

BANK LEUMI LE-ISRAEL B.M. AND INVESTEE COMPANIES

Condensed Financial Statements as at 30 September 2014 (unaudited)

Bank Leumi le-Israel B.M.

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| <p>This is a translation from the Hebrew and has been prepared for convenience only. In the event of any discrepancy, the Hebrew will prevail.</p> |
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23 November 2014

Bank Leumi le-Israel B.M. and its Investee Companies

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A. General Developments in the Group's Business

The Directors' Report has been prepared in accordance with the Public Reporting Directives of the Supervisor of Banks. The principles applied in preparing the interim reports are consistent with those used in preparing the Annual Report as at 31 December 2013. These reports should be read in conjunction with the Annual Report for 2013.

Description of Leumi Group's Business Activities and their General Development

Total assets under the management of the Group (balance sheet items and off-balance sheet items*) amounted to some NIS 1,238 billion at the end of September 2014, compared with NIS 1,165 billion at the end of 2013, an increase of some 6.3%, which derived primarily from an increase in securities portfolios, and an increase in the value of provident funds and supplementary training funds and from an increase in total balance sheet activities.

* Total balance sheet items plus securities portfolios of customers, the value of securities held in custody of mutual funds, provident funds, pension funds and supplementary training funds for which operational management, custody services and pension counseling are provided.

Below are principal data as at:

| | 30 September 2014 | 30 September 2013 | 31 December 2013 |
|--|------------------------------|----------------------|---------------------|
| | NIS millions | | |
| Total assets (total balance sheet) | 379,953 | 365,422 | 374,360 |
| Credit to the public, net | 249,481 | 240,892 | 240,874 |
| Securities | 46,058 | 60,984 | 63,735 |
| Cash and deposits in banks | 54,612 | 40,202 | 44,351 |
| Investment in companies included on equity basis | 2,062 | 1,944 | 1,689 |
| Deposits of the public | 286,632 | 279,839 | 286,003 |
| Debentures, notes, and subordinated notes | 23,932 | 25,596 | 25,441 |
| Equity attributable to shareholders of the banking corporation | 28,348 | 26,081 | 26,425 |

Below are principal profit and loss data for the periods ended:

| | For the three months ended 30 September | | For the nine months ended 30 September | | For the year ended 31 December |
|---|--|-------|---|-------|--------------------------------------|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | NIS millions | | | | |
| Interest income, net (a) | 1,899 | 1,946 | 5,561 | 5,547 | 7,357 |
| Expenses (income) in respect of credit losses | 56 | (44) | (11) | 113 | 268 |
| Total non-interest income | 1,328 | 1,382 | 3,952 | 4,097 | 5,517 |
| Of which: commissions (a) | 1,033 | 1,050 | 3,113 | 3,104 | 4,188 |
| Total operating and other expenses | 2,471 | 2,443 | 7,110 | 6,679 | 8,933 |
| Of which: salary expenses | 1,239 | 1,338 | 3,739 | 3,835 | 5,174 |
| Expenses related to investigation in respect of overseas customers | 480 | 198 | 1,009 | 236 | 236 |
| Profit before taxes (b) | 700 | 929 | 2,414 | 2,852 | 3,673 |
| Provision for taxes | 357 | 345 | 1,111 | 1,092 | 1,391 |
| Net profit for the period attributed to shareholders of the banking corporation | 677 | 555 | 1,592 | 1,599 | 1,947 |
| Net profit per share attributed to shareholders of the banking corporation (in NIS) | 0.46 | 0.38 | 1.08 | 1.09 | 1.32 |
| Total profit for the period attributed to shareholders of the banking corporation | 1,055 | 497 | 1,939 | 1,132 | 1,458 |

(a) With regard to the initial application of FAS 91 "Measurement of Interest Income", see note 1(c)1 below.

(b) With regard to bringing forward the publication date of the financial statements and the reporting gap in respect of a company included on equity basis, see Note 1(b) below.

Below are principal financial ratios for the periods ended (in percentages):

| | 30 September 2014 | 30 September 2013 | 31 December 2013 |
|---|------------------------------|----------------------|---------------------|
| NIS millions | | | |
| Credit to the public, net, to total balance sheet | 65.7 | 65.9 | 64.3 |
| Securities to total balance sheet | 12.1 | 16.7 | 17.0 |
| Deposits of the public to total balance sheet | 75.4 | 76.6 | 76.4 |
| Deposits of the public to total credit, net | 114.9 | 116.2 | 118.7 |
| Total capital to risk assets (a) (f) | 14.24 | 14.85 | 14.82 |
| Tier I capital to risk assets (f) | 9.44 | 9.28 | 9.43 |
| Capital (excluding non-controlling interests) to balance sheet | 7.5 | 7.1 | 7.1 |
| Net profit to average capital (excluding non-controlling interests) (c) | 7.9 | 8.5 | 7.6 |
| Rate of provision for tax on the profit before taxes | 46.0 | 38.3 | 37.9 |
| Income (expenses) in respect of credit losses to credit to the public, net (c) | 0.00 | 0.06 | 0.11 |
| Of which: expenses in respect of collective allowance to net credit to the public (c) | 0.13 | 0.09 | 0.11 |
| Income (expenses) in respect of credit losses to total risk of credit to the public (c) | 0.00 | 0.04 | 0.07 |
| Net interest income to total balance sheet (c) | 1.96 | 2.03 | 1.97 |
| Total income to total balance sheet (b) (c) | 3.35 | 3.53 | 3.44 |
| Total income to total assets managed by the Group (b) (c) (d) | 1.03 | 1.16 | 1.11 |
| Total operating and other expenses to total balance sheet (c) | 2.50 | 2.44 | 2.39 |
| Total operating and other expenses to total assets managed by the Group (c) (d) | 0.77 | 0.80 | 0.77 |
| Net profit to average total assets (c) (e) | 0.58 | 0.58 | 0.53 |
| Interest margin | 2.01 | 1.86 | 1.87 |
| Operating and other expenses (excluding early retirement) to total income (b) | 74.7 | 69.2 | 68.8 |
| Non-interest income to operating and other expenses (excluding early retirement) | 55.6 | 61.4 | 62.3 |
| Non-interest income to total income (b) | 41.5 | 42.5 | 42.9 |

(a) Capital - after adding non-controlling interests and after deducting investments in the equity of companies included on equity basis and various adjustments.

(b) Total income - net interest income and non-interest income.

(c) On an annual basis.

(d) Includes off-balance sheet activities.

(e) Average assets represent the total of income-bearing balance sheet assets and other assets.

(f) The ratios as of 30 September 2014 have been calculated in accordance with the Basel III provisions. The ratios for 31 December 2013 and 30 September 2013 have been calculated in accordance with the Basel II provisions. For further details, see Note 4.

Net profit attributable to shareholders in the banking corporation (hereinafter – the net profit) in the first nine months of 2014 was significantly affected by expenses in respect of the investigations connected to overseas customers and the effects of significant events in the Israel Corporation, for which immediate reports were published and in which quantitative effects were included, were also taken into account. The summary of details of the financial results as reported in the statement of profit and loss and after canceling the abovementioned effects is as follows:

| | Three months ended | | Three months ended | |
|--|--------------------------|-------------------|--------------------------|-------------------|
| | 30 September 2014 | 30 September 2013 | 30 September 2014 | 30 September 2013 |
| | NIS millions | | | |
| Reported net profit | 677 | 555 | 1,592 | 1,599 |
| Reported return on capital | 10.2% | 8.9% | 7.9% | 8.5% |
| Effect of provision in respect of the investigation of overseas customers | 476 | 191 | 1,012 | 221 |
| Profit after canceling the effect of overseas customers | 1,153 | 746 | 2,604 | 1,820 |
| Effect of non-current profits in the third quarter in the Israel Corporation | 342 | - | 342 | - |
| Profit after canceling the effect of investigations of overseas customers and after canceling the effect in the Israel Corporation in respect of which immediate reports have been published and which quantitative effects have been included | 811 | 746 | 2,262 | 1,820 |
| Return after canceling the effect of investigations of overseas customers after canceling the effect in the Israel Corporation in respect of which immediate reports have been published and which quantitative effects have been included | 12.4% | 12.1% | 11.3% | 9.7% |

The factors which have affected the improvement in the net profit **for the first nine months of 2014**, in addition to the effect of the provision in respect of the investigations of overseas customers as set forth above, are a reduction in expenses in respect of credit losses amounting to NIS 124 million, a decrease of NIS 342 million (before the effect of tax) in total operating and other expenses and an improvement in the contribution of companies included on equity basis for the first nine months of 2014 compared to NIS 422 million in the corresponding period last year.

These factors were slightly offset by a decrease in noninterest financial income amounting to NIS 170 million and a moderate increase in total operating and other expenses (before the effect of tax).

During the first nine months of 2014, the effect of the results of the Israeli Corporation for the first six months of 2014 was included in the Bank's financial statements. In addition, the effects of significant events in the Israel Corporation, for which immediate reports were published and in which quantitative effects were included, were also taken into account. The effect of the current results of the Israel Corporation for the third quarter will be included in the Bank's financial statements for 2014. This gap in reporting is constant. For further details, see Note 1b, Significant Accounting Policies, below.

The net profit in the third quarter of 2014 amounted to NIS 677 million, compared with NIS 555 million in the corresponding period last year, an increase of 22.0%.

The increase in the net profit in the third quarter, compared with the third quarter last year, is primarily attributable to an increase of NIS 362 million which was partly offset by a decrease in net interest income amounting to NIS 47 million (before the effect of tax), a decrease in noninterest income amounting to NIS 54 million (before the effect of tax), an increase in credit loss expenses amounting to NIS 100 million (before the effect of tax), and an increase in operating expenses amounting to NIS 28 million (before the effect of tax).

For further details, see the Chapter "Development of Income, Expenses and Tax Provision".

Net profit per share attributable to shareholders of the banking corporation was NIS 1.08 during the first nine months of 2014, compared with NIS 1.09 in the corresponding period last year.

The return on capital for the first nine months of 2014 was 7.9%, compared with 8.5% for the first nine months of 2013. The return on capital for the third quarter of 2014 was 10.2%, compared with 8.9% in the third quarter of 2013.

Aggregate total income after the effect of tax (in addition to the net profit, *inter alia*, adjustments in respect of the presentation of available-for-sale securities at fair value and adjustments from translation of the financial statements) in the first nine months of 2014 amounted to NIS 1,939 million, compared to NIS 1,132 million in the corresponding period last year. The increase in total profit for the nine months arose mainly from positive adjustments in respect of available-for-sale securities amounting to NIS 479 million before tax in the first nine months of 2014, compared with negative adjustments in respect of available-for-sale shares amounting to NIS 535 million before tax in the first nine months of 2013. In the third quarter of 2014, total profit amounted to NIS 1,055 million compared with NIS 497 million in the corresponding period last year.

Control of the Bank

Effective 24 March 2012, the Bank is defined, pursuant to the provisions of the law, as a banking corporation without a controlling core and with no shareholder specified as the controlling shareholder in the Bank.

On 2 October 2014, the Bank was notified that Shlomo Eliahiu Holdings Ltd. (Shlomo Eliahu), which holds securities of the Bank and which, together with companies of the Migdal Holdings Insurance and Finance Group Ltd. ("Migdal"), are considered as interested parties in the Bank by virtue of their joint holdings, sold its entire holdings in the shares of the Bank. As a result of the abovementioned sale, Shlomo Eliahu and Migdal ceased to be interested parties in the Bank. For further details, see immediate reports dated 2 October 2014 (Ref. no. 2014-01-169776, 2014-01-169191).

For updated information regarding the holdings of interested parties in the Bank, see Immediate Report on the state of the holdings of interested parties and senior officers, dated 6 November 2014 (Ref. no.: 2014-01-189960).

Annual General Meeting and the Election of Directors

On 6 August 2014, the Annual General Meeting of the Bank ("AGM") was held, with the following subjects, *inter alia*, on the agenda: (1) the election of two directors for a term of office on the Board of Directors of the Bank, (2) the election of one external director pursuant to Regulation 301 of the Supervisor of Banks; and (3) the election of one external director pursuant to the Companies Law.

At the Annual General Meeting, the following serving directors were re-elected, Ms. Zipporah Samet, as external director pursuant to the Companies Law for a period of three years, and Mr. David Avner. In addition, Professor Haim Levy, as external director pursuant to Regulation 301 of the Supervisor of Banks, and Dr. Samer Haj Yahi were elected as directors.

For further details, see the section, "Board of Directors", below.

At the said Annual General Meeting, a number of additional resolutions were passed, *inter alia*:

- It was resolved to approve the amendment of the Bank's regulations according to the wording set forth in Schedule A to the notice convening the General Meeting.
- It was resolved to approve the extension of the framework decision which was previously approved by the General Meeting of the Bank on 4 November 2010, which authorizes, in advance, the Bank to purchase an insurance policy in respect of directors and other office - holders' liability in the Bank and the Group. From time to time, and without a further approval of the General Meeting being required for this, all subject to the conditions set forth in paragraph 3.7 of the agenda of the General Meeting (see Immediate Report on the convening of the General Meeting dated 30 June 2014 (Ref. no. 2014-01-103521)).

For information regarding all of the resolutions passed at the Annual General Meeting, see Immediate Report regarding the results of the Annual General Meeting of 6 August 2014 (ref. no. 2014-01-128649).

Capital Resources, Capital Adequacy and Transactions in the Shares of the Bank

Capital Attributable to the Shareholders of the Banking Corporation (hereinafter: capital) of the Group as at 30 September 2014 amounted to NIS 28,348 million, compared with NIS 26,425 million at the end of 2013, an increase of 7.3%. The increase is attributable to the profit for the first nine months of the year amounting to NIS 1,592 million, and to an increase in the adjustment reserve in respect of available-for-sale shares amounting to NIS 304 million.

The **capital to total assets ratio** reached 7.5% on 30 September 2014, compared with 7.1% on 31 December 2013.

With regard to changes in the Bank's capital, see Note 4 below.

The **capital to risk assets ratio** according to Basel III reached 14.24% as at 30 September 2014, compared with 14.20% on 1 January 2014. The Tier 1 shareholders' equity ratio reached 9.44% as at 30 September 2014, compared with 9.20% on 1 January 2014.

Capital Adequacy Target

Capital planning in the Leumi Group reflects a prospective view of the risk appetite and of the capital adequacy required as a consequence. In addition, the risk factors are reviewed under increasingly stringent stress tests.

The Group's policy, as approved by the Board of Directors, which expresses its risk appetite, is to maintain a level of capital adequacy higher than the threshold defined from time to time by the Bank of Israel and higher than the rate required according to the results of the ICAAP. In addition, targets that the Group wishes to meet in the case of a stress scenario event were defined.

The required rate of capital for covering the risks is calculated in respect of the two pillars:

First Pillar – calculated at 8% of the total risk assets and includes credit risks, market risks and operating risks.

Second Pillar - "capital buffers" are calculated in respect of risks that are not included in the context of the First Pillar, such as: large borrower concentrations, group borrowers, sectoral concentrations, country risk, various market risks and capital buffers in respect of risks included in the First Pillar, but in respect of which expansion is required.

The following capital adequacy targets were determined:

According to Proper Conduct of Banking Business Regulation 201 regarding "Introduction, Incidence and Calculation of Requirements", which was published on 30 May 2013 and came into force on 1 January 2014, all banking corporations will be required to comply with a minimum Tier 1 shareholders' equity ratio of 9% with effect from 1 January 2015. In addition, a large banking corporation, whose total balance sheet assets on a consolidated basis constitute at least 20% of the balance sheet assets in the banking system in Israel, will be required to comply with a minimum Tier 1 shareholders' equity ratio of 10%, with effect from 1 January 2017. This additional provision applies to Leumi. These targets will be gradually achieved. The Bank intends to maintain a planning margin above these targets.

In addition, all banking corporations in Israel will be required to maintain an overall capital ratio of 12.5% from 1 January 2015. A large banking corporation will be required to maintain an overall capital ratio of 13.5% from 1 January 2017.

On 28 September 2014, the Supervisor of Banks published a circular for an amendment to Proper Conduct of Banking Business Management Regulation no. 329 "Restrictions on the Grant of Housing Loans". Pursuant to the amended directive, the banking corporation will be required to increase Tier 1 shareholders' equity target at a rate expressing 1% of the balance of housing loans. The date for commencing compliance with the capital target determined is 1 January 2017, and banking corporations are to increase the capital target in fixed quarterly rates from 1 January 2015 until 1 January 2017.

The effect of the amendments to the regulation on Leumi Group at the final effective date is 0.3% of the capital adequacy ratio, with the effect being spread in accordance with the regulation over eight quarters.

For a possible effect on the capital ratio when implementing accounting standards regarding employee rights, see chapter, "Accounting Policy on Critical Matters" below.

Following an analysis of the ICAAP risk map, the Board of Directors of the Bank resolved to determine that the Leumi Group's overall capital adequacy target would not be less than 13.5% over the long term. The Bank has taken the necessary steps to meet the expected targets outlined above, which comply with the requirements of the Supervisor of Banks as set forth in the regulations.

For further information regarding the Basel III directives, see the section, "Basel Directives and Preparation in Leumi" in the chapter, "Risk Exposure and Risk Management" on pages 170-174 of the 2013 Annual Report.

The above capital adequacy policy refers to future activities of the Bank, and is defined as "forward-looking information". For the meaning of this term, see the section, "Description of the Banking Corporation's Business and Forward-Looking Information", below.

Structure of capital components for the purpose of computing the capital ratio (Table 2 - Basel):

| | Basel III 30 September 2014 NIS millions | Basel II 30 September 2013 | 31 December 2013 |
|---|---|----------------------------------|---------------------|
| Tier 1 shareholders' equity (a): | | | |
| Share capital | 7,059 | 7,059 | 7,059 |
| Premium | 1,129 | 1,129 | 1,129 |
| Reserves | 19,853 | 17,922 | 18,278 |
| Unrealized profits (losses) from adjustments of available-for-sale securities at fair value | 485 | - | - |
| Adjustments from translation of financial statements of companies included on equity basis | (207) | (211) | (242) |
| Capital reserves due to share-based transactions and loans to employees to purchase shares of the Bank | (29) | (30) | (30) |
| Other capital reserves | 58 | 49 | 50 |
| Noncontrolling interests | 299 | 331 | 340 |
| Amounts reduced from Tier 1 shareholders' equity including goodwill and other intangible assets, deferred taxes and unrealized profits (losses) as a result of changes in the fair value of the liabilities deriving from changes in the Bank's own credit risk | (201) | - | - |
| Amounts deducted from Tier 1 capital, including goodwill, investments and other intangible assets | - | (321) | (321) |
| Total Tier 1 shareholders' equity after deductions | 28,446 | 25,928 | 26,263 |
| Tier 2 capital: | | | |
| Eligible capital instruments pursuant to the transitional provisions in Regulation No. 299 | 11,635 | - | - |
| Non-innovative and innovative compound capital instruments | - | 6,154 | 6,149 |
| Subordinated notes | - | 8,955 | 8,395 |
| Noncontrolling interests in capital in subsidiaries pursuant to the transitional provisions in Regulation No. 299 | 5 | - | - |
| Collective allowance for credit losses before the effect of related tax | 2,800 | - | - |
| 45% of the amount of net profits, before the effect of related tax in respect of adjustments to fair value of available-for-sale securities | - | 91 | 100 |
| General provision for doubtful debts | - | 428 | 428 |
| Amounts reduced from Tier 2 Capital | - | (64) | (65) |
| Total Tier 2 capital | 14,440 | 15,564 | 15,007 |
| Total capital base for capital adequacy purposes | 42,886 | 41,492 | 41,270 |

(a) Tier 1 shareholders' equity in Basel II data should be considered as Tier 1 capital.

On 1 January 2014, the Bank of Israel requirements for the application of the Basel III regulations came into force.

According to the requirements, the capital components for the purpose of calculating capital adequacy attributed to the Tier 1 capital and Tier 2 capital. The summation of these tiers is called "capital base for the purpose of capital adequacy" or "regulatory capital".

Tier 1 capital includes:

- a. **Tier 1 capital** includes the capital attributable to the shareholders of the banking corporation, with the addition of the part of the rights not conferring control of capital of non-consolidated subsidiaries (minority interests) and deducting goodwill, intangible and other assets and regulatory adjustments and other deductions, all as set forth in Proper Conduct of Banking Business Management Regulation No. 202 "Measurement and Capital Adequacy – Regulatory Capital" and subject to the transitional provisions of Proper Conduct of Banking Business Management Regulation No. 299 "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".
- b. **Additional Tier 1 capital** which comprises capital instruments complying with the criteria determined in Proper Conduct of Banking Business Management Regulation No. 202. There are no capital instruments in this tier in the Leumi Group.

Any additional Tier 1 capital instruments that are issued in the future will be required to comply with the criteria set forth in Proper Conduct of Banking Business Management Regulation No. 202.

Tier 2 capital:

In the Basel III regulations, the distinction between Upper Tier 2 and Lower Tier 2 is cancelled.

Tier 2 capital includes mainly capital instruments and the balance of a collective allowance for credit losses before the effect of the related tax, up to a ceiling of 1.25% of total credit risk assets.

With regard to capital instruments which were included in Tier 2 capital on 31 December 2013, the transitional provisions and the asset recognition ceiling were determined, as set forth in Proper Conduct of Banking Business Management Regulation 299 "Measurement and Capital Adequacy – Regulatory Capital- Transitional Provisions". The capital instruments which were part of Tier 2 at 31 December 2013 include compound capital instruments which were till then classified to upper Tier 2 capital, and deferred notes which were classified to lower Tier 2. For details, see page 23 of the 2013 Annual Report.

A description of the main features of regulatory capital instruments which have been issued is presented in the Bank's website: <http://leumi.co.il/home01/32587> in

If any Tier 2 capital instruments are issued in the future, they will be required to comply with the criteria set forth in Proper Conduct of Banking Business Management Regulation No. 202.

Capital adequacy - (Table 3 - Basel):

| | Basel III | | Basel II | | | |
|---|--|--------------------------|-------------------|--------------------------|------------------|--------------------------|
| | 30 September 2014 | | 30 September 2013 | | 31 December 2013 | |
| | Risk assets and capital requirements in respect of credit risk deriving from exposures to: | | | | | |
| | Risk assets | Capital requirements (c) | Risk assets | Capital requirements (c) | Risk assets | Capital requirements (c) |
| | NIS millions | | | | | |
| Sovereign debts | 774 | 97 | 805 | 72 | 788 | 71 |
| Debts of public sector entities | 2,425 | 303 | 2,348 | 211 | 2,242 | 202 |
| Debts of banking corporations | 5,373 | 672 | 3,732 | 336 | 4,372 | 393 |
| Debts of securities company | 142 | 18 | 58 | 5 | 35 | 3 |
| Debts of corporations | 110,761 | 13,845 | 106,686 | 9,602 | 104,523 | 9,407 |
| Debts collateralized by commercial real estate | 45,418 | 5,677 | 45,090 | 4,058 | 45,191 | 4,067 |
| Retail exposures to individuals | 29,758 | 3,720 | 25,935 | 2,334 | 26,639 | 2,398 |
| Loans to small businesses | 10,594 | 1,324 | 10,337 | 930 | 10,657 | 959 |
| Housing loans | 40,945 | 5,118 | 37,311 | 3,358 | 38,375 | 3,454 |
| Securitization | 726 | 91 | 848 | 76 | 831 | 75 |
| Other assets | 19,665 | 2,458 | 14,262 | 1,284 | 13,895 | 1,251 |
| Risk assets and capital requirements in respect of CVA risk (a) | 2,844 | 356 | - | - | - | - |
| Total in respect of credit risk (a) | 269,425 | 33,679 | 247,412 | 22,266 | 247,548 | 22,280 |
| Risk assets and capital requirements in respect of market risk (a) | 11,223 | 1,403 | 11,279 | 1,015 | 10,510 | 946 |
| Risk assets and capital requirements in respect of operational risk (b) | 20,568 | 2,571 | 20,711 | 1,864 | 20,426 | 1,838 |
| Total risk assets and capital requirements (d) | 301,216 | 37,653 | 279,402 | 25,145 | 278,484 | 25,064 |
| Total capital base for capital adequacy | 42,886 | | 41,492 | | 41,270 | |
| Total capital ratio | 14.24% | | 14.85% | | 14.82% | |
| Tier 1 shareholders' equity ratio | 9.44% | | 9.28% | | 9.43% | |

(a) Weighted risk assets according to the standardized approach, First Pillar only.

(b) According to the standardized approach.

(c) The capital requirements have been computed at 12.5% according to the minimum required ratio with effect from 1 January 2015. In 2013, capital requirements have been computed at 9% according to the minimum required ratio until the end of 2013.

(d) Additional capital buffers were calculated in respect of the Second Pillar.

Below is the capital adequacy ratio on a consolidated basis and for principal subsidiaries according to Basel:

| | Basel III | Basel II |
|-------------------------------|--------------------------|------------------|
| | 30 September 2014 | 31 December 2013 |
| | % | |
| Leumi – on consolidated basis | 14.24 | 14.82 |
| Arab-Israel Bank | 13.02 | 12.50 |
| Leumi Card | 16.82 | 16.00 |
| Bank Leumi USA (a) | 14.93 | 14.54 |
| Bank Leumi UK | 19.35 | 16.39 |
| Bank Leumi Switzerland | 22.76 | 44.91 |

- (a) The subsidiary in the USA is not obliged to compute the capital adequacy ratio in accordance with Basel III. Accordingly, the ratios presented are according to Basel I.

B. Other Information

Principal Developments in the Economy^(*)

General

In the first nine months of 2014, the GDP of the Israeli economy grew in real terms at 2.7%, compared with the corresponding period last year. However, in the third quarter of the year, there was negative growth in annual terms amounted to 0.4% in annual terms, compared with the second quarter. In this context, the Central Statistical Bureau noted that Operation "Protective Edge" had a significant effect on some of the economic data for this quarter. This is exemplified by a decline in tourist services of 77.5% (in annual terms) in the third quarter, compared to the second quarter of the year.

From January – September, the Israeli consumer price index fell by 0.3%. Bank of Israel interest rates fell during this period by 0.75 percentage points from 1.0% at the end of 2013 to 0.25% in September 2014, a level which was also retained in November. The low inflationary environment which was under the price stability target allows the monetary policy, by means of the interest rate, to support growth in the economy which is experiencing economic slowdown. However, in an announcement at the end of October, the Bank of Israel noted that, in order to attain its objectives, the need to employ various tools will be examined, i.e., beyond the interest rates and macro-stabilizing tools which have been used until now.

In the first nine months of the year, the shekel fell in value against the dollar, but appreciated against the euro. This was most evident in the third quarter of the year, when the shekel was devalued against the dollar by 7.5% and, on the other hand, appreciated against the euro by 1.0%.

From January – September, the capital market was characterized by price increases as a part of the impact of low interest rates on asset prices in the market, both in Israel and in the effect on world markets. The share and convertible securities index rose during this period by some 11.8%, while the indices of unlinked fixed interest government debentures increased markedly, by 7.9%.

On 8 July 2014, Operation "Protective Edge" began and lasted 50 days. The period of fighting caused economic damage in the various areas of the country, and in various sectors of the economy. The Bank of Israel noted, as part of a macroeconomic forecast of the Research Division on 22 September 2014, that it estimated that the campaign reduced economic growth in 2014 by 0.4%. According to an assessment of the Bank of Israel, the damage caused by Operation "Protective Edge" was expressed mainly in private consumption – damage which is expected to be short term – and in the export of tourism services. The latter damage is expected to be more prolonged.

On 9 July 2014, in light of Operation "Protective Edge", the Supervisor of Banks published a number of reliefs for the public managing their accounts living on the confrontation line. On 27 July 2014, in view of the continuation of the special situation on the frontline, the Supervisor of Banks expanded the reliefs which he gave to individuals and businesses operating within 0-40 kilometers of the Gaza Strip, even if their accounts are not managed in branches within this area, and also directed the banks to grant reliefs to soldiers on reserve duty.

The Bank granted reliefs, *inter alia*, on deviations from credit facilities, activity by means of Internet banking, telephone instructions and charges according to authorization. In addition, the Bank refrained from restricting accounts and account-holders, due to rejected cheques, whose registered address was in towns for which a special frontline status had been declared. The Bank reinforced its telephone service centers and a designated line was set up for customers wishing to receive information or execute a transaction in their account, even if they had not subscribed to the service for telephonic instructions. In addition, the Bank offered designated products for retail customers on the confrontation line.

(*) Data sources: publications of the Central Bureau of Statistics, the Bank of Israel, the Ministry of Finance and the Tel Aviv Stock Exchange.

On 3 September 2014, the Supervisor of Banks published "return to normal routine" directives, including the gradual phasing-out of the reliefs. Accordingly, the Bank canceled the reliefs for customers living in the emergency region in the following areas: exceeding credit facilities, online banking services, telephone banking and direct debits. In addition, the reliefs regarding the restriction of accounts and bounced cheques was ended, in accordance with the time-tables dictated in the directives.

The Global Economy

In October 2014, the International Monetary Fund (IMF) revised its estimate of expected development of global growth for 2014. In the advanced countries, there was no change in the forecasts, compared to the revision made in July 2014, but this was a result of differences in the economic development of the various countries. The rate of growth in the American economy was revised upwards (by 0.5%), while the prominent countries in the euro area (Germany, France, Italy) saw downturns in their forecasts (-0.5%, -0.4% and -0.5%, respectively). According to the Fund's revised estimates, growth in the United States and in the euro area in 2014 is expected to total 2.2% (compared with 1.7% in the previous estimate) and 0.8% (1.1% in a previous estimate), respectively. The forecast for growth in world GDP in 2015 was adjusted downwards by 0.2%.

The State Budget and its Financing

The months from January-September 2014 saw a surplus of NIS 10.5 billion in the State budget, compared with a planned deficit of some NIS 31.1 billion in the whole of 2014 and a deficit of some NIS 14.0 billion in the corresponding period last year. Government ministry expenditure during this period expanded by 3.4%, while tax collection increased by 6.6%, compared to January-September last year, with revenues for September adversely affected by the repercussions of Operation "Protective Edge", which caused a slowdown in activity in the economy.

Proposed Value Added Tax Law (Tax Benefit in Transaction to Purchase a Beneficiary Residential Apartment), 2014 – "Zero-Rate VAT" program

On 7 July, 2014, the Knesset approved in a first reading the proposed Value Added Tax Law (Tax Benefit in Transaction to Purchase a Beneficiary Residential Apartment), 2014. The proposed law provides that the benefit will apply to purchasers who acquire a new apartment from a contractor, with effect from September 2014. Pursuant to the proposal, eligible for the benefit is a resident of Israel who is a parent to at least one child in his/her custody, or who is 35 years or older and does not own an apartment, and has not owned an apartment since 1995. The benefit will be in effect for those who have served in the army and national or civil service in the purchase of an apartment at a cost of NIS 1.6 million, while for those who have not served in the army or in national service, it will apply in the purchase of an apartment at a cost of up to NIS 950 thousand.

The proposed law was approved by the Finance Committee on 12 November 2014 and will be passed to the Knesset plenum for a vote at a second and third reading.

"Target Price" Program

The Israel Lands Council has prepared a program for the publication of tenders using the "Target Price" method. Under the program, 66,000 residential units will be offered, until 2019, at prices which will be 20% lower than their market value. According to an announcement of the Housing and Construction Ministry of 19 October 2014, the tenders will be published with the approval of the "Zero VAT" program.

The housing market

The third quarter of 2014 was characterized by an increase in the sales of new residential apartments, mainly against the background of a significant increase in sales in the month of September, such that there was an increase of 16% in the third quarter, compared to the second quarter (seasonally adjusted figures), and after a fall of 14.9% in the second quarter compared to the first quarter. The increase in the first quarter occurred, despite the effect of Operation "Protective Edge" and the continuing delay in the approval of a proposed law and government initiatives (the target price program and the "Zero VAT" program) with implications for the taxation of residential apartments and attempts to limit their price. These factors, particularly in the second quarter, raised expectations among households that there will be a certain fall in house prices.

Foreign trade and capital transactions

Israel's aggregate trade deficit in the period from January to September 2014 amounted to some US\$ 11.1 billion, an increase of some 1.4% compared with the deficit for the corresponding period last year. The increase in the trade deficit is due to an increase in imports, compared with a slightly smaller increase in exports.

Foreign currency capital transactions in the first eight months of 2014 were characterized by a volume of foreign currency capital inflows higher than capital outflows. In particular, direct investments in Israel, via the banking system, amounted to US\$ 6.8 billion during the said period, while financial investments amounted to US\$ 6.2 billion. However, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US\$ 8.9 billion, most of which consisted of financial investments, of which some are hedged against currency risk.

Exchange Rate and Foreign Currency Reserves

In the first nine months of 2014, the exchange rate of the shekel fell in value against the dollar by some 6.5%, as a result of an appreciation of some 1.0% in the first half of the year, and a 7.5% depreciation in the third quarter. Against the euro, there was an appreciation of 2.8% in the period January-September. The strengthening of the dollar versus the shekel was influenced, *inter alia*, by the strengthening of the dollar around the world, and possibly by the effect of falling interest rates in Israel.

Foreign currency balances in the Bank of Israel at the end of September 2014 amounted to some US\$ 86.2 billion. This compared with US\$ 81.8 billion at the end of December 2013.

In the period January-September 2014, foreign currency purchases by the Bank of Israel, part of a program of purchases to offset the effect of gas production on the exchange rate, totaled US\$ 2.6 billion.

Inflation and Monetary Policy

The Israeli consumer price index fell by 0.3% during the first nine months of the year, while in the twelve months to September 2014, the fall in the index was about the same – 0.3%, a rate which is situated under the lower limit of the Government's target range of the price stability of 1% to 3%. Half of the items in the index fell during the last twelve months, the main contributory factors being the food items (a fall of 2.9%) and transport and communication (a fall of 2.1%). Notable among those items which increased was the housing component (2.1%). These figures reflect a moderate inflationary environment, against the background of a slowdown in economic activity and an intensification of competition affecting some of the index components.

The Bank of Israel interest rate, which was 1.0% in December 2013, fell in the interest decision for March 2014 by 0.25 percentage points to a rate of 0.75%, and remained at this level in June 2014. In the interest decision for August, interest was reduced to 0.50%, while in the September decision, the rate was lowered further to 0.25%, a rate which was retained in the November decision. The reasons for the reduction were the need to lend support to economic activity, particularly in light of weak economic activity around the world and Operation "Protective Edge", as well as the low inflationary environment, approaching the lower limit of the price stability target.

Capital market

The shares and convertible securities index rose by some 11.8% in the first nine months of the year, following an increase of some 15.3% in 2013. The rising prices are explained, *inter alia*, by the repercussions of an expansive monetary policy in Israel and around the world on the capital markets of several countries, including Israel.

Average daily trading volumes of shares and convertible securities fell by some 1.4% during the first nine months of 2014, compared with the average for 2013, and amounted to some NIS 1,156 million on a daily average. This results from a reduction in trading volume in July and August during Operation "Protective Edge".

The Government bond market was characterized by price increases during the period from January to September 2014. The price of index-linked Government bonds rose by 6.5%, while unlinked government bonds rose by some 6.8% (the fixed interest bond indices rose by some 7.9% and the variable interest (*Gilon*) bond index increased by only 0.8%). The background to this is the decline in the inflationary environment which led to a drop in the Bank of Israel interest rate to a record low.

In the index-linked non-government debenture market (corporate bonds), there were price increases of some 4.1% over the period, January–September 2014, following price increases of some 9.5% in 2013.

Financial Assets held by the Public

The value of the portfolio of financial assets held by the public increased in the period January – September 2014 by 5.6%, reaching NIS 3,132 billion at the end of September 2014. This increase in the value of the portfolio derived from an increase in all of its components. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 24.2% at the end of September 2014, compared with some 24.1% in December 2013.

Bank credit

Total bank credit in the economy granted to the private sector, including the corporate and household credit (before allowances for credit losses) increased by 2.1% in the first eight months of the year. This was the result of a slight decrease of some 0.1% in credit extended to the corporate sector and a rise in credit extended to households. The development of components of credit to households indicated an increase of 4.8% in housing credit, with non-housing credit (consumer credit) expanding by 3.2%.

The table below shows Israel's and the Bank's credit ratings as at 20 November 2014:

| | Rating agency | Long-term | Forecast | Short-term |
|------------------------------|---------------|-----------|----------|------------|
| State of Israel | Moody's | A1 | stable | P-1 |
| | S&P | A+ | stable | A-1 |
| | Fitch | A | stable | F1 |
| Bank Leumi: foreign currency | Moody's | A2 | negative | P-1 |
| | S&P | A- | stable | A-2 |
| | Fitch | A- | stable | F1 |
| Bank Leumi: local currency | Ma'alot | AAA | stable | - |
| | Midroog | Aaa | stable | P-1 |

On 1 May 2014, Fitch upgraded the short-term rating of Bank Leumi to F1 and affirmed the long-term rating of the Bank at A-, with a stable outlook.

On 7 October 2014, S&P raised the long-term credit rating in foreign currency of the to A- and S&P Maalot raised the long-term rating of the Bank in local currency to AAA.

On 20 October 2014, Moody's changed the outlook for rating the Bank's deposit ratings from stable to negative. The reason for this was general for the Israeli banking system, this, in view of Moody's expectation of future regulatory measures relating to the Government's rescue of the banks in a crisis, and not for a specific reason related to Leumi.

Development in Leumi share price

From the beginning of the year until 30 September 2014, the price of Leumi shares rose from 1,418 points to 1,492 points, an increase of 5.22%. During this period, the Bank's market value rose from a level of some NIS 20.9 billion to a level of NIS 22 billion.

From 30 June 2014 to 30 September 2014, the Leumi's share price rose from 1,339 points to 1,492 points, an increase of 11.4%. During this time, the Bank's market value increased from NIS 19.7 billion to 22 billion.

On 18 November 2014, Leumi's share price stood at 1,355 points, reflecting a 9.2% decline since 30 September 2014. During this time, the Bank's market value fell to NIS 20 billion.

