 2013. Note 22 F and G to the financial statements as of December 31, 2013, included a description of the remuneration plan for the Chairman of the Board. In June 2014, the Chairman of the Board announced his waiver of the annual award for the year 2013.

Terms of office and engagement of the Chairman of the Board. As described in Note 22F to the financial statements as of December 31, 2013 (p.495), 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 no include the variable remuneration components. 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).

20. 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.

21. 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 limits set by the Bank's management, within the framework of the aforementioned approval in principle, which has been implemented in the financial statements as of June 30, 2014, as part of the updating of the provision for employee rights:

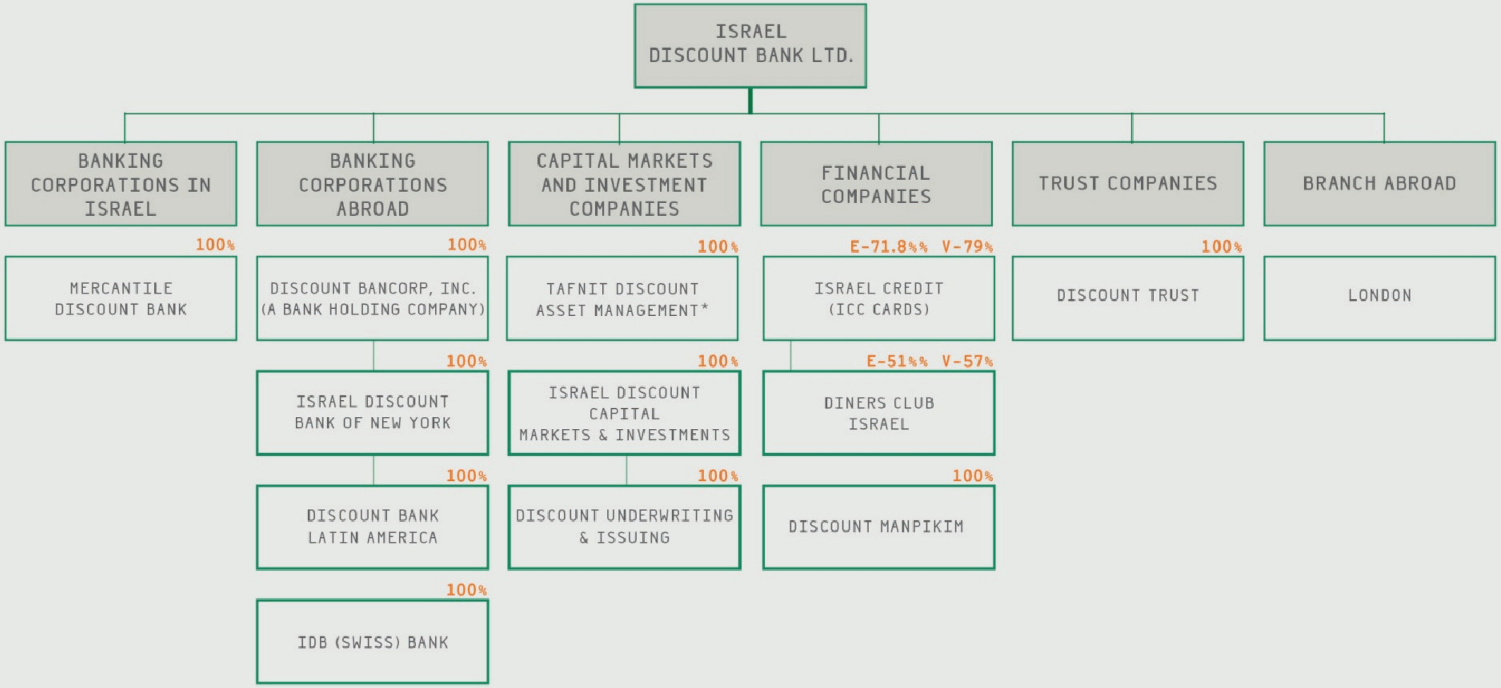
- During the two years following completion of the retirement plan, employees will not be entitled to retire under preferential terms, except in exceptional cases;
- The minimum age for retirement under preferred terms is 55;
- The special fund for exceptional retirement cases, which was created in the past and whose balance as of June 30, 2014 amounted to NIS 50 million, will be used for the retirement of employees in exceptional cases during the aforesaid two-year period.

The cost of the program amounts to NIS 306 million (not including severance pay in accordance with the law) – increasing the provision for employee rights as of June 30, 2014 with respect to the plan. On the other hand, the change of the assessment (see Note 1 D above) has reduced the provision for employee rights as of June 30, 2014 by NIS 111 million. Following the approval of the retirement plan and the updating of the assessment, an expense of NIS 195 million, before the tax effect, and of NIS 121 million, after the tax effect, was recorded in the second quarter of 2014.

On October 20, 2014, the Bank approached those employees to whom the defined criteria (age and seniority) apply, and offered them an early retirement under preferential terms. The employees were offered the option of a capital track, a pension track, or a combination of the two.

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 September 30, 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.

Discount Group Structure



* Directly and Indirectly

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SUBSIDIARIES IN ISRAEL

BANKING
Mercantile Discount Bank

CAPITAL MARKETS
Tafnit Discount Asset Management
Israel Discount Capital Markets & Investments
Discount Underwriting & Issuing

FINANCIAL
Israel Credit Cards
Diners Club
Discount Manpikim

TRUST SERVICES
Discount Trust

SUBSIDIARY BANKS ABROAD

Israel Discount Bank of New York, USA
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Head Office: 511 Fifth Avenue, New York
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201 Edward Curry Avenue, Suite 204
Brooklyn, NY Branch:
705 Avenue U
Short Hills, NJ Branch:
150 JFK Parkway
Beverly Hills, CA Branch:
9401 Wilshire Boulevard, Suite 600
Downtown Los Angeles, CA Branch:
888 South Figueroa Street, Suite 550
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