The following table sets out the principal representative exchange rates:

| | 30 September | | 31 December | |
|----------------|--------------|-------|-------------|-------|
| | 2014 | 2013 | 2013 | 2012 |
| | In NIS | | | |
| U.S. dollar | 3.695 | 3.537 | 3.471 | 3.733 |
| Euro | 4.649 | 4.773 | 4.782 | 4.921 |
| Pound sterling | 5.978 | 5.707 | 5.742 | 6.037 |
| Swiss franc | 3.853 | 3.906 | 3.897 | 4.077 |

The following table sets out the changes in the consumer price index and exchange rates:

| | First nine months of | | Year |
|--|-----------------------------|-------------|-------------|
| | 2014 | 2013 | 2013 |
| | (in percentages) | | |
| Rate of increase in Israeli Consumer Price Index ("known" index) | 0.1 | 2.0 | 1.9 |
| Rate of increase (decrease) of the U.S. dollar exchange rate | 6.5 | (5.3) | (7.0) |
| Rate of decrease of the euro exchange rate | (2.8) | (3.0) | (2.8) |
| Rate of increase (decrease) of the pound sterling exchange rate | 4.1 | (5.5) | (4.9) |
| Rate of decrease of the Swiss franc exchange rate | (1.1) | (4.2) | (4.4) |

| | 2014 | | | 2013 | | | |
|---|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | (in percentages) | | | | | | |
| Rate of increase (decrease) in Israeli Consumer Price Index ("known" index) | 0.3 | (0.5) | (0.7) | (0.1) | 1.3 | 0.7 | - |
| Rate of increase (decrease) of the U.S. dollar exchange rate | 7.5 | (1.4) | 0.5 | (1.9) | (2.2) | (0.8) | (2.3) |
| Rate of increase (decrease) of the euro exchange rate | (1.0) | (2.5) | 0.6 | 0.2 | 1.1 | 1.3 | (5.3) |
| Rate of increase (decrease) of the pound sterling exchange rate | 2.0 | 0.9 | 1.1 | 0.6 | 3.4 | (0.2) | (8.3) |
| Rate of increase (decrease) of the Swiss franc exchange rate | (0.2) | (2.1) | 1.3 | (0.2) | 2.2 | - | (6.2) |

General Environment and Effect of External Factors on Activities

Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report

The Directors' Report includes, in addition to data relating to the past, information that relates to the future, which is defined in the Securities Law, 1968 as "forward-looking information". Forward-looking information relates to a future event or matter, the realization of which is not certain and is not within the exclusive control of the Bank.

Forward-looking information is generally drafted using words or phrases such as "the Bank believes", "the Bank foresees", "the Bank expects", "the Bank intends", "the Bank plans", "the Bank estimates", "the Bank's policy", "the Bank's plans", "the Bank's forecast", "expected", "strategy", "aims", "likely to affect" and additional phrases testifying to the fact that the matter in question is a forecast of the future and not past facts.

Forward-looking information included in the Directors' Report is based, *inter alia*, on forecasts of the future regarding various matters related to economic developments in Israel and abroad, and especially to the foreign exchange and capital markets, legislation, directives of regulatory bodies, the behavior of competitors, technological developments and personnel issues.

As a result of the inability to foresee with certainty that these forecasts will be realized, and the fact that, in reality, events may turn out differently from those forecasts, readers of the Report should relate to information defined as "forward-looking" with caution, since reliance on such information involves risks and uncertainty and the future financial and business results of Leumi Group are likely to be materially different.

The Bank does not undertake to publish updates of the forward-looking information included in this Report.

This does not detract from the Bank's reporting obligations pursuant to any relevant law.

Legislation and regulation relating to the Banking System

See detailed outline in the 2013 Financial Report, pages 31-43.

Prohibition of Money Laundering Order (Obligations of Identification, Reporting and Management of Records of Banking Corporations to Prevent Money Laundering and the Financing of Terrorism), 2014

On 2 February 2014, an amendment to the Prohibition of Money Laundering Order applicable to banks was published. The amendment to the Order includes new regulations in the area of the prohibition of money laundering and the financing of terrorism, such as the addition of requirements in connection with the examination and recording the names of parties to transactions of international transfers, the anchoring of the obligation to "know your customer" and the addition of regulations and requirements relating to this obligation, the addition of the obligation to retain documents for a longer period at the request of the Supervisor of Banks and the addition of a reference to the list of countries at risk published by the Head of the Prohibition of Money Laundering and Financing of Terrorism Authority.

In addition, the definition in the Order of "unusual activity", requiring a report to the Prohibition of Money Laundering Authority, was amended. Pursuant to the amended definition, "unusual activity is an activity, which, in the light of the information in the hands of the banking corporation, concerns have arisen that it is connected to prohibited activity pursuant to the Prohibition of Money Laundering Law or the Prohibition of the Financing of Terrorism Law".

Most of the provisions of the amendment came into force six months after its publication.

Banking Order (Early Repayment Commissions) (Amendment), 2014

On 27 August 2014, an amendment to Banking Order (Early Repayment Commissions), 2002 was published. Pursuant to the amendment, the formula for the early repayment of loans to purchase housing or as collateral for housing was updated, such that the calculation of the commission will take into account, *inter alia*, the average interest in the market on the date of extending the loan.

In addition, the abovementioned order includes additional amendments, including an amendment of the definition of "average interest" in a way that will enable the Supervisor of Banks to determine, if necessary, and with the approval of the Finance Committee – the calculation of other interest; the Bank's charge on giving a full exemption from the commission on the failure to give early notice, in the event of the death of the borrower; an increase in the maximum number of days for giving early notice from 30 days to 45 days before the date of early notice; a determination that it is possible to furnish the Bank with early notice not just via mail or personal delivery, but also via fax or any other means of communication suggested by the Bank, in accordance with the customer's request; the addition of a request for a detail, on an explanatory page forwarded to the borrower, the rates of amortization to which he is entitled by virtue of the order and the loan agreement, and the details of creating the connection with the banking corporation for giving early notice; the limitation of the period for delivering an update page to the borrower, for a period of up to 60 days from the date of making the repayment.

Deposit and loan fund

On 19 November 2014, regulations were published by virtue of the Arrangement of the Investment Consulting Profession, in Investment Marketing and Investment Portfolio Management, 1995, and regulations by virtue of the Joint Investments in Trust Law, 1994, pursuant to which a legal framework was determined for marketing a new monetary fund of the deposit and loan fund ("Kapam") type. The purpose of the Kapam is to constitute an effective alternative for a bank deposit, and it will also be able to be sold to the public through an intermediary, who is not a holder of a consulting license.

Proposed Remuneration to Office-holders in Financial Corporations (Special Approval and Disallowance of Expense for Tax Purposes due to Unusual Remuneration), 2014

On 28 July 2014, the proposed law mentioned above was approved in a first reading. The proposed law sets limits on the remuneration of office-holders or other employees in financial entities, including, banking corporations, where the remuneration amount exceeds NIS 3.5 million. *Inter alia*, the proposed law establishes a strict procedure for the approval of remuneration exceeding NIS 3.5 million a year. In addition, the proposed law provides that the cost of salary to an office-holder or other employee, in excess of the ceiling of NIS 3.5 million a year, will not be allowed for deduction from a financial entity's taxable income.

Memorandum of Antitrust Law (Amendment no. 16) – Determination of Cross-Commission), 2014

On 10 August 2014, a memorandum of the Antitrust Law (Amendment no. 16 – Determination of Cross-Commission), 2014 was published. In the context of the amendment to the law, the Antitrust Commissioner ("the Commissioner") will be authorized to determine rates of cross-commission of transactions in debit cards, in lieu of the existing legal arrangement (approval of a restrictive arrangement in the Antitrust Court). The Antitrust Commissioner will be able to set a cross-commission at various rates, including a cross commission at zero rate, where he considers that various transactions have features which justify such treatment.

In addition, the amendment to the law provides criminal liability and the possibility of a monetary sanction in respect of payment or the collection of cross-commission at a rate different from that determined by the Commissioner, and that the juridical supervision on the Commissioner in exercising his authority as above, including an appeal against the Commissioner's decisions in the determination of cross-commission, will be made via the Court for Administrative Affairs.

Legislation and Regulation in Pension Consulting

On 27 May 2014, the Supervisor of the Capital Market, Insurance and Savings Division in the Ministry of Finance ("the Supervisor") published an amendment to the circular "Uniform Structure for Transferring Information and Data in the Pension Savings Market", pursuant to which the provisions of Appendix D to the circular regarding the interface of events and provisions of Appendix F to the circular regarding the structure of the file name were updated. The changes in the circular will come into force from 1 January 2015.

On 17 September 2014, the Supervisor published an update to the abovementioned circular, pursuant to which an appendix was added to the circular specifying a uniform structure for transferring data and statistics between employers and managements of provident funds ("employers' interface"). In addition, the update included a change in the provisions of Appendix B to the circular with regard to a pre-consultation interface. On 19 October 2014, the Supervisor published a draft to the abovementioned circular in the light of which the circular is expected to include further transactions and provisions, such as: transactions to update personal details, cancelation of power of attorney for a license holder and the transfer of documents from a license holder to an institutional entity.

On 12 June 2014, the Finance Ministry published a revised version of the draft of the Supervisory Regulations on Pension Services (Provident Fund) (Distribution Commissions), 2014, which were forwarded for the approval of the Knesset Finance Committee, pursuant to which the effective date of the regulations was updated to 1 January 2015, with, in respect of the distribution commission paid prior to the publication of the regulations, the provisions of the regulations will apply with effect from 1 January 2016.

On 16 June 2014, the Supervisor published a third draft of the "explanatory document" circular which was intended to establish a focused and uniform structure for the explanatory document and is expected to replace a number of circumstances dealing with an explanatory document and other documents which a license holder is required to transfer to the customer during a pension marketing or pension consulting transaction.

On 18 June 2014, the Supervisor published a draft of the circular "Power of Attorney for a License Holder", pursuant to which additional methods for the verification of the power of attorney by a license holder were detailed. In addition, in the draft of the amendment, the opening paragraph of the provisions of the circular was updated in relation to whose customers pension consulting was provided before the date of publishing the amendment to the Supervision of Financial Services (Consulting, Marketing and Pension Clearing Systems Law), 2005 on 10 March 2011 regarding a central pension clearing system.

On 16 September 2014, the Supervisor published a draft of the Supervision of Financial Services (Insurance) (Brokerage) Regulations, including provisions regarding the payment of brokerage fees to more than one license holder, according to which brokerage (including distribution commission paid to a pension consultant) for a product in respect of which a new license holder was appointment by the customer, will be paid only to the new license holder.

Directives of the Supervisor of Banks

Proper Conduct of Banking Business Management Regulation No. 414 – Disclosure of the Cost of Services in Securities

On 2 April, 2014, the Supervisor of Banks published Proper Conduct of Banking Business Management Regulation No. 414 concerning the disclosure of the cost of services in securities.

The regulation requires banking corporations to disclose to their customers who are charged commissions in respect of transactions for the purchase, sale or redemption of Israeli or foreign securities, or a commission fee for managing a securities deposit, comparative information regarding the rates of commissions paid by other customers of the banking corporation who hold deposits with a similar value to that of the deposit held by the customer.

The said comparative information to be furnished to the customer should be presented in the context of a biannual report to the customer, along with detailed information on the commission on the purchase, sale or redemption of securities, and a commission fee for managing a securities deposit, in which the customer is actually charged. The comparative information to be furnished to the customer will also be published on the banking corporation's website.

The regulation applies to individuals and small businesses.

The regulation will come into force on 1 January 2015. The initial disclosure of the information to the customer and its publication on the website will be based on data received during the months of July – December 2014.

Proper Conduct of Banking Business Management Regulation No. 422 – Opening and Managing a Current Account in a Credit Balance

On 26 May 2014, the Banking Supervision Department published Regulation no. 422 regarding opening and managing a current account in a credit balance. The directive specifies those cases in which a banking corporation is obliged to address a customer's request to open a current account in a credit balance.

In addition, the directive defines those services and means of payment which a banking corporation will be obliged, as a rule, to place at the disposal of its customers, including, making payments by way of charges according to an authorization, use of a card for immediate debit, use of a card for the purpose of cash withdrawal, information retrieval service via a service stand in a branch and an approach via the Bank's website, and requires to furnish the customer who submitted a request to open an account and met with a refusal decision in writing in relation to a refusal, within five business days of the date of submitting the request. The directive will come into force gradually.

Amendment to Proper Conduct of Banking Business Management Regulation No. 355 – Management of Business Continuity

On 26 May 2014, the Banking Supervision Department published an amendment to Regulation no 355 regarding the management of business continuity. Proper Conduct of Banking Business Management Regulation 355 requires banking corporations to prepare for national and other reference scenarios which are likely to cause them substantial damage. In addition, individual consideration was given to the need for the existence of alternative sites to the Bank's main websites, including a disaster recovery website intended for the recovery of data and information systems. Pursuant to the amendment, a paragraph determining guiding principles for the minimum protection of the various critical sites was added the directive, for the purpose of withstanding national and other reference scenarios.

Amendment to Proper Conduct of Banking Business Management Regulation 403 – Non-banking Benefits to Customers

On 6 July 2014, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Management Regulation 403 – Non-banking Benefits to Customers. Pursuant to the amendment, Proper Conduct of Banking Business Management Regulation 470 regarding debit cards was also amended.

According to the amendment, it is provided that, as a rule, banks and credit card companies are not authorized to provide a non-banking benefit by way of opening and managing a current account, or by way of providing other banking services, including the placement of a deposit, extending or utilizing credit, opening and managing an investment portfolio, investment advice or pension consulting, clearing and discounting.

However, the directive permits the provision of a non-banking benefit by way of submitting a request on the part of a customer for the issue, holding and use of a debit card, on opening a current account, and in other cases set forth in the directive, all providing these non-banking conditions will not be conditional on a commitment with the banking corporation for any periods of time, or a requirement for their recovery.

In addition, the directive provides that on publishing a non-banking benefit, the banking corporation must present material information in connection with the benefit. In addition, if the banking corporation has chosen to present in its announcement the price of a product or a service after the benefit, it will also be required to present the price before the benefit, where such exists. In addition, the banking corporation is required to publish the full details of the non-banking benefit on its website.

Proper Conduct of Banking Business Management Regulation 312 – Transactions of a Banking Corporation with Related Persons

On 10 July 2014, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Management Regulation 312 on Transactions of a Banking Corporation with Related Persons and an indirect amendment for the purpose of adjustment, to Proper Conduct of Banking Business Management Regulation 301. As part of the amendment, the definition of "related person" was expanded, *inter alia*, to entities holding more than 5% of the means of control in a banking corporation, to office-holders in those entities, their relatives and corporations under their control, and to a shareholder in a banking corporation without a controlling core who proposed a candidate for office as director in a banking corporation, his relatives and corporations under their control, and to anyone holding 10% and more of any class of the means of control in a corporation controlled by the banking corporation or relative of a holder as aforesaid. In addition, individual limits were imposed on the obligations of related persons, as well as an overall restriction, and an update in relation to transactions which must be brought for approval in the Audit Committee or the Transactions with Related Persons Committee. The effective date of the amendment to the directive is 1 January 2015. The amendment provides provisions for regulating the obligations of anyone who became related persons, as far as they exceed the limits provided.

Proper Conduct of Banking Business Management Regulation 418 – Opening accounts via the Internet

On 15 July 2014, the Banking Supervision Department published a directive permitting the opening of an account on the Internet for an individual Israeli resident, who is over the age of 18, providing the account will have no beneficiaries other than the account-holders. After opening the account, no addition or change to the account-holders will be permitted. The account will be marked and identified in the bank's automated system as an account which was opened online for the purposes of monitoring risks.

The identification of the customer, pursuant to the directive, will be done using non-original documents, and the "Know Your Customer" procedure will be carried out by means of video-conferencing.

In addition, the directive sets forth quantitative and other limits which will apply to activity in the account.

The aforesaid restrictions on the online account, set out in the directive, will be removed only after completion of the full identification of the customer.

Proper Conduct of Banking Business Management Regulation 329 – Restrictions on the Granting of Housing Loans and a letter from the Supervisor of Banks on this subject

On 15 July 2014, the Banking Supervision Department published a new Proper Conduct of Banking Business Management Regulation no. 329 (hereinafter: "the Directive") incorporating a number of provisions which it published in recent years relating to various restrictions with regard to housing loans (*inter alia*, limits on the rate of financing, a limit on the part of a loan at variable interest, on the rate of repayment from income, on the period to final repayment, etc.) and redefines the term "rate of repayment from income", and a letter of the Banking Supervision Department regarding the Directive providing a limit on the amount of the loan which permits the receipt of mitigated risk weight for the purpose of weighting capital.

The Directive includes a new definition of "rate of repayment from income", in place of the existing definition in Directive no. 876 of the Supervision Reporting Regulations of the Bank of Israel – Banking Supervision Department. *Inter alia*, it is provided in the new definition that, in the computation of the rate of repayment from income, in addition to the income of the borrower, half of the monthly available income of a close family member of the borrower (hereinafter: "the relative") may be recognized, providing all of the following conditions are fulfilled: the relative acts as a guarantor for the loan, the bank has conducted a repayment capacity examination as carried out for the borrower himself, the relative himself pays from his bank account, at least, 20% of the monthly repayment amount.

In a letter from the Banking Supervision Department, a limit of NIS 5 million was set for the amount of the loan which permits the receipt of mitigated risk weight pursuant to clause 72 of Proper Conduct of Banking Business Management Regulation 203. For capital weighting purposes, it was determined that a loan whose amount exceeds NIS 5 million should be weighted by 100%.

It was also provided that the new topics defined in the Directive and in a letter of the Banking Supervision Department, mentioned above, will apply with regard to housing loans to which approval has been given in principle, from the earliest date possible, but no later than 1 October 2014 (hereinafter: "the effective date").

Notwithstanding the aforesaid, a banking corporation is entitled to provide approval in principle for a housing loan after the effective date, without the aforesaid applying thereto, on fulfilling the conditions set forth in the letter of the Banking Supervision Department.

On 28 September 2014, the Banking Supervision Department published an update of the provision (hereinafter: "provision update"), pursuant to which it was provided that the banking corporation is obliged to increase the Tier 1 shareholders' equity target, by a rate expressing 1% of the balance of housing loans. The effective date was set at 1 January 2017, with it being established that the capital target should be increased at fixed quarterly rates from 1 January 2015 to 1 January 2017.

In addition, it was determined in the provision update that, with effect from 1 January 2015, the banking corporations may reduce the risk weight for variable interest leveraged loans, as specified in a letter of the Supervisor of Banks on this subject dated 28 October 2010, from 100% to 75%.

Proper Conduct of Banking Business Management Regulation 439 – Direct debits

On 1 September 2014, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Management Regulation no. 439 regarding direct debits. The provision regulates the process for authorizations for debiting an account and their transfer from one bank to another. The main purpose of the amendment is to simplify the process of transferring authorizations for debiting an account from one bank to another and the process of establishing new authorizations. Among the changes included in the proposed amendment are:

The need for using an authorization letter signed by a customer and the bank retaining a copy thereof will be canceled and, in its place, a process of the transfer of details from the customer or the beneficiary will be anchored in all the means of communication established between the bank and the customer or between the bank and the beneficiary, respectively. The bank is obliged to enable the customer to ensure the identity of the beneficiary by carrying out an examination of correspondence between the institution code and the name of the institution, in order to prevent errors in entering details of the request by the customer. The bank is obliged to send a written response on its decision at the customer's request to establish an authorization to debit an account, within five business days from the date on which the customer's request is received. In addition, a new process was established for transferring direct debits from one bank to another, based on the transfer of data from the old bank to the new bank, as set forth in the regulation.

Proper Conduct of Banking Business Management Regulation no 308A – Dealing with customer complaints

On 30 September 2014, the Banking Supervision Department published a directive on the subject of dealing with customer complaints. The directive requires a banking corporation to appoint a designated function to deal with customer complaints, and to place at its head, a Customer Ombudsman. The Ombudsman will be a member of senior management of the banking corporation or directly subject to the aforesaid member. The Ombudsman and his staff should have professional skills, education and experience appropriate to the position, and proper resources for handling customer complaints. The Ombudsman and his staff will not carry out any other duties, apart from dealing with customer enquiries which are not complaints.

In addition, the directive requires the formulation of policy for dealing with customer complaints and establishment of a service charter for the Ombudsman.

With effect from the inception of the directive, clarification of a complaint in the respondent banking corporation will be a prerequisite for submitting the complaint to the Banking Supervision Department (except in exceptional cases). The response of the banking corporation will be given within 45 days. In exceptional circumstances, the Ombudsman will have the authority to extend this period, giving notice to the complainant.

The regulation will come into force on 1 April 2015.

Recommendations of the Committee to reduce the use of cash in the Israeli economy

Recommendations of the Committee to Examine Reducing the Use of Cash in Israel's Economy

On 17 July 2014, the recommendations of the Committee to Examine Reducing the Use of Cash in Israel's Economy were published.

The intention of the recommendations is to formulate an outline for action and ways of implementing the policy for limiting the use of cash as a means of payment in the Israeli economy, with the aim of minimizing the phenomenon of "dirty money" in Israel, fighting crime and money laundering and enabling the use of advanced means of payment.

According to the proposed outline, the recommendations include: (1) the limitation of the amount of transactions which may be used in cash; (2) the limitation on the use of cheques (limiting the option to pay a cheque which has been negotiated more than once in relation to cheques above a certain amount, establishing a prohibition on issuing and receiving cheques on which the beneficiary's name is not noted and limiting the amount of the transaction by cheque to a sum to be determined; (3) promoting the use of electronic means of payment, such as immediate debit cards, identified prepaid cards, smart virtual wallets and digital cheques.

The Committee's recommendations were approved by the Government on 22 October 2014.

Report of the Committee examining procedure for debt settlement in Israel (Andorn Committee)

On 17 November 2013, the report of the Committee examining procedure for debt settlement in Israel was published. The report specifies the new game rules for dealing with a company in difficulties using an outline in two stages. The outline is intended to increase the certainty among players in the market (banks and non-banks) and to create incentives to reach agreements, at an early date, before the company's position becomes worse.

National insurance

On 13 August 2012, the Deficit Reduction and Change in Tax Burden Law (Legislative Amendments), 2012 (hereinafter "the Law"), was published. Pursuant to the Law, with effect from January 2013, the rate of national insurance contributions collected from employers in respect of the portion of the salary exceeding 60% of the average salary in the economy increased from 5.9% to 6.5%. In addition, it was provided that this rate will be raised in January 2014 and in January 2015 to 7% and 7.5%, respectively. However, on 27 January 2014, the Law for Reliefs in the Capital Market and the Encouragement of Activity Therein

(Legislative Amendment), 2014, was published, according to which the insurance fees collected from employers in respect of the part of the salary exceeding 60% of the average salary in the market, will be updated in January 2014, January 2015 and January 2016 to 6.75%, 7.25% and 7.5%, respectively.

Foreign Account Tax Compliance Act (FATCA)

See details on the subject of FATCA on page 40 of the Report of the Board of Directors for 2013 and the update, as follows:

On 30 June 2014, the governments of Israel and the United States signed an agreement to improve the enforcement of international tax and the implementation of the provisions of the FATCA (Foreign Accounts Tax Compliance Act) (hereinafter: "the agreement"). The agreement regulates the transfer of information to the tax authorities in the United States, via the Israel Tax Authority, which would obtain the information from the financial entities in Israel. In addition, the agreement sets out the steps that the financial institutions in Israel will be required to take in order to locate the accounts of American customers and report on them. The agreement will come into force with the notification of the Government of Israel to the United States Government on the completion of all the legislative proceedings necessary in order to implement the agreement in Israel. To date, these proceedings have not been completed.

Bank Leumi commenced the implementation of FATCA on 1 July 2014, following nearly three years of preparations and in accordance with the directives of the Supervisor of Banks dated 6 April 2014, for the implementation of the FATCA in the banking corporations. In this regard, a number of directives were implemented, as outlined below:

1. Corporate governance proceedings – Appointment of a responsible official; organization of a designated work team directly subject to a member of management; approval of policy by the Board of Directors, procedures and reports to the management and the Board of Directors.
2. Recording of the Bank and the relevant subsidiaries in the portal of the U.S. tax authorities, in accordance with the time-tables provided in the directives.
3. Arranging the conduct of behavior with customers, in particular, the possibility of refusing to provide certain banking services to customers who do not cooperate with the banking corporation in the way required to implement the FATCA regulations.

Consortium arrangements for granting credit

On 30 June 2014, the effective term of a letter from the Antitrust Commissioner to managers of banks and insurance companies was extended. The letter details conditions, the fulfillment of which the Antitrust Authority has no intention of enforcing the provisions of the Antitrust Law, 1988 ("the Law"), on the connection between banks and between insurance companies and between them and between themselves ("banks and institutional entities") in credit consortia. As part of the extension, the Antitrust Commissioner announced that he did not intend to prescribe new conditions for the connection of credit consortia, as aforesaid, in the near future.

The said effective term in the Commissioner's notice is 31 December 2014, unless other notice is presented prior to the end of the period.

Accounting Policy on Critical Matters

The financial statements have been prepared in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks and his guidelines relating to the preparation of the annual and quarterly financial statements of a banking corporation, as detailed in Note 1 to the annual financial statements as at 31 December 2013.

In the first quarter of 2014, an accounting standard on the format of the statement of profit and loss for a banking corporation, generally accepted accounting principles in banks in the United States on the subject of the measurement of interest income and the regulations of the Banking Supervision Department and the bringing forward of the publication date of the financial statements were implemented for the first time, as a result of which a gap was created between the end of the reporting period of the Israel Corporation and the end of the reporting period of the Bank.

For further details, see Note 1b – Significant Accounting Policies, below.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles and the directives of the Supervisor of Banks require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the amounts of income and expenses.

The actual results relating to these estimates may differ from the estimates and/or the assessments.

The estimates and assessments are generally based on economic forecasts, assessments regarding the various markets and past experience, following due consideration, and which management believes to be reasonable at the time of signature of the financial statements.

The principal critical accounting subjects referred to in the Annual Report as at 31 December 2013 were as follows: allowance for credit losses and the classification of problem debts, derivative financial instruments, securities, obligations regarding employee rights, obligations in respect of legal and contingent claims, buildings and equipment, taxes on income and deferred taxes.

Obligations for employees' rights

On 9 April 2014, the Supervisor of Banks published a circular regarding the adoption of the accounting rules in the United States on the subject of employee rights. The circular updates the recognition, measurement and disclosure requirements regarding benefits to employees in the Public Reporting Directives in accordance with the generally accepted accounting principles in banks in the United States.

The circular provides that the amendments to the Public Reporting Directives will apply from 1 January 2015, with the Bank, on initial implementation, correcting with retroactive effect the comparative figures for the period commencing 1 January 2013 and onwards, in order to comply with the requirement of the rules as aforesaid, *inter alia*, in accordance with the provisions of the circular:

- The temporary provision in the existing regulations determining the discounting rate for computing the reserves to cover employees' rights (a rate of 4%) was canceled. The discounting rate for computing the liability in respect of the employees' rights will be based on the market return on government bonds in Israel. The circular provides that if it is determined that there is a market in Israel in which there is a deep market of high-quality corporate debentures, the Bank of Israel will reconsider the directive to make use of government bond market yields. (see updated reference of the Bank of Israel to the discounting rate below).
- A banking corporation must apply the accounting principles generally accepted in banks in the United States regarding share-based payments as stated in ASC 718 – Compensation - Stock Compensation.

Pursuant to the circular published by the Banking Supervision Department, the Bank is required to provide disclosure in the financial statements of at least the estimate of the quantitative effect on the shareholders' equity of the calculation of the liabilities for employees' rights due to the change in the discounting rate. According to the Bank's assessment, if the new regulations had been applied on 30 September 2014 in accordance with the current interest environment, the expected effect on the shareholders' equity of the Bank as of 30 September 2014 in respect of the impact of the change in the discounting rate would have been a decrease of some NIS 3.8 billion, after the effect of tax (NIS 5.9 billion before the effect of tax), based on the market yield of government bonds at the reporting date. If the liabilities were discounted on the basis of the market yields of AA-rated corporate debentures in Israel at the reporting date, a treatment which is consistent with the existence of a "deep market" for high-quality corporate debentures in Israel, the expected impact on the Bank's shareholders' equity as of 30 September 2014 is a decrease of NIS 2.0 billion after the effect of tax (NIS 3.1 billion before the effect of tax). It is clear that this liability will be revised in accordance with changes in the relevant market interest rates in subsequent years.

On 20 November 2014, the Banking Supervision Department published a supplementary draft circular, which includes updates on the following subjects: the discount rate, transitional provisions on the initial implementation of the new rules, and the disclosure format on the subject of employee rights and the subject of share-based payments.

On the subject of the discount rate, it is stipulated in the circular that the Bank of Israel reached the conclusion that there is no "deep market" of high-quality corporate debentures in Israel. Accordingly, the draft stipulates that the discount rate for employee benefits will be calculated based on the yield of Israel government bonds plus an average margin of corporate bonds rated internationally as AA and above. The calculation of the margin will be based, according to the draft, on corporate bond margins in the US. In light of the proximity of the dates between the publication of the draft circular and the publication of the financial statements, no estimate was calculated for the alternative of US corporate bonds, but the Bank believes that if the provisions of the circular on this subject had been applied at the reporting date, there would have been a smaller decrease in equity than that shown above based on market yields at the reporting date on government bonds, but higher than the decrease in equity shown above based on market yields at the reporting date on corporate bonds rated AA in Israel.

On the subject of the transitional provisions, the draft stipulates that the negative effect on equity that stems from a change in the discount rate will be included in the framework of accumulated other comprehensive income. This balance will be offset from actuarial profits that will stem from current changes in the discount rates in future reporting periods, until they are cancelled out. In addition, provisions were set forth in the draft regarding the method of amortizing to profit and loss of actuarial profits and losses to be recorded in other comprehensive income as a result of changes in the discounting rates after the date of initial implementation.

The Bank will examine the possible implications of the provisions of the draft.

It should be clarified that the adoption of United States accounting principles on the subject of employees' rights could have additional repercussions on the Bank's capital. One of those possible effects is the method and period for accruing liabilities. From preliminary estimates and interpretations, it appears that the effect of change in the method of accruing liabilities is liable to result in a further reduction in shareholders' equity of some NIS 0.25 billion after the effect of tax (NIS 0.4 billion before the effect of tax). The Bank is examining further interpretations of the method of rescheduling liabilities and/or additional effects that are likely to increase these estimates.

Despite the significant effect of a reduction in the Bank's shareholders' equity, for the purpose of computing the capital requirement in accordance with the Basel III regulations, pursuant to the transitional provisions provided in the Proper Conduct of Banking Business Management Regulation No. 299, the balance of the accumulated profit or loss in respect of the remeasurements of net liabilities or net assets, in respect of a defined benefit for employees, will not be taken into account immediately, but rather, will be subject to the transitional provisions such that its effect will be rescheduled until 2018.

For further details, see pages 44-50 in the 2013 Financial Report.

Procedure for the Approval of the Financial Statements

The Bank's Board of Directors is the entity ultimately responsible for supervision within the Bank and for the approval of the Bank's financial statements. Most of them (14 of the 15 directors) have accounting and financial expertise.

Discussion on the financial statements and the recommendation to the Board of Directors regarding their approval take place in the Audit Committee of the Board of Directors, pursuant to the provisions of Regulation 301 of the Supervisor of Banks.

Before the financial statements are submitted to the Audit Committee for discussion, the Bank's financial statements are discussed by the Disclosure Committee. The Disclosure Committee is a management committee consisting of the Bank's Management, the Chief Internal Auditor and additional senior managers of the Bank. The Disclosure Committee checks, *inter alia*, that the information in the financial statements is accurate, complete and presented fairly. The Disclosure Committee was set up as part of the implementation of the Bank Supervision Department directive, which is based on Section 302 of the Sarbanes-Oxley (SOX) Law. See the chapter, "Controls and Procedures with regard to Disclosure in the Financial Statements" below.

Prior to the discussion of the financial statements by the full Board of Directors, discussions are held by the Audit Committee, to which the President and Chief Executive Officer, the Head of the Economics and Finance Division, the Chief Accounting Officer, the Chief Internal Auditor and others are invited.

The background material sent to the members of the Audit Committee for discussion includes the minutes of discussions in the Disclosure Committee and its decisions, the draft Board of Directors' Report, the draft of the financial statements, information regarding the Bank's exposure to legal claims and a description of the new legal claims and background material for discussion on the appropriateness of the classification of problem customers and provisions, and, if necessary, background material for discussion on the topic of impairment of securities. In addition, a draft of the corporate governance questionnaire is included in the background material for the discussions on the periodic statements. The members of the Committee also receive details of new disclosure requirements (if any) applicable to the Bank.

As part of the deliberations on the financial statements, the Audit Committee discusses the appropriateness of the provisions and the classifications of the Bank's problem debts, after the Chief Executive Officer has presented to the Committee the extent of the provisions and the classification for problem debts and the changes and the trends in this area, and after other senior managers have presented the extent of the provisions and classifications for which they are responsible and have detailed the main factors of change in these areas. The subject of the legal claims and of the Bank's exposure in this regard is presented by the Bank's Chief Legal Advisor. The Chief Accounting Officer presents to the Committee the main and material matters in the Directors' Report and financial statements, the changes in critical accounting policies, if any, and the main matters discussed by the Disclosure Committee. The Committee also discusses these matters. If necessary, the subject of the impairment of securities is presented by a senior manager from the Capital Markets Division.

The Audit Committee submits its recommendations regarding the financial statements to the Board of Directors. The committee's recommendations relate, *inter alia*, (in accordance with the provisions of the Companies Regulations (Directives and Conditions Regarding the Process for Approving the Financial Statements), 2010, to assessments and estimates made in connection with the statements; internal controls related to financial reporting, completeness and fairness of disclosure in the statements; the accounting policy adopted and the accounting treatment applied on the Bank's material interests; valuations, including assumptions and estimates on which they are based, which support the data in the financial statements.

Following the discussions of the Audit Committee, there is discussion on the final draft of the financial statements in the plenum of the Board of Directors, to which the President and Chief Executive Officer, the Head of the Economics and Finance Division, the Chief Accounting Officer, the Chief Internal Auditor are invited, and, when the discussion concerns the approval of the annual financial statements, all the other members of the forum of the Bank's

Management as well. As background material for the discussion, the Directors receive the draft financial statements together with extensive accompanying background material, including in-depth comprehensive analyses of the Bank's activities in its various areas of business.

In the context of the discussion in the plenum of the Board of Directors, the Bank's President and Chief Executive Officer reviews the results of Leumi Group's operations and the Chief Accounting Officer presents and analyzes the results of the Group's operations in Israel and abroad. Thereafter, the full Board of Directors discusses and accordingly approves the financial statements.

All the discussions of the Board of Directors, the Audit Committee and the Disclosure Committee regarding the financial statements are attended by representatives of the Bank's joint auditors, who are available to answer questions and provide clarifications to the participants. The financial statements are approved by the Board of Directors after the joint auditors have presented any material weaknesses that may have arisen during the audit processes, and after the Board of Directors has been presented with the Certifications of the President and Chief Executive Officer, the Certification of the Head of the Finance and Economics Division and the Certification of the Chief Accounting Officer regarding evaluation of the Bank's disclosure controls and procedures for the financial statements.

The composition of the Audit Committee is as stipulated by law. The committee currently consists of six directors, including three external directors pursuant to the Companies Law, including the committee chairman. Two members of the committee are external directors pursuant to the directives of the Supervisor of Banks and all of the abovementioned external directors (both those pursuant to the Companies Law and those pursuant to the directives of the Supervisor of Banks) are independent directors. In addition, most committee members have financial and accounting expertise. The Chairman of the Board of Directors participates as an observer in meetings of the Audit Committee whenever it is discussing topics related to the financial statements.

Disclosure Policy

Pursuant to Bank of Israel directives, the disclosure requirements set forth in the Third Pillar of the Basel directives oblige the Bank to determine a formal disclosure policy. The policy is to refer to the banking corporation's approach to determining what disclosure is made, including the internal controls on the process.

Leumi has determined its disclosure policy, which has been approved by the Board of Directors.

The disclosure policy is based on the Directives for Reporting to the Public of the Supervisor of Banks and the directives of the Israel Securities Authority, which have been adopted by the Supervisor of Banks.

In accordance with the said disclosure policy, Leumi aims to provide all material information necessary for an understanding of its statements, which will be reported clearly and in detail.

Information given in the Directors' Report is prepared in accordance with directives for Reporting to the Public, particularly with regard to "Temporary Order concerning the Description of the Banking Corporation's Business and Forward-Looking Information in the Directors' Report". In accordance with the directive, the Directors' Report is to include information on the Bank's business, the operating segments in which it operates, the general environment in which it operates and its effect on the Bank, the control structure of the Bank and its organizational structure, legal proceedings, material agreements, and detailed information on additional matters.

With regard to information which can be quantified monetarily, quantitative data is given, and with regard to other information, qualitative data is given.

The general principle according to which information is given in the report is the principle of materiality. The Bank's business and its activities are examined according to their scope and nature, and, at the end of the examination, disclosure is made regarding matters of material monetary size in relation to the annual profit of the Bank with regard to profit and loss items, its assets or its capital with regard to balance sheet items. In addition, disclosure is made of matters of public interest or of special sensitivity, such as matters connected to the structure of the Bank, its management, legislation affecting the bank, etc.

For the purposes of complying with this policy, every material subject is brought for discussion to the Disclosure Committee (see above chapter on the Procedure for Approval of the Financial Statements), which decides, in the event of any doubt, whether to make the necessary disclosure. In addition, the Disclosure Committee discusses the findings of the examinations of the financial reporting review. The minutes of the Disclosure Committee are sent to the Board of Directors and the Audit Committee of the Board of Directors for their perusal.

For further information, see the chapter, "Controls and Procedures Regarding Disclosure in the Financial Statements", below.

C. Description of the Group's Business by Segments and Areas of Activity

Development of Income, Expenses and Tax Provision

The net profit attributable to the shareholders of the banking corporation (**hereinafter: "the net profit"**) of Leumi Group for the third quarter of 2014 was NIS 677 million, compared with NIS 555 million in the corresponding period in 2013, an increase of 22.0%. After canceling the expenses related to the investigations of overseas customers and after canceling the effect of non-current profits in the third quarter in the Israel Corporation, the net profit for the third quarter was NIS 811 million, compared with NIS 746 million in the corresponding quarter in 2013, an increase of 8.7%. (For details, see page 5 above.)

The change in the net profit in the third quarter of 2014 compared with the corresponding period in 2013 is as follows:

| | For the three months ended | | Change | |
|--|----------------------------|----------------------|--------------|--------|
| | 30 September 2014 | 30 September 2013 | | |
| | NIS millions | | NIS millions | % |
| Net income interest (a) | 1,899 | 1,946 | (47) | (2.4) |
| Income (expenses) in respect of credit losses | (56) | 44 | (100) | - |
| Non-interest income (a) | 1,328 | 1,382 | (54) | (3.9) |
| Other operating expenses | (2,471) | (2,443) | (28) | 1.1 |
| Profit before taxes | 700 | 929 | (229) | (24.7) |
| Provision for tax | (357) | (345) | (12) | 3.5 |
| Profit after taxes | 343 | 584 | (241) | (41.3) |
| The Bank's share in profits (losses) of companies included on equity basis (b) | 345 | (17) | 362 | + |
| Net profit attributed to non-controlling interests | (11) | (12) | 1 | 8.3 |
| Net profit attributed to shareholders in the banking corporation | 677 | 555 | 122 | 22.0 |

The **profit** of Leumi Group in the first nine months of 2014 amounted to NIS 1,592 million, compared with NIS 1,599 million in the corresponding period last year, a decrease of 0.4%. After canceling the expenses related to the investigations of overseas customers and after canceling the effect of non-current profits in the third quarter in the Israel Corporation, the net profit for the first nine months of 2014 was NIS 2,262 million, compared with NIS 1,820 million in the corresponding quarter in 2013, an increase of 24.3%. (For details, see page 5 above.)

The change in net profit in the first nine months of 2014 compared with the corresponding period last year is as follows:

| | For the nine months ended | | | |
|--|---------------------------|----------------------|--------------|--------|
| | 30 September 2014 | 30 September 2013 | Change | |
| | NIS millions | | NIS millions | % |
| Net income interest (a) | 5,561 | 5,547 | 14 | 0.3 |
| Income (expenses) in respect of credit losses | 11 | (113) | 124 | + |
| Noninterest income (a) | 3,952 | 4,097 | (145) | (3.5) |
| Other operating expenses | (7,110) | (6,679) | (431) | 6.5 |
| Profit before taxes | 2,414 | 2,852 | (438) | (15.4) |
| Provision for tax | (1,111) | (1,092) | (19) | 1.7 |
| Profit after taxes | 1,303 | 1,760 | (457) | (26.0) |
| The Bank's share in profits (losses) of companies included on equity basis (b) | 294 | (128) | 422 | + |
| Net loss (profit) attributed to non-controlling interests | (5) | (33) | 28 | 84.8 |
| Net profit attributed to shareholders in the banking corporation | 1,592 | 1,599 | (7) | (0.4) |

The following table is a condensed statement of profit and loss after taxes by quarter:

| | 2014 | | | 2013 | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | |
| Net income interest (a) | 1,899 | 1,905 | 1,757 | 1,810 | 1,946 | 1,839 | 1,762 |
| Income (expenses) in respect of credit losses | (56) | 16 | 51 | (155) | 44 | (84) | (73) |
| Non-interest income (a) | 1,328 | 1,250 | 1,374 | 1,420 | 1,382 | 1,246 | 1,469 |
| Other operating expenses | (2,471) | (2,515) | (2,124) | (2,254) | (2,443) | (2,179) | (2,057) |
| Profit before taxes | 700 | 656 | 1,058 | 821 | 929 | 822 | 1,101 |
| Provision for tax | 357 | 369 | 385 | 299 | 345 | 284 | 463 |
| Profit after taxes | 343 | 287 | 673 | 522 | 584 | 538 | 638 |
| The Bank's share in profits (losses) of companies included on equity basis (b) | 345 | (14) | (37) | (165) | (17) | (54) | (57) |
| Net loss (profit) attributed to non-controlling interests | (11) | 17 | (11) | (9) | (12) | (10) | (11) |
| Net profit attributed to shareholders in the banking corporation | 677 | 290 | 625 | 348 | 555 | 474 | 570 |

(a) During 2014, Directive No. 310 on the topic of the profit and loss statement format for a banking corporation and the adoption of United States generally accepted accounting principles for banking corporations on the topic of the measurement of interest income was implemented for the first time, affecting net interest income and the item, commissions - see Note 1(c)1.

(b) Regarding the bringing forward of the date of publication of the financial statements and the reporting gap in respect of an associate company, see Note 1(b) below.

For further details, see Note 1 to the financial statements, below.

Net interest income of Leumi Group amounted in the first nine months of 2014 to NIS 5,561 million, compared with NIS 5,547 million in the corresponding period in 2013, a moderate increase of NIS 14 million or 0.3%.

In the third quarter of 2014, net interest income amounted to NIS 1,899 million compared with NIS 1,946 million in the corresponding period in 2013, a fall of 2.4%.

The ratio of net interest income to the average balance of income-bearing assets is 2.26% (in annual terms), similar to the corresponding period in 2013.

The following table sets out the development of net interest income according to the principal operating segments:

| | For the nine months ended | | |
|----------------------|---------------------------|--------------|--------|
| | 30 September | 30 September | Change |
| | 2014 | 2013 | |
| | NIS millions | | % |
| Households | 1,964 | 1,993 | (1.5) |
| Small businesses | 779 | 702 | 11.0 |
| Corporate banking | 940 | 1,045 | (10.0) |
| Commercial banking | 1,063 | 1,029 | 3.3 |
| Private banking | 217 | 224 | (3.1) |
| Financial management | 590 | 544 | 8.5 |
| Other | 8 | 10 | (20.0) |
| Total | 5,561 | 5,547 | 0.3 |

Total interest margin in the first nine months of 2014 was 2.01%, compared with 1.86% in the corresponding period in 2013.

(Expenses) income in respect of credit losses in the Leumi Group for the first nine months of 2014 amounted to income of NIS 11 million, compared with expenses of NIS 113 million in the corresponding period in 2013.

Expenses (income) in respect of credit loss expenses for the third quarter amounted to some NIS 56 million, compared with income of NIS (44) million in the corresponding period in 2013.

The increase in expenses in respect of credit losses in the third quarter of the year compared to the corresponding period last year is attributable to an increase in the collective allowance, as a result of an increase in credit volumes and a change in the classification of the sectors.

The following table shows the quarterly data on expenses (income) in respect of credit losses:

| | 2014 | | | | 2013 | | | | |
|---|------------------------|--------------------|--------------------|--------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| | For nine months | 3rd quarter | 2nd quarter | 1st quarter | Total 2013 | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | | | |
| Individual expense (income) in respect of credit losses | (251) | (60) | (114) | (77) | 11 | 59 | (80) | 39 | (7) |
| Collective expense in respect of credit losses | 240 | 116 | 98 | 26 | 257 | 96 | 36 | 45 | 80 |
| Total expense (income) in respect of credit losses | (11) | 56 | (16) | (51) | 268 | 155 | (44) | 84 | 73 |
| Percentage ratios (in annual terms): | | | | | | | | | |
| Individual expenses (income) in respect of credit losses to total credit to the public, net | (0.13) | (0.10) | (0.19) | (0.12) | - | 0.10 | (0.13) | 0.07 | (0.01) |
| Collective expenses in respect of credit losses to total credit to the public, net | 0.13 | 0.19 | 0.16 | 0.04 | 0.11 | 0.16 | 0.06 | 0.07 | 0.13 |
| Total expenses (income) in respect of credit losses to total credit to the public, net | - | 0.09 | (0.03) | (0.08) | 0.11 | 0.26 | (0.07) | 0.14 | 0.12 |
| Individual expenses (income) in respect of credit losses to total credit risk to the public | (0.08) | (0.06) | (0.13) | (0.09) | - | 0.07 | (0.09) | 0.04 | (0.01) |
| Collective expenses in respect of credit losses to total credit risk to the public | 0.08 | 0.12 | 0.11 | 0.03 | 0.07 | 0.10 | 0.04 | 0.05 | 0.09 |
| Total expenses (income) in respect of credit losses to total credit risk to the public | - | 0.06 | (0.02) | (0.06) | 0.07 | 0.17 | (0.05) | 0.09 | 0.08 |

* (-) less than 0.01

The table below presents data on the balance of credit loss allowance on a collective basis:

| | 30 September 2014 | 30 September 2013 | 31 December 2013 |
|--|--------------------------|-------------------|------------------|
| Credit loss allowance on a collective basis (NIS millions) | 2,796 | 2,638 | 2,702 |
| Balance of credit loss allowance on a collective basis to total credit to the public, net (%) | 1.12 | 1.10 | 1.12 |
| Balance of credit loss allowance on a collective basis to total credit risk to the public, net (%) | 0.73 | 0.71 | 0.72 |

The following table sets out the breakdown of expenses (income) in respect of credit losses according to principal operating segments:

| | First nine months of 2014 | | First nine months of 2013 | |
|--------------------------------|---------------------------|-------|---------------------------|--------|
| | NIS millions | % (a) | NIS millions | % (a) |
| Households | 176 | 0.2 | 140 | 0.2 |
| Private banking | 2 | - | 3 | 0.1 |
| Small businesses | 79 | 0.4 | 77 | 0.4 |
| Corporate banking | (370) | (0.9) | (212) | (0.4) |
| Commercial banking | 60 | 0.2 | 152 | 0.4 |
| Financial management and other | 42 | 2.2 | (47) | (10.4) |
| Total | (11) | - | 113 | 0.1 |

(a) Percentage of total credit at the end of the period on an annual basis.

The following table sets out the breakdown of expenses (income) in respect of credit losses by main sector of the economy:

| | For the nine months ended | |
|--------------------------------------|---------------------------|-------------------|
| | 30 September 2014 | 30 September 2013 |
| | NIS millions | |
| Industry | (118) | 5 |
| Construction and real estate | (119) | 47 |
| Trade | 75 | (15) |
| Hotel, food and catering services | 15 | (8) |
| Transportation and storage | 7 | (13) |
| Communications and computer services | (47) | 6 |
| Financial services | 47 | (113) |
| Other business services | 38 | 65 |
| Private individuals - housing loans | 17 | 50 |
| Private individuals – other | 69 | 89 |
| Others | 3 | (4) |
| Total public | (13) | 109 |
| Total banks | 2 | 4 |
| Total | (11) | 113 |

The following is the breakdown of expenses (income) in respect of credit losses in the Group (the Bank and consolidated companies) carried to the statement of profit and loss:

| | For the nine months ended | | |
|---|---------------------------|-------------------|---------|
| | 30 September 2014 | 30 September 2013 | Change |
| | NIS millions | | % |
| The Bank | (181) | (94) | 92.6 |
| Leumi Card | 12 | 6 | 100.0 |
| Arab Israel Bank | 14 | 6 | + |
| Leumi – U.S.A. | 57 | 36 | 58.3 |
| Leumi – U.K. | 85 | 164 | (48.2) |
| Leumi Romania | 2 | (6) | + |
| Others | - | 1 | (100.0) |
| Total expenses (income) in respect of credit losses | (11) | 113 | - |

Problem credit risk

| | 30 September 2014 | | |
|---|----------------------|-------------------|--------|
| | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | |
| 1. Problem credit risk: (a) | | | |
| Impaired credit risk | 4,929 | 288 | 5,217 |
| Subordinate credit risk | 1,926 | 706 | 2,632 |
| Credit risk under special supervision (b) | 3,087 | 369 | 3,456 |
| Total problem credit | 9,942 | 1,363 | 11,305 |
| Of which: Unimpaired debts in arrears 90 days or more (b) | 1,035 | - | - |
| 2. Non-performing assets: | | | |
| Impaired debts | 4,357 | - | - |
| Assets received in respect of credit cleared | 23 | - | - |
| Total non-performing assets | 4,380 | - | - |

| | 30 September 2013 | | |
|---|----------------------|-------------------|--------|
| | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | |
| 1. Problem credit risk: (a) | | | |
| Impaired credit risk | 5,907 | 322 | 6,229 |
| Subordinate credit risk | 1,844 | 54 | 1,898 |
| Credit risk under special supervision (b) | 2,743 | 872 | 3,615 |
| Total problem credit | 10,494 | 1,248 | 11,742 |
| Of which: Unimpaired debts in arrears 90 days or more (b) | 1,299 | - | - |
| 2. Non-performing assets: | | | |
| Impaired debts | 5,636 | - | - |
| Assets received in respect of credit cleared | 101 | - | - |
| Total non-performing assets | 5,737 | - | - |

| | 31 December 2013 | | |
|---|---------------------|-------------------|--------|
| | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | |
| 1. Problem credit risk: (a) | | | |
| Impaired credit risk | 5,782 | 333 | 6,115 |
| Subordinate credit risk | 1,832 | 187 | 2,019 |
| Credit risk under special supervision (b) | 3,260 | 795 | 4,055 |
| Total problem credit | 10,874 | 1,315 | 12,189 |
| Of which: Unimpaired debts in arrears 90 days or more (b) | 1,440 | - | - |
| 2. Non-performing assets: | | | |
| Impaired debts | 5,217 | - | - |
| Assets received in respect of credit cleared | 101 | - | - |
| Total non-performing assets | 5,318 | - | - |

Note: Balance sheet and off-balance sheet credit risk is presented before the effect of the allowances for credit losses and before the effect of deductible collateral for the purpose of a borrower and a group of borrowers.

- (1) Credit risk impaired, subordinate or under special supervision.
- (2) Including in respect of housing loans for which an allowance has been made according to the extent of arrears and in respect of housing loans for which no allowance has been made according to the extent of arrears which are in arrears of 90 days or more.

Below are details of the credit risk metrics:

| | 30 September 2014 | 30 September 2013 | 31 December 2013 |
|--|------------------------------|----------------------|---------------------|
| | % | | |
| Balance of impaired credit to the public not accruing interest income as a percentage of the balance of credit to the public | 1.8 | 2.2 | 2.1 |
| Balance of credit to the public which is not impaired in arrears of 90 days or more as a percentage of the balance of credit to the public | 0.4 | 0.4 | 0.5 |
| Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of credit to the public | 1.5 | 1.6 | 1.6 |
| Balance of the allowance for credit losses in respect of credit to the public as a percentage of the balance of impaired credit to the public not accruing interest income | 83.9 | 71.6 | 74.5 |
| Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public | 2.6 | 2.8 | 2.9 |
| Expenses in respect of credit losses as a percentage of the average balance of credit to the public (in annual terms) | (0.0) | 0.1 | 0.1 |
| Net write-offs in respect of credit to the public as a percentage of the average balance of credit to the public (in annual terms) | - | 0.2 | 0.2 |
| Net write-offs in respect of credit to the public as a percentage of the balance of the allowance for credit losses in respect of credit to the public (in annual terms) | 4.4 | 14.3 | 13.2 |

Noninterest income of Leumi Group amounted to NIS 3,952 million in the first nine months of 2014, compared with NIS 4,097 million in the corresponding period in 2013, a decrease of NIS 145 million or 3.5%.

In the third quarter of 2014, noninterest income amounted to NIS 1,328 million compared with NIS 1,382 million in the corresponding period in 2013, a fall of 3.9%.

Noninterest income includes:

| | For the nine months ended | | | |
|-------------------------------|------------------------------|----------------------|--------|--------|
| | 30 September 2014 | 30 September 2013 | Change | Change |
| | NIS million | | Amount | % |
| Non-interest financial income | 719 | 889 | (170) | (19.1) |
| Commissions | 3,113 | 3,104 | 9 | 0.3 |
| Other income | 120 | 104 | 16 | 15.4 |
| Total | 3,952 | 4,097 | (145) | (3.5) |

Development in noninterest income by quarter is as follows:

| | 2014 | | | 2013 | | | |
|-------------------------------|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | |
| Non-interest financial income | 224 | 172 | 323 | 238 | 266 | 212 | 411 |
| Commissions | 1,033 | 1,040 | 1,040 | 1,084 | 1,050 | 1,029 | 1,025 |
| Other income | 71 | 38 | 11 | 98 | 66 | 5 | 33 |
| Total | 1,328 | 1,250 | 1,374 | 1,420 | 1,382 | 1,246 | 1,469 |

Details of non-interest financial income are as follows:

| | For the nine months ended | | Change | |
|--|---------------------------|-------------------|--------------|--------|
| | 30 September 2014 | 30 September 2013 | | |
| | NIS millions | | NIS millions | % |
| Net income (expenses) in respect of derivative instruments and net exchange rate differences | (183) | 131 | (314) | - |
| Profits from sale of available-for-sale debentures, net | 127 | 157 | (30) | (19.1) |
| Profits (losses) from investments in shares including dividends (a) | 363 | 560 | (197) | (35.2) |
| Net profits in respect of loans sold | 28 | 93 | (65) | (69.9) |
| Adjustments of debentures and shares available for trade to fair value, net | 384 | (52) | 436 | + |
| Total | 719 | 889 | (170) | (19.1) |

(a) In the nine months ended 30 September 2014, including mainly profit from the sale of shares of Mobileye, Partner, Tower, Electra and Otzar Hityashvut Hayehudim amounting to NIS 144 million, NIS 108 million, NIS 99 million, NIS 17 million and NIS 30 million, respectively, before the effect of tax and in the nine months ended 30 September 2013, including profit on the sale of shares of Migdal and Caesar Stone and Partner amounting to NIS 343 million, NIS 86 million and NIS 34 million, (respectively) before the effect of tax.

The following table shows the development of the main items in noninterest financial income by quarter:

| | 2014 | | | | 2013 | | |
|---|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | |
| Net income (expense) in respect of derivative instruments and net exchange rate differences | (180) | 26 | (29) | 73 | 14 | 55 | 62 |
| Profits from sale of available-for-sale debentures, net | 10 | 35 | 82 | 52 | 34 | 24 | 99 |
| Profits (losses) from investments in shares including dividends (a) | 199 | 35 | 129 | 20 | 206 | 115 | 239 |
| Net profits in respect of loans sold | 28 | - | - | 6 | 16 | 34 | 43 |
| Realized and unrealized profits (losses) from adjustments of debentures and shares available for trade to fair value, net | 167 | 76 | 141 | 87 | (4) | (16) | (32) |
| Total | 224 | 172 | 323 | 238 | 266 | 212 | 411 |

(a) Includes mainly profit from the sale of shares of Partner and Tower amounting to NIS 70 million and NIS 39 million before the effect of tax, respectively, in the first quarter of 2014, profit from the sale of shares of Tower and Electra amounting to NIS 22 million and NIS 17 million, respectively, before the effect of tax in the third quarter of 2014, and profit from the sale of Mobileye, Tower and Otzar Hityashvut Hayehudin amounting to NIS 144 million, NIS 38 million and NIS 30 million, respectively before the effect of tax, in the third quarter of 2014.

In 2013, includes profit from the sale of shares of Migdal and Partner amounting to NIS 181 million and NIS 34 million before the effect of tax, respectively, in the first quarter of 2013, profit on the sale of shares of Caesar Stone amounting to NIS 86 million, before the effect of tax, in the second quarter of 2013 and, profit from the sale of shares of Migdal amounting to NIS 162 million before the effect of tax in the third quarter of 2013.

Details of commissions are as follows:

| | For the nine months ended | | | |
|---|---------------------------|-------------------|--------------|------------|
| | 30 September 2014 | 30 September 2013 | Change | |
| | NIS millions | | NIS millions | % |
| Account management | 614 | 614 | - | - |
| Activity in certain securities and derivative instruments | 615 | 601 | 14 | 2.3 |
| Credit cards | 705 | 677 | 28 | 4.1 |
| Dealing with credit (a) | 145 | 239 | (94) | (39.3) |
| Commissions for distribution of financial products | 210 | 185 | 25 | 13.5 |
| Conversion differences | 235 | 214 | 21 | 9.8 |
| Commissions from financing transactions | 362 | 340 | 22 | 6.5 |
| Other commissions | 227 | 234 | (7) | (3.0) |
| Total commissions | 3,113 | 3,104 | 9 | 0.3 |

(a) During 2014, Directive No. 310 on the topic of the profit and loss statement format for a banking corporation and the adoption of United States generally accepted accounting principles for banking corporations on the topic of the measurement of interest income was implemented for the first time, affecting net interest income and the item, commissions. See Note 1(c)1.

Income from commissions covers 43.8% of the operating and other expenses, compared with 46.5% in the corresponding period last year and compared with 46.9% for the whole of 2013.

The development of non-interest income by main activity segment is as follows:

| | For the nine months ended | | Change | |
|--------------------------|---------------------------|--------------|--------------|--------|
| | 30 September | 30 September | | |
| | 2014 | 2013 | | |
| | NIS millions | | NIS millions | % |
| Households | 1,354 | 1,340 | 14 | 1.0 |
| Small businesses | 376 | 399 | (23) | (5.8) |
| Corporate banking | 558 | 482 | 76 | 15.8 |
| Commercial banking | 414 | 423 | (9) | (2.1) |
| Private banking | 458 | 435 | 23 | 5.3 |
| Financial management | 754 | 989 | (235) | (23.8) |
| Other | 38 | 29 | 9 | 31.0 |
| Total commissions | 3,952 | 4,097 | (145) | (3.5) |

The proportion of non-interest income from all income (i.e., net interest income and noninterest income) was 41.5%, compared with 42.5% in the corresponding period last year and compared with 42.9% for the whole of 2013.

Total operating and other expenses of Leumi Group in the first nine months of 2014 amounted to NIS 7,110 million, compared with NIS 6,679 million in the corresponding period last year, an increase of 6.5%. However, after canceling the effect of the expenses related to the investigation in respect of overseas customers, total operating and other expenses fell from NIS 6,443 million to NIS 6,101 million, a fall of 5.3%.

Total operating and other expenses of Leumi Group in the third quarter of 2014 amounted to NIS 2,471 million, compared with NIS 2,443 million in the corresponding period last year, an increase of 1.1%. After canceling the effect of the expenses related to the investigation in respect of overseas customers, total operating and other expenses fell from NIS 2,245 million last year to NIS 1,991 million this year, a fall of 11.3%.

Operating and other expenses include:

| | For the nine months ended | | Change | |
|---|---------------------------|--------------|--------------|--------|
| | 30 September | 30 September | | |
| | 2014 | 2013 | | |
| | NIS millions | | NIS millions | % |
| Salaries and related expenses | 3,739 | 3,835 | (96) | (2.5) |
| Maintenance and depreciation of buildings and equipment | 1,329 | 1,381 | (52) | (3.8) |
| Other expenses (including amortization of intangible assets), excluding expenses related to the investigation of overseas customers | 1,033 | 1,227 | (194) | (15.8) |
| Total operating and other expenses, excluding expenses related to the investigation of overseas customers | 6,101 | 6,443 | (342) | (5.3) |
| Expenses related to the investigation of overseas customers | 1,009 | 236 | 773 | + |
| Total operating and other expenses, including expenses related to the investigation of overseas customers | 7,110 | 6,679 | 431 | 6.5 |

The table below sets forth the quarterly development in salary expenses:

| | 2014 | | | | 2013 | | | |
|---|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|----------------|
| | 3rd quarter | 2nd quarter | 1st quarter | Total for year | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | | |
| Salary and related expenses | 980 | 981 | 1,042 | 4,039 | 1,009 | 1,006 | 993 | 1,031 |
| Yield bonus | 94 | 32 | 132 | 367 | 61 | 183 | 19 | 104 |
| Voluntary retirement, pension and severance pay expenses, net of fund profits | 165 | 175 | 138 | 695 | 261 | 141 | 146 | 147 |
| Regulatory changes | - | - | - | 73 | 8 | 8 | 57 | - |
| Total salary expenses | 1,239 | 1,188 | 1,312 | 5,174 | 1,339 | 1,338 | 1,215 | 1,282 |

Operating and other expenses (building and equipment maintenance, depreciation and other expenses) amounted to NIS 3,371 million in the first nine months of 2014, an increase of 18.5% over the corresponding period in 2013.

The following table shows the quarterly development of operating and other expenses and maintenance of buildings and equipment *:

| | 2014 | | | | 2013 | | | |
|--|----------------|----------------|----------------|-------------------|----------------|----------------|----------------|----------------|
| | 3rd quarter | 2nd quarter | 1st quarter | Total for year | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | | |
| Depreciation | 177 | 181 | 181 | 739 | 179 | 179 | 225 | 185 |
| Maintenance of buildings and equipment | 274 | 255 | 261 | 1,090 | 273 | 264 | 264 | 264 |
| Other expenses and amortization of intangible assets, excluding expenses related to the investigation in respect of overseas customers | 301 | 404 | 328 | 1,033 | 463 | 464 | 437 | 326 |
| Total operating and other expenses, excluding expenses related to the investigation of overseas customers | 752 | 840 | 770 | 2,362 | 915 | 907 | 926 | 775 |
| Expenses related to the investigation of overseas customers | 480 | 487 | 42 | 1,009 | - | 198 | 38 | - |
| Total operating and other expenses, including expenses related to the investigation of overseas customers | 1,232 | 1,327 | 812 | 3,371 | 915 | 1,105 | 964 | 775 |

* Excluding salary

Operating expenses constitute 74.7% of total income, compared with 69.3% in the corresponding period in 2013 and compared with 69.4% for the whole of 2013. Operating expenses excluding expenses related to the investigation in respect of overseas customers as a percentage of total income amounted to 64.1%, compared 66.8% in the corresponding period last year.

Total operating and other expenses (in annual terms) constitute 2.50% of the total balance sheet, compared with 2.44% in the corresponding period in 2013, and compared with 2.39% for the whole of 2013. Operating and other expenses (in annual terms) excluding expenses related to the investigation in respect of overseas customers as a percentage of total income amounted to 2.15%, compared 2.36% in the corresponding period last year.

Profit before tax of Leumi Group for the first nine months of 2014 amounted to NIS 2,414 million, compared with NIS 2,852 million in the corresponding period in 2013, a decrease of 15.4%. The profit before tax for the third quarter of 2014 amounted to NIS 700 million, compared with NIS 929 million in the corresponding period in 2013, a fall of 24.7%.

The provision for tax on the profit of the Leumi Group in the first nine months of 2014 amounted to NIS 1,111 million, compared with NIS 1,092 million in the corresponding period last year. The rate of the provision in the first nine months of 2014 was some 46% of the pre-tax profit, compared with 38.3% in the corresponding period in 2013, an increase of some 7.7%. The increase in the tax rate derives from an increase in disallowed expenses in the period compared to the corresponding period last year.

Profit after taxes for the first nine months of 2014 amounted to NIS 1,303 million, compared with NIS 1,760 million in the corresponding period in 2013, a decrease of 26.0%. In the third quarter of 2014, profit after tax amounted NIS 343 million, compared with NIS 584 million in the corresponding period in 2013, a fall of 41.3%.

The Group's share in profit after taxes of associate companies amounted to a profit of NIS 294 million in the first nine months of 2014, compared with a loss of NIS 128 million in the corresponding period in 2013. In the third quarter of 2014, the operating results of the Israel Corporation for the second quarter of 2014 were recorded, and the effect of significant events in the Israel Corporation, for which immediate reports were published including disclosure of quantitative effects. For further details on the change in accounting policy, see Note 1b – Significant Accounting Policies, below.

Net profit before attribution to holders of non-controlling interests in the first nine months of 2014 amounted to NIS 1,597 million, compared with a profit of NIS 1,632 million in the corresponding period in 2013, a decrease of 2.1%. In the third quarter of 2014, profit before attribution to non-controlling interests amounted to NIS 688 million, compared to NIS 567 million in the corresponding period in 2013, an increase of 21.3%.

Net profit attributable to holders of non-controlling interests in the first nine months of 2014 amounted to a profit NIS 5 million, compared with a profit of NIS 33 million in the corresponding period in 2013.

Net profit attributable to shareholders in the banking corporation in the first nine months of 2014 amounted to NIS 1,592 million, compared to a profit of NIS 1,599 million in the corresponding period in 2013, a decrease of 0.4%.

Net profit attributable to the shareholders in the banking corporation for the third quarter of 2014 amounted to a profit of NIS 677 million, compared with a profit of NIS 555 million in the corresponding period in 2013, an increase of 22.0%.

Return on capital – Average for the period to shareholders of the banking corporation in annual terms:

| | 2014 | | | | | 2013 | | | | |
|--|-----------------------|----------------|----------------|----------------|----------------|-----------------------|----------------|----------------|----------------|--|
| | For nine months | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter | For nine months | 3rd quarter | 2nd quarter | 1st quarter | |
| | % | | | | | | | | | |
| Net profit attributable to the shareholders of the banking corporation | 7.9 | 10.2 | 4.3 | 9.7 | 5.4 | 8.5 | 8.9 | 7.6 | 9.4 | |

Basic net profit per share attributable to the shareholders of the banking corporation was NIS 1.08 for the first nine months of 2014, compared with NIS 1.09 for the corresponding period in 2013.

The following table is the condensed statement of comprehensive income:

| | For the three months ended | | | |
|---|----------------------------|--------------|--------------|---------|
| | 30 September | 30 September | Change | |
| | 2014 | 2013 | | |
| | NIS millions | | NIS millions | % |
| Net profit attributable to shareholders in the banking corporation | 677 | 555 | 122 | 22.0 |
| Other comprehensive income (loss) before tax | 438 | (88) | 526 | + |
| Effect of tax attributable to other comprehensive income | (60) | 31 | (91) | - |
| Net of other comprehensive income (loss) attributable to noncontrolling interests | - | 1 | (1) | (100.0) |
| Total profit attributable shareholders in the banking corporation | 1,055 | 497 | 558 | + |

| | For the nine months ended | | | |
|---|---------------------------|--------------|--------------|-------|
| | 30 September | 30 September | Change | |
| | 2014 | 2013 | | |
| | NIS millions | | NIS millions | % |
| Net profit attributable to shareholders in the banking corporation | 1,592 | 1,599 | (7) | (0.4) |
| Other comprehensive income (loss) before tax | 482 | (616) | 1,098 | + |
| Effect of tax attributable to other comprehensive income | (135) | 146 | (281) | - |
| Net of other comprehensive income (loss) attributable to noncontrolling interests | - | (3) | 3 | 100.0 |
| Total profit attributable shareholders in the banking corporation | 1,939 | 1,132 | 807 | 71.3 |

Structure and Development of Assets and Liabilities⁽¹⁾

Total assets of Leumi Group as at 30 September 2014 amounted to NIS 380.0 billion, compared with NIS 374.4 billion at the end of 2013, an increase of 1.45%, and compared with 30 September 2013, an increase of 4.0%.

The value of the assets in the balance sheet denominated in and linked to foreign currency was some NIS 88.0 billion, some 23% of total assets. During the first nine months of 2014, the shekel fell against the U.S. dollar by 6.5% and appreciated against the euro by 2.8%. The changes in exchange rates in the first nine months of the year led to an increase of 0.9% in total assets of the Group.

Total assets under Group management, including the total of the balance sheet as well as customers' securities portfolios, and provident funds and supplementary training funds in respect of which operating management, custody services and pension counseling are provided amount to some NIS 1,238 billion, compared with NIS 1,165 billion at the end of 2013 (some US\$ 335 billion and US\$ 315 billion, respectively), as detailed below.

The following table sets out the development of the main balance sheet items:

| | 30 September 2014 | 31 December 2013 | From December 2013 | From September 2013 |
|--|------------------------------|---------------------|-----------------------|------------------------|
| | NIS millions | | Change % | |
| Total assets | 379,953 | 374,360 | 1.5 | 4.0 |
| Cash and deposits with banks | 54,612 | 44,351 | 23.1 | 35.8 |
| Securities | 46,058 | 63,735 | (27.7) | (24.5) |
| Credit to the public, net | 249,481 | 240,874 | 3.6 | 3.6 |
| Buildings and equipment | 3,627 | 3,638 | (0.3) | (0.5) |
| Deposits of the public | 286,632 | 286,003 | 0.2 | 2.4 |
| Deposits from banks | 4,781 | 4,310 | 10.9 | 25.7 |
| Debentures, notes and subordinated notes | 23,932 | 25,441 | (5.9) | (6.5) |
| Total equity | 28,682 | 26,765 | 7.2 | 8.6 |

The following table sets out the development of the main off-balance sheet items:

| | 30 September 2014 | 31 December 2013 | From December 2013 | From September 2013 |
|---|------------------------------|---------------------|-----------------------|------------------------|
| | NIS millions | | Change % | |
| Documentary credits, net | 2,069 | 1,863 | 11.1 | 17.1 |
| Guarantees securing credit, net | 5,637 | 5,406 | 4.3 | (6.0) |
| Guarantess to apartment purchasers, net | 16,329 | 15,507 | 5.3 | 6.2 |
| Other guarantees and liabilities, net | 15,830 | 14,861 | 6.5 | 7.7 |
| Derivative instruments (a) | 611,718 | 539,651 | 13.4 | 17.6 |
| Options of all types | 149,537 | 130,980 | 14.2 | 47.1 |

(a) Including "forward" transactions, financial swap contracts, futures swaps and credit derivatives. For further details see Note 7 to the financial statements.

Deposits of the public amounted to NIS 286.6 billion as at 30 September 2014, compared with NIS 286.0 billion as at 31 December 2013, an increase of 0.2%, and compared with 30 September 2013, an increase of 2.4%.

The changes in the exchange rate of the shekel in relation to foreign currencies in the first nine months of the year contributed to an increase of 1.6% in total deposits of the public.

(1) Changes in percentages were calculated according to the balances in NIS millions.

The following table sets out the development of deposits of the public by principal operating segment:

| | 30 September 2014 | 31 December 2013 | |
|--------------------------------|------------------------------|---------------------|----------|
| | NIS millions | | Change % |
| Households | 114,265 | 118,634 | (3.7) |
| Small businesses | 23,048 | 22,830 | 1.0 |
| Corporate banking | 23,866 | 22,816 | 4.6 |
| Commercial banking | 60,433 | 51,878 | 16.5 |
| Private banking | 33,573 | 34,794 | (3.5) |
| Financial management and other | 31,447 | 35,051 | (10.3) |
| Total | 286,632 | 286,003 | 0.2 |

Debentures, capital notes and subordinated notes totaled NIS 23.9 billion on 30 September 2014, compared with NIS 25.4 billion as at 31 December 2013, a decrease of 5.9%, and compared with 30 September 2013, a decrease of 6.5%. In the first nine months of 2014, NIS 2,301 million of debentures were repaid.

Off-balance sheet activity

The following table sets out the development of balances of the customers' (off-balance sheet) financial assets managed by Leumi Group:

| | 30 September 2014 | 31 December 2013 | Change | |
|---|------------------------------|---------------------|--------------|-------|
| | NIS millions | | NIS millions | % |
| Securities portfolios (a) | 646,178 | 604,095 | 42,083 | 7.0 |
| Assets in respect of which operating services are provided: (a)(b)(c) | | | | |
| Mutual funds | 92,555 | 78,590 | 13,965 | 17.8 |
| Provident and pension funds | 60,094 | 61,909 | (1,815) | (2.9) |
| Supplementary training funds | 60,029 | 45,999 | 14,030 | 30.5 |

(a) Including a change in the market value of securities and in the value of securities of mutual and provident funds held in custody, for which operating management and custody services are provided.

(b) The Group in Israel does not manage any mutual funds, provident funds or supplementary training funds.

(c) Assets of customers in respect of which the Group provides operating management services, including the fund balances of customers who are counseled by Leumi.

Net credit to the public totaled NIS 249.5 billion as at 30 September 2014, compared with NIS 240.9 billion as at 31 December 2013, an increase of 3.6%, similar to the increase in comparison to 30 September 2013.

The changes in the exchange rates of the shekel in relation to foreign currencies in the first nine months of 2014 contributed in total to an increase of 0.7% in total credit to the public.

In addition to credit to the public, the Group invests in corporate debentures which, as at 30 September 2014, amounted to NIS 13,654 million, compared with NIS 12,807 million as at 31 December 2013, an increase of 6.6%.

The following table sets out the development of the overall credit risk^(a) to the public by principal sectors of the economy:

| | 30 September 2014 | | 31 December 2013 | | |
|--------------------------------------|-------------------|------------|------------------|------------|--------|
| | Overall | | Overall | | |
| | credit risk to | Percentage | credit risk to | Percentage | Change |
| | the public (c) | of total | the public | of total | |
| | NIS millions | % | NIS millions | % | % |
| Agriculture | 2,268 | 0.6 | 2,187 | 0.6 | 3.7 |
| Industry | 39,765 | 10.4 | 38,745 | 10.4 | 2.6 |
| Construction and real estate (b) | 80,145 | 20.9 | 78,346 | 20.9 | 2.3 |
| Electricity and water | 4,320 | 1.1 | 4,882 | 1.3 | (11.5) |
| Trade | 31,471 | 8.2 | 30,251 | 8.1 | 4.0 |
| Hotels, catering and food | 4,711 | 1.2 | 4,824 | 1.3 | (2.3) |
| Transportation and storage | 6,770 | 1.8 | 6,296 | 1.7 | 7.5 |
| Communications and computer services | 5,917 | 1.5 | 6,148 | 1.6 | (3.8) |
| Financial services | 42,091 | 11.1 | 46,645 | 12.4 | (9.8) |
| Other business services | 11,729 | 3.1 | 11,253 | 3.0 | 4.2 |
| Public and community services | 10,570 | 2.8 | 9,569 | 2.6 | 10.5 |
| Private individuals - housing loans | 76,253 | 19.9 | 71,985 | 19.2 | 5.9 |
| Private persons – other | 66,688 | 17.4 | 63,063 | 16.9 | 5.7 |
| Total | 382,698 | 100.0 | 374,194 | 100.0 | 2.3 |

(a) Before an allowance for credit losses and including off-balance sheet credit risk, investments in debentures of the public and other assets in respect of derivative instruments.

(b) Including housing loans extended to purchasing groups that are in the process of construction amounting to NIS 1,269 million and off-balance sheet credit risk amounting to NIS 1,960 million, compared to NIS 1,175 million and NIS 2,027 million, respectively, as at 31 December 2013.

(c) The amount of indebtedness in respect of "additional coefficient" was reduced in 2014 to adjust it to that stated in Appendix C of the Proper Conduct of Banking Business Directives No. 203.

The following table shows the quarterly development of credit to the public by main activity sector:

| | 2014 | | | 2013 | | | |
|--|--------------|---------|---------|---------|---------|---------|---------|
| | 3rd | 2nd | 1st | 4th | 3rd | 2nd | 1st |
| | quarter | quarter | quarter | quarter | quarter | quarter | quarter |
| | NIS millions | | | | | | |
| Households | 108,136 | 104,987 | 102,212 | 100,243 | 98,272 | 95,289 | 92,469 |
| Of which: housing loans | 72,779 | 70,992 | 69,388 | 68,556 | 67,221 | 65,239 | 63,214 |
| Small businesses | 24,325 | 24,124 | 23,850 | 23,299 | 23,131 | 22,593 | 22,116 |
| Corporate banking | 57,063 | 58,684 | 58,922 | 60,646 | 62,940 | 63,704 | 66,961 |
| Commercial banking | 51,339 | 50,218 | 49,913 | 49,630 | 49,112 | 49,627 | 48,636 |
| Private banking | 6,065 | 5,927 | 6,069 | 6,455 | 6,840 | 6,720 | 7,361 |
| Financial management and capital markets | 2,553 | 445 | 307 | 601 | 597 | 550 | 1,071 |
| Total | 249,481 | 244,385 | 241,273 | 240,874 | 240,892 | 238,483 | 238,614 |

Additional data on total credit is set forth below.

The following table sets out the breakdown of total credit to the public* and off-balance sheet credit risk according to the size of the credit to a single borrower:

| | | 30 September 2014 | | |
|---------------------------------|---------|---|--|--|
| Credit ceiling in NIS thousands | | Percentage of total number of borrowers | Percentage of total balance sheet credit | Percentage of total off-balance sheet credit |
| From | To | % | | |
| - | 80 | 80.54 | 6.4 | 21.4 |
| 80 | 600 | 16.25 | 21.4 | 11.4 |
| 600 | 1,200 | 2.15 | 12.9 | 2.9 |
| 1,200 | 2,000 | 0.53 | 5.6 | 1.9 |
| 2,000 | 8,000 | 0.37 | 8.8 | 4.6 |
| 8,000 | 20,000 | 0.08 | 6.8 | 4.7 |
| 20,000 | 40,000 | 0.04 | 6.4 | 5.5 |
| 40,000 | 200,000 | 0.03 | 14.3 | 17.4 |
| 200,000 | 800,000 | 0.01 | 10.7 | 21.3 |
| Above 800,000 | | 0.001 | 6.7 | 8.9 |
| Total | | 100.00 | 100.0 | 100.0 |

| | | 31 December 2013 | | |
|---------------------------------|---------|---|--|--|
| Credit ceiling in NIS thousands | | Percentage of total number of borrowers | Percentage of total balance sheet credit | Percentage of total off-balance sheet credit |
| From | To | % | | |
| - | 80 | 80.8 | 7.5 | 19.6 |
| 80 | 600 | 17.3 | 27.7 | 10.8 |
| 600 | 1,200 | 1.2 | 8.1 | 2.7 |
| 1,200 | 2,000 | 0.3 | 3.3 | 1.8 |
| 2,000 | 8,000 | 0.3 | 7.5 | 4.5 |
| 8,000 | 20,000 | 0.1 | 7.0 | 4.9 |
| 20,000 | 40,000 | 0.03 | 6.3 | 5.7 |
| 40,000 | 200,000 | 0.03 | 14.4 | 16.5 |
| 200,000 | 800,000 | 0.01 (a) | 10.4 | 22.9 |
| Above 800,000 | | 0.001 (b) | 7.8 | 10.6 |
| Total | | 100.0 | 100.0 | 100.0 |

(a) On 30 September 2014 - 150 borrowers and on 31 December 2013 - 149 borrowers.

(b) On 30 September 2014 - 21 borrowers and on 31 December 2013 - 21 borrowers.

The following are details of the balances of credit to the public and the off-balance sheet credit risk which exceed NIS 800 million per single borrower, based on a more detailed breakdown of credit areas and economic sectors:

1. Credit risk according to size of credit to the borrower:

| 30 September 2014 | | | | | | | |
|-----------------------------------|-------|---------------------|--------------------|----------------------|--------------------|----------------------------------|--------------------|
| Credit ceiling in NIS millions | | Number of borrowers | | Balance sheet credit | | Off-balance sheet credit risk | |
| | | Total | Of which: | Total | Of which: | Total | Of which: |
| | | | Related parties | | Related parties | | Related parties |
| From | To | NIS millions | | | | | |
| 800 | 1,200 | 12 | 1 | 7,268 | 823 | 4,286 | - |
| 1,200 | 1,600 | 3 | - | 1,435 | - | 2,540 | - |
| 1,600 | 2,000 | 4 | - | 4,944 | - | 2,206 | - |
| 2,000 | 2,400 | 1 | - | 2,032 | - | 38 | - |
| 2,400 | 2,445 | 1 | - | 1,897 | - | 548 | - |
| Total | | 21 | 1 | 17,576 | 823 | 9,618 | - |

All the related parties are corporations in which the Bank holds up to 20% and/or are holders of the means of control in the Bank. The credit specified in the above table does not include any debts for which allowances were made for credit losses.

| 31 December 2013 | | | | | | | |
|-----------------------------------|-------|---------------------|--------------------|----------------------|--------------------|----------------------------------|--------------------|
| Credit ceiling in NIS millions | | Number of borrowers | | Balance sheet credit | | Off-balance sheet credit risk | |
| | | Total | Of which: | Total | Of which: | Total | Of which: |
| | | | Related parties | | Related parties | | Related parties |
| From | To | NIS millions | | | | | |
| 800 | 1,200 | 9 | 1 | 6,564 | 955 | 2,188 | - |
| 1,200 | 1,600 | 5 | - | 4,382 | - | 2,539 | - |
| 1,600 | 2,000 | 2 | - | 519 | - | 2,795 | - |
| 2,000 | 2,400 | 3 | - | 2,607 | - | 3,777 | - |
| 2,400 | 2,800 | 1 | - | 2,376 | - | 41 | - |
| 2,800 | 3,200 | 1 | - | 2,941 | - | 583 | - |
| Total | | 21 | 1 | 19,389 | 955 | 11,923 | - |

2. Credit risk according to industry sectors:

| | 30 September 2014 | | |
|--------------------------------------|--------------------------|---------------|-------------------|
| | Number of | Balance sheet | Off-balance |
| | borrowers | credit | sheet credit risk |
| | NIS millions | | |
| Industry | 4 | 2,529 | 3,773 |
| Construction and real estate | 6 | 3,571 | 2,679 |
| Public and community services | 1 | 719 | 201 |
| Communications and computer services | 1 | 2,032 | 38 |
| Financial services | 7 | 5,973 | 1,839 |
| Electricity and water | 1 | 1,897 | 548 |
| Trade | 1 | 855 | 540 |
| Total | 21 | 17,576 | 9,618 |

| | 31 December 2013 | | |
|--------------------------------------|-------------------------|---------------|-------------------|
| | Number of | Balance sheet | Off-balance |
| | borrowers | credit | sheet credit risk |
| | NIS millions | | |
| Industry | 3 | 2,257 | 3,327 |
| Construction and real estate | 6 | 4,214 | 3,051 |
| Public and community services | 1 | 735 | 200 |
| Communications and computer services | 1 | 2,376 | 41 |
| Financial services | 8 | 5,813 | 4,182 |
| Electricity and water | 1 | 2,941 | 583 |
| Trade | 1 | 1,053 | 539 |
| Total | 21 | 19,389 | 11,923 |

3. Restrictions on indebtedness of borrower and group of borrowers

- a.** Credit to groups of borrowers whose indebtedness exceeds 15% of the Bank's capital (for capital adequacy purposes):

As of 30 September 2014, the Group has no credit exposure to a group of borrowers whose indebtedness exceeds 15% of the Bank's capital (for capital adequacy purposes).

- b.** The total indebtedness of groups of borrowers whose indebtedness exceeds 10% of the Bank's capital:

The aggregate indebtedness of large borrowers, groups of borrowers and banking groups of borrowers whose debt exceeds 10% of the Bank's capital constituted 11.5% of the Bank's capital at 30 September 2014, compared with the regulatory limit of 120% of the Bank's capital.

Problem debts

The risk of problem credit after individual and collective allowances is as follows:

| | 30 September 2014 | | | 31 December 2013 | | |
|-----------------------|-------------------|-------------------|-------|------------------|-------------------|-------|
| | Balance sheet | Off-balance sheet | Total | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | | NIS millions | | |
| Impaired debts | 3,648 | 157 | 3,805 | 4,267 | 213 | 4,480 |
| Substandard debts | 1,741 | 688 | 2,429 | 1,689 | 185 | 1,874 |
| Special mention debts | 2,625 | 346 | 2,971 | 2,691 | 756 | 3,447 |
| Total | 8,014 | 1,191 | 9,205 | 8,647 | 1,154 | 9,801 |

Problem credit risk:

| | 30 September 2014 | 31 December 2013 |
|--|--------------------------|-------------------------|
| | Problem credit risk | Problem credit risk |
| | NIS millions | NIS millions |
| Commercial problem credit risk | 9,948 | 10,858 |
| Retail problem credit risk | 1,357 | 1,331 |
| Total | 11,305 | 12,189 |
| Allowance for credit losses | 2,100 | 2,388 |
| Problem credit after allowance for credit losses | 9,205 | 9,801 |

Credit to Governments amounted to NIS 510 million as at 30 September 2014, compared with NIS 558 million on 31 December 2013, a decrease of 8.6%, and compared with 30 September 2013, a decrease of 4.3%.

Securities

The Group's investments in securities amounted to NIS 46.1 billion on 30 September 2014, compared with NIS 63.7 billion, a decrease of 27.7%, compared with 31 December 2013, and a decrease of 24.5% compared with 30 September 2013.

The Group's securities are classified into two categories: tradable securities and available-for-sale securities.

Tradable securities are presented in the balance sheet at fair value and the difference between fair value and adjusted cost is charged to the statement of profit and loss. Available-for-sale securities are presented at fair value, where the difference between fair value and adjusted cost is presented as a separate item in equity in other comprehensive income, called "adjustments for presentation of available-for-sale securities at fair value", less the related tax. However, whenever the decrease in value is of a non-temporary nature, the difference is charged to the statement of profit and loss.

The following table sets out the classification of the securities item in the consolidated balance sheet in accordance with the rules set forth above:

| 30 September 2014 | | | | | |
|--------------------------------|---------------|------------------|-------------------|---------------|---------------|
| | Adjusted cost | Unrealized gains | Unrealized losses | | Balance |
| | NIS millions | from adjustments | from adjustments | Fair value | sheet value |
| | | to fair value | to fair value | | |
| Debtentures | | | | | |
| Available-for-sale | 31,001 | 509 | (145) | 31,365 | 31,365 |
| For trading | 10,584 | 108 | (11) | 10,681 | 10,681 |
| | 41,585 | 617 | (156) | 42,046 | 42,046 |
| Shares and mutual funds | - | - | - | - | - |
| Available-for-sale | 3,160 | 456 | (21) | 3,595 | 3,595 |
| For trading | 316 | 101 | - | 417 | 417 |
| | 3,476 | 557 | (21) | 4,012 | 4,012 |
| Total securities | 45,061 | 1,174 | (177) | 46,058 | 46,058 |
| (a) Carried to profit and loss | | | | | |
| 31 December 2013 | | | | | |
| | Adjusted cost | Unrealized gains | Unrealized losses | | Balance |
| | NIS millions | from adjustments | from adjustments | Fair value | sheet value |
| | | to fair value | to fair value | | |
| Debtentures | | | | | |
| Available-for-sale | 49,854 | 401 | (222) | 50,033 | 50,033 |
| For trading | 9,740 | 76 (a) | (33) (a) | 9,783 | 9,783 |
| | 59,594 | 477 | (255) | 59,816 | 59,816 |
| Shares and mutual funds | | | | | |
| Available-for-sale | 2,744 | 156 | (72) | 2,828 | 2,828 |
| For trading | 1,017 | 78 (a) | (4) (a) | 1,091 | 1,091 |
| | 3,761 | 234 | (76) | 3,919 | 3,919 |
| Total securities | 63,355 | 711 | (331) | 63,735 | 63,735 |
| (a) Carried to profit and loss | | | | | |

As at 30 September 2014, some 75.9% of the Group's *nostro* portfolio was classified as available-for-sale securities and some 24.1% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 8.7% of the value of the securities represents investments in shares and funds of companies that are not presented on equity basis, but according to cost, or to the market value of the shares traded on the stock exchange.

For details regarding securities according to the method of measurement, see Note 8.

Below is a table of details of investments in corporate debentures only (excluding banks) issued in Israel and abroad, by sector of the economy (available-for-sale and trading portfolio):

| | 30 September 2014 | | 31 December 2013 | |
|-------------------------------|--------------------------|---------------|-------------------------|---------------|
| | Issued in Israel | Issued abroad | Issued in Israel | Issued abroad |
| | NIS millions | | NIS millions | |
| Agriculture | - | 4 | - | 4 |
| Industry | 170 | 1,024 | 60 | 766 |
| Construction and real estate | 82 | 200 | 50 | 171 |
| Electricity and water | 551 | 245 | 590 | 234 |
| Trade | 124 | 3 | 186 | 4 |
| Hotels, catering and food | - | - | - | - |
| Transportation and storage | - | 140 | 9 | 132 |
| Communications and computer | 70 | 261 | 58 | 198 |
| Financial services (a) | 631 | 9,612 | 431 | 9,495 |
| Business and other services | 29 | 353 | 66 | 209 |
| Public and community services | 26 | 129 | 29 | 115 |
| Total | 1,683 | 11,971 | 1,479 | 11,328 |

* Including asset-backed debentures

Available-for-sale portfolio

- a. In the first nine months of 2014, there was positive movement in capital reserve of available-for-sale securities amounting to NIS 479 million (before the effect of tax). The positive movement was attributable to an increase in value of NIS 962 million (before the effect of tax) which was offset by profit from securities which was realized and transferred to profit and loss amounting to NIS 483 million. This compared with a negative movement of NIS 535 million in 2013 which was attributable to a negative adjustment of NIS 676 million and a profit amounting to NIS 141 million from securities which were realized and transferred to profit and loss.
- b. Net profits from the sale of debentures amounting to NIS 127 million were recorded to profit and loss statement, compared with profits of NIS 157 million in the corresponding period last year.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 30 September 2014, amounted to a positive amount of NIS 1,581 million (after the effect of tax). This amount represents a profit which had not been realized at the date of the financial statements.

The Bank management estimates that in the securities in the available-for-sale portfolio in which there is impairment, most of the impairment is of a temporary nature. The Bank intends, and is able, to continue to hold the investments until the predicted recovery of the full cost of the assets or until redemption. Accordingly, this impairment is recorded to equity, on the basis of the criteria set forth in the Significant Accounting Policies in Note 1 to the 2013 Annual Report.

For details regarding the impairment of available-for-sale of securities carried to capital, , see Note 2.

Trading Portfolio

For details regarding the composition of the portfolio, see Note 2.

In respect of debentures for trading, realized and unrealized losses amounting to NIS 358 million were recorded in the profit and loss statement in the first nine months of 2014, compared with losses of NIS 94 million in the corresponding period in 2013. In respect of shares and funds, realized and unrealized losses were recorded amounting to NIS 26 million, compared with profits amounting to NIS 16 million in the corresponding period in 2013.

Investments in securities issued abroad

The Group's securities portfolio includes some NIS 24 billion (some US\$ 6.5 billion) of securities issued abroad. Some 89% of the portfolio is invested in debt instruments, all of which (but for some 1.5%) are investment grade securities, of which some 86% are rated 'A-' and above. Some 11% of the portfolio is invested in shares and funds.

For details regarding the composition of the investments in foreign securities, see Note 2.

The net increase in value (the offset between increases and decreases in value), charged to equity in respect of securities issued abroad, as of 30 September 2014, amounted to NIS 157 million (some NIS 98 million after the effect of tax).

1. Investments in foreign asset-backed securities

The Group's portfolio of asset-backed securities (mortgages and non-mortgages) is all investment grade. The Group's investments in foreign asset-backed securities as at 30 September 2014 amounted to some NIS 7.8 billion (some US\$ 2.1 billion) of asset-backed securities, compared with some NIS 7.6 billion at the end of 2013. Of the said portfolio, some NIS 7.3 billion (some US\$ 2.0 billion) is classified in the available-for-sale portfolio, and the balance in the trading portfolio.

The portfolio of available-for-sale investments in foreign asset-backed securities as at 30 September 2014 includes investments in mortgage-backed securities in the total amount of some NIS 5.3 billion. 94% of the mortgage-backed securities in the available-for-sale portfolio are issued directly by United States federal agencies (FNMA, FHLMC, GNMA).

For details regarding the investments in asset-backed bonds, see Note 2.

As of 30 September 2014, the cumulative net decrease in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to some NIS 96 million.

The total of the mortgage-backed securities that are not (U.S.) government guaranteed and are not backed by American federal entities in both the available-for-sale and trading portfolios, amounts to some NIS 578 million.

The forecast term to maturity for each mortgage-backed securities portfolio is, on average, some 4.5 years. In addition to the mortgage-backed securities, the Group's available-for-sale portfolio also includes other securities that are backed by assets other than mortgages (car purchase credit and other types of credit), amounting to some NIS 2.0 billion, of which CLO-type debentures account for some NIS 1.9 billion. The projected term to maturity of the portfolio of securities backed by assets other than mortgages is some 3.4 years on average.

2. Investments in other non asset-backed securities issued abroad

The Group's securities portfolio as at 30 September 2014 includes some NIS 16.2 billion (some US 4.4 billion) of non-asset-backed securities, which include mainly securities of the U.S. government, banks and financial institutions, debentures of investment-grade companies the balance being mainly securities issued by the Government of Israel.

For further details regarding exposure to overseas banks and financial institutions, see the section "Credit Risks" in the chapter "Risk Exposure and Risk Management".

As of 30 September 2014, the balance of the accumulated increase in value included in equity in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio amounted to NIS 231 million (NIS 144 million after tax). In the first nine months of 2014, there was an increase in value amounting to NIS 114 million before tax. The debentures that are not asset-backed securities and were issued abroad are mainly debentures issued by banks. The Bank intends, and is able, to continue to hold these securities until maturity or at least until their value is recovered.

In addition, as aforesaid, the available-for-sale portfolio includes securities that are non-asset backed securities also in the trading portfolio. The trading portfolio includes mainly government securities and securities of banks and financial institutions and portfolios of securities under the management of external investment managers and security funds. Approximately 98% of the securities in the trading portfolio are investment grade securities. The value of the trading portfolio which is non-asset backed as at 30 September 2014 amounted to some NIS 1.9 billion (US\$ 0.5 billion). The difference between the fair value and the adjusted cost, if any, is carried to the profit and loss statement.

3. Investments in debentures issued in Israel

Investments in debentures issued in Israel at 30 September 2014 amounted to NIS 20.8 billion, of which NIS 19.0 billion was in debentures issued by the Government of Israel, with the balance being Government of Israel debentures in foreign currency and debentures issued by companies. 47.2% of the investments in corporate debentures amounting to NIS 0.8 billion are included in the available-for-sale portfolio, with the balance being in the trading portfolio.

The corporate debenture portfolio in the available-for-sale portfolio of NIS 0.8 billion, the capital reserve amounts to NIS 40 million.

4. Investments in shares and funds

Total investments in shares and funds amounted to some NIS 4,012 million as at 30 September 2014, of which some NIS 2,442 million was in quoted shares and some NIS 1,570 million in unquoted shares. Out of the total investment, NIS 3,595 million is classified as available-for-sale and NIS 417 million is classified in the trading portfolio.

The total fair value of the balance of principal investments in shares and mutual funds as of 30 September 2014 amounts to NIS 4,012 million. The capital required in respect of these investments as of 30 September 2014 amounted to NIS 361 million.

For further details, see Note 2.

Other assets and debit balances in respect of derivative instruments

As of 30 September 2014, other assets (including intangible assets and goodwill) and debit balances in respect of derivative instruments amounted to NIS 21.6 billion, compared with NIS 18.2 billion at the end of 2013, an increase of 18.97%.

Other liabilities and credit balances in respect of derivative instruments

As of 30 September 2014, other liabilities and credit balances in respect of derivative instruments amounted to NIS 34.4 billion, compared with NIS 30.8 billion at the end of 2013, an increase of 11.5%.

Operating Segments in the Group

The Group operates in various operating segments through the Bank and its subsidiaries, in all fields of banking and financial services. Furthermore, the Group invests in non-banking corporations that operate in various fields, including real estate, shipping, energy, industry and others.

The operating segments are defined in accordance with the characteristics determined by the Bank of Israel. A detailed description of the operating segments and how they are measured is presented in the Annual Report for 2013.

Following are principal data according to operating segments of the principal balance sheet items:

| | Credit to the public | | | Deposits of the public | | | Total assets | | |
|--------------------------------|----------------------|---------------------|--------|------------------------|---------------------|--------|----------------------|---------------------|--------|
| | 30 September 2014 | 31 December 2013 | Change | 30 September 2014 | 31 December 2013 | Change | 30 September 2014 | 31 December 2013 | Change |
| | NIS millions | | % | NIS millions | | % | NIS millions | | % |
| Households | 108,136 | 100,243 | 7.9 | 114,265 | 118,634 | (3.7) | 108,820 | 100,913 | 7.8 |
| Small businesses | 24,325 | 23,299 | 4.4 | 23,048 | 22,830 | 1.0 | 24,352 | 23,326 | 4.4 |
| Corporate banking | 57,063 | 60,646 | (5.9) | 23,866 | 22,816 | 4.6 | 58,566 | 62,482 | (6.3) |
| Commercial banking | 51,339 | 49,630 | 3.4 | 60,433 | 51,878 | 16.5 | 53,762 | 53,931 | (0.3) |
| Private banking | 6,065 | 6,455 | (6.0) | 33,573 | 34,794 | (3.5) | 10,042 | 11,527 | (12.9) |
| Financial management and other | 2,553 | 601 | + | 31,447 | 35,051 | (10.3) | 124,411 | 122,181 | 1.8 |
| Total | 249,481 | 240,874 | 3.6 | 286,632 | 286,003 | 0.2 | 379,953 | 374,360 | 1.5 |

Following are principal data according to operating segments of off-balance sheet items and data on customer balances in the capital market:

| | Guarantees and documentary credits | | | Securities portfolios, including mutual funds | | |
|--------------------------------|------------------------------------|---------------------|--------|---|---------------------|--------|
| | 30 September 2014 | 31 December 2013 | Change | 30 September 2014 | December 31 2013 | Change |
| | NIS millions | | % | NIS millions | | % |
| Households | 365 | 396 | (7.8) | 132,688 | 120,759 | 9.9 |
| Small businesses | 1,433 | 1,456 | (1.6) | 14,184 | 11,816 | 20.0 |
| Corporate banking | 29,760 | 28,038 | 6.1 | 60,721 | 62,850 | (3.4) |
| Commercial banking | 6,813 | 6,574 | 3.6 | 52,736 | 56,885 | (7.3) |
| Private banking | 329 | 399 | (17.5) | 90,654 | 85,954 | 5.5 |
| Financial management and other | 1,165 | 774 | 50.5 | 507,873 | 452,329 | 12.3 |
| Total | 39,865 | 37,637 | 5.9 | 858,856 | 790,593 | 8.6 |

The following table sets out the net profit according to operating segments:

| | For the three months ended | | | For the nine months ended | | |
|-----------------------|----------------------------|-----------|--------|---------------------------|-----------|--------|
| | 30 | 30 | Change | 30 | 30 | Change |
| | September | September | | September | September | |
| | 2014 | 2013 | | 2014 | 2013 | |
| | NIS millions | | % | NIS millions | | % |
| Households | 42 | 16 | + | 160 | 86 | 86.0 |
| Small businesses | 87 | 79 | 10.1 | 258 | 205 | 25.9 |
| Corporate | 315 | 255 | 23.5 | 857 | 788 | 8.8 |
| Commercial | 87 | 139 | (37.4) | 392 | 304 | 28.9 |
| Private banking | (452) | (93) | - | (1,000) | (34) | - |
| Financial management: | | | | | | |
| capital markets | 83 | 20 | + | 269 | 30 | + |
| Non-bank investments | 497 | 122 | + | 542 | 261 | + |
| Other | 18 | 17 | 5.9 | 114 | (41) | + |
| Total | 677 | 555 | 22.0 | 1,592 | 1,599 | (0.4) |

Explanations for the changes in profitability are provided below.

The following table shows the quarterly development of the net profit by operating segment:

| | 2014 | | | 2013 | | | |
|-------------------------------|----------------|---------|---------|---------|---------|---------|---------|
| | 3rd | 2nd | 1st | 4th | 3rd | 2nd | 1st |
| | quarter | quarter | quarter | quarter | quarter | quarter | quarter |
| Households | 42 | 67 | 51 | 23 | 16 | 31 | 39 |
| Small businesses | 87 | 84 | 87 | 83 | 79 | 64 | 62 |
| Corporate | 315 | 276 | 266 | 177 | 255 | 276 | 257 |
| Commercial | 87 | 150 | 155 | 108 | 139 | 50 | 115 |
| Private banking | (452) | (550) | 2 | 19 | (93) | 29 | 30 |
| Financial management: capital | | | | | | | |
| markets | 83 | 156 | 31 | 88 | 20 | (1) | 12 |
| Non-bank investments | 497 | (11) | 55 | (151) | 122 | 32 | 106 |
| Other | 18 | 118 | (22) | 1 | 17 | (7) | (51) |
| Total | 677 | 290 | 625 | 348 | 555 | 474 | 570 |

Return on equity according to operating segments

Equity is allocated to the segments according to the relative share of each segment in the total of all the weighted risk assets of the Group, including the allocation of capital in respect of Pillar 2 equity according to the Bank's internal models.

The profit of operating segments was adjusted in respect of the cost of capital allocated to each segment.

The return on capital according to the various activity segments was calculated as the ratio of the adjusted profit of the segment to the capital allocated to the segment.

Below is the return on risk-adjusted capital (RORAC). The figures for RORAC have been calculated according to the allocation of all of the capital of the Bank among the segments (as per the actual capital adequacy ratio pursuant to Basel).

| | Allocating all the capital | | |
|----------------------|----------------------------|-------------------|------------------|
| | Return on capital (RORAC) | | |
| | 30 September 2014 | 30 September 2013 | 31 December 2013 |
| | % | | |
| Households | 3.0 | 2.0 | 1.9 |
| Small businesses | 17.3 | 16.8 | 17.2 |
| Corporate banking | 14.8 | 12.9 | 11.8 |
| Commercial banking | 10.4 | 9.1 | 9.0 |
| Private banking | - | (4.5) | (1.6) |
| Financial management | 33.7 | 10.2 | 5.6 |
| Other | 20.2 | (11.0) | (8.1) |
| Total for net profit | 7.9 | 8.5 | 7.6 |

1. Households

The following tables set out a summary of the profit and loss of the Households segment:

| | Overseas activity | | | | | | |
|--|---------------------------|-----------------|-------------------|-----------|---------------------------|-----------|-----------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Banking and finance | Mortgages | Total |
| For the three months ended 30 September 2014 | | | | | | | |
| NIS millions | | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | 193 | 58 | 2 | 594 | (2) | 3 | 848 |
| Intersegmental | 226 | (3) | (1) | (419) | 4 | - | (193) |
| Non-interest income: | | | | | | | |
| From external sources | 124 | 139 | 119 | 20 | 2 | - | 404 |
| Intersegmental | 7 | 41 | - | - | - | - | 48 |
| Total income | 550 | 235 | 120 | 195 | 4 | 3 | 1,107 |
| Expenses (income) in respect of credit losses | 45 | 3 | - | 8 | (1) | - | 55 |
| Operating and other expenses: | | | | | | | |
| To external sources | 665 | 156 | 98 | 55 | 5 | 1 | 980 |
| Intersegmental | 2 | (2) | - | - | - | - | - |
| Profit (loss) before taxes | (162) | 78 | 22 | 132 | - | 2 | 72 |
| Provision for (benefit from) taxes on profit | (59) | 24 | 8 | 50 | - | - | 23 |
| Profit (loss) after taxes | (103) | 54 | 14 | 82 | - | 2 | 49 |
| Group share in profits of companies included on equity basis after effect of tax | - | 1 | - | - | - | - | 1 |
| Net profit attributable to non-controlling interests | - | (8) | - | - | - | - | (8) |
| Net profit (loss) | (103) | 47 | 14 | 82 | - | 2 | 42 |

| | Overseas activity | | | | | | |
|--|---------------------------|-----------------|-------------------|-----------|---------------------------|-----------|-----------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Banking and finance | Mortgages | Total |
| For the three months ended 30 September 2013 | | | | | | | |
| NIS millions | | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | (105) | 60 | 2 | 950 | (3) | 3 | 907 |
| Intersegmental | 544 | (9) | (1) | (783) | 6 | (1) | (244) |
| Non-interest income: | | | | | | | |
| From external sources | 145 | 134 | 102 | 31 | 2 | - | 414 |
| Intersegmental | (2) | 46 | - | - | - | - | 44 |
| Total income | 582 | 231 | 103 | 198 | 5 | 2 | 1,121 |
| Expenses (income) in respect of credit losses | 21 | 1 | - | (9) | - | - | 13 |
| Operating and other expenses: | | | | | | | |
| To external sources | 767 | 162 | 88 | 59 | 4 | 1 | 1,081 |
| Intersegmental | 1 | (1) | - | - | - | - | - |
| Profit (loss) before taxes | (207) | 69 | 15 | 148 | 1 | 1 | 27 |
| Provision for (benefit from) taxes on profit | (76) | 21 | 6 | 53 | 1 | - | 5 |
| Profit (loss) after taxes | (131) | 48 | 9 | 95 | - | 1 | 22 |
| Group share in profits of companies included on equity basis after effect of tax | - | 2 | - | - | - | - | 2 |
| Net profit attributable to non-controlling interests | - | (8) | - | - | - | - | (8) |
| Net profit (loss) | (131) | 42 | 9 | 95 | - | 1 | 16 |

Households (contd.)

| | Overseas activity | | | | | | |
|---|---------------------------|-----------------|-------------------|------------|------------------------|-----------|-------------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Banking and finance | Mortgages | Total |
| For the nine months ended 30 September 2014 | | | | | | | |
| NIS millions | | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | 618 | 178 | 5 | 1,514 | (5) | 8 | 2,318 |
| Intersegmental | 649 | (17) | (2) | (995) | 12 | (1) | (354) |
| Non-interest income: | | | | | | | |
| From external sources | 389 | 411 | 353 | 61 | 5 | - | 1,219 |
| Intersegmental | 10 | 125 | - | - | - | - | 135 |
| Total income | 1,666 | 697 | 356 | 580 | 12 | 7 | 3,318 |
| Expenses (income) in respect of credit losses | 147 | 12 | - | 19 | (1) | (1) | 176 |
| Operating and other expenses: | | | | | | | |
| To external sources | 1,931 | 468 | 298 | 165 | 11 | 5 | 2,878 |
| Intersegmental | 3 | (3) | - | - | - | - | - |
| Profit (loss) before taxes | (415) | 220 | 58 | 396 | 2 | 3 | 264 |
| Provision for taxes (benefit) on profit | (154) | 70 | 21 | 148 | - | - | 85 |
| Profit (loss) after taxes | (261) | 150 | 37 | 248 | 2 | 3 | 179 |
| Group share in profits of companies included on equity basis after effect of tax | - | 4 | - | - | - | - | 4 |
| Net profit attributable to non-controlling interests | - | (23) | - | - | - | - | (23) |
| Net profit (loss) | (261) | 131 | 37 | 248 | 2 | 3 | 160 |
| Return on equity | | | | | | | 3.0% |
| | | | | | | | |
| Average balance of assets | 23,926 | 9,982 | 172 | 70,259 | 47 | 215 | 104,601 |
| Of which: investments in companies included on equity basis | - | 2 | - | - | - | - | 2 |
| Average balance of credit to the public | 23,485 | 9,761 | 172 | 70,214 | 46 | 215 | 103,893 |
| Average balance of liabilities | 114,926 | 1,342 | - | 380 | 922 | 8 | 117,578 |
| Average balance of deposits of the public | 114,841 | 52 | - | - | 921 | 7 | 115,821 |
| Average balance of risk assets | 26,546 | 9,618 | 174 | 37,980 | 269 | 75 | 74,662 |
| Average balance of mutual funds and supplementary training funds | - | - | 78,880 | - | - | - | 78,880 |
| Average balance of securities | - | 1 | 48,035 | - | 184 | - | 48,220 |
| Average balance of other assets under management | 3,681 | - | - | - | - | - | 3,681 |
| Balance of credit to the public, net | 24,718 | 10,426 | 169 | 72,557 | 44 | 222 | 108,136 |
| Balance of deposits of the public | 113,199 | 82 | - | - | 976 | 8 | 114,265 |

Households (contd.)

| | Banking and finance | Credit cards | Capital market | Mortgages | Overseas activity Banking and finance Mortgages | | Total |
|---|---|-----------------|-------------------|-----------|---|-----|---------|
| | For the nine months ended 30 September 2013 | | | | | | |
| | NIS millions | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | (145) | 181 | 5 | 2,213 | (9) | 8 | 2,253 |
| Intersegmental | 1,484 | (28) | (2) | (1,727) | 14 | (1) | (260) |
| Non-interest income: | | | | | | | |
| From external sources | 427 | 379 | 316 | 87 | 5 | - | 1,214 |
| Intersegmental | (2) | 128 | - | - | - | - | 126 |
| Total income | 1,764 | 660 | 319 | 573 | 10 | 7 | 3,333 |
| Expenses (income) in respect of credit losses | 84 | 9 | - | 47 | 1 | (1) | 140 |
| Operating and other expenses: | | | | | | | |
| To external sources | 2,081 | 499 | 273 | 183 | 11 | 4 | 3,051 |
| Intersegmental | 5 | (5) | - | - | - | - | - |
| Profit (loss) before taxes | (406) | 157 | 46 | 343 | (2) | 4 | 142 |
| Provision for taxes (benefit) on profit | (148) | 47 | 17 | 122 | 1 | - | 39 |
| Profit (loss) after taxes | (258) | 110 | 29 | 221 | (3) | 4 | 103 |
| Group share in profits of companies included on equity basis after effect of tax | - | 4 | - | - | - | - | 4 |
| Net profit attributable to non-controlling interests | - | (21) | - | - | - | - | (21) |
| Net profit (loss) | (258) | 93 | 29 | 221 | (3) | 4 | 86 |
| Return on equity | | | | | | | 2.0% |
| Average balance of assets | 21,900 | 8,887 | 144 | 64,378 | 56 | 205 | 95,570 |
| Of which investments in companies included on equity basis | - | 2 | - | - | - | - | 2 |
| Average balance of credit to the public | 20,834 | 8,680 | 144 | 64,213 | 55 | 205 | 94,131 |
| Average balance of liabilities | 122,785 | 1,054 | - | 272 | 920 | 8 | 125,039 |
| Average balance of deposits of the public | 122,597 | 42 | - | - | 919 | 8 | 123,566 |
| Average balance of risk assets | 23,319 | 8,619 | 141 | 34,794 | 274 | 72 | 67,219 |
| Average balance of mutual funds and supplementary training funds | - | - | 63,772 | - | - | - | 63,772 |
| Average balance of securities | - | - | 48,012 | - | 175 | - | 48,187 |
| Average balance of other assets under management | 4,449 | - | - | - | - | - | 4,449 |
| Balance of credit to the public, net, at 31 December 2013 | 22,112 | 9,358 | 167 | 68,345 | 50 | 211 | 100,243 |
| Balance of deposits of the public at 31 December 2013 | 117,675 | 40 | - | - | 912 | 7 | 118,634 |

Main Changes in the Scope of Operations

Total credit to the public in the households segment increased by NIS 7.9 billion, or 7.9% compared with the end of 2013. Housing loans increased by 6.2%, and credit, after cancelling out the effect of housing loans, increased by 11.6%. Deposits of the public fell by some NIS 4.4 billion.

Main Changes in Net Profit

In the first nine months of 2014, net profit in the households segment amounted to NIS 160 million, compared with NIS 86 million in the corresponding period last year, an increase of NIS 74 million or 86%. The increase in profit derives mainly from a decrease in expenses in operating and other expenses amounting to NIS 173 million.

The return on equity of the net profit in the segment was 3.0%.

Pension Counseling

The pension assets of customers receiving counseling in the Leumi Group at the end of September 2014, including advanced training funds in respect of which counseling was provided in the framework of pension counseling and/or investment advice, amounted to some NIS 20.4 billion, an increase of 10.9% in comparison to the end of 2013.

The following table presents data concerning new loans granted and loans refinanced for the purchase of a residential dwelling and for the mortgage of a residential dwelling:

| | First nine months of 2014 | First nine months of 2013 | Rate of change |
|---------------------------------|--------------------------------------|------------------------------|-------------------|
| | NIS millions | | % |
| From Bank funds | 10,863 | 10,680 | 1.7 |
| From Ministry of Finance funds: | | | |
| Loans | 20 | 30 | (33.3) |
| Standing loans | 17 | 17 | - |
| Total new loans | 10,900 | 10,727 | 1.6 |
| Refinanced loans | 2,837 | 1,887 | 50.3 |
| Total loans extended | 13,737 | 12,614 | 8.9 |

Data relating to risk characteristics of housing loans

Disclosure on housing loans

The definitions mentioned in the disclosure below (e.g. repayment ratio, LTV ratio, etc.) are in accordance with the Bank's reports to the Bank of Israel.

Development of balance of housing credit, net:

| | Balance of housing credit | Rate of increase |
|-----------------------|------------------------------|------------------|
| | NIS millions | % |
| December 2012 | 60,294 | 10.9 |
| December 2013 | 68,152 | 13.0 |
| September 2014 | 72,364 | * 6.2 |

* Rate of increase in the first nine months of 2014.

The increase in the level of housing credit in recent years is attributable, *inter alia*, to demand for housing units and an increase in the prices of housing units, although the rate of increase in the first nine months of 2014 is lower than in previous years. Most of this credit was taken for the purchase of residential dwellings.

Development of balance of loans, net, according to linkage basis:

| | Unlinked | Percentage of credit portfolio | CP.I.- linked | Percentage of credit portfolio | Foreign currency | Percentage of credit portfolio | Total portfolio |
|-----------------------|-----------------|--------------------------------------|------------------|--------------------------------------|---------------------|--------------------------------------|--------------------|
| | NIS millions | % | NIS millions | % | NIS millions | % | NIS millions |
| December 2012 | 26,234 | 43.5 | 32,522 | 53.9 | 1,538 | 2.6 | 60,294 |
| December 2013 | 31,740 | 46.6 | 34,718 | 50.9 | 1,694 | 2.5 | 68,152 |
| September 2014 | 35,104 | 48.5 | 35,517 | 49.1 | 1,743 | 2.4 | 72,364 |

Development of the balance of the housing loan portfolio, net, at variable and fixed interest:

| | Fixed | | Variable | | | Total loan portfolio |
|-----------------------|--------------|------------------|---------------|------------------|---------------------|-------------------------|
| | Unlinked | CP.I.- linked | Unlinked | CP.I.- linked | Foreign currency | |
| | NIS millions | | | | | |
| December 2012 | 2,144 | 10,698 | 24,090 | 21,824 | 1,538 | 60,294 |
| December 2013 | 4,289 | 10,583 | 27,451 | 24,135 | 1,694 | 68,152 |
| September 2014 | 6,148 | 11,376 | 28,957 | 24,140 | 1,743 | 72,364 |

Development of new housing loans by type of interest:

The development of the new loans extended by variable and fixed interest is as follows (a variable interest loan is a loan where the interest borne is likely to change over the life of the loan):

| | 2014 | | | 2013 | | | 2012 | |
|---|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| | 3rd quarter | 2nd quarter | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter | Annual average |
| | Percentage of loans extended | | | | | | | |
| | % | | | | | | | |
| Fixed – linked | 22.6 | 25.2 | 22.0 | 19.9 | 10.5 | 13.3 | 10.9 | 13.3 |
| Variable – every 5 years or more – linked | 18.1 | 18.1 | 17.6 | 21.8 | 28.9 | 31.1 | 31.3 | 40.4 |
| Variable – up to 5 years – linked | 1.5 | 1.9 | 2.1 | 2.6 | 2.2 | 2.2 | 2.5 | 4.5 |
| Fixed-unlinked | 20.5 | 18.7 | 20.7 | 17.1 | 14.4 | 13.6 | 14.3 | 8.4 |
| Variable – every 5 years or more – unlinked | 6.0 | 6.3 | 7.6 | 9.0 | 11.5 | 9.0 | 9.3 | 4.5 |
| Variable – up to 5 years – unlinked | 29.9 | 27.9 | 28.6 | 28.4 | 30.8 | 28.9 | 29.1 | 27.5 |
| Variable – foreign currency | 1.4 | 1.9 | 1.4 | 1.2 | 1.7 | 1.9 | 2.6 | 1.4 |

The percentage of new credit extended by the Bank in variable interest housing loans during the first nine months of 2014 was 57%, compared with 72% in 2013. The data relate to all types of variable interest and the different linkage segments, including loans in which the interest is variable each period of five years and more. The percentage of housing credit extended in variable interest loans during the first nine months of 2014, after canceling the effect of loans at variable interest varying each period of 5 years and more, which a directive from the Supervisor of 3 May 2011 excludes from the definition of variable interest loans, was 32%, compared with 33% in 2013.

The balance of the portfolio of housing loans in arrears of more than 90 days is as follows:

| | Balance of debt before allowance for credit losses | Amount of credit in arrears | Percentage of problem debt |
|-----------------------|--|-----------------------------|----------------------------|
| | NIS millions | | % |
| December 2012 | 60,738 | 829 | 1.4 |
| December 2013 | 68,627 | 810 | 1.2 |
| September 2014 | 72,854 | 845 | 1.2 |

The allowance for credit losses as at 30 September 2014, which includes the group allowance for housing loans (hereinafter, "the overall allowance") is NIS 489 million, representing 0.67% of the housing balance, compared with an allowance of NIS 492 million as at 31 December 2013, representing 0.69% of the housing credit balance.

Data relating to new housing credit:

During the first nine months of 2014, new housing loans amounting to NIS 10.9 billion from the Bank's funds were extended.

Development of the rate of financing, in new credit, above 60%:

The table below presents the development of new credit extended by Leumi Mortgage at a rate of financing higher than 60% (the rate of financing is the ratio between the rate of credit approved for the borrower, even if all or part thereof has not yet been actually extended, and the value of the mortgaged asset, when extending the credit facility):

| | 2014 | | | 2013 | | | | 2012 | |
|---------------------|-------------|-------------|-------------|----------------|-------------|-------------|-------------|-------------|----------------|
| | 3rd quarter | 2nd quarter | 1st quarter | Annual average | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter | Annual average |
| Rate of financing % | | | | | | | | | |
| Between 60% and 70% | 17.6 | 19.6 | 16.6 | 18.3 | 17.0 | 16.5 | 19.2 | 20.9 | 22.6 |
| Between 70% and 80% | 14.1 | 13.9 | 14.4 | 16.3 | 15.4 | 16.7 | 16.9 | 16.0 | 12.9 |
| Above 80% | 0.4 | 0.3 | 0.5 | 0.9 | 0.7 | 0.8 | 0.9 | 1.3 | 3.5 |

Development of the rate of financing, and the balance of the credit portfolio:

The average financing rate of the credit portfolio balance as at 30 September 2014 was 48.7%.

Development of new credit in which the repayment ratio is less than 2.5¹:

The rate of credit extended in the first nine months of 2014 in which the repayment ratio was lower than 2.5 for income-earners earning NIS 10,000 or less at the date of approving the credit, stood at 0.56% of the total new credit extended, compared to the last quarter of 2013, when the rate was 1.6%. (The repayment ratio is calculated as follows: the fixed monthly income of the borrower divided by total monthly repayments in respect of the existing mortgage loans and the new loan).

This computation complies with the Bank of Israel regulations for the purpose of reporting to the Banking Supervision Department pursuant to Regulation 876.

¹ Till now, the rate of performance in the repayment ratio is lower than 2 for income-earners earning NIS 10,000 and less has been reported, in light of the Bank of Israel directive dated 29 August, 2013 "Restriction on Housing Loans" which restricts the grant of housing loans with a repayment ratio lower than 2.

Development of new credit, in which repayment schedules are longer than 25 years:

The rate of new credit for housing loans in the first nine months of 2014, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at an average of 29.3% of the total new loans extended, compared to an average rate of 30.2% in 2013, 31% in 2012 and 2011.

As a general rule, the Bank does not extend new loans whose terms allow the borrower to pay back less than the interest accruing on the loan, except in exceptional cases.

The Bank does not extend loans secured by a third charge, except in exceptional cases.

In accordance with its credit policy, the Bank extends new loans when the information available regarding the borrower, or regarding the collateral, at the date of granting the loan, is complete, updated, and verified.

Development of credit risks

Against a background of high demand for housing in recent years, both for residential purposes and for investment, there has been a marked increase in housing prices, leading to a substantial increase in the extent of housing credit. In light of this increase in prices, the risk inherent in extending loans at high rates of financing has increased, stemming from the high burden of debt on the borrower, and higher exposure when the security declines in value.

In addition, the low interest rates that have prevailed in the economy in recent years have led to a sharp increase in the proportion of unlinked variable interest loans out of total credit to the public in the mortgage market. As a consequence, in an environment of increasing interest rates, borrowers are exposed to a rise in the level of mortgage payments.

As a result of economic developments in the economy in recent years, as presented above, the Bank of Israel published a number of regulations which aimed to ameliorate the risk. Beyond that, the Bank also adopted a number of measures in order to contend with the increase in the abovementioned credit risks:

- As part of its risk management, the Bank established administrative restrictions according to the following characteristics: the rates of financing, ongoing monthly repayment capacity, credit ratings in accordance with the Bank's internal statistical model, loan products/plans, types of interest and the amount of the loan.
- As part of credit risk management, the Bank periodically performs stress scenarios that examine the effect of a fall in the value of securities, an increase in interest rates and the effect of other macroeconomic variables on the Bank's results.

The average loan extended by the Bank in the first nine months of 2014 was NIS 584 thousand, compared with NIS 558 thousand in 2013 and NIS 530 thousand in 2012.

2. Small Businesses

The following tables set out a summary of the profit and loss in the Small Businesses segment:

| | <u>Overseas activity</u> | | | | | | | |
|---|---|-----------------|-------------------|-----------|----------------|---------------------------|----------------|-----------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Real estate | Total |
| | For the three months ended 30 September 2014 | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 203 | 4 | 1 | 1 | 78 | 13 | 2 | 302 |
| Intersegmental | (24) | (1) | - | - | (11) | (3) | (1) | (40) |
| Non-interest income: | | | | | | | | |
| From external sources | 79 | 29 | 7 | - | 18 | 6 | - | 139 |
| Intersegmental | 2 | (11) | - | - | - | - | - | (9) |
| Total income | 260 | 21 | 8 | 1 | 85 | 16 | 1 | 392 |
| Expenses in respect of credit losses | 24 | - | - | - | 6 | (1) | - | 29 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 162 | 14 | 4 | - | 32 | 11 | 1 | 224 |
| Intersegmental | - | 2 | - | - | - | - | - | 2 |
| Profit before taxes | 74 | 5 | 4 | 1 | 47 | 6 | - | 137 |
| Provision for taxes on profit | 28 | 2 | 1 | - | 18 | 1 | - | 50 |
| Profit after taxes | 46 | 3 | 3 | 1 | 29 | 5 | - | 87 |
| Loss (profit) attributable to non-controlling interests | 1 | (1) | - | - | - | - | - | - |
| Net profit | 47 | 2 | 3 | 1 | 29 | 5 | - | 87 |

| | <u>Overseas activity</u> | | | | | | | |
|--|---|-----------------|-------------------|-----------|----------------|---------------------------|----------------|-----------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Real estate | Total |
| | For the three months ended 30 September 2013 | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 191 | 5 | 1 | 1 | 73 | 13 | 3 | 287 |
| Intersegmental | (28) | 1 | - | (1) | (16) | (2) | (2) | (48) |
| Non-interest income: | | | | | | | | |
| From external sources | 87 | 31 | 6 | - | 19 | 5 | - | 148 |
| Intersegmental | 1 | (12) | - | - | - | - | - | (11) |
| Total income | 251 | 25 | 7 | - | 76 | 16 | 1 | 376 |
| Expenses (income) in respect of credit losses | 25 | - | - | - | 3 | (10) | 1 | 19 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 182 | 14 | 4 | - | 32 | 8 | 1 | 241 |
| Intersegmental | (1) | 1 | - | - | - | - | - | - |
| Profit (loss) before taxes | 45 | 10 | 3 | - | 41 | 18 | (1) | 116 |
| Provision for taxes on the profit | 16 | 4 | 1 | - | 15 | - | - | 36 |
| Profit (loss) after taxes | 29 | 6 | 2 | - | 26 | 18 | (1) | 80 |
| Net profit attributable to non-controlling interests | - | (1) | - | - | - | - | - | (1) |
| Net profit (loss) | 29 | 5 | 2 | - | 26 | 18 | (1) | 79 |

Small Businesses (contd.)

| | | | | | Overseas activity | | | |
|---|---------------------------|-----------------|-------------------|-----------|-------------------|---------------------------|----------------|--------------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Real estate | Total |
| For the nine months ended 30 September 2014 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 587 | 14 | 1 | 2 | 233 | 41 | 8 | 886 |
| Intersegmental | (53) | (2) | - | (1) | (36) | (12) | (3) | (107) |
| Non-interest income: | | | | | | | | |
| From external sources | 229 | 88 | 22 | - | 50 | 16 | 1 | 406 |
| Intersegmental | 2 | (32) | - | - | - | - | - | (30) |
| Total income | 765 | 68 | 23 | 1 | 247 | 45 | 6 | 1,155 |
| Expenses in respect of credit losses | 61 | - | - | - | 12 | 6 | - | 79 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 485 | 41 | 12 | - | 90 | 29 | 4 | 661 |
| Intersegmental | 1 | 4 | - | - | - | - | - | 5 |
| Profit before taxes | 218 | 23 | 11 | 1 | 145 | 10 | 2 | 410 |
| Provision for taxes on profit | 83 | 7 | 4 | - | 55 | 1 | - | 150 |
| Profit after taxes | 135 | 16 | 7 | 1 | 90 | 9 | 2 | 260 |
| Net profit attributable to non-controlling interests | - | (2) | - | - | - | - | - | (2) |
| Net profit | 135 | 14 | 7 | 1 | 90 | 9 | 2 | 258 |
| Return on equity | | | | | | | | 17.3% |
| Average balance of assets | 14,653 | 948 | 19 | 77 | 6,976 | 1,000 | 252 | 23,925 |
| Average balance of credit to the public, net | 14,644 | 934 | 19 | 77 | 6,974 | 1,000 | 252 | 23,900 |
| Average balance of liabilities | 16,971 | 1,591 | - | - | 4,763 | 716 | 141 | 24,182 |
| Average balance of deposits of the public | 16,958 | - | - | - | 4,643 | 716 | 141 | 22,458 |
| Average balance of risk assets | 11,973 | 760 | 22 | 42 | 6,908 | 1,102 | 252 | 21,059 |
| Average balance of mutual funds and supplementary training funds | - | - | 4,081 | - | - | - | - | 4,081 |
| Average balance of securities | - | - | 9,665 | - | - | 8 | - | 9,673 |
| Average balance of other assets under management | 189 | - | - | - | - | - | - | 189 |
| Balance of credit to the public, net | 14,897 | 1,000 | 11 | 74 | 7,177 | 1,008 | 158 | 24,325 |
| Balance of deposits of the public | 16,950 | - | - | - | 5,210 | 737 | 151 | 23,048 |

Small Businesses (contd.)

| | Overseas activity | | | | | | | |
|---|---|-----------------|-------------------|-----------|----------------|---------------------------|----------------|--------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Real estate | Total |
| | For the nine months ended 30 September 2013 | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 565 | 17 | 1 | 3 | 216 | 33 | 8 | 843 |
| Intersegmental | (73) | (2) | - | (2) | (51) | (9) | (4) | (141) |
| Non-interest income: | | | | | | | | |
| From external sources | 256 | 88 | 19 | - | 56 | 11 | 1 | 431 |
| Intersegmental | 1 | (33) | - | - | - | - | - | (32) |
| Total income | 749 | 70 | 20 | 1 | 221 | 35 | 5 | 1,101 |
| Expenses (income) in respect of credit losses | 54 | (1) | - | - | 17 | 6 | 1 | 77 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 527 | 43 | 11 | - | 96 | 23 | 3 | 703 |
| Intersegmental | (3) | 3 | - | - | - | - | - | - |
| Profit before taxes | 171 | 25 | 9 | 1 | 108 | 6 | 1 | 321 |
| Provision for taxes on the profit | 63 | 7 | 3 | - | 39 | 1 | - | 113 |
| Profit after taxes | 108 | 18 | 6 | 1 | 69 | 5 | 1 | 208 |
| Net profit attributable to non-controlling interests | - | (3) | - | - | - | - | - | (3) |
| Net profit | 108 | 15 | 6 | 1 | 69 | 5 | 1 | 205 |
| Return on equity | | | | | | | | 16.8% |
| Average balance of assets | 13,879 | 905 | 21 | 93 | 6,409 | 858 | 252 | 22,417 |
| Average balance of credit to the public, net | 13,871 | 890 | 21 | 93 | 6,409 | 858 | 252 | 22,394 |
| Average balance of liabilities | 16,245 | 1,522 | - | - | 3,793 | 598 | 85 | 22,243 |
| Average balance of deposits of the public | 16,218 | - | - | - | 3,693 | 598 | 85 | 20,594 |
| Average balance of risk assets | 11,361 | 730 | 24 | 59 | 6,320 | 971 | 252 | 19,717 |
| Average balance of mutual funds and supplementary training funds | - | - | 2,955 | - | - | - | - | 2,955 |
| Average balance of securities | - | - | 6,286 | - | - | 9 | - | 6,295 |
| Average balance of other assets under management | 220 | - | - | - | - | - | - | 220 |
| Balance of credit, net, to the public at 31 December 2013 | 14,300 | 903 | 28 | 81 | 6,730 | 957 | 300 | 23,299 |
| Balance of deposits of the public at 31 December 2013 | 17,882 | - | - | - | 4,150 | 666 | 132 | 22,830 |

Small Businesses (contd.)

Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 1.0 billion, compared with the end of 2013, an increase of 4.4%. Public deposits increased by NIS 218 million, an increase of 1.0%.

Main Changes in the Net Profit

In the first nine months of 2014, net profit in the small businesses segment totaled NIS 258 million, compared with NIS 205 million in the corresponding period last year, an increase of 25.9%. This increase in profit derives mainly from an increase of NIS 54 million which is primarily attributable to an increase in activity in the segment. In addition, there was a fall in operating and other expenses, both direct and loaded on the Bank's activity in the segment in Israel, amounting to NIS 37 million.

The return on equity of the net profit in the segment was 17.3%.

3. Corporate Banking

The following tables set out a summary of the profit and loss of the Corporate Banking segment:

| | Banking | | | | Overseas activity | | |
|--|----------------|-----------------|-------------------|----------------|---------------------------|----------------|------------|
| | and finance | Credit cards | Capital market | Real estate | Banking and finance | Real estate | Total |
| For the three months ended 30 September 2014 | | | | | | | |
| NIS millions | | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | 296 | 5 | - | 201 | 1 | - | 503 |
| Intersegmental | (117) | (1) | - | (78) | 2 | 1 | (193) |
| Non-interest income: | | | | | | | |
| From external sources | 214 | 49 | 4 | 119 | - | 1 | 387 |
| Intersegmental | (124) | (24) | - | (43) | - | - | (191) |
| Total income | 269 | 29 | 4 | 199 | 3 | 2 | 506 |
| Expenses in respect of credit losses | (118) | - | - | (38) | - | - | (156) |
| Operating and other expenses: | | | | | | | |
| To external sources | 88 | 22 | 2 | 42 | 2 | 1 | 157 |
| Intersegmental | (1) | 1 | - | - | - | - | - |
| Profit before taxes | 300 | 6 | 2 | 195 | 1 | 1 | 505 |
| Provision for taxes on profit | 113 | 2 | 1 | 73 | - | - | 189 |
| Profit after taxes | 187 | 4 | 1 | 122 | 1 | 1 | 316 |
| Net profit attributable to non-controlling interests | - | (1) | - | - | - | - | (1) |
| Net profit | 187 | 3 | 1 | 122 | 1 | 1 | 315 |

| | Banking | | | | Overseas activity | | |
|--|----------------|-----------------|-------------------|----------------|---------------------------|----------------|------------|
| | and finance | Credit cards | Capital market | Real estate | Banking and finance | Real estate | Total |
| For the three months ended 30 September 2013 | | | | | | | |
| NIS millions | | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | 400 | 6 | - | 298 | (1) | - | 703 |
| Intersegmental | (196) | (1) | - | (172) | 5 | 1 | (363) |
| Non-interest income: | | | | | | | |
| From external sources | 74 | 51 | 5 | (40) | 1 | - | 91 |
| Intersegmental | (26) | (24) | (1) | 111 | - | - | 60 |
| Total income | 252 | 32 | 4 | 197 | 5 | 1 | 491 |
| Expenses in respect of credit losses | (78) | (1) | - | (5) | - | - | (84) |
| Operating and other expenses: | | | | | | | |
| To external sources | 104 | 21 | 2 | 43 | 3 | 1 | 174 |
| Intersegmental | (1) | 1 | - | - | - | - | - |
| Profit before taxes | 227 | 11 | 2 | 159 | 2 | - | 401 |
| Provision for taxes on profit | 81 | 3 | 1 | 59 | 1 | - | 145 |
| Profit after taxes | 146 | 8 | 1 | 100 | 1 | - | 256 |
| Net profit attributable to non-controlling interests | - | (1) | - | - | - | - | (1) |
| Net profit | 146 | 7 | 1 | 100 | 1 | - | 255 |

Corporate Banking (contd.)

| | | | | | Overseas activity | | |
|--|---------------------------|-----------------|-------------------|----------------|---------------------------|----------------|--------------|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Real estate | Total |
| For the nine months ended 30 September 2014 | | | | | | | |
| NIS millions | | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | 898 | 15 | 1 | 564 | 1 | 1 | 1,480 |
| Intersegmental | (345) | (2) | 1 | (202) | 6 | 2 | (540) |
| Non-interest income: | | | | | | | |
| From external sources | 237 | 143 | 10 | 259 | 2 | 1 | 652 |
| Intersegmental | (6) | (70) | - | (18) | - | - | (94) |
| Total income | 784 | 86 | 12 | 603 | 9 | 4 | 1,498 |
| Expenses in respect of credit losses | (181) | - | - | (189) | - | - | (370) |
| Operating and other expenses: | | | | | | | |
| To external sources | 285 | 61 | 7 | 128 | 6 | 2 | 489 |
| Intersegmental | - | 1 | - | - | - | - | 1 |
| Profit before taxes | 680 | 24 | 5 | 664 | 3 | 2 | 1,378 |
| Provision for taxes on profit | 257 | 7 | 2 | 250 | 1 | - | 517 |
| Profit after taxes | 423 | 17 | 3 | 414 | 2 | 2 | 861 |
| Net profit attributable to non-controlling interests | - | (4) | - | - | - | - | (4) |
| Net profit | 423 | 13 | 3 | 414 | 2 | 2 | 857 |
| Return on equity | | | | | | | 14.8% |
| Average balance of assets | 38,818 | 375 | 83 | 21,078 | 102 | 47 | 60,503 |
| Average balance of credit to the public, net | 37,211 | 348 | 83 | 21,039 | 102 | 47 | 58,830 |
| Average balance of liabilities | 18,412 | 2,867 | - | 5,413 | 514 | 165 | 27,371 |
| Average balance of deposits of the public | 16,842 | - | - | 4,855 | 514 | 165 | 22,376 |
| Average balance of risk assets | 61,839 | 390 | 111 | 21,171 | 149 | 47 | 83,707 |
| Average balance of mutual funds and supplementary training funds | - | - | 2,091 | - | - | - | 2,091 |
| Average balance of securities | - | - | 60,428 | - | - | - | 60,428 |
| Average balance of other assets under management | 196 | - | - | - | - | - | 196 |
| Balance of credit to the public, net | 35,749 | 427 | - | 20,762 | 74 | 51 | 57,063 |
| Balance of deposits of the public | 18,418 | - | - | 4,852 | 426 | 170 | 23,866 |

Corporate Banking (contd.)

| | | | | | Overseas activity | | |
|--|---------------------------|-----------------|-------------------|----------------|---------------------------|----------------|--------|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Real estate | Total |
| For the nine months ended 30 September 2013 | | | | | | | |
| NIS millions | | | | | | | |
| Net interest income: | | | | | | | |
| From external sources | 1,195 | 18 | - | 786 | (1) | 1 | 1,999 |
| Intersegmental | (549) | (4) | - | (419) | 16 | 2 | (954) |
| Non-interest income: | | | | | | | |
| From external sources | (141) | 147 | 12 | 78 | 4 | 1 | 101 |
| Intersegmental | 327 | (70) | - | 124 | - | - | 381 |
| Total income | 832 | 91 | 12 | 569 | 19 | 4 | 1,527 |
| Expenses in respect of credit losses | (126) | (2) | - | (84) | - | - | (212) |
| Operating and other expenses: | | | | | | | |
| To external sources | 299 | 59 | 5 | 131 | 11 | 2 | 507 |
| Intersegmental | - | 1 | - | - | - | - | 1 |
| Profit before taxes | 659 | 33 | 7 | 522 | 8 | 2 | 1,231 |
| Provision for taxes on profit | 234 | 9 | 3 | 189 | 3 | - | 438 |
| Profit after taxes | 425 | 24 | 4 | 333 | 5 | 2 | 793 |
| Net profit attributable to non-controlling interests | - | (5) | - | - | - | - | (5) |
| Net profit | 425 | 19 | 4 | 333 | 5 | 2 | 788 |
| Return on equity | | | | | | | 12.9% |
| Average balance of assets | 43,242 | 403 | 166 | 23,507 | 251 | 103 | 67,672 |
| Average balance of credit to the public, net | 41,633 | 377 | 166 | 23,434 | 251 | 103 | 65,964 |
| Average balance of liabilities | 18,098 | 2,771 | - | 5,349 | 1,186 | 163 | 27,567 |
| Average balance of deposits of the public | 16,520 | - | - | 4,792 | 1,186 | 163 | 22,661 |
| Average balance of risk assets | 67,271 | 411 | 166 | 23,915 | 370 | 103 | 92,236 |
| Average balance of mutual funds and supplementary training funds | - | - | 2,462 | - | - | - | 2,462 |
| Average balance of securities | - | - | 58,607 | - | 78 | - | 58,685 |
| Average balance of other assets under management | 202 | - | - | - | - | - | 202 |
| Balance of credit to the public, net, at 31 December 2013 | 38,504 | 328 | 166 | 21,446 | 158 | 44 | 60,646 |
| Balance of deposits of the public at 31 December 2013 | 16,523 | - | - | 5,364 | 767 | 162 | 22,816 |

Corporate Banking (contd.)

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 3.6 billion compared with the end of 2013, a decrease of 5.9%. Total deposits of the public increased by NIS 1.0 billion, or 4.6%.

Main Changes in Net Profit

In the first nine months of 2014, net profit in the corporate banking segment totaled NIS 857 million, compared with NIS 788 million during the corresponding period in 2013. The increase in profit derives mainly from an increase in credit losses income amounting to NIS 158 million which was partly offset by a decrease in total income amounting to NIS 29 million.

The return on equity of the net profit in the segment was 14.8%.

4. Commercial Banking

The following tables set out a summary of the profit and loss of the Commercial Banking segment:

| | | | | | Overseas activity | | | |
|--|---------------------------|-----------------|-------------------|----------------|---------------------------|-------------------|----------------|-------|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Capital market | Real estate | Total |
| For the three months ended 30 September 2014 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 159 | 3 | - | 90 | 131 | - | 37 | 420 |
| Intersegmental | 7 | (1) | - | (34) | (19) | - | (10) | (57) |
| Non-interest income: | | | | | | | | |
| From external sources | 83 | 18 | 10 | 15 | 19 | 1 | 2 | 148 |
| Intersegmental | (1) | (8) | - | - | - | - | - | (9) |
| Total income | 248 | 12 | 10 | 71 | 131 | 1 | 29 | 502 |
| Expenses (income) in respect of credit losses | (9) | - | - | (7) | 83 | - | 14 | 81 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 142 | 8 | 10 | 17 | 96 | - | 6 | 279 |
| Intersegmental | - | - | - | - | - | - | - | - |
| Profit (loss) before taxes | 115 | 4 | - | 61 | (48) | 1 | 9 | 142 |
| Provision for (benefit from) taxes on profit | 42 | 2 | - | 23 | (14) | - | 2 | 55 |
| Net profit (loss) | 73 | 2 | - | 38 | (34) | 1 | 7 | 87 |

| | | | | | Overseas activity | | | |
|--|---------------------------|-----------------|-------------------|-------------|---------------------------|-------------------|----------------|-------|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Capital market | Real estate | Total |
| For the three months ended 30 September 2013 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 154 | 3 | - | 99 | 146 | - | 36 | 438 |
| Intersegmental | (3) | (1) | - | (57) | (24) | - | (11) | (96) |
| Non-interest income: | | | | | | | | |
| From external sources | 60 | 19 | 12 | 15 | 16 | 2 | 1 | 125 |
| Intersegmental | 34 | (9) | (1) | (1) | - | - | - | 23 |
| Total income | 245 | 12 | 11 | 56 | 138 | 2 | 26 | 490 |
| Expenses (income) in respect of credit losses | (2) | (1) | - | (6) | 14 | - | 2 | 7 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 135 | 8 | 8 | 17 | 76 | - | 9 | 253 |
| Intersegmental | - | - | - | - | - | - | - | - |
| Profit before taxes | 112 | 5 | 3 | 45 | 48 | 2 | 15 | 230 |
| Provision for taxes on profit | 41 | 2 | 1 | 17 | 23 | - | 6 | 90 |
| Profit after taxes | 71 | 3 | 2 | 28 | 25 | 2 | 9 | 140 |
| Net profit attributable to non- controlling interests | - | (1) | - | - | - | - | - | (1) |
| Net profit | 71 | 2 | 2 | 28 | 25 | 2 | 9 | 139 |

Commercial Banking (contd.)

| | Banking | | | | Overseas activity | | | |
|---|---------------------------|-----------------|-------------------|----------------|---------------------------|-------------------|----------------|--------|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Capital market | Real estate | Total |
| For the nine months ended 30 September 2014 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 475 | 7 | - | 246 | 389 | - | 106 | 1,223 |
| Intersegmental | 6 | (1) | 1 | (75) | (59) | - | (32) | (160) |
| Non-interest income: | | | | | | | | |
| From external sources | 230 | 57 | 33 | 27 | 49 | 4 | 10 | 410 |
| Intersegmental | 15 | (26) | - | 15 | - | - | - | 4 |
| Total income | 726 | 37 | 34 | 213 | 379 | 4 | 84 | 1,477 |
| Expenses (income) in respect of credit losses | (47) | - | - | (17) | 105 | - | 19 | 60 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 396 | 25 | 34 | 47 | 249 | 2 | 28 | 781 |
| Intersegmental | 1 | - | - | - | - | - | - | 1 |
| Profit before taxes | 376 | 12 | - | 183 | 25 | 2 | 37 | 635 |
| Provision for taxes on profit | 142 | 4 | - | 69 | 14 | - | 12 | 241 |
| Profit after taxes | 234 | 8 | - | 114 | 11 | 2 | 25 | 394 |
| Net profit attributable to non-controlling interests | - | (2) | - | - | - | - | - | (2) |
| Net profit | 234 | 6 | - | 114 | 11 | 2 | 25 | 392 |
| Return on equity | | | | | | | | 10.4% |
| Average balance of assets | 26,740 | 355 | 184 | 8,816 | 13,889 | - | 3,038 | 53,022 |
| of which: investments in companies included on the equity basis | - | - | - | - | - | - | - | - |
| Average balance of credit to the public, net | 24,282 | 345 | 164 | 8,798 | 13,707 | - | 2,980 | 50,276 |
| Average balance of liabilities | 42,726 | 1,108 | 16 | 2,908 | 10,897 | - | 206 | 57,861 |
| Average balance of deposits of the public | 41,943 | - | 16 | 2,819 | 10,703 | - | 196 | 55,677 |
| Average balance of risk assets | 29,563 | 265 | 174 | 8,680 | 11,141 | - | 3,038 | 52,861 |
| Average balance of mutual funds and supplementary training funds | - | - | 5,866 | - | (6) | 120 | - | 5,980 |
| Average balance of securities | - | - | 48,471 | - | (210) | 1,377 | - | 49,638 |
| Average balance of other assets under management | 509 | - | - | - | - | - | - | 509 |
| Balance of credit to the public, net | 24,645 | 386 | 135 | 9,204 | 13,909 | - | 3,060 | 51,339 |
| Balance of deposits of the public | 45,588 | - | 13 | 3,185 | 11,443 | - | 204 | 60,433 |

Commercial Banking (contd.)

| | Overseas activity | | | | | | | |
|---|---|-----------------|-------------------|-------------|---------------------------|-------------------|----------------|--------|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Capital market | Real estate | Total |
| | For the nine months ended 30 September 2013 | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income: | | | | | | | | |
| From external sources | 433 | 8 | - | 272 | 426 | - | 100 | 1,239 |
| Intersegmental | 21 | (2) | - | (129) | (66) | - | (34) | (210) |
| Non-interest income: | | | | | | | | |
| From external sources | 172 | 59 | 35 | 44 | 49 | 6 | 5 | 370 |
| Intersegmental | 85 | (26) | (3) | (3) | - | - | - | 53 |
| Total income | 711 | 39 | 32 | 184 | 409 | 6 | 71 | 1,452 |
| Expenses (income) in respect of credit losses | (47) | (1) | - | (1) | 89 | - | 112 | 152 |
| Operating and other expenses: | | | | | | | | |
| To external sources | 411 | 24 | 28 | 45 | 247 | 3 | 28 | 786 |
| Intersegmental | 1 | - | - | - | - | - | - | 1 |
| Profit (loss) before taxes | 346 | 16 | 4 | 140 | 73 | 3 | (69) | 513 |
| Provision for (benefit from) taxes on profit | 126 | 4 | 1 | 51 | 36 | 1 | (13) | 206 |
| Profit (loss) after taxes | 220 | 12 | 3 | 89 | 37 | 2 | (56) | 307 |
| Net profit attributable to non-controlling interests | - | (3) | - | - | - | - | - | (3) |
| Net profit (loss) | 220 | 9 | 3 | 89 | 37 | 2 | (56) | 304 |
| Return on equity | | | | | | | | 9.1% |
| Average balance of assets | 23,796 | 363 | 262 | 8,104 | 15,118 | - | 3,052 | 50,695 |
| Average balance of credit to the public, net | 22,722 | 353 | 262 | 8,080 | 14,911 | - | 2,993 | 49,321 |
| Average balance of liabilities | 36,260 | 1,085 | - | 2,464 | 11,001 | - | 253 | 51,063 |
| Average balance of deposits of the public | 35,670 | - | - | 2,383 | 10,804 | - | 244 | 49,101 |
| Average balance of risk assets | 27,182 | 299 | 295 | 8,097 | 14,456 | - | 3,052 | 53,381 |
| Average balance of mutual funds and supplementary training funds | - | - | 4,894 | - | - | 151 | - | 5,045 |
| Average balance of securities | - | - | 43,920 | - | - | 1,548 | - | 45,468 |
| Average balance of other assets under management | 665 | - | - | - | - | - | - | 665 |
| Balance of credit, net, to the public at 31 December 2013 | 23,320 | 321 | 238 | 8,481 | 14,276 | - | 2,994 | 49,630 |
| Balance of deposits of the public at 31 December 2013 | 38,792 | - | - | 2,666 | 10,206 | - | 214 | 51,878 |

Commercial Banking (contd.)

Main Changes in the Scope of Operations

Total credit to the public in the commercial segment increased by NIS 1.7 billion, an increase of 3.4%, compared with the end of 2013, and total deposits of the public increased by NIS 8.6 billion, or 16.5%.

Main changes in net profit

In the first nine months of 2014, net profit in the commercial banking segment totaled NIS 392 million, compared with NIS 304 million during the corresponding period in 2013, an increase of NIS 88 million, or 28.9%. The increase in profit is attributable to a reduction in expenses in respect of credit losses in the first nine months of 2014.

The return on equity of the net profit in the segment was 10.4%.

5. Private Banking

The following tables set out a summary of the profit and loss in the Private Banking segment:

| | Overseas activity | | | | | | | | |
|--|---------------------|--------------|----------------|------------|-------------|---------------------|----------------|-------------|-----------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Capital market | Real estate | Mortgages |
| For the three months ended 30 September 2014 | | | | | | | | | |
| NIS millions | | | | | | | | | |
| Net interest income: | | | | | | | | | |
| From external sources | (47) | - | (5) | - | 3 | 14 | - | 10 | (1) |
| Intersegmental | 65 | - | 5 | (1) | - | 35 | - | (6) | 1 |
| Non-interest income: | | | | | | | | | |
| From external sources | (1) | 1 | 40 | - | 5 | 57 | 40 | 1 | - |
| Intersegmental | 7 | 1 | - | - | - | 8 | - | - | - |
| Total income | 24 | 2 | 40 | (1) | 8 | 114 | 40 | 5 | - |
| Expenses in respect of credit losses | 1 | - | - | - | - | 2 | - | - | - |
| Operating and other expenses: | | | | | | | | | |
| To external sources | 40 | - | 18 | - | 4 | 588 | 46 | 3 | - |
| Intersegmental | - | - | - | - | - | 1 | - | - | - |
| Profit (loss) before taxes | (17) | 2 | 22 | (1) | 4 | (477) | (6) | 2 | - |
| Provision for (benefit from) taxes on profit | (5) | - | 8 | - | 1 | (24) | - | - | - |
| Profit (loss) after taxes | (12) | 2 | 14 | (1) | 3 | (453) | (6) | 2 | - |
| Loss attributable to non-controlling interests | - | - | - | - | - | (1) | - | - | - |
| Net profit (loss) | (12) | 2 | 14 | (1) | 3 | (454) | (6) | 2 | - |

| | Overseas activity | | | | | | | | |
|--|---------------------|--------------|----------------|-----------|-------------|---------------------|----------------|-------------|-----------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Capital market | Real estate | Mortgages |
| For the three months ended 30 September 2013 | | | | | | | | | |
| NIS millions | | | | | | | | | |
| Net interest income: | | | | | | | | | |
| From external sources | (42) | - | - | 1 | 3 | 10 | - | 10 | - |
| Intersegmental | 57 | - | - | - | - | 37 | - | (5) | 1 |
| Non-interest income: | | | | | | | | | |
| From external sources | 10 | 1 | 39 | - | 4 | 4 | 44 | 1 | - |
| Intersegmental | (3) | 1 | - | - | - | 8 | - | - | - |
| Total income | 22 | 2 | 39 | 1 | 7 | 59 | 44 | 6 | 1 |
| Expenses in respect of credit losses | 1 | - | - | - | - | (1) | - | - | - |
| Operating and other expenses: | | | | | | | | | |
| To external sources | 45 | 1 | 17 | - | 3 | 117 | 86 | 2 | - |
| Intersegmental | 1 | - | - | - | - | - | - | - | - |
| Profit (loss) before taxes | (25) | 1 | 22 | 1 | 4 | (57) | (42) | 4 | 1 |
| Provision for (benefit from) taxes on profit | (8) | - | 8 | - | 2 | 2 | (1) | - | - |
| Loss attributable to non-controlling interests | - | - | - | - | - | 1 | - | - | - |
| Net profit (loss) | (17) | 1 | 14 | 1 | 2 | (58) | (41) | 4 | 1 |

Private Banking (contd.)

| | Overseas activity | | | | | | | | |
|---|---------------------------|-----------------|-------------------|-----------|----------------|---------------------------|-------------------|-----------|----------------|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Capital market | Mortgages | Real estate |
| Total | | | | | | | | | |
| For the nine months ended 30 September 2014 | | | | | | | | | |
| NIS millions | | | | | | | | | |
| Net interest income: | | | | | | | | | |
| From external sources | (82) | - | (8) | 1 | 9 | 38 | - | 29 | (1) |
| Intersegmental | 132 | - | 8 | (1) | 1 | 107 | - | (18) | 2 |
| Non-interest income: | | | | | | | | | |
| From external sources | 8 | 1 | 123 | - | 14 | 141 | 142 | 3 | - |
| Intersegmental | 16 | 1 | - | - | 2 | 7 | - | - | - |
| Total income | 74 | 2 | 123 | - | 26 | 293 | 142 | 14 | 1 |
| Expenses (income) in respect of credit losses | 1 | - | - | - | (1) | 2 | - | - | - |
| Operating and other expenses: | | | | | | | | | |
| To external sources | 120 | 1 | 55 | - | 11 | 1,348 | 155 | 9 | 1 |
| Intersegmental | 1 | - | - | - | - | 1 | 1 | - | - |
| Profit (loss) before taxes | (48) | 1 | 68 | - | 16 | (1,058) | (14) | 5 | - |
| Provision for (benefit from) taxes on profit | (17) | - | 25 | - | 6 | (18) | (1) | 1 | - |
| Profit (loss) after taxes | (31) | 1 | 43 | - | 10 | (1,040) | (13) | 4 | - |
| Net profit attributable to non-controlling interests | - | - | - | - | - | 26 | - | - | - |
| Net profit (loss) | (31) | 1 | 43 | - | 10 | (1,014) | (13) | 4 | - |
| Return on equity | | | | | | | | | |
| Average balance of assets | 1,428 | 69 | 17 | 56 | 738 | 7,595 | - | 806 | - |
| Average balance of credit to the public, net | 1,340 | 69 | 17 | 56 | 728 | 3,112 | - | 806 | - |
| Average balance of liabilities | 17,352 | - | 159 | - | 1,495 | 15,910 | - | 14 | 118 |
| Average balance of deposits of the public | 17,135 | - | 159 | - | 1,488 | 15,319 | - | 14 | 118 |
| Average balance of risk assets | 1,593 | 51 | 22 | 30 | 740 | 5,093 | - | 282 | - |
| Average balance of mutual funds and supplementary training funds | - | - | 9,033 | - | - | 106 | 1,576 | - | - |
| Average balance of securities | 1 | - | 43,568 | - | - | 1,872 | 32,930 | - | - |
| Average balance of other assets under management | 86 | - | - | - | - | - | - | - | - |
| Balance of credit to the public, net | 1,467 | 72 | 4 | 63 | 720 | 2,921 | - | 818 | - |
| Balance of deposits of the public | 16,695 | - | 185 | - | 1,484 | 15,106 | - | 14 | 89 |

Private Banking (contd.)

| | | | | | | Overseas activity | | | | |
|---|---------------------------|-----------------|-------------------|----------------|-----------|---------------------------|-------------------|-----------|----------------|--------|
| | Banking and finance | Credit cards | Capital market | Real estate | Mortgages | Banking and finance | Capital market | Mortgages | Real estate | Total |
| For the nine months ended 30 September 2013 | | | | | | | | | | |
| NIS millions | | | | | | | | | | |
| Net interest income: | | | | | | | | | | |
| From external sources | (131) | - | - | 1 | 4 | 27 | - | 28 | (1) | (72) |
| Intersegmental | 191 | - | - | - | 5 | 114 | - | (17) | 3 | 296 |
| Non-interest income: | | | | | | | | | | |
| From external sources | (26) | 1 | 128 | - | 12 | 113 | 144 | 3 | - | 375 |
| Intersegmental | 53 | 1 | - | - | - | 6 | - | - | - | 60 |
| Total income | 87 | 2 | 128 | 1 | 21 | 260 | 144 | 14 | 2 | 659 |
| Expenses in respect of credit losses | 1 | - | - | - | 1 | 1 | - | - | - | 3 |
| Operating and other expenses: | | | | | | | | | | |
| To external sources | 127 | 2 | 52 | - | 10 | 287 | 175 | 7 | 1 | 661 |
| Intersegmental | 1 | - | - | - | - | 1 | 1 | - | - | 3 |
| Profit (loss) before taxes | (42) | - | 76 | 1 | 10 | (29) | (32) | 7 | 1 | (8) |
| Provision for (benefit from) taxes on profit | (14) | - | 26 | - | 4 | 6 | - | 1 | - | 23 |
| Profit (loss) after taxes | (28) | - | 50 | 1 | 6 | (35) | (32) | 6 | 1 | (31) |
| Net profit attributable to non-controlling interests | - | - | - | - | - | (3) | - | - | - | (3) |
| Net profit (loss) | (28) | - | 50 | 1 | 6 | (38) | (32) | 6 | 1 | (34) |
| Return on equity | ##### | | | | | | | | | |
| Average balance of assets | 1,467 | 64 | 31 | 42 | 607 | 8,869 | - | 868 | - | 11,948 |
| Average balance of credit to the public, net | 1,354 | 64 | 31 | 42 | 600 | 4,314 | - | 868 | - | 7,273 |
| Average balance of liabilities | 19,014 | - | - | - | 1,401 | 16,677 | - | 18 | 152 | 37,262 |
| Average balance of deposits of the public | 18,779 | - | - | - | 1,394 | 16,241 | - | 18 | 152 | 36,584 |
| Average balance of risk assets | 1,872 | 48 | 29 | 26 | 574 | 6,953 | - | 304 | - | 9,806 |
| Average balance of mutual funds and supplementary training funds | - | - | 6,087 | - | - | - | 1,826 | - | - | 7,913 |
| Average balance of securities | - | - | 42,155 | - | - | - | 34,774 | - | - | 76,929 |
| Average balance of other assets under management | 210 | - | - | - | - | - | - | - | - | 210 |
| Balance of credit to the public, net, at 31 December 2013 | 1,225 | 68 | 31 | 48 | 789 | 3,476 | - | 818 | - | 6,455 |
| Balance of deposits of the public at 31 December 2013 | 17,700 | - | 30 | - | 1,520 | 15,384 | - | 14 | 146 | 34,794 |

Main changes in the scope of operations

Total credit to the public in the segment decreased by NIS 0.4 billion, or 6.0%, compared with the end of 2013, and total deposits of the public decreased by some NIS 1.2 billion, or 3.5%.

Main changes in net profit

In the first nine months of 2014, the net loss in the private banking segment amounted to NIS 1.0 billion, compared with a loss of NIS 34 million in the corresponding period in 2013. The loss is attributable to operating and other expenses mainly expenses in respect of the investigation by the United States authorities.

Cooperation arrangement with Julius Baer Bank and the sale of activity in Switzerland

According to the cooperation arrangement, Leumi Group will refer to Julius Baer existing and future customers with private banking needs in Europe, and at the same time, Julius Baer will refer to Leumi existing and future customers with private banking needs in Israel.

This strategic partnership will allow us to offer our customers, who are interested in private banking services in Europe or the Far East, the best value proposals and private banking services of the highest level.

In addition, as part of the cooperation, the unit in Switzerland, Leumi Private Bank, will sell to Julius Baer its assets as defined in the agreement, for consideration of CHF 10 million, in excess of the net value of the assets transferred, subject to adjustments. At the same time as the completion of the transaction and in coordination with the relevant authorities, Leumi Private Bank will take steps to close its banking activity, and to allocate shareholders' equity as a dividend to the Bank.

At the same time as the agreement between the parties regarding Leumi Private Bank, the parties agreed on their intention to enter into a transaction in accordance with an outline plan to be agreed between the parties to sell Bank Leumi Luxembourg to Julius Baer. The parties recently decided that Bank Leumi Luxembourg will not be sold to Julius Baer and the parties are examining other alternatives for this.

The agreement between Leumi Private Bank and Julius Baer includes an undertaking for various indemnities for a two year period. The amount of indemnity is limited to the amount derived from the shareholders' equity of the units in Switzerland and Luxembourg, as at 31 March 2014 (around CHF 300 million). The undertaking for indemnification is backed by a guarantee of the Bank for the event that Leumi Private is unable to fulfill the indemnity undertaking.

The transaction is subject to the approval of the general meeting of Leumi Private Bank.

The Bank estimates that, at this stage, the transaction is unlikely to have a significant impact on the results of the Group's operations and the consolidated balance sheet.

As of the end of September 2014, Leumi Private Bank has assets under management amounting to CHF 4.5 billion and Leumi Luxembourg assets under management amounting to CHF 0.95 billion.

6. Financial Management – Capital Markets

| | For the three months ended 30 September | |
|--|--|------------|
| | 2014 | 2013 |
| | NIS millions | |
| Net interest income: | | |
| From external sources | (148) | (371) |
| Intersegmental | 382 | 655 |
| Operating and other income: | | |
| From external sources | 190 | 813 |
| Intersegmental | 55 | (451) |
| Total income | 479 | 646 |
| Expenses (income) in respect of credit losses | 44 | 1 |
| Operating and other expenses: | | |
| To external sources | 118 | 421 |
| Intersegmental | 16 | 10 |
| Profit before taxes | 301 | 214 |
| Provision for taxes on profit | 64 | 51 |
| Profit after taxes | 237 | 163 |
| Group share in profits (losses) of companies included on equity basis after effect of tax | 344 | (19) |
| Net profit attributed to non-controlling interests | (1) | (2) |
| Net profit | 580 | 142 |

6. Financial Management – Capital Markets (contd.)

| | For the nine months ended 30 September | |
|--|---|--------------|
| | 2014 | 2013 |
| | NIS millions | |
| Net interest income: | | |
| From external sources | (332) | (716) |
| Intersegmental | 922 | 1,260 |
| Operating and other income: | | |
| From external sources | 866 | 1,475 |
| Intersegmental | (112) | (486) |
| Total income | 1,344 | 1,533 |
| Expenses (income) in respect of credit losses | 42 | (47) |
| Operating and other expenses: | | |
| To external sources | 574 | 967 |
| Intersegmental | 41 | 34 |
| Profit before taxes | 687 | 579 |
| Provision for (benefit from) taxes | 166 | 158 |
| Profit after taxes | 521 | 421 |
| Group share in profits of companies included on equity basis after effect of tax | 290 | (132) |
| Net profit attributed to non-controlling interests | - | 2 |
| Net profit | 811 | 291 |
| Return on equity | 33.7% | 10.2% |
| Average balance of assets | 112,036 | 112,879 |
| Average balance of credit to the public, net | 956 | 574 |
| Average balance of liabilities | 81,124 | 77,570 |
| Average balance of deposits of the public | 33,232 | 29,647 |
| Average balance of risk assets | 34,528 | 32,569 |
| Average balance of mutual funds and supplementary training funds | 114,453 | 93,875 |
| Average balance of securities | 376,792 | 311,870 |
| Balance of credit to the public, net | 2,552 | 573 |
| Balance of deposits of the public | 31,442 | 35,039 |

(a) Balances as of 31 December 2013

The profit in the financial management segment in the first nine months of 2014 amounted to NIS 811 million, compared with NIS 291 million in the corresponding period in 2013. The increase in the profit resulted primarily from an improvement in the contribution of companies included on equity basis which amounted to NIS 422 million in the first nine months of 2014, from a fall in operating expenses which were attributed to this sector amounting to NIS 386 million which were partly offset by a decrease in noninterest income amounting to NIS 235 million, as a result of a decrease in profits from the sale of shares and profits in respect of the sale of loans.

Companies included on equity basis (Non-Banking) – (presented in the Financial Management Sector)

Includes the results of the Group's investment in non-banking investments.

Leumi Group's total investments in companies included on equity basis amounted to NIS 2,062 million on 30 September 2014, compared with NIS 1,689 million on 31 December 2013.

Total investments in shares of companies included on equity basis (Table 13(b) - Basel):

| | Book value | | | Market value | | Capital adequacy requirements (a) | |
|-----------------------------|--------------------------|------------------|--------|--------------------------|------------------|--|------------------|
| | 30 September 2014 | 31 December 2013 | Change | 30 September 2014 | 31 December 2013 | 30 September 2014 | 31 December 2013 |
| | NIS millions | | % | NIS millions | | | |
| The Israel Corporation Ltd. | 1,451 | 1,137 | 27.6 | 2,703 | 2,526 | 181 | 102 |
| Others | 611 | 552 | 10.7 | - | * - | 76 | 50 |
| | 2,062 | 1,689 | 22.1 | 2,703 | 2,526 | 257 | 152 |

* Of which, NIS 191 million at 30 September 2014 and NIS 207 million at 31 December 2013 is tradable.

(a) The capital requirements have been computed at 12.5% according to the minimum required ratio with effect from 1 January 2015. In 2013, capital requirements have been computed at 9% according to the minimum required ratio until the end of 2013.

The profits of companies included on equity basis in the first nine months of 2014 amounted to NIS 294 million, compared with a loss of NIS 128 million in the corresponding period last year.

The following table shows the companies' contribution to the Group's net profit (in NIS millions):

| | For the nine months ended 30 September | | |
|-----------------------------|--|-------|--------|
| | 2014 | 2013 | Change |
| | NIS millions | | % |
| The Israel Corporation Ltd. | 261 | (161) | + |
| Others | 33 | 33 | - |
| Total | 294 | (128) | + |

The Israel Corporation Ltd.

The Bank holds 17.96% of the means of control in the Israel Corporation Ltd. which is considered to be a significant non-bank corporation according to the Banking Law (Licensing), as amended through the Concentrations Law on 11 December 2013 (for this purpose, see "Concentrations Law" on the Chapter "Regulation, Economic Environment and the Effect of External Factors on Activity"). The Bank is obliged to reduce its holdings in the Israel Corporation to a rate of 10% by 11 December 2019.

As a result of a directive of the Bank of Israel to bring forward the publication date of the financial statements, a gap was created between the end of the reporting period of the Israel Corporation and the end of the reporting period of the Bank. In such cases, the Bank has adopted generally accepted accounting policy, in accordance with International Accounting Standard No. 28.

In the first nine months of 2014, the effect of the results of the Israel Corporation for the first half of 2014 was posted, as well as the effect of significant events in the Israel Corporation for which immediate reports were published, including disclosure regarding quantitative effects. The effect of the results of the Israel Corporation for the third quarter will be included in the Bank's statements for the fourth quarter of 2014. This reporting gap is constant and in accordance with the directives of the Supervisor of Banks.

For further details, see Note 1b – Significant Accounting Policies, below.

For further details regarding significant events which were reported by the Israel Corporation, including some in the Zim Arrangement, see Note 6(d) to the financial statements.

7. Others - this segment includes activities not allocated to the other segments.

This segment includes the Group's other activities, none of which amounts to a reportable segment according to the directives of the Bank of Israel. This activity primarily includes part of the company's activity which not part of the "Others" segment. In the first nine months of 2014, the profit in the "Others" segment amounted to NIS 114 million, compared with a loss of NIS 41 million in the corresponding period last year.

The following table sets out details of the main changes, in NIS millions:

| | For the first nine months of | | |
|---------------------------|------------------------------|------|--------|
| | 2014 | 2013 | Change |
| Net profit in the Bank | 32 | 35 | (3) |
| Other companies in Israel | 14 | 11 | 3 |
| Companies abroad | 2 | 6 | (4) |
| Tax adjustments (a) | 66 | (93) | 159 |
| Total | 114 | (41) | 155 |

(a) Tax differentials between tax calculations in the segments and the effective tax in the consolidated statements.

Activities in Products

A. Capital market activities - The Group's activities in the capital market include investment counseling, including counseling in relation to supplementary training funds, brokerage in the securities and financial instruments market, including activity carried out through the foreign currency dealing rooms and Israeli and foreign securities, brokerage and custody services, and banking and financial services for entities active in the capital market. A subsidiary company of Leumi Partners Ltd. engages in underwriting and distribution of public and private offerings.

The following tables set out details of the capital market operations as presented in the various operating segments:

| | Households | Small businesses | Corporate banking | Commercial banking | Private banking | Financial management and others | Overseas activities | Total |
|---|------------|------------------|-------------------|--------------------|-----------------|---------------------------------|---------------------|-------|
| For the three months ended 30 September 2014 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income | 1 | 1 | - | - | - | 2 | - | 4 |
| Non-interest income | 119 | 7 | 4 | 10 | 40 | 34 | 45 | 259 |
| Total income | 120 | 8 | 4 | 10 | 40 | 36 | 45 | 263 |
| Operating and other expenses | 98 | 4 | 2 | 10 | 18 | 87 | 46 | 265 |
| Profit (loss) before taxes | 22 | 4 | 2 | - | 22 | (51) | (1) | (2) |
| Net profit (loss) | 14 | 3 | 1 | - | 14 | (30) | (2) | - |

| | Households | Small businesses | Corporate banking | Commercial banking | Private banking | Financial management and others | Overseas activities | Total |
|---|------------|------------------|-------------------|--------------------|-----------------|---------------------------------|---------------------|-------|
| For the three months ended 30 September 2013 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income | 1 | 1 | - | - | - | 4 | - | 6 |
| Non-interest income | 102 | 6 | 4 | 11 | 39 | 27 | 46 | 235 |
| Total income | 103 | 7 | 4 | 11 | 39 | 31 | 46 | 241 |
| Operating and other expenses | 88 | 4 | 2 | 8 | 17 | 32 | 89 | 240 |
| Profit (loss) before taxes | 15 | 3 | 2 | 3 | 22 | (1) | (43) | 1 |
| Net profit (loss) | 9 | 2 | 1 | 2 | 14 | - | (40) | (12) |

| | Households | Small businesses | Corporate banking | Commercial banking | Private banking | Financial management and others | Overseas activities | Total |
|--|------------|------------------|-------------------|--------------------|-----------------|---------------------------------|---------------------|-------|
| For the nine months ended 30 September 2014 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income | 3 | 1 | 2 | 1 | - | 4 | - | 11 |
| Non-interest income | 353 | 22 | 10 | 33 | 123 | 97 | 151 | 789 |
| Total income | 356 | 23 | 12 | 34 | 123 | 101 | 151 | 800 |
| Operating and other expenses | 298 | 12 | 7 | 34 | 55 | 150 | 184 | 740 |
| Profit (loss) before taxes | 58 | 11 | 5 | - | 68 | (49) | (33) | 60 |
| Net profit (loss) | 37 | 7 | 3 | - | 43 | (28) | (25) | 37 |

The following tables set out details of the capital market operations as presented in the various operating segments (contd.):

| | Households | Small businesses | Corporate banking | Commercial banking | Private banking | Financial management and others | Overseas activities | Total |
|---|------------|------------------|-------------------|--------------------|-----------------|---------------------------------|---------------------|-------|
| For the nine months ended 30 September 2013 | | | | | | | | |
| NIS millions | | | | | | | | |
| Net interest income | 3 | 1 | - | - | - | 4 | - | 8 |
| Non-interest income | 316 | 19 | 12 | 32 | 128 | 88 | 154 | 749 |
| Total income | 319 | 20 | 12 | 32 | 128 | 92 | 154 | 757 |
| Operating and other expenses | 273 | 11 | 5 | 28 | 52 | 102 | 184 | 655 |
| Profit (loss) before taxes | 46 | 9 | 7 | 4 | 76 | (10) | (30) | 102 |
| Net profit (loss) | 29 | 6 | 4 | 3 | 50 | (5) | (29) | 58 |

In the first nine months of 2014, the net profit from capital market operations amounted to NIS 37 million, compared with a profit of NIS 58 million in the corresponding period in 2013.

B. Credit Cards - Leumi Card

This activity mainly includes the issue of credit cards to private customers and voucher clearing services for businesses.

The principal credit card activities are carried out by the subsidiary, Leumi Card, which engages in the issue of credit cards, the provision of voucher clearing services and the development of payment solutions.

Leumi Card ended the first nine months of 2014 with a net profit of NIS 157 million, similar to the corresponding period in 2013.

During the first nine months of 2014, the volume of activity by Leumi Card cardholders increased by 6% compared with the corresponding period in 2013. The number of valid cards at 30 September 2014 increased by 6% compared with 30 September 2013.

On 17 April 2012, a license agreement was signed by Leumi Card and Isracard Ltd., by virtue of which Leumi Card was granted a clearing and issuing license and the option for providing services for debit cards under the brand name of Isracard ("the license agreement"). The agreement came into force on 15 May 2012. Pursuant to the license agreement, the activity of clearing the cards under the Isracard brand is conducted in a similar fashion to the clearing of cards in the joint interface between credit card companies in the sector for clearing Visa and Mastercard cards.

On 13 September 2012, the Antitrust Commissioner granted a fixed exemption to the License Agreement. It was made dependent on a number of conditions, *inter alia*, it was provided that Isracard would not be able to collect the rate of license fees established between it and the company in the License Agreement, but rather a lower rate. In addition, as part of the terms of the exemption, conditions were stipulated prohibiting the transfer of information between the companies, which is not for the purpose of implementing the agreements or which is not by virtue of the law or the exemption directive.

On 11 February 2013, Isracard submitted a petition to the Antitrust Court to approve a license agreement. In the request, Isracard claims that there is no justification for the Commissioner's determination and that the conditions should apply to the license agreement signed with Cal, which were agreed with Leumi Card and Cal. On 9 March 2014, judgment was handed on the petition for approval, which rejected Isracard's petition and left the exemption decision unchanged.

On 14 May 2014, a commercial agreement of understanding was signed between Leumi Card and the credit card organization, Union Pay International Co. Ltd. (hereinafter "UnionPay"). UnionPay is the owner of the third largest international credit card brand in the world (in relation to the volume of transactions). On 10 July 2014, an official letter was received from the UnionPay organization approving the company's temporary membership in the organization. The temporary membership enables Leumi Card to begin executing clearing activity of the UnionPay brand in Israel, as well as on the e-commerce websites in Europe and the United States.

On 8 September 2014, a final report was published by the Antitrust Commissioner regarding the increase of the effectiveness and competition in the area of debit cards ("the final report"). The final report includes, inter alia, a recommendation to require the banks to offer immediate credit cards to 90% of the customers holding current accounts and to issue immediate debit cards to 70% of the active holders of the bank credit cards, by the end of 2015 at the latest. The final report includes another recommendation whereby, as long as the issuing banks do not meet this target, the issuers will be required to issue a combined card by the middle of 2016. The report includes a further recommendation for a debit instruction to be examined according to which the transfer of monies in respect of ordinary deferred debit transactions from the issuers to the clearers and from the clearers to the businesses will be immediate from the end of 2015.

The more the topics outlined above become binding decisions, the more likely this will result in a significant impact on the activities of Leumi Card.

On 15 November 2014, the Israel Police arrested a number of people, among them, past employees of the company, who attempted to extort the company and obtain payment for the restoration of credit card information and details which were allegedly in their possession. The extortion event, which lasted a number of days, was concluded. To the best of the company's knowledge, no damage was incurred by its customers as a result of the incident.

The following tables set out details of credit card activity as presented in the various operating segments:

| | Households | Small businesses | Corporate banking | Commercial banking | Private banking | Total |
|---|------------|------------------|-------------------|--------------------|-----------------|-------|
| For the three months ended 30 September 2014 | | | | | | |
| NIS millions | | | | | | |
| Net interest income | 55 | 3 | 4 | 2 | - | 64 |
| Non-interest income | 180 | 18 | 25 | 10 | 2 | 235 |
| Total income | 235 | 21 | 29 | 12 | 2 | 299 |
| Expenses in respect of credit losses | 3 | - | - | - | - | 3 |
| Operating and other expenses | 154 | 16 | 23 | 8 | - | 201 |
| Profit before taxes | 78 | 5 | 6 | 4 | 2 | 95 |
| Profit attributed to non-controlling interests | (8) | (1) | (1) | - | - | (10) |
| | 47 | 2 | 3 | 2 | 2 | 56 |

| | Households | Small businesses | Corporate banking | Commercial banking | Private banking | Total |
|---|------------|------------------|-------------------|--------------------|-----------------|-------|
| For the three months ended 30 September 2013 | | | | | | |
| NIS millions | | | | | | |
| Net interest income | 51 | 6 | 5 | 2 | - | 64 |
| Non-interest income | 180 | 19 | 27 | 10 | 2 | 238 |
| Total income | 231 | 25 | 32 | 12 | 2 | 302 |
| Expenses in respect of credit losses | 1 | - | (1) | (1) | - | (1) |
| Operating and other expenses | 161 | 15 | 22 | 8 | 1 | 207 |
| Profit before taxes | 69 | 10 | 11 | 5 | 1 | 96 |
| Profit attributed to non-controlling interests | (8) | (1) | (1) | (1) | - | (11) |
| Net profit | 42 | 5 | 7 | 2 | 1 | 57 |

| | Small Households | Corporate businesses | Commercial banking | Private banking | Total |
|---|---------------------|-------------------------|-----------------------|--------------------|-------------|
| For the nine months ended 30 September 2014 | | | | | |
| NIS millions | | | | | |
| Net interest income | 161 | 12 | 13 | 6 | 192 |
| Non-interest income | 536 | 56 | 73 | 31 | 698 |
| Total income | 697 | 68 | 86 | 37 | 890 |
| Expenses in respect of credit losses | 12 | - | - | - | 12 |
| Operating and other expenses | 465 | 45 | 62 | 25 | 598 |
| Profit (loss) before taxes | 220 | 23 | 24 | 12 | 280 |
| Profit from ordinary activities after taxes | 150 | 16 | 17 | 8 | 192 |
| Share of the banking corporation in profits of companies included on equity basis after tax | 4 | - | - | - | 4 |
| Profit attributed to non-controlling interests | (23) | (2) | (4) | (2) | (31) |
| Net profit | 131 | 14 | 13 | 6 | 165 |

The following tables set out details of credit card activity as presented in the various operating segments (contd.):

| | Small Households | Corporate businesses | Commercial banking | Private banking | Total |
|--|---------------------|-------------------------|-----------------------|--------------------|-------|
| For the nine months ended 30 September 2013 | | | | | |
| NIS millions | | | | | |
| Net interest income | 153 | 15 | 14 | 6 | 188 |
| Non-interest income | 507 | 55 | 77 | 33 | 674 |
| Total income | 660 | 70 | 91 | 39 | 862 |
| Expenses in respect of credit losses | 9 | (1) | (2) | (1) | 5 |
| Operating and other expenses | 494 | 46 | 60 | 24 | 626 |
| Profit before taxes | 157 | 25 | 33 | 16 | 231 |
| Profit attributed to non-controlling interests | (21) | (3) | (5) | (3) | (32) |
| Net profit | 93 | 15 | 19 | 9 | 136 |

The net profit from credit card activity in the first nine months of 2014 amounted to NIS 165 million, compared with NIS 136 million in the corresponding period in 2013, which results mainly from an increase of NIS 24 million in noninterest income.

C. The following tables set out details of real estate activity as presented in the various operating segments:

| | Small businesses | Corporate banking | Commercial banking | Private banking | Overseas activity | Total |
|---|---------------------|----------------------|-----------------------|--------------------|----------------------|-------------|
| For the three months ended 30 September 2014 | | | | | | |
| NIS millions | | | | | | |
| Net interest income | 67 | 123 | 56 | 3 | 32 | 281 |
| Non-interest income | 18 | 76 | 15 | 5 | 3 | 117 |
| Total income | 85 | 199 | 71 | 8 | 35 | 398 |
| Expenses (income) in respect of credit losses | 6 | (38) | (7) | - | 14 | (25) |
| Operating and other expenses | 32 | 42 | 17 | 4 | 8 | 103 |
| Profit before taxes | 47 | 195 | 61 | 4 | 13 | 320 |
| Net profit | 29 | 122 | 38 | 3 | 10 | 202 |

| | Small businesses | Corporate banking | Commercial banking | Private banking | Overseas activity | Total |
|---|---------------------|----------------------|-----------------------|--------------------|----------------------|-------|
| For the three months ended 30 September 2013 | | | | | | |
| NIS millions | | | | | | |
| Net interest income | 57 | 126 | 42 | 3 | 31 | 259 |
| Non-interest income | 19 | 71 | 14 | 4 | 2 | 110 |
| Total income | 76 | 197 | 56 | 7 | 33 | 369 |
| Expenses (income) in respect of credit losses | 3 | (5) | (6) | - | 3 | (5) |
| Operating and other expenses | 32 | 43 | 17 | 3 | 11 | 106 |
| Profit before taxes | 41 | 159 | 45 | 4 | 19 | 268 |
| Net profit | 26 | 100 | 28 | 2 | 11 | 167 |

C. The following tables set out details of real estate activity as presented in the various operating segments (contd.):

| | Small businesses | Corporate banking | Commercial banking | Private banking | Overseas activity | Total |
|--|---------------------|----------------------|-----------------------|--------------------|----------------------|--------------|
| For the nine months ended 30 September 2014 | | | | | | |
| NIS millions | | | | | | |
| Net interest income | 197 | 362 | 171 | 10 | 91 | 831 |
| Non-interest income | 50 | 241 | 42 | 16 | 13 | 362 |
| Total income | 247 | 603 | 213 | 26 | 104 | 1,193 |
| Expenses (income) in respect of credit losses | 12 | (189) | (17) | (1) | 19 | (176) |
| Operating and other expenses | 90 | 128 | 47 | 11 | 35 | 311 |
| Profit before taxes | 145 | 664 | 183 | 16 | 50 | 1,058 |
| Net profit | 90 | 414 | 114 | 10 | 35 | 663 |

| | Small businesses | Corporate banking | Commercial banking | Private banking | Overseas activity | Total |
|--|---------------------|----------------------|-----------------------|--------------------|----------------------|-------|
| For the nine months ended 30 September 2013 | | | | | | |
| NIS millions | | | | | | |
| Net interest income | 165 | 367 | 143 | 9 | 79 | 763 |
| Non-interest income | 56 | 202 | 41 | 12 | 9 | 320 |
| Total income | 221 | 569 | 184 | 21 | 88 | 1,083 |
| Expenses (income) in respect of credit losses | 17 | (84) | (1) | 1 | 113 | 46 |
| Operating and other expenses | 96 | 131 | 45 | 10 | 34 | 316 |
| Profit (loss) before taxes | 108 | 522 | 140 | 10 | (59) | 721 |
| Net profit (loss) | 69 | 333 | 89 | 6 | (49) | 448 |

Net profit from real estate activity in the first nine months of 2014 amounted to NIS 663 million, compared to NIS 448 million in the corresponding period last year, the increase deriving mainly from an increase in net interest income amounting to NIS 68 million, and an increase in noninterest income amounting to NIS 42 million and an increase in income in respect of credit losses amounting to NIS 222 million compared to the corresponding period in 2013.

Profit Centers in the Group

The following table sets out details of the contribution of the Group's major profit centers to net profit:

| | For the first nine months of | | |
|---|------------------------------|-------|--------|
| | 2014 | 2013 | Change |
| | NIS millions | | % |
| The Bank | 1,803 | 1,414 | 27.5 |
| Consolidated companies in Israel (a) | 487 | 456 | 6.8 |
| Overseas consolidated companies (b) | (967) | (115) | - |
| Companies included on equity basis (a) | 269 | (156) | + |
| Net profit | 1,592 | 1,599 | (0.4) |
| Profit of overseas subsidiaries, in nominal terms (US\$ millions) (c) | (125) | 10 | - |

(a) Companies included on equity basis belonging to Israeli subsidiaries are included in the data of the consolidated companies in Israel.

(b) After certain adjustments to Israeli accounting principles.

(c) As reported by the overseas subsidiaries, including net profit to non-controlling interest holders.

The following is an explanation of the main changes in the contribution of the profit centers (after translation adjustments):

- The increase in the contribution of the Bank to the net profit in the Bank is mainly due to a decrease in operating expenses, due to attribution of a provision in connection with the investigation of overseas units of the Bank by the United States authorities.
- The increase in the contribution of consolidated companies in Israel derives mainly from the profits of Leumi Partners as a result of the realization of investments in available-for-sale shares.

The negative contribution of consolidated companies abroad to the net profit of the Group is due mainly to the attribution of expenses in connection with the investigation of overseas units by the United States authorities.

- The change in the contribution of companies included on equity basis does not include the effect of the operating results of the Israel Corporation in the third quarter of 2014. For further details, see Note 1b, Significant Accounting Policies, below.

Activities of Major Investee Companies

General

The Bank Leumi Group operates in Israel and abroad through subsidiaries, comprising banks, finance companies and financial service companies. The Group also invests in non-banking corporations engaged in the fields of insurance, energy, chemicals, infrastructure, etc.

Consolidated Companies in Israel

The Bank's investments in consolidated companies in Israel amounted to NIS 5,977 million on 30 September 2014, compared with NIS 5,295 million on 31 December 2013. The contribution to net profit in the first nine months of 2014 was some NIS 487 million, compared with some NIS 456 million in the corresponding period in 2013, an increase of 6.8%.

The following table sets out the contribution of the major consolidated companies in Israel to the net profit of the Group:

| | Return on Group investment | | Contribution to Group profit | | |
|--|-----------------------------------|------|------------------------------|-------|--------|
| | For the period ended 30 September | | | | |
| | 2014 | 2013 | 2014 | 2013 | Change |
| | % | | NIS millions | | % |
| Arab Israel Bank | 17.3 | 22.9 | 73.2 | 80.0 | (8.5) |
| Leumi Card | 15.0 | 17.0 | 125.6 | 126.1 | (0.4) |
| Leumi Partners | 53.0 | 55.4 | 254.5 | 189.9 | 34.0 |
| Leumi Real Holdings | 0.7 | 1.2 | 4.7 | 8.0 | (41.3) |
| Leumi-Tech | 0.6 | 2.7 | 4.2 | 19.3 | (78.2) |
| Others | 3.1 | 4.3 | 24.8 | 32.9 | (24.6) |
| Total consolidated companies in Israel | 12.3 | 12.6 | 487.0 | 456.2 | 6.8 |

(a) The profit (loss) presented is according to the Group's share in the results.

(b) Including the profit and/or loss of associate companies of Leumi Partners.

Overseas Consolidated Companies

The Bank's investments in overseas consolidated companies amounted to NIS 3,786 million on 30 September 2014, compared with NIS 4,597 million on 31 December 2013.

In the first nine months of 2014, the results of operations of the overseas consolidated subsidiaries amounted to a loss of NIS 967 million, compared with a loss of NIS 115 million in the corresponding period in 2013. As mentioned above, the loss derives primarily from the attribution of the share of the units in the provision in respect of the investigation of the United States authorities.

For reference to cooperation arrangement with Julius Baer Bank, see chapter on "Activity segments in the Group – Private Banking".

The following table sets out the contribution of the principal overseas consolidated companies to the net profit of the Group*:

| | Return on Group investment | Contribution to Group profit | | | |
|--|-----------------------------------|------------------------------|----------------|----------------|----------|
| | For the period ended 30 September | | | | |
| | 2014 | 2013 | 2014 | 2013 | Change |
| | % | | NIS millions | | % |
| Leumi USA (BLC)* | - | 1.7 | (488.6) | 31.2 | - |
| Leumi UK | 9.3 | - | 51.6 | (90.1) | + |
| Leumi Private Bank | - | - | (518.4) | (61.8) | - |
| Leumi Luxembourg | - | 6.5 | (22.8) | 7.4 | - |
| Leumi Re | 13.7 | 0.6 | 8.3 | 0.4 | + |
| Leumi Romania | 1.6 | - | 2.9 | (1.6) | + |
| Others | 0.0 | - | - | (0.7) | (100.0) |
| Total consolidated companies abroad | - | - | (967.0) | (115.2) | - |

* Including adjustments for purposes of consolidation of the financial statements.

The following table sets out details of the net profit of the overseas subsidiaries as reported by them:

| | For the nine months ended | | |
|---------------------------------------|---------------------------|-------------------|------------------|
| | 30 September 2014 | 30 September 2013 | Change |
| | In millions | | % |
| Leumi USA (BLC) - US\$ | 9 | 9 | (2.0) |
| Of which: BL USA - US\$ | 8 | 9 | (3.5) |
| Leumi UK - £ | 4 | (8) | (147.6) |
| Leumi Private Bank - CHF | (132) | 6 | (2,412.3) |
| Leumi Luxembourg - € | (4) | 3 | (248.0) |
| Leumi Re - US\$ | 1 | 2 | (66.7) |
| Leumi Romania – ron * | 5 | 7 | (21.5) |
| Total translated to the dollar | (125) | 10 | (1,415.8) |

* 1 ron at 30 September 2014 = NIS 1.0549.

For information regarding legal actions and other matters connected to consolidated companies, see Note 6 to the Financial Statements.

Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis on 30 September 2014 amounted to NIS 2,062 million, compared with NIS 1,689 million on 31 December 2013.

During the first nine months of 2014, the contribution to net profit amounted to a profit of NIS 294 million, compared with a loss of NIS 128 million in the corresponding period in 2013.

For further details, see Note 1b, Significant Accounting Policies below.

Risk Exposure and Risk Management

This section is set out in more detail in the 2013 Financial Statements (pages 165-218), and should therefore be read in conjunction with the above Annual Report.

Main changes in the risk environment

During the third quarter, the economy coped with the repercussions of Operation "Protective Edge", reflected, first and foremost, in the impact on the tourist industry in the South. At this stage, no significant deterioration has been noted in the repayment ability of the companies, which requires making individual allowances of a material amount.

Further to a review presented in the previous financial statements, the major challenges which banks around the world and in the economy are facing are numerous regulatory changes and increased enforcement of authorities around the world and in Israel, and, at the same time, a slowdown in activity of the euro area and other countries, which is leading to, among other things, a continuation of a low interest policy, which contributes to under-pricing of risks in a range of assets. Aside these challenges, the banks in Israel and around the world are dealing with cyber-risks and data protection, which, in Israel, is related to the challenging geopolitical environment.

Leumi is prepared to cope with the materialization of the said risks, and as far as necessary, adapts its business activity and risk management in accordance with the changing environment.

Table of severity of risk factors

There has been no change in the classification of the severity of the risk factors in relation to the table published in the 2013 Annual Report on page 167.

Basel III

The financial statement data of Leumi, the calculation of the risk assets and capital adequacy ratio as of 30 September 2014 were computed and presented in accordance with the rules of the standardized approach. According to the Group's assessment, the capital adequacy ratio of 14.27%, which Leumi reported at 30 September 2014, covers the capital required in respect of the First and Second Pillars, including the stress scenarios used by the Group in its internal assessments.

Details of the subject of the Basel directives and the ICAAP appear on pages 174-179 in the Annual Report for 2013 and in the chapter above on Capital Resources, Capital Adequacy, and Transactions in the Shares of the Bank.

In the Report of the Board of Directors and in the financial statements, certain required data have been expanded and/or added pursuant to the Third Pillar, in accordance with the regulations of the Supervisor of Banks, as set forth below:

| Subject | | Report of the Board of Directors | Financial Statements |
|--|--------------|----------------------------------|----------------------|
| | Table | | |
| General | 1 | - | |
| Capital structure (quantitative and qualitative) | 2 | Page 10 | Note 4 |
| Capital adequacy (quantitative and qualitative) | 3 | Page 12 | - |
| Risk exposures and its assessment – general qualitative disclosure | | - | - |
| Credit risk exposures by main credit type | 4(b) | | - |
| Exposures to foreign countries by geographical region | 4(c) | Page 103 | Exhibit D |
| Credit risk exposures by counterparty and main credit type | 4(d) | | - |
| Credit exposures by period to maturity | 4(e) | | - |
| Problem credit risk exposure and expenses for credit losses by market sector | 4(f) | - | Exhibit C |
| Amount of impaired loans and provisions by geographical region | 4(g) | - | Exhibit D |
| Change in allowance for credit loss balances | 4(h) | - | Note 3A1 |
| Credit exposures by weight of risk | 5 | - | - |
| Credit risk mitigation (qualitative and quantitative) | 7 | - | - |
| Credit exposures in derivatives of counterparty (qualitative and quantitative) | 8 | - | - |
| Securitization (qualitative and quantitative) | 9(f) 9(g) | - | Note 2 |
| Market risk (qualitative and quantitative) | 10 | Page 105 | - |
| Operational risk- qualitative disclosure | 12 | Page 115 | - |
| Investment in shares (qualitative and quantitative) | 13(b) | Page 55 | - |
| Investments in shares of companies included on equity basis | 13(b) | Page 85 | - |
| Interest risk | 14 | Page 108 | Exhibit B |

* The tables are presented on the Bank's website: <http://leumi.co.il/home01/32587>

Credit risk

This chapter is provided in great detail in the 2013 Annual Report (pages 174-179) and therefore, should be read in conjunction therewith.

1. Exposure and management of credit risks to the public

Credit risk mitigation

Policy and processes with regard to valuation and management of collateral

As a policy, the Bank aims to place credit against collateral. The amount of collateral required from a borrower is, *inter alia*, a consequence of the risk level in the credit. The collateral received is not the main consideration for approving the credit, but rather additional support intended to reduce the loss to the Bank in the event of business/financial default by the borrower.

As part of the collateral policy for all of the market sectors, principles and rules have been established with regard to types and amounts of collateral. The requirement for collateral and the percentage thereof are derived from the level of risk that the Bank is prepared to assume when providing the credit, but special emphasis is placed on the rating of the borrowers' risk and their repayment capacity as a criterion for granting the credit, as opposed to the weight given to the accepted collateral.

In addition, the business criteria for receiving the collateral are determined by establishing the degree of reliance on the collateral, the methods of dealing with it on receipt, the way in which its value and timing are updated and the means of monitoring and control, and these are distributed through work procedures, update circulars and operating directives.

The collateral is adapted to the type of credit it secures, taking into account the time span, the type of linkage, the nature and purpose of the credit, and the speed at which it can be realized. The Bank verifies the value of the collateral by receiving an updated assessment and/or an assessor's valuations. The assessment of the value needs to be external and independent, and must be directed to the Bank.

Activity in Derivative Instruments for the purpose of mitigating credit risks

Hedging and/or Risk Mitigation Policy and Strategies and Processes for Monitoring the Continuing Effectiveness of Risk-Mitigating Hedging Activities

Developments in international foreign currency markets and the volatility of exchange rates of the various currencies, with their ramifications for those borrowers active in foreign currency, make it necessary to increase activity in monitoring, supervising and controlling customers' exposures to fluctuations in market prices (exchange rate, inflation, etc.). To this end, the Bank has updated instructions addressing the adjustment required between the currency base of the credit and the currency of the cash flow, which constitutes the source of repayment of the credit, and awareness of the subject of exposure to currency risks has been increased, with special attention being drawn to borrowers with the potential for a high degree of exposure. When necessary, the borrower's risk rating is revised and a requirement is issued to strengthen capital base and collateral.

If it appears that a borrower faces exposure/sensitivity to changes in exchange rates and commodity prices, the relevant business function has to examine the degree of the borrower's sensitivity from an overall perspective. This examination takes into account all the criteria requiring the borrower to be added to the list of sensitive customers, as well as consideration and quantification of the borrower's sensitivity to changes in the relevant exchange rates and commodity prices.

For the purpose of hedging various credit risks, the Bank recommends its customers make use of defensive mechanisms against macro-economic variables, such as the Consumer Price Index, exchange rates and commodity prices. In order to mitigate the levels of credit risk, the Bank suggests the borrower protect himself against sharp changes in exchange rates, *inter alia*, by the use of financial instruments. By using these instruments, it is possible to "hedge" financial exposure and, to a certain extent, also real exposure, and to keep risk to a minimum.

2. Credit exposure in respect of the fair value of derivatives by counterparty to the contract as at 30 September 2014:

| | AAA to AAA | A+ | A | A- | BBB to BBB- | BB+ to B- | Unrated | Total |
|---|---------------|--------------|---|----|----------------|--------------|---------|---------------|
| Foreign banks | NIS millions | | | | | | | |
| Euro zone (a) | 1,615 | - | - | - | - | - | - | 1,615 |
| United Kingdom (b) | 2,236 | - | - | - | - | - | - | 2,236 |
| United States | 2,306 | - | - | - | - | - | - | 2,306 |
| Other | 182 | - | - | - | - | - | - | 182 |
| Total foreign banks | 6,339 | - | - | - | - | - | - | 6,339 |
| Israeli banks (c) | - | 2,646 | - | - | - | - | - | 2,646 |
| Corporate customers, by sectors of the economy | | | | | | | | |
| Financial services (d) | | | | | | | | 6,383 |
| Industry (e) | | | | | | | | 563 |
| Construction and real estate | | | | | | | | 65 |
| Transportation and storage | | | | | | | | 22 |
| Trade | | | | | | | | 76 |
| Electricity and water | | | | | | | | - |
| Business services | | | | | | | | 27 |
| Private individuals | | | | | | | | 20 |
| Communications and computer services | | | | | | | | 73 |
| Others | | | | | | | | 19 |
| Total corporate customers | | | | | | | | 7,248 |
| Total exposure | | | | | | | | 16,233 |

* Reverse transactions carried out by the customers and offset for the purpose of risk according to the sectors of the economy.

- (a) This amount includes transactions with 6 countries.
- (b) This amount includes transactions with 7 banks.
- (c) This amount includes transactions with 9 banks.
- (d) This amount includes transactions with 444 customers, where the highest amount for a single customer is NIS 1,307 million.
- (e) This amount includes transactions with 240 customers, where the highest amount for a single customer is NIS 229 million.

3. Credit exposure to foreign financial institutions

Credit exposure to foreign financial institutions (a):

| | As at 30 September 2014 | | | |
|---|----------------------------------|----------------|--|----------------------------|
| | Balance sheet credit risk (b) | Securities (c) | Current off- balance sheet credit risk (d) | Current credit exposure |
| | NIS millions | | | |
| External credit rating (e) | | | | |
| AAA to AA- | 17,764 | 3,422 | 1,466 | 22,652 |
| A+ to A- | 1,420 | 121 | 34 | 1,575 |
| BBB+ to BBB- | 103 | 1,117 | 159 | 1,379 |
| BB+ to B- | 69 | - | 2 | 71 |
| Below B- | 1 | - | - | 1 |
| Unrated | 175 | - | - | 175 |
| Total current credit exposure to foreign financial institutions | 19,532 | 4,660 | 1,661 | 25,853 |
| Problem debt balances | - | - | - | - |
| | | | | |
| | As at 31 December 2013 | | | |
| | Balance sheet credit risk (b) | Securities (c) | Current off- balance sheet credit risk (d) | Current credit exposure |
| | NIS millions | | | |
| External credit rating (e) | | | | |
| AAA to AA- | 13,469 | 4,275 | 1,074 | 18,818 |
| A+ to A- | 1,752 | 125 | 32 | 1,909 |
| BBB+ to BBB- | 171 | 917 | 190 | 1,278 |
| BB+ to B- | 80 | 79 | 1 | 160 |
| Below B- | 1 | - | - | 1 |
| Unrated | 142 | - | - | 142 |
| Total current credit exposure to foreign financial institutions | 15,615 | 5,396 | 1,297 | 22,308 |
| Problem debt balances | - | - | - | - |

- (a) Foreign financial institutions include banks, investment banks, insurance companies and institutional bodies.
- (b) Deposits in banks, credit to the public, securities that were borrowed or purchased in the context of buy-back agreements and other assets in respect of derivatives (fair value of derivatives).
- (c) Including subordinated bank debentures amounting to NIS 760 million at September 2014 and NIS 998 million at December 2013.
- (d) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).
- (e) In order to rate the foreign financial institutions, the Bank uses credit ratings determined for implementing the standardized approach of Basel III. The Bank uses the ratings of Moody's and S&P agencies for rating the foreign financial institutions.

Notes:

- a. Credit exposures do not include investments in asset-backed securities (see the details in the note on securities).
- b. Some of the banks have received government support of various types, including direct investments in the bank's capital, government guarantees of certain asset portfolios of the banks, guarantees enabling the banks to raise sources of financing, etc.
- c. For further information regarding the composition of the credit exposure in respect of derivatives *vis-à-vis* banks and brokers/dealers (local and overseas), see Note 7 to the Financial Statements.

Credit exposure to foreign financial institutions refers to commercial banks, bank holding companies, investment banks, insurance companies and institutional bodies.

Exposure to overseas banks is divided as follows: United States, 44%, Europe (Germany, France, Switzerland, Spain and the Benelux countries), 18%, United Kingdom 24%, and other countries, 14%.

Exposure includes deposits in foreign banks, approximately 100% of which are for short periods of up to one week, and debentures, usually for a period of up to five years. The Bank closely monitors the condition of banks throughout the world and regularly analyses their financial stability. The Bank maintains a summary list of quality banks with which the Bank and its overseas subsidiaries make deposits.

Additional details regarding investments in securities, mainly debentures of overseas banks, are presented in the section "Securities" in the chapter "Structure and Development of Assets and Liabilities" above.

Management of the exposure to and credit lines of overseas financial institutions takes into consideration, *inter alia*:

- Their size, as reflected, *inter alia*, by the size of their capital.
- Their strength, as reflected in capital adequacy ratios (particularly Tier I capital).
- The market's valuation, as reflected in the market value of their shares and their risk, as estimated with the help of their credit derivatives (CDS).
- The internal rating as computed in a unit which is independent of the business entity.
- The ratings assigned to them by the international rating agencies.
- The financial strength of the country where the bank's center of activity is located.
- Additional considerations, such as the level of support, including direct investment in the banks' capital by governments, for the purpose of ensuring the stability of these banks and other banks in their countries.
- The policy for managing the exposure to overseas financial institutions includes, *inter alia*, limits on the amounts of exposure at bank and country level according to risk.

4. Exposure to foreign countries:

The exposure to foreign countries according to final risk is distributed among geographical regions and countries, the main exposure being to countries in Western Europe and in North America. For further details regarding exposure to countries overseas, see Exhibit D below, in the Management Review. (Table 4(c) - Basel):

| | As at 30 September 2014 | | |
|-----------------|--------------------------------|-------------------|---------------|
| | Balance sheet | Off-balance | Total current |
| | credit risk | sheet credit risk | credit risk |
| | NIS millions | | |
| USA | 26,464 | 5,682 | 32,146 |
| UK | 14,465 | 2,981 | 17,446 |
| France | 2,128 | 983 | 3,111 |
| Germany | 2,346 | 290 | 2,636 |
| Switzerland | 2,519 | 522 | 3,041 |
| Belgium | 1,414 | 73 | 1,487 |
| Italy | 303 | 27 | 330 |
| The Netherlands | 2,226 | 156 | 2,382 |
| Denmark | 661 | 8 | 669 |
| Norway | 558 | - | 558 |
| Austria | 64 | 18 | 82 |
| Sweden | 351 | 3 | 354 |
| China | 821 | 324 | 1,145 |
| Others | 7,283 | 754 | 8,037 |
| Total | 61,603 | 11,821 | 73,424 |

| | As at 31 December 2013 | | |
|-----------------|-------------------------------|-------------------|---------------|
| | Balance sheet | Off-balance | Total current |
| | credit risk | sheet credit risk | credit risk |
| | NIS millions | | |
| USA | 26,360 | 9,243 | 35,603 |
| UK | 12,956 | 5,543 | 18,499 |
| France | 2,796 | 1,923 | 4,719 |
| Germany | 5,045 | 1,028 | 6,073 |
| Switzerland | 2,910 | 773 | 3,683 |
| Belgium | 700 | 183 | 883 |
| Italy | 328 | 35 | 363 |
| The Netherlands | 2,380 | 139 | 2,519 |
| Denmark | 582 | 14 | 596 |
| Norway | 46 | - | 46 |
| Austria | 83 | 13 | 96 |
| Sweden | 139 | 18 | 157 |
| China | 567 | 548 | 1,115 |
| Others | 5,673 | 866 | 6,539 |
| Total | 60,565 | 20,326 | 80,891 |

The following table presents the exposure to countries according to the credit rating of the countries as rated by the World Bank, as at 30 September 2014 in NIS millions:

| | Balance sheet exposure | Off-balance sheet exposure | Total exposure | Percentage of exposure in relation to total | Of which problem commercial credit risk |
|---------------------------------|------------------------|----------------------------|----------------|---|---|
| OECD countries with high income | 56,581 | 10,974 | 67,555 | 92.0 | 1,193 |
| High-income countries | 2,146 | 78 | 2,224 | 3.0 | 3 |
| Countries with mid-high income | 2,787 | 641 | 3,428 | 4.7 | 396 |
| Countries with mid-low income | 85 | 127 | 212 | 0.3 | 3 |
| Countries with low income | 4 | 1 | 5 | 0.0 | - |
| Total | 61,603 | 11,821 | 73,424 | 100.0 | 1,595 |

The amount of exposure to foreign countries with liquidity problems as defined by the Bank of Israel (countries which receive financial aid from the IMF or whose obligations are rated with a credit rating of CCC or below) totals NIS 1,948 million and relates to 14 countries.

The countries are defined according to national income per capita as follows:

High income – more than US\$ 12,746 per capita

Mid-high income - from US\$ 4,126 to US\$ 12,745 per capita

Mid-low income - from US\$ 1,046 to US\$ 4,125 per capita

Low income – up to US\$ 1,045 per capita

Following are the names of the principal countries in each of the categories:

- a. OECD countries, including: United States, Italy, Australia, Austria, Ireland, Belgium, Canada, the Czech Republic, Denmark, Finland, Israel, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, Slovenia, the Netherlands, Sweden, Poland, Germany and Korea.
- b. Countries with high income:
Cyprus, Hong Kong, Monaco, Singapore, Cayman Islands and Croatia
- c. Countries with mid-high income:
Argentina, Brazil, Bulgaria, Chile, Mexico, Panama, Romania, Russia, South Africa, Turkey, Venezuela, Uruguay, Columbia, Peru
- d. Countries with mid-low income:
China, Ecuador, Egypt, India, Jordan, Paraguay, the Philippines, Thailand, the Ukraine
- e. Countries with low income:
A large number of the African countries, Haiti, Nepal

Overall exposure to certain foreign countries:

| 30 September 2014 | | | | | |
|--------------------------|----------------------|--------------------------|---------------|-----------|------------|
| | Credit to the public | Bonds - banks and others | Bank deposits | Other | Total |
| | NIS millions | | | | |
| Italy (a) | 75 | 207 | 21 | 27 | 330 |
| Ireland | 34 | 423 | - | 1 | 458 |
| Greece | - | - | - | 1 | 1 |
| Spain | 22 | 94 | 1 | 26 | 143 |
| Total (b) | 131 | 724 | 22 | 55 | 932 |

(a) Of which, NIS 207 million is in Bank Itessa.

(b) The Group has no exposure to Portugal.

Market and Liquidity Risks

This chapter is written in great detail in the Annual Financial Statements for 2013 (pages 202-212). Accordingly, the following chapter should be read in conjunction with the Annual Report.

Capital requirement in respect of market risks

Below are the capital requirements in respect of market risks (Table 10–Basel) as required by the standardized approach:

| | 30 September 2014 | 30 September 2013 | 31 December 2013 |
|---|------------------------------|----------------------|---------------------|
| | NIS millions | | |
| Capital requirements (a) in respect of : | | | |
| Interest risks | 1,175 | 784 | 707 |
| Share price risk | 109 | 88 | 127 |
| Exchange rate risk | 90 | 69 | 69 |
| Options | 29 | 74 | 43 |
| Total capital requirements in respect of market risks | 1,403 | 1,015 | 946 |

(a) The capital requirements have been computed at 12.5% according to the minimum required ratio with effect from 1 January 2015. In 2013, capital requirements have been computed at 9% according to the minimum required ratio until the end of 2013.

Main focus points in market risks

1. Exposure to interest

Interest risk is a risk of a loss as a result of changes in risk-free interest rates of credit in the various currencies due to differences between the date of change in interest or repayment of the assets and liabilities in each of the linkage segments.

The interest exposure policy restricts the extent of exposure to possible changes in interest on the Bank's profits and on capital. Accordingly, in each segment, the exposure to an unexpected change at a parallel rate of 1% in interest in all the periods is measured, and in various interest scenarios, and its effect on the potential erosion of economic value² and of the accounting profit for the year resulting from a shift in the yield curves in each of the segments and also for all segments together. Exposure to profit is heavily influenced by the activity remeasured at market prices (derivative transactions and trading portfolios).

There are structured interest risks arising from the uncertainty in the market factors that may not be hedged, but are structured in the banking activity. The risk includes gross behavioral options in loans and deposits that may not be hedged (for example, early repayment options).

The interest risk is measured and managed on the basis of various behavioral assumptions with regard to the repayment times of the assets and liabilities. According to past experience to some of the current account balances as long-term liabilities, an assumption which was updated during the third quarter against the background of an increase in current account balances. In addition, there are assumptions relating to early repayments in mortgages.

From the beginning of 2014, the methodology for measuring interest exposure was changed, according to which, the interest exposures between the unlinked shekel sector and the index-linked sector were offset, and the exposure limits were altered accordingly.

² The economic value of the capital is defined as the difference between the current value of assets and liabilities. In calculating present value, cash flows are deducted from the risk-free credit yield curve and the foreign currency LIBOR flows.

The summary of exposures to unexpected changes in interest at Group level (before tax and in NIS millions)* is as follows:

| Effect of immediate parallel change of 1% on the yield curve | Potential erosion in economic value | |
|--|-------------------------------------|------------|
| | Limit | Actual |
| | 30 September 2014 | |
| Banking portfolio | 900 | 378 |
| Trading portfolio | 450 | 285 |
| Total | 1,100 | 492 |
| | Potential erosion in annual profit | |
| | Limit | Actual |
| Total | 500 | 31 |

* The extent of exposure ignores the location of the interest floor of 0% on deposits. The more the interest rates continue to fall and become closer to zero, the higher the impairment of the financial margin.

The following is a summary of exposures to unforeseen changes in interest at the Group level (before tax and in NIS million):*

| Effect of immediate parallel change of 1% on the yield curve | Potential erosion in economic value | Potential erosion in annual profit |
|--|-------------------------------------|------------------------------------|
| | 31 December 2013 | 31 December 2013 |
| Actual | 853** | 184 |
| Limit | 1,100 | 500 |

* The extent of exposure ignores the location of the interest floor of 0% on deposits. The more the interest rates continue to fall and become closer to zero, the higher the impairment of the financial margin.

** On the basis of the methodology which was implemented from the beginning of 2014, the potential erosion of the economic value to interest is NIS 605 million.

In the first nine months of 2014, the potential erosion in the economic value ranged from NIS 300 million to NIS 492 million, under the present assumptions of current account scheduling, and in annual profit, from NIS 31 million to NIS 215 million.

In the first nine months of 2014, the Group complied with all of the exposure restrictions for interest prescribed by the Board of Directors.

Sensitivity of the fair value of assets and liabilities to interest

The effect of potential changes in interest rates on the fair value of the financial instruments of the Bank and its consolidated subsidiaries, except for non-monetary items, according to accounting principles, is as follows:

The net fair value of financial instruments, before the effect of changes in interest:

| | 30 September 2014 | | | | |
|---|--------------------------|---------------|---|---------------|---------------|
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others |
| | NIS millions | | | | |
| Financial assets | 212,153 | 58,285 | 58,952 | 9,275 | 12,297 |
| Amounts receivable in respect of derivative financial and off-balance sheet instruments | 338,992 | 6,240 | 165,166 | 51,648 | 29,271 |
| Financial liabilities | 177,129 | 51,927 | 76,823 | 14,555 | 9,757 |
| Amounts payable in respect of derivative financial and off-balance sheet instruments | 354,583 | 8,779 | 148,858 | 46,814 | 31,952 |
| Net fair value of financial instruments | 19,433 | 3,819 | (1,563) | (446) | (141) |

| | 30 September 2013 | | | | |
|---|--------------------------|------------|---|--------|--------|
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others |
| | NIS millions | | | | |
| Financial assets | 204,649 | 61,413 | 50,502 | 11,493 | 15,232 |
| Amounts receivable in respect of derivative financial and off-balance sheet instruments | 310,570 | 7,226 | 111,779 | 30,094 | 25,889 |
| Financial liabilities | 162,205 | 53,035 | 76,327 | 17,002 | 12,989 |
| Amounts payable in respect of derivative financial and off-balance sheet instruments | 334,844 | 11,301 | 87,907 | 24,299 | 28,372 |
| Net fair value of financial instruments | 18,170 | 4,303 | (1,953) | 286 | (240) |

| | 31 December 2013 | | | | |
|---|-------------------------|------------|---|--------|--------|
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others |
| | NIS millions | | | | |
| Financial assets | 211,239 | 59,960 | 51,750 | 12,220 | 13,830 |
| Amounts receivable in respect of derivative financial and off-balance sheet instruments | 311,649 | 7,098 | 116,357 | 41,980 | 23,574 |
| Financial liabilities | 169,974 | 53,425 | 76,368 | 17,574 | 10,978 |
| Amounts payable in respect of derivative financial and off-balance sheet instruments | 334,405 | 9,844 | 94,024 | 36,403 | 26,209 |
| Net fair value of financial instruments | 18,509 | 3,789 | (2,285) | 223 | 217 |

The effect of potential changes in interest rates on the net fair value* of financial instruments (Table 14 – Basel):

| 30 September 2014 | | | | | | | |
|--|---|------------|---------|-------|--------|----------------------|--------|
| | Fair value, net, of financial instruments after the effect of changes in interest rates | | | | | Change in fair value | |
| | Foreign currency, including Israeli currency linked to | | | | | | |
| | Israeli currency | | | | | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others | Total | Total |
| | NIS millions | | | | | NIS millions | % |
| Immediate corresponding increase of 1% | 18,711 | 3,687 | (1,701) | (470) | (158) | (1,033) | (4.90) |
| Immediate corresponding increase of 0.1% | 19,361 | 3,806 | (1,577) | (448) | (143) | (103) | (0.49) |
| Immediate corresponding decrease of 1% | 20,232 | 3,972 | (1,442) | (420) | (124) | 1,116 | 5.29 |
| 30 September 2013 | | | | | | | |
| | Fair value, net, of financial instruments after the effect of | | | | | Change in fair value | |
| | Foreign currency, including Israeli currency linked to | | | | | | |
| | Israeli currency | | | | | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others | Total | Total |
| | NIS millions | | | | | NIS millions | % |
| Immediate corresponding increase of 1% | 17,443 | 4,174 | (2,222) | 272 | (250) | (1,149) | (5.59) |
| Immediate corresponding increase of 0.1% | 18,097 | 4,290 | (1,980) | 285 | (241) | (115) | (0.56) |
| Immediate corresponding decrease of 1% | 18,925 | 4,389 | (1,702) | 301 | (223) | 1,124 | 5.47 |
| 31 December 2013 | | | | | | | |
| | Fair value, net, of financial instruments after the effect of | | | | | Change in fair value | |
| | Foreign currency, including Israeli currency linked to | | | | | | |
| | Israeli currency | | | | | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others | Total | Total |
| | NIS millions | | | | | NIS millions | % |
| Immediate corresponding increase of 1% | 17,787 | 3,708 | (2,472) | 228 | 202 | (1,000) | (4.89) |
| Immediate corresponding increase of 0.1% | 18,437 | 3,781 | (2,304) | 224 | 215 | (100) | (0.49) |
| Immediate corresponding decrease of 1% | 19,303 | 3,819 | (2,044) | 237 | 224 | 1,086 | 5.31 |

* Not including an estimate of the value of income in respect of early repayment commission.

1.1 Exposure to interest and compliance with limits

The status of exposure to interest changes at the Group level, which is calculated according to accounting principles, is set forth below. During the first half of 2014, the Group complied with all the exposure limits for interest set by the Board of Directors. For detailed data on exposure to interest, see Exhibit B below in the Management Review.

| | 30 September 2014 | | | 31 December 2013 | | |
|-------------------------------------|-------------------|----------------|---|------------------|----------------|--|
| | | | Foreign currency and foreign currency linked | | | Foreign currency and foreign currency linked |
| | Unlinked | CPI- linked | | Unlinked | CPI- linked | |
| Average duration in years: | | | | | | |
| Average duration of assets (a) | 1.04 | 2.93 | 0.88 | 1.19 | 2.94 | 0.86 |
| Average duration of liabilities (a) | 0.95 | 3.03 | 0.78 | 1.10 | 3.21 | 0.74 |
| Duration gap in years | 0.09 | (0.10) | 0.10 | 0.09 | (0.27) | 0.12 |
| IRR gap (%) | 1.57 | 1.06 | 0.88 | 2.58 | 0.76 | 1.54 |

(a) Including future transactions and options, and based on fair value data of financial instruments.

In calculating the duration of liabilities in the CPI-linked sector, an estimate of early repayments and withdrawals at exit points of savings plans is taken into account, on the basis of a model which estimates anticipated early repayments based on savers' behavior. The duration of total liabilities, according to the original cash flow of the savings schemes is longer, reaching 3.09 years, with an internal rate of return (hereinafter: IRR) gap of 0.12%.

The data presented above take into account early repayments of CPI-linked mortgages according to a statistical model that estimates expected repayments on the basis of the borrowers' past behavior. The average duration of assets at the end of the reported period, according to the original cash flow, without taking into account early repayments, is longer, reaching 3.40 years, and an IRR gap of about 0.12%.

Current account balances are presented in Exhibit B to the Management Review, pursuant to directives of the Bank of Israel, as demand deposits for up to one month. However, for the purposes of interest exposure, a certain percentage of the current account balances in shekels and in foreign currency is spread over a repayment period of up to ten years, in accordance with a behavioral model whose basic assumptions are regularly updated. Taking into account the above assumptions, the average duration of liabilities is longer, reaching 1.04 years in unlinked shekels and 0.83 years in foreign currency, with an IRR gap of 1.04% and 0.76%, respectively.

2. Basis exposure

The exposure to basis risk is reflected in the loss that may occur due to changes in the CPI and exchange rates, as a result of the difference between the value of the assets and the value of the liabilities, including the effect of futures transactions in each of the linkage sectors.

In accordance with accounting principles, capital is defined as an unlinked shekel source, such that an investment of the capital in a sector other than the unlinked shekel sector is defined as a basis exposure. Exposure to the basis risks is measured as a percentage of the Group's exposed capital.

The exposed capital, at the Bank level, includes capital and certain reserves, less fixed assets and investments in investee companies, excluding the investments in subsidiaries abroad, which are financed from foreign currency sources and are therefore not deducted from capital. At the Group level, the exposed capital includes capital and certain reserves, less fixed assets and investments in companies included on equity basis.

Exposure limits, approved by the Board of Directors, are determined according to considerations of expected return and risk and are allocated among the trading rooms, ALM, and the subsidiary companies.

The subsidiaries abroad and in Israel manage basis exposures in low volumes, on the basis of the policies anchored in directors' resolutions, and in coordination with the Bank in Israel.

Changes in the exchange rate influence the effective tax rate, since the exchange rate differences in respect of the overseas investments, which are defined as units whose functional currency is identical to the shekel, are not taken into account in the income basis for calculating the tax provision, unlike exchange rate differences in respect of related financing sources. To counter its tax exposure, the Bank enters into hedging transactions.

The following table sets out the actual economic exposure at Group level, compared with the limits set by the Board of Directors. The data are presented in terms of the percentage of the exposed capital:

| | Approved limits | Actual exposure (%) | | |
|------------------|---------------------------|----------------------------|-------------------|------------------|
| | Maximum surplus (deficit) | 30 September 2014 | 30 September 2013 | 31 December 2013 |
| Unlinked | (65%)-65% | (8.4) | 12.1 | (10.2) |
| CPI-linked | (50%)-50% | 8.4 | 10.2 | 6.4 |
| Foreign currency | (15%)-15% | 0.0 | 1.9 | 3.8 |

During the first nine months of 2014, the average rate of equity invested in the linked sector stood at a surplus of about 9% of the exposed capital, fluctuating between a surplus of 2% and 17% of the exposed capital. A relatively low volume of capital was channeled to the foreign currency and foreign-currency-linked sector, and therefore, the effect of the change in exchange rates did not materially affect profit.

During the first nine months of 2014, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table shows the sensitivity to changes in the exchange rates of the major currencies as at 30 September 2014. The measurement relates to the effect of such changes on the capital of the Bank and includes activity in balance sheet and off-balance sheet instruments:

| | US\$ | € | £ | CHF | Yen |
|----------------------------------|--------------|-------------|------------|-------------|----------|
| | NIS millions | | | | |
| Increase of 5% in exchange rate | (4) | (4) | 2 | 5 | - |
| Increase of 10% in exchange rate | 3 | (11) | 4 | 10 | - |
| Decrease of 5% in exchange rate | 11 | 2 | (3) | (5) | 1 |
| Decrease of 10% in exchange rate | 46 | 2 | (8) | (10) | 7 |

The above data do not take into account the effect of changes in exchange rate on the flow of income and expenses in foreign currency in respect of which hedging was also made at the beginning of the year.

3. Exposures in trading rooms

Market risks in the trading portfolio derive as a result of the Bank's activity as a market-maker and as a manager of positions in nostro:

- Market-making activity – The Bank is a leader in the scope of activity in the area of derivatives, and provides immediate services to customers who are active in instruments. In the foreign currency trading and derivatives room, the activity of market-making is conducted at the spot desk (in shekels and in foreign currency), at the options desk (in shekels and in foreign currency) and at the interest desk (shekels and foreign currency). This activity exposes the Bank to market risks (exchange rate risks and interest risks) and accordingly, the activity is managed and monitored in accordance with the restrictions. Because of the dynamic nature of the activity, these restrictions are regularly monitored at least once a day by the middle office.
- Nostro trading activity – In the trading room, pro-active activity is carried out in the context of which exposures are initiated in shekel-denominated debentures. This activity is managed and monitored at least once a week, in accordance with the restrictions approved and validated by the Risk Management Division.

4. Aggregate exposure to market risk – interest, basis, shares as reflected in the Value at Risk model

The VaR limits are determined, both on the economic value of the Group including overseas subsidiaries, and on the components remeasured at market value (MtM) which affect the profit and loss of the Bank (including the Bank's commercial portfolios).

Below is the estimated VaR at Group level in NIS millions:

| | VaR at economic value | | | VaR in mark-to-market (MtM) portfolios | | |
|--------|--------------------------|-------------------|------------------|--|-------------------|------------------|
| | 30 September 2014 | 30 September 2013 | 31 December 2013 | 30 September 2014 | 30 September 2013 | 31 December 2013 |
| Actual | 129 | 157 | 126 | 53 | 71 | 53 |
| Limit | 500 | 500 | 500 | 400 | 400 | 400 |

In the first nine months of 2014, the Group complied with all the VaR restrictions prescribed by the Board of Directors.

Marketable credit nostro risks

Leumi is exposed to credit and market risks of countries, banks and financial institutions in Israel and abroad. In addition, the Bank also invests to a limited extent in asset-backed instruments (CLO, MBS and ABS, etc.).

The Group exposure policy for foreign financial institutions and countries is a part of the policy for managing market risks and marketable credit risks. This policy defines guidelines, risk limits on credit/counterparty exposures and authorities. The policy prescribes that most exposures will be to large banks that are systemically important to their country and to banks with a relatively high credit quality with an emphasis on dispersal of the portfolio.

Risk management in the exposure to financial institutions and countries is effected through credit committees chaired by the Capital Market Division and in collaboration with the Risk Management Division.

In the Risk Management Division, the quality of the portfolio is monitored and risk analyses and scenarios for the examination of risk focal points, which are discussed in the Upper Market Risk Committee and in the Risk Management Committee of the Board of Directors, are carried out.

Exposure to liquidity risk

Liquidity exposure

Liquidity risk is the risk created due to the uncertainty relating to the possibility of raising funds and/or realizing assets unexpectedly within a short period, without incurring any material loss.

Liquidity risk management policy

In accordance with Bank of Israel directives, the Bank implements an overall policy for managing liquidity risk, the purpose of which is to support the achievement of business goals, while evaluating and limiting losses that may arise from exposure to liquidity risks. The liquidity risk management policy is aimed at maintaining a high level of liquidity through investment in quality assets at a high level of liquidity and, via policy, directs the raising of stable and varied sources, with an emphasis on raising deposits from a large number of customers for various terms, including long terms. For further details, reference may be made to pages 211-212 of the 2013 Annual Report.

Sources of financing:

The composition of the Bank's assets and liabilities continues to point to high liquidity, as a result of a policy of raising stable and varied sources and a policy of investing surplus liquid means in quality assets.

Surplus liquid means in Israeli currency are invested primarily in deposits in the Bank of Israel amounting to some NIS 34.6 billion and in securities, some NIS 20.2 billion, principally in government debentures. Surplus liquid means in foreign currency are invested primarily in debentures amounting to some NIS 21.9 billion, and in bank deposits, some NIS 14.6 billion.

The balance of public deposits in the Bank, not including subordinated notes, rose during the first nine months of 2014 by NIS 2.0 billion (0.7%), and after canceling the effect of exchange rate differentials, the balance of public deposits fell by NIS 2.3 billion (0.8%).

The shekel segment recorded an increase of NIS 6.5 billion (3.5%), while in the foreign currency and foreign currency linked segment, there was a decrease of NIS 4.5 billion, (4.4%), after canceling the effect of exchange rate differentials, a decrease of NIS 8.8 billion (8.6%).

Monitoring liquidity risk

The Bank measures and manages liquidity risk by means of a Liquidity Cover Ratio (LCR) metric under a range of scenarios that examine the liquidity position of the bank in a normal business situation and in stress scenarios. The purpose of the scenarios is to examine and monitor that liquid means available to the Bank in Israeli and foreign currency are sufficient to meet all liquidity needs in a liquidity stress scenario lasting one month. The rate of change in balances of deposits and credit for each repayment period, under various scenarios, is determined according to different parameters in accordance with the degree of severity of the scenario, based on Basel III directives and the judgment of the business entities. It should be pointed out that the stress scenarios are more serious than anything experienced by the Bank in the past, and so the assumptions of the scenarios are not based on historic data. During the reviewed period, the Bank complied with a liquidity ratio higher than 1 in accordance with the requirements of the directive, except for 2 daily irregularities, in the foreign currency sector.

Moreover, the Bank makes use of forecasts of day-to-day cash flows, in monitoring trends in different segments of deposits, monitoring concentrations of depositors, monitoring cost of raising funds for the Bank, and is assisted by a warning-light system that can indicate changes in the liquidity position of the Bank.

On 28 September 2014, the Bank of Israel published a new draft of Proper Conduct of Banking Business Management Directive 221 regarding Liquidity Coverage Ratio (LCR), which will come into effect on 1 April 2015. Pursuant to this directive, the ratio will be measured according to the Basel III recommendations and the position of the Supervisor on subjects in which the Supervisor may exercise discretion. The minimum requirement for the liquidity coverage ratio will be 60% until the end of 2015 and will increase to 80% on 1 January 2016 and to 100% on 1 January 2017. Proper Conduct of Banking Business Management Directive 342 regarding Liquidity Risk continues to be in force at the same time as this directive.

Linkage Status and Liquidity Position

Linkage Status

The following is a summary of the status of the linkage balance sheets, as shown in note 5 to the financial statements:

The following is a summary of the status of the linkage balance sheets:

| | As at 30 September 2014 | | | As at 31 December 2013 | | |
|---|-------------------------|------------|-------------------------|------------------------|------------|-------------------------|
| | Unlinked | CPI-linked | Foreign currency (b) | Unlinked | CPI-linked | Foreign currency (b) |
| | NIS millions | | | | | |
| Total assets (a) | 225,629 | 56,575 | 110,746 | 227,187 | 57,812 | 112,180 |
| Total liabilities (b) | 202,363 | 57,099 | 114,321 | 205,407 | 58,571 | 114,950 |
| Surplus (deficit) of assets in segment | 23,266 | (524) | (3,575) (c) | 21,780 | (759) | (2,770) (c) |

(a) Including forward transactions and options.

(b) Including foreign-currency-linked.

(c) The excess of liabilities in foreign currency derives mainly from a hedging transaction against the tax exposure in respect of the foreign investments, and in respect of hedging of future profits in foreign currency.

For the purposes of day-to-day management and reporting, certain changes are made that take into account the Bank's economic approach to basis risk, in contrast to the accounting approach. The basis exposure, which is calculated using the economic approach, is set forth in the chapter on "Risk Exposure and Risk Management".

Liquidity Position and Raising Funds in the Bank

The structure of the Bank's assets and liabilities continues to indicate a high level of liquidity. This is the result of a deliberate policy of raising funds from stable and diversified sources, while placing importance on raising finance from a large number of customers, various customer segments, for varying periods, and in various currencies.

Leumi monitors, on an ongoing basis, its liquidity position through metrics that are intended to alert it to changes in the liquidity position by using, *inter alia*, internal models developed in Leumi pursuant to a directive of the Bank of Israel, and in accordance with generally accepted standards throughout the world.

The volume of Leumi's balances in the Bank of Israel at the end of September 2014 amounted to some NIS 35 billion, compared with NIS 27 billion at the end of December 2013.

The Bank also has a securities portfolio of some NIS 38 billion, invested mainly in Government of Israel debentures, foreign government debentures and foreign bank debentures. This compares with a balance of NIS 57 billion at 31 December 2013.

The balance of liquid assets represent around 23.0% of the financial assets of the Bank, a decrease of some 3.0% compared with the level at 31 December 2013.

Operational risks

This chapter is set out in great detail in the Financial Report for 2013 (pages 213-219) and accordingly, the following should be read in conjunction therewith.

Leumi Group operates in a wide range of financial activities and therefore is exposed to operational risks, including, *inter alia*, risk of fraud and embezzlement, information technology risks, business continuity and data security.

The management of operational risks in Leumi Group is carried out from a systemic perspective, using three lines of defense – the Corporate Divisions and the Technological Division, the Risk Management Division and the Internal Audit, adjusting for the nature, size and complexity of the activity of each organizational unit in the Group. The management of operational risks is based on a pro-active process of identifying, measuring, monitoring, reporting and controlling/mitigating material risks.

Risk of cyber and data leaks (Reporting as prospective information) – In recent years, an increase in the degree of cyber threats can be discerned. Attacks have been carried out against national infrastructures, government institutions and corporations, both in Israel and around the world.

Bank Leumi, as a leading financial organization, is an attractive target for various attackers. The computer systems, communication networks and our customers' devices have come under attack and will continue to be vulnerable to cyber-attack, viruses, malware, phishing, and other exposures intended to cause damage to service, or steal or corrupt data.

Leumi regards the Bank's data and those of its customers as an important asset and invests much effort in applying supervision and control mechanisms and procedures. As a part of its preparedness for contending with such cyber threats, a survey has been carried out to examine Leumi's resistance. As a result of the survey, Leumi commenced a multi-year process to improve its defence capability to stave off cyber threats.

In the third quarter of 2014, Leumi experienced no serious data security or cyber events. In the fourth quarter, a data security event occurred in the subsidiary, Leumi Card Ltd.

For details regarding the attempted extortion of Leumi Card Ltd, see section "Operating segments in the Group" under "Activities in products" item b.

Compliance Risks

Compliance risk management is performed by the Compliance and Enforcement Department, which reports to the chief Risk Officer. Risk defined as "compliance risk" is the risk emanating from non-compliance with the range of laws and rules, domestic and international – non-compliance with the provisions of legislation, consumer and non-consumer, including prohibition of money laundering, prohibition of financing terrorism, administrative enforcement in the area of securities law, FATCA regulations that impose duties of reporting to authorities in the U.S. regarding U.S. customers, and the "declared money" policy, regarding compliance of customers with their relevant tax laws.

The Compliance and Enforcement Department updates the compliance policy and the method of managing risk in order to provide a solution to the major compliance risks. In this context, events and the materialization of compliance risks inside and outside Leumi, as well as the revision of legislation updates, are examined.

For further details see pages 162-163, 167, 169 and 217-218 in the Annual Report for 2013.

Legal Proceedings

The Report of the Board of Directors in the Annual Report for 2013 sets forth legal, civil and other proceedings in which the Bank and consolidated subsidiaries are parties.

As of the publication date of this report, there had been no material changes in the abovementioned proceedings, except as outlined below.

With regard to claims of an amount exceeding 0.5% of the Bank's shareholders' equity on 30 September 2014, some NIS 130 million, see details also in Note 6 to the Financial Statements.

In the opinion of the Management of the Bank, based on legal opinions, appropriate provisions have been included in the financial statements to cover possible damages in respect of all the claims.

- (a) Further to the details set forth in paragraph 2.1 in the chapter "Legal Proceedings" in the Report of the Board of Directors (page 225 in the 2013 Annual Report), in connection with the ruling of the Antitrust Commissioner as a result of negotiations conducted between the banks and the Commissioner, a compromise was reached between the parties according to which, it was agreed that the ruling would be canceled, and the bank will pay the Treasury the sum of NIS 70 million (the Bank's share being NIS 21 million), with the Bank having the possibility of paying the said sum (and also thus the other banks having with respect to the amounts relating to them), instead of payment to the Treasury and subject to the conditions stipulated in agreements with the Commissioner, as part of the compromise arrangements in a number of petitions for the approval for class actions pending against the Bank. On 15 June 2014, the Antitrust Court approved the agreements between the parties and gave effect to the agreed order.
- (b) US Authorities, including the United States Department of Justice (DOJ), the New York Department of Financial Services (NYDFS) and the United States Securities and Exchange Commission (SEC) have been carrying on investigations regarding the Group's activities vis-à-vis US customers.

The Group and its legal counsels are trying to bring the ongoing investigations to a conclusion. The agreements which are in process of being formulated relate to the Group's liability only, and do not grant any indemnity to officers or employees of the Group. To the extent they will be signed, the agreements which are in process of being formulated are not expected to lead to a guilty plea for the Group.

In light of the framework of the arrangements being formulated, and in light of the Group's estimations, on the basis of the position of its legal counsel, regarding the amounts which will be required as part of the said arrangements, including in respect of accompanying expenses, the provision has been increased by an amount of some NIS 480 million, and amounts to, as of 30 September 2014, an amount of some NIS 1,438 million. It is emphasized that this provision does not constitute an admission of any claim against the Group.

As long as agreements have not been signed or finalized with all the relevant Authorities, to the extent that such are required, it is not possible to determine with certainty the amount of the expense which is expected to be incurred by the Group in this regard, and the possibility still exists that the final amount of the expense will be significantly higher than the amount included in the Financial Statements.

- (c) Further to the details set forth in paragraph 2.5 in the section "Legal Proceedings" in the Report of the Board of Directors (page 226 to the 2013 Annual Report), in connection with a request to approve the submission of a derivative action against past senior officers in the Bank, which the petitioner alleges, in the context of investigations carried out by the United States tax authorities, it became apparent that representatives of the Bank and representatives of Bank Leumi USA assisted customers who were assessed for tax in the United States, to enter into transactions which prevented the U.S. tax authorities from collecting taxes from their citizens.

On 16 November 2014, a claim was submitted to the Economic Department of the Tel Aviv District Court, including a request for the grant of other measures, in connection with maintaining contacts with the U.S. authorities, and in connection with the an engagement in an arrangement with the U.S. authorities, including the prevention of involvement of certain factors in the aforesaid contacts and the prevention of the inclusion of certain provisions in a future agreement with the U.S. authorities.

- (d) On 29 June 2014, an appeal was submitted to the Supreme Court, sitting as the High Court of Justice, against the Supervisor of Banks and the Governor of the Bank of Israel, and against four companies from the IDB Group (Tomahawk, Genden Holdings, IDB Holdings, IDB Development). The banks, Leumi, Hapoalim, Mizrahi and Discount were attached as respondents. According to the appellants, they petitioned the Supervisor several times so that he would examine the conduct of the banking system *vis-à-vis* the IDB Group. However, they allege their application was not addressed, and accordingly, they are appealing for the grant of show cause orders that will instruct the Supervisor to explain why he will not reply to the merits of the appellants' petitions regarding the exercise of his authorities in all matters relating to the debt arrangements with the large business groups in the economy, particularly with the IDB Group, and why he will not conduct a comprehensive investigation into the conduct of the banking system in giving credit to the IDB Group, including giving collateral, guarantees, loan recycling, decisions of the Credit Committee, and the debt arrangements with the Group. The appellants further claimed that the Supervisor was obliged to draw systematic and personal conclusions from the said investigation, announce them to the public and act in accordance with his authority to remedy the deficiencies, including requiring the banks to collect the debts of the IDB Group in their entirety and remove those responsible for the deficiencies from their position.

D. Additional Matters

Leumi for the Community

Corporate Responsibility

In July 2014, the fifth corporate responsibility report of Leumi Group was published for 2013. Leumi's report was chosen by the media as being the best among the reports published by the banks in Israel.

Leumi for the residents of the South

As a part of Leumi's efforts to assist the community during the Operation Protective Edge, Leumi made designated donations to associations which were intended to help the residents of the South and soldiers. In addition, Leumi announced special programs for customers, branches of the South and suppliers whose employment was badly affected and took several measures with the aim of relieving its employees, reserve duty soldiers and residents of the South.

Leumi Tomorrow - The Centennial Fund for Endowing Israel's Future Generation

In September, a year of activity began in the educational programs supported by the "Leumi Tomorrow" Association. Around 20,000 youth from the geographical and social periphery, from all population sectors, began their participation in nine social projects.

Involvement of employees in the community

Leumi continues to encourage and support employees who volunteer within the community. The employees volunteer in the geographic and social periphery, particularly for children and youth through training and experiential enrichment activities and volunteering for varied populations such as Holocaust survivors, and families in economic difficulties, etc. In addition, they have recently commenced advanced programs. The activities are carried out in conjunction with social organizations, welfare departments and local authorities.

Young Entrepreneurs

Young Entrepreneurs is an international organization which operates in 102 countries and has been adopted by some of the largest companies in the world. In Israel, the organization has been adopted from the date of its foundation, some 20 years ago, by Bank Leumi. Each year, approximately 4,000 young people from all over Israel and from all sectors take part, which are incorporated in 200 groups.

In the Young Entrepreneurs Competition which was held in Israel, "Puzzle" Group from the "Gevanim" Middle School in Kadima-Zuran won first place. The group participated in a International Young Entrepreneurs competition which was held in Estonia.

Summary of Donations and Sponsorships

In the first three quarters of 2014, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 21 million, of which donations totaled some NIS 13 million.

Internal Auditor

Details regarding Internal Audit in the Group, including the professional standards by which it operates, the annual and multi-year work plans, and the considerations taken into account in formulating them, were included in the Annual Report for 2013.

The 2014 work program of the Internal Audit Division was submitted to the Audit Committee on 23 December 2013, and was approved in the Audit Committee on 26 December 2013. On 16 January 2014, it was submitted to the Board of Directors and approved in the Board of Directors on 19 January 2014.

The Internal Auditor's annual report for 2013 was submitted to the Audit Committee on 17 February 2014 and discussed in the Committee on 20 February 2014. On 6 March 2014, the report was submitted to the Board of Directors and discussed in the plenum on 30 March 2014.

The annual reports of the internal auditors of subsidiaries in Israel for 2013 were submitted to the Audit Committee on 13 March 2014 and were discussed in the Committee on 18 March 2014.

The annual reports of the internal auditors of overseas units for 2013 were submitted to the Audit Committee on 24 April 2014 and discussed in the Audit Committee on 30 April 2014.

The Internal Auditor's report for the first six months of 2014 was submitted to the Audit Committee on 17 August 2014 and was discussed in the Audit Committee on 26 August 2014.

Controls and Procedures

Controls and Procedures Regarding Disclosure in the Financial Statements

The directives of the Supervisor of Banks subject banking corporations to the requirements of Sections 302 and 404 of the SOX Act. With reference to these sections, the SEC and the Public Company Accounting Oversight Board determined provisions as to management's responsibility for determining and maintaining controls and procedures regarding disclosure and maintaining internal control over financial reporting and the external auditors' opinion with regard to the audit of internal control over financial reporting.

The Supervisor's directives prescribe that:

- Banking corporations shall apply the requirements of Sections 302 and 404 and also SEC directives that have been published thereunder.
- Proper internal control requires a control system in accordance with a defined and recognized framework, and the COSO (Committee of Sponsoring Organizations of the Treadway Commission) model meets the requirements and can be used to assess internal control.

The Bank routinely implements the directive in Leumi Group.

During 2014, the Bank is validating and updating significant control processes and effective examinations of the whole internal control system over financial reporting.

Assessment of controls and procedures with regard to disclosure

The Bank management, in conjunction with the President and CEO, the Head of the Economics and Finance Division, and the Chief Accounting Officer, at the end of the period covered in the report, estimated the effectiveness of the controls and procedures with regard to the Bank's disclosure. On the basis of this evaluation, the President and CEO of the Bank, the Head of the Economics and Finance Division, and the Chief Accounting Officer concluded that as of the end of this period, the controls and procedures with regard to the Bank's disclosure are effective in recording, processing, aggregating and reporting the information which the Bank is required to disclose in the quarterly financial report pursuant to the Public Reporting Directives of the Supervisor of Banks and at the date stipulated in these directives.

Changes in internal control

During the quarter ended 30 September 2014, there was no material change in the internal control of the Bank's financial reporting, which materially affected, or which is likely to materially affect the Bank's internal control of financial reporting.

Organizational Structure and Appointments

Appointments and retirements

Appointments:

Mr. Yoel Mintz, member of Bank management and Head of the Structured Finance and Real Estate Division, was appointed Head of the International Credit and Real Estate Division, with effect from 1 January 2014.

Mr. Hanan Friedman was appointed Head of the Legal Division, Chief Legal Counsel and member of Bank management, with effect from 1 September 2014. On 20 August 2014, following the receipt of approval from the Remuneration Committee, the Board of Directors approved the payment of a one-time signing-on bonus to Mr. Friedman, pursuant to the Bank's remuneration policy, which will be granted in his first year of office.

Mr. Shmuel Arbel was appointed Head of the Commercial Department, with effect from 1 January 2014.

Mr. Shaul Schneider was appointed Head of Private Banking, with effect from 1 February 2014.

Mr. Ze'ev Morag was appointed to the position of Head of Compliance and Enforcement and promoted to Executive Vice President, with effect from 1 March 2014.

Mr. Eli Katzav was appointed to the position of Chief Executive Officer of Bank Leumi UK with effect from 1 August 2014.

Retirements:

Mr. Gideon Altman, a member of Bank management, ceased to serve as Head of the Commercial Banking Division and retired on 31 August 2014, after 35 years employment with the Bank.

Ms. Nomi Sandhaus, a member of Bank management, ceased to serve as Chief Legal Counsel and as Head of the Legal Division, and will retire during 31 July 2015 after 33 years employment with the Bank.

Ms. Nitza Russo-Shtaubert ceased to serve as Head of Private Banking on 31 January 2014, and retired after 13 years employment with the Bank.

Mr. Yitzhak Eyal ceased to serve as the Chief Executive Officer of Leumi USA and retired in 2 September 2014, after 39 years of employment in the Leumi Group.

Mr. Aviram Cohen ceased to serve as Head of the Marketing, Advertising and Spokesperson's Department and retired on 21 August 2014, after nine years of employment with the Bank.

Ms. Meira Karni ceased to serve as Head of Compliance and Enforcement, and will retire on 30 December 2014, after 32 years employment with the Bank.

Mr. Malkiel Shahr ceased to serve as Head of Credit Risks, and will retire on 30 June 2015, after 42 years employment with the Bank

Mr. Shlomo Pergament ceased to serve as Deputy Head of Operations and Computing and retired on 6 November 2014, after 36 years employment with the Bank.

Mr. Larry Weiss ceased to serve as Chief Executive Officer of Bank Leumi UK, on 31 July 2014.

Organizational structure

During the third quarter, a change in organizational structure was announced, whereby it was decided that the Private Banking Department will be transferred to the responsibility of the Banking Department. The change will come into effect on 1 January 2015.

On 11 November 2014, the Board of Directors of the Bank and the Board of Directors of Leumi Finance Ltd. ("Leumi Finance") approved the merger of Leumi Finance, which is a wholly-owned and controlled subsidiary of the Bank, with and within the Bank, pursuant to the Eighth Part of the Companies Law, 1999. On execution of the merger, all of the assets and obligations of Leumi Finance, including debt certificates (debentures, subordinated notes and subordinated capital notes) issued by Leumi Finance, will be transferred to the Bank, Leumi Finance will cease to exist as a separate legal entity, will be dissolved without a liquidation and will be delisted from the records maintained by the Registrar of Companies. See Immediate Reports dated 11 November 2014 (Ref. No. 2014-01-192870).

Remuneration Policy for Key Employees who are not Office-Holders

On 8 April 2014, the Board of Directors, after receiving the approval and recommendation of the Remuneration Committee of the Board of Directors, approved, a remuneration policy which applies to "key employees" in the Bank who are not office-holders, pursuant to the provisions of and as required by Proper Conduct of Banking Business Management Regulation No. 301A of the Supervisor of Banks.

The aforesaid remuneration policy for "key employees" provides the framework for the remuneration of key employees, and includes, *inter alia*, consideration of the salary component, the related conditions, the terms of retirement and the annual bonus component. This policy was devised paying attention to the principles of the remuneration policy for office-holders in the Bank, *mutatis mutandis*.

Transition to the second generation with effect from 2014

Holders of personal contracts in the Bank (who are not members of management), who had a first-generation employee agreement with the Bank, transferred, with effect from 2014, to the employment terms of a second-generation agreement, as follows: their rights to a non-contributory pension from the Bank pursuant to their rights as first-generation will be only in respect of the frozen salary level (the salary at the date of the transfer from first-generation to second-generation plus linkage to the consumer price index) with the rights with regard to the salary increment in excess of the frozen salary level being according to the second-generation conditions (provisions for provident fund without the rights to non-contributory pension from the Bank).

Board of Directors

During the first nine months of 2014 and up until the date of publication of this Report, the following changes took place in the composition of the Board of Directors:

In accordance with the Bank's regulations, at the Annual General Meeting of the Bank, Ms. Zipporah Samet, Ms. Miri Katz, Mr. David Avner and Mr. Amos Sapir resigned.

On 25 July 2014, Ms. Miri Katz, Ms. Zipporah Samet and Mr. David Avner terminated their term of office as directors in the Bank, and on 31 October 2014, Mr. Amos Sapir terminated his term of office as director in the Bank.

On 6 August 2014, the Annual General Meeting of the Bank was held, with the following subjects on appearing on the agenda, *inter alia*: (1) the election of two directors for a term of office on the Board of Directors of the Bank; (2) the election of one external director pursuant to Regulation 301 of the Supervisor of Banks; and (3) the election of one external director pursuant to the Companies Law.

At the Annual General Meeting, the following serving directors were re-elected, Ms. Zipporah Samet, as external director pursuant to the Companies Law for a period of three years, and Mr. David Avner. In addition, Professor Haim Levy, as external director pursuant to Regulation 301 of the Supervisor of Banks, and Dr. Samer Haj Yahi, were elected as directors.

The Board of Directors currently consists of 15 directors.

For further information, see "Annual General Meeting and Election of Directors" in the chapter "Control in the Bank" above.

During the period of January to September 2014, the Board of Directors held 31 plenary meetings and 88 committee meetings.

At the meeting of the Board of Directors held on 23 November 2014, it was resolved to approve and publish the Group's condensed unaudited consolidated financial statements as of 30 September 2014 and for the period ended on that date.

The Bank's Board of Directors expresses its appreciation and gratitude to employees and managers of the Bank and of Group companies in Israel and overseas for their dedicated work and their contribution to the advancement of the Group's business.

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

23 November 2014

Rates of Income and Expenses^a

Exhibit A

Part A – Average balances and interest rates - assets

| | For the three months ended 30 September | | | | | |
|---|---|--------------------|-------------------|---------------------------|--------------------|-------------------|
| | 2014 | | | 2013 | | |
| | Average balance (b) | Interest income | Rate of income | Average balance (b) | Interest income | Rate of income |
| | NIS millions | | % | NIS millions | | % |
| <u>Income-bearing assets</u> | | | | | | |
| Credit to the public (c) | | | | | | |
| In Israel | 216,927 | 2,184 | 4.09 | 209,406 | 2,822 | 5.50 |
| Outside Israel | 22,043 | 230 | 4.24 | 25,448 | 243 | 3.87 |
| Total (i) | 238,970 | 2,414 | 4.10 | 234,854 | 3,065 | 5.32 |
| Credit to the Government | | | | | | |
| In Israel | 448 | 5 | 4.54 | 488 | 8 | 6.72 |
| Outside Israel | 38 | - | - | 13 | - | - |
| Total | 486 | 5 | 4.18 | 501 | 8 | 6.54 |
| Deposits in banks | | | | | | |
| In Israel | 8,378 | 17 | 0.81 | 7,350 | 26 | 1.42 |
| Outside Israel | 1,372 | 16 | 4.75 | 2,211 | 1 | 0.18 |
| Total | 9,750 | 33 | 1.36 | 9,561 | 27 | 1.13 |
| Deposits in central banks | | | | | | |
| In Israel | 27,626 | 34 | 0.49 | 17,394 | 55 | 1.27 |
| Outside Israel | 5,251 | 3 | 0.23 | 4,068 | 1 | 0.10 |
| Total | 32,877 | 37 | 0.45 | 21,462 | 56 | 1.05 |
| Securities borrowed or purchased under resale agreements | | | | | | |
| In Israel | 1,827 | 3 | 0.66 | 1,565 | 6 | 1.54 |
| Outside Israel | - | - | - | - | - | - |
| Total | 1,827 | 3 | 0.66 | 1,565 | 6 | 1.54 |
| Bonds available for sale (d) | | | | | | |
| In Israel | 28,900 | 125 | 1.74 | 44,422 | 217 | 1.97 |
| Outside Israel | 4,442 | 15 | 1.36 | 4,040 | 12 | 1.19 |
| Total | 33,342 | 140 | 1.69 | 48,462 | 229 | 1.90 |
| Bonds for trading (d) | | | | | | |
| In Israel | 10,018 | 32 | 1.28 | 9,663 | 74 | 3.10 |
| Outside Israel | 179 | 1 | 2.25 | 131 | 1 | 3.09 |
| Total | 10,197 | 33 | 1.30 | 9,794 | 75 | 3.10 |
| Total interest-bearing assets | 327,449 | 2,665 | 3.30 | 326,199 | 3,466 | 4.32 |
| Receivables for non-interest bearing credit cards | 7,566 | | | 6,937 | | |
| Other non-interest bearing assets (e) | 33,789 | | | 31,630 | | |
| Total assets | 368,804 | 2,665 | | 364,766 | 3,466 | |
| Total income-bearing assets attributable to activity outside Israel | 33,325 | 265 | 3.22 | 35,911 | 258 | 2.90 |

See notes on page 130.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Part B – Average balances and interest rates – liabilities and equity

| | For the three months ended 30 September | | | | | |
|--|---|---------------------|--------------------|---------------------------|---------------------|--------------------|
| | 2014 | | | 2013 | | |
| | Average balance (b) | Interest expense | Rate of expense | Average balance (b) | Interest expense | Rate of expense |
| | (NIS millions) | | % | (NIS millions) | | % |
| Interest-bearing liabilities | | | | | | |
| Deposits of the public | | | | | | |
| In Israel | 204,055 | (410) | (0.81) | 209,498 | (903) | (1.74) |
| On demand | 33,420 | (11) | (0.13) | 30,876 (j) | (30) | (0.39) (j) |
| Fixed term | 170,635 | (399) | (0.94) | 178,622 | (873) | (1.97) |
| Outside Israel | 15,931 | (35) | (0.88) | 16,920 (j) | (43) | (1.02) (j) |
| On demand | 2,606 | (3) | (0.46) | 2,449 (j) | (5) | (0.82) (j) |
| Fixed term | 13,325 | (32) | (0.96) | 14,471 | (38) | (1.05) |
| Total | 219,986 | (445) | (0.81) | 226,418 | (946) | (1.68) |
| Deposits of the Government | | | | | | |
| In Israel | 126 | (2) | (6.50) | 194 | (2) | (4.19) |
| Outside Israel | 241 | - | - | 259 | - | - |
| Total | 367 | (2) | (2.20) | 453 | (2) | (1.78) |
| Deposits from central banks | | | | | | |
| In Israel | 119 | - | - | - | - | - |
| Outside Israel | - | - | - | - | - | - |
| Total | 119 | - | - | - | - | - |
| Deposits from banks | | | | | | |
| In Israel | 5,058 | (5) | (0.40) | 2,951 | (10) | (1.36) |
| Outside Israel | 65 | - | - | 199 | - | - |
| Total | 5,123 | (5) | (0.39) | 3,150 | (10) | (1.28) |
| Securities lent or sold under resale agreements | | | | | | |
| In Israel | 1,012 | (2) | (0.79) | 750 | (4) | (2.15) |
| Outside Israel | - | - | - | - | - | - |
| Total | 1,012 | (2) | (0.79) | 750 | (4) | (2.15) |
| Bonds | | | | | | |
| In Israel | 24,251 | (312) | (5.25) | 26,880 | (558) | (8.57) |
| Outside Israel | 10 | - | - | 10 | - | - |
| Total | 24,261 | (312) | (5.24) | 26,890 | (558) | (8.56) |
| Total interest-bearing liabilities | 250,868 | (766) | (1.23) | 257,661 | (1,520) | (2.38) |
| Non-interest bearing deposits of the public | 58,930 | | | 50,055 (j) | | |
| Payables for non-interest bearing credit cards | 8,165 | | | 7,516 | | |
| Other non-interest bearing liabilities (f) | 23,387 | | | 23,784 | | |
| Total liabilities | 341,350 | (766) | | 339,016 | (1,520) | |
| Total capital means | 27,455 | | | 25,750 | | |
| Total liabilities and capital means | 368,805 | (766) | | 364,766 | (1,520) | |
| Interest margin | | 1,899 | 2.07 | | 1,946 | 1.94 (j) |
| Net yield (g) on income-bearing assets | | | | | | |
| In Israel | 294,124 | 1,669 | 2.29 | 290,288 | 1,731 | 2.41 |
| Outside Israel | 33,325 | 230 | 2.79 | 35,911 | 215 | 2.42 |
| Total | 327,449 | 1,899 | 2.34 | 326,199 | 1,946 | 2.41 |
| Total income-bearing liabilities attributable to activity outside Israel | 16,247 | (35) | (0.86) | 17,388 | (43) | (0.99) |

See notes on page 130.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Part A – Average balances and interest rates – assets (cont'd)

| | For the nine months ended 30 September | | | | | |
|---|--|--------------------|-------------------|------------------------|--------------------|-------------------|
| | 2014 | | | 2013 | | |
| | Average balance (b) | Interest income | Rate of income | Average balance (b) | Interest income | Rate of income |
| | (NIS millions) | | % | (NIS millions) | | % |
| <u>Income-bearing assets</u> | | | | | | |
| Credit to the public (c) | | | | | | |
| In Israel | 214,619 | 6,214 | 3.88 | 209,556 | 7,636 | 4.89 |
| Outside Israel | 23,045 | 681 | 3.96 | 25,909 | 730 | 3.77 |
| Total (i) | 237,664 | 6,895 | 3.89 | 235,465 | 8,366 | 4.77 |
| Credit to the Government | | | | | | |
| In Israel | 460 | 14 | 4.08 | 442 | 19 | 5.77 |
| Outside Israel | 41 | - | - | 15 | - | - |
| Total | 501 | 14 | 3.74 | 457 | 19 | 5.58 |
| Deposits in banks | | | | | | |
| In Israel | 7,179 | 45 | 0.84 | 7,477 | 55 | 0.98 |
| Outside Israel | 1,543 | 22 | 1.91 | 2,457 | 9 | 0.49 |
| Total | 8,722 | 67 | 1.03 | 9,934 | 64 | 0.86 |
| Deposits in central banks | | | | | | |
| In Israel | 22,649 | 116 | 0.68 | 22,855 | 266 | 1.55 |
| Outside Israel | 5,669 | 8 | 0.19 | 4,427 | 4 | 0.12 |
| Total | 28,318 | 124 | 0.58 | 27,282 | 270 | 1.32 |
| Securities borrowed or purchased under resale agreements | | | | | | |
| In Israel | 1,566 | 10 | 0.85 | 1,299 | 16 | 1.65 |
| Outside Israel | - | - | - | - | - | - |
| Total | 1,566 | 10 | 0.85 | 1,299 | 16 | 1.65 |
| Bonds available for sale (d) | | | | | | |
| In Israel | 37,537 | 442 | 1.57 | 40,033 | 577 | 1.93 |
| Outside Israel | 4,282 | 39 | 1.22 | 3,909 | 31 | 1.06 |
| Total | 41,819 | 481 | 1.54 | 43,942 | 608 | 1.85 |
| Bonds for trading (d) | | | | | | |
| In Israel | 9,966 | 86 | 1.15 | 9,932 | 172 | 2.32 |
| Outside Israel | 130 | 1 | 1.03 | 388 | 5 | 1.72 |
| Total | 10,096 | 87 | 1.15 | 10,320 | 177 | 2.29 |
| Total interest-bearing assets | 328,686 | 7,678 | 3.13 | 328,699 | 9,520 | 3.88 |
| Receivables for non-interest bearing credit cards | 7,232 | | | 6,750 | | |
| Other non-interest bearing assets (e) | 33,107 | | | 30,219 | | |
| Total assets | 369,025 | 7,678 | | 365,668 | 9,520 | |
| Total income-bearing assets attributable to activity outside Israel | 34,710 | 751 | 2.90 | 37,105 | 779 | 2.81 |

See notes on page 130.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Part B – Average balances and interest rates – liabilities and equity (cont'd)

| | For the nine months ended 30 September | | | | | |
|--|--|---------------------|--------------------|------------------------|----------------------|---------------------|
| | 2014 | | | 2013 | | |
| | Average balance (b) | Interest expense | Rate of expense | Average balance (b) | Interest expenses | Rate of expenses |
| | (NIS millions) | | % | (NIS millions) | | % |
| <u>Interest-bearing liabilities</u> | | | | | | |
| Deposits of the public | | | | | | |
| In Israel | 206,641 | (1,185) | (0.77) | 212,609 | (2,460) | (1.55) |
| On demand | 33,857 | (56) | (0.22) | 29,106 | (101) | (0.46) |
| Fixed term | 172,784 | (1,129) | (0.87) | 183,503 | (2,359) | (1.72) |
| Outside Israel | 16,446 | (104) | (0.84) | 17,723 (j) | (146) | (1.10) (j) |
| On demand | 2,683 | (7) | (0.35) | 2,568 (j) | (9) | (0.47) (j) |
| Fixed term | 13,763 | (97) | (0.94) | 15,155 | (137) | (1.21) |
| Total | 223,087 | (1,289) | (0.77) | 230,332 | (2,606) | (1.51) |
| Deposits of the Government | | | | | | |
| In Israel | 142 | (5) | (4.72) | 230 | (7) | (4.08) |
| Outside Israel | 241 | - | - | 227 | - | - |
| Total | 383 | (5) | (1.74) | 457 | (7) | (2.05) |
| Deposits from central banks | | | | | | |
| In Israel | 79 | - | - | - | - | - |
| Outside Israel | - | - | - | - | - | - |
| Total | 79 | - | - | - | - | - |
| Deposits from banks | | | | | | |
| In Israel | 4,162 | (22) | (0.71) | 3,163 | (29) | (1.22) |
| Outside Israel | 102 | (1) | (1.31) | 229 | (1) | (0.58) |
| Total | 4,264 | (23) | (0.72) | 3,392 | (30) | (1.18) |
| Securities lent or sold under resale agreements | | | | | | |
| In Israel | 790 | (7) | (1.18) | 736 | (11) | (2.00) |
| Outside Israel | - | - | - | 37 | (1) | (3.62) |
| Total | 790 | (7) | (1.18) | 773 | (12) | (2.08) |
| Bonds | | | | | | |
| In Israel | 24,721 | (793) | (4.30) | 27,319 | (1,318) | (6.48) |
| Outside Israel | 10 | - | - | 10 | - | - |
| Total | 24,731 | (793) | (4.30) | 27,329 | (1,318) | (6.48) |
| Total interest-bearing liabilities | 253,334 | (2,117) | (1.12) | 262,283 | (3,973) | (2.02) |
| Non-interest bearing deposits of the public | 56,193 | | | 47,111 (j) | | |
| Payables for non-interest bearing credit cards | 7,845 | | | 7,282 | | |
| Other non-interest bearing liabilities (f) | 24,498 | | | 23,558 | | |
| Total liabilities | 341,870 | (2,117) | | 340,234 | (3,973) | |
| Total capital means | 27,155 | | | 25,434 | | |
| Total liabilities and capital means | 369,025 | (2,117) | | 365,668 | (3,973) | |
| Interest margin | | 5,561 | 2.01 | | 5,547 | 1.86 (j) |
| <u>Net yield (g) on income-bearing assets</u> | | | | | | |
| In Israel | 293,976 | 4,915 | 2.24 | 291,594 | 4,916 | 2.25 |
| Outside Israel | 34,710 | 646 | 2.49 | 37,105 | 631 | 2.27 |
| Total | 328,686 | 5,561 | 2.26 | 328,699 | 5,547 | 2.26 |
| Total income-bearing liabilities attributable to activity outside Israel | 16,799 | (105) | (0.83) | 18,226 | (148) | (1.08) |

See notes on page 130.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Part C – Average balances and interest rates – additional information on interest-bearing assets and liabilities attributed to activity in Israel

| | For the three months ended 30 September | | | | | |
|--------------------------------------|---|---------------------------------|--------------------------------|---------------------------|----------------------------------|---------------------------------|
| | 2014 | | | 2013 | | |
| | Average balance (b) | Interest income (expense) | Rate of income (expense) | Average balance (b) | Interest income (expense) | Rate of income (expense) |
| | (NIS millions) | | % | (NIS millions) | | % |
| Index-linked Israeli currency | | | | | | |
| Total interest-bearing assets | 56,324 | 645 | 4.66 | 58,557 | 1,267 | 8.94 |
| Total interest-bearing liabilities | 47,383 | (487) | (4.17) | 49,524 | (1,026) | (8.55) |
| Interest margin | 8,941 | 158 | 0.48 | 9,033 | 241 | 0.39 |
| Unlinked Israeli currency | | | | | | |
| Total interest-bearing assets | 198,867 | 1,522 | 3.10 | 188,801 | 1,706 | 3.66 |
| Total interest-bearing liabilities | 149,747 | (206) | (0.55) | 146,048 (j) | (395) | (1.09)(j) |
| Interest margin | 49,120 | 1,316 | 2.55 | 42,753 | 1,311 | 2.58 |
| Foreign currency | | | | | | |
| Total interest-bearing assets | 38,933 | 234 | 2.43 | 42,930 | 235 | 2.21 |
| Total interest-bearing liabilities | 37,491 | (38) | (0.41) | 44,701 (j) | (56) | (0.50) |
| Interest margin | 1,442 | 196 | 2.02 | (1,771) | 179 | 1.71 |
| Total activity in Israel | | | | | | |
| Total interest-bearing assets | 294,124 | 2,400 | 3.30 | 290,288 | 3,208 | 4.49 |
| Total interest-bearing liabilities | 234,621 | (731) | (1.25) | 240,273 | (1,477) | (2.48)(j) |
| Interest margin | 59,503 | 1,669 | 2.05 | 50,015 | 1,731 | 2.01 |
| | For the nine months ended 30 September | | | | | |
| | 2014 | | | 2013 | | |
| | Average balance (b) | Interest income (expense) | Rate of income (expense) | Average balance (b) | Interest income (expenses) | Rate of income (expenses) |
| | (NIS millions) | | % | (NIS millions) | | % |
| Index-linked Israeli currency | | | | | | |
| Total interest-bearing assets | 56,816 | 1,540 | 3.63 | 59,632 | 2,761 | 6.22 |
| Total interest-bearing liabilities | 48,533 | (1,143) | (3.15) | 49,639 | (2,184) | (5.91) |
| Interest margin | 8,283 | 397 | 0.48 | 9,993 | 577 | 0.31 |
| Unlinked Israeli currency | | | | | | |
| Total interest-bearing assets | 198,666 | 4,728 | 3.19 | 187,942 | 5,284 | 3.77 |
| Total interest-bearing liabilities | 149,329 | (756) | (0.68) | 145,378 (j) | (1,428) | (1.31)(j) |
| Interest margin | 49,337 | 3,972 | 2.51 | 42,564 | 3,856 | 2.45 |
| Foreign currency | | | | | | |
| Total interest-bearing assets | 38,494 | 659 | 2.29 | 44,020 | 696 | 2.11 |
| Total interest-bearing liabilities | 38,673 | (113) | (0.39) | 49,040 (j) | (213) | (0.58)(j) |
| Interest margin | (179) | 546 | 1.90 | (5,020) | 483 | 1.53 |
| Total activity in Israel | | | | | | |
| Total interest-bearing assets | 293,976 | 6,927 | 3.15 | 291,594 | 8,741 | 4.02 |
| Total interest-bearing liabilities | 236,535 | (2,012) | (1.14) | 244,057 (j) | (3,825) | (2.10)(j) |
| Interest margin | 57,441 | 4,915 | 2.02 | 47,537 | 4,916 | 1.92 |

See notes on page 130.

Rates of Income and Expenses^a (cont'd)

Exhibit A

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

| | 2014 compared to 2013 | | | 2014 compared to 2013 | | |
|-------------------------------------|--|----------------|----------------|---|--------------|--------------|
| | For the nine months ended 30 September | | | For the three months ended 30 September | | |
| | Increase (decrease) due to | | Net change | Increase (decrease) due to | | Net change |
| | change (h) | | | change (h) | | |
| | Amount | Price | | Amount | Price | |
| (NIS millions) | | | | | | |
| Interest-bearing assets | | | | | | |
| Credit to the public | | | | | | |
| In Israel | 147 | (1,569) | (1,422) | 76 | (714) | (638) |
| Outside Israel | (85) | 36 | (49) | (36) | 23 | (13) |
| Total | 62 | (1,533) | (1,471) | 40 | (691) | (651) |
| Other interest-bearing assets | | | | | | |
| In Israel | (24) | (368) | (392) | (10) | (160) | (170) |
| Outside Israel | 3 | 18 | 21 | 3 | 17 | 20 |
| Total | (21) | (350) | (371) | (7) | (143) | (150) |
| Total interest income | 41 | (1,883) | (1,842) | 33 | (834) | (801) |
| Interest-bearing liabilities | | | | | | |
| Deposits of the public | | | | | | |
| In Israel | (34) | (1,241) | (1,275) | (11) | (482) | (493) |
| Outside Israel | (9) | (33) | (42) | (2) | (6) | (8) |
| Total | (43) | (1,274) | (1,317) | (13) | (488) | (501) |
| Other interest-bearing liabilities | | | | | | |
| In Israel | (43) | (495) | (538) | (2) | (251) | (253) |
| Outside Israel | - | (1) | (1) | - | - | - |
| Total | (43) | (496) | (539) | (2) | (251) | (253) |
| Total interest expenses | (86) | (1,770) | (1,856) | (15) | (739) | (754) |

See notes on page 130.

Rates of Income and Expenses^a (cont'd)

Exhibit A

Notes:

- (a) The data in these tables are shown after the effect of hedging derivative instruments.
- (b) Based on monthly opening balances, except for the unlinked Israeli currency segment where the average balance is calculated on daily figures, and before deduction of the average balance of credit loss allowances, overseas subsidiaries on the basis of quarterly opening balances.
- (c) Before deduction of the average balance of credit loss allowances. Including impaired debts not accumulating interest income.
- (d) From the average balance of assets there has been deducted (added) the average balance of unrealized gains (losses) on adjustment to fair value of debentures held for trading and available for sale, in the various segments, for the three month and nine month period, an amount of NIS 484 million and NIS 452 million (30 September 2013 – NIS 261 million and NIS 495 million respectively).
- (e) Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets, and after deducting allowance for credit losses.
- (f) Including book balances of derivative instruments, and non-monetary liabilities.
- (g) Net yield – net interest income divided by total interest-bearing assets.
- (h) The calculation of the allocation between a change in amount and a change in price is made as follows: change in price - the change in price is multiplied by the book balance for the corresponding period. Change in amount – the change in book balance is multiplied by the price for the current period.
- (i) Commissions for the three month and nine month period, an amount of NIS 97 million and NIS 351 million have been included in interest from credit to the public (30 September 2013 – NIS 68 million and NIS 205 million respectively).
- (j) Reclassified.

Exposure to Interest Rate Fluctuations

Exhibit B

| | 30 September 2014 | | | | | | | | | 31 December 2013 | | | | | 30 September 2013 | | | | |
|---|---------------------------------|---------------------------|--------------------------------|--------------------------|---------------------------|----------------------|---------------------------|-------------------------|-------------------------|---------------------|-------------------------------|-----------------|---------------------|-------------------------------|-------------------|---------------------|-------------------------------|--------------|--|
| | On demand up to one month | One to three months | Three months to one year | One to three years | Three to five years | Five to ten years | Ten to twenty years | Over twenty years | No repayment date | Total fair value | Internal rate of return | Duration (b) | Total fair value | Internal rate of return | Duration (b) | Total fair value | Internal rate of return | Duration (b) | |
| | (NIS millions) | | | | | | | | | | (%) | (Years) | | (%) | (Years) | | (%) | (Years) | |
| Israeli currency - unlinked | | | | | | | | | | | | | | | | | | | |
| Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | | |
| Financial assets (a) | 170,321 | 8,565 | 14,417 | 7,207 | 5,420 | 4,305 | 1,567 | 160 | 191 | 212,153 | 2.28 | 0.57 | 211,239 | 3.51 | 0.59 | 204,649 | 3.52 | 0.61 | |
| Derivative financial instruments (excluding options) | 71,724 | 102,510 | 54,209 | 46,773 | 25,677 | 27,274 | 507 | - | - | 328,674 | - | 1.38 | 303,155 | - | 1.63 | 302,024 | - | 1.64 | |
| Options (in terms of basis asset) (d) | 3,914 | 1,690 | 2,677 | 141 | 1,166 | 730 | - | - | - | 10,318 | - | - | 8,494 | - | - | 8,546 | - | - | |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Total fair value | 245,959 | 112,765 | 71,303 | 54,121 | 32,263 | 32,309 | 2,074 | 160 | 191 | 551,145 | 2.28 | 1.04 | 522,888 | 3.51 | 1.19 | 515,219 | 3.52 | 1.20 | |
| Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | | |
| Financial liabilities (a) | 154,147 | 8,118 | 4,919 | 6,156 | 3,218 | 479 | 84 | - | 8 | 177,129 | 0.71 | 0.27 | 169,974 | 0.93 | 0.23 | 162,205 | 1.82 | 0.23 | |
| Derivative financial instruments (excluding options) | 71,017 | 106,739 | 68,805 | 46,750 | 24,436 | 26,912 | 485 | 27 | - | 345,171 | - | 1.33 | 328,510 | - | 1.56 | 328,638 | - | 1.56 | |
| Options (in terms of basis asset) (d) | 4,289 | 2,216 | 2,812 | 70 | 4 | - | - | - | - | 9,391 | - | - | 5,868 | - | - | 6,180 | - | - | |
| Off-balance sheet financial instruments | - | - | 21 | - | - | - | - | - | - | 21 | - | 0.50 | 27 | - | 0.50 | 26 | - | 0.50 | |
| Total fair value | 229,453 | 117,073 | 76,557 | 52,976 | 27,658 | 27,391 | 569 | 27 | 8 | 531,712 | 0.71 | 0.95 | 504,379 | 0.93 | 1.10 | 497,049 | 1.82 | 1.11 | |
| Financial instruments, net | | | | | | | | | | | | | | | | | | | |
| Exposure to interest rate fluctuations | 16,506 | (4,308) | (5,254) | 1,145 | 4,605 | 4,918 | 1,505 | 133 | | | | | | | | | | | |
| Accumulated exposure in the sector | 16,506 | 12,198 | 6,944 | 8,089 | 12,694 | 17,612 | 19,117 | 19,250 | | | | | | | | | | | |
| Israeli currency – linked | | | | | | | | | | | | | | | | | | | |
| Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | | |
| Financial assets (a) | 2,184 | 3,570 | 13,592 | 18,031 | 12,712 | 6,458 | 1,542 | 186 | 10 | 58,285 | 1.94 | 2.88 | 59,960 | 2.03 | 2.93 | 61,413 | 2.13 | 3.01 | |
| Derivative financial instruments (excluding options) | 89 | 87 | 1,559 | 1,504 | 1,498 | 1,457 | 46 | - | - | 6,240 | - | 3.37 | 7,098 | - | 3.03 | 7,226 | - | 2.54 | |
| Options (in terms of basis asset) (d) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Total fair value | 2,273 | 3,657 | 15,151 | 19,535 | 14,210 | 7,915 | 1,588 | 186 | 10 | 64,525 | 1.94 | 2.93 | 67,058 | 2.03 | 2.94 | 68,639 | 2.13 | 2.97 | |
| Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | | |
| Financial liabilities (a) | 1,630 | 3,555 | 10,667 | 16,433 | 7,988 | 10,447 | 888 | 319 | - | 51,927 | 0.88 | 3.08 | 53,425 | 1.27 | 3.36 | 53,035 | 1.29 | 3.41 | |
| Derivative financial instruments (excluding options) | 865 | 985 | 2,291 | 1,681 | 1,328 | 1,342 | 168 | - | - | 8,660 | - | 2.74 | 9,744 | - | 2.47 | 11,204 | - | 1.97 | |
| Options (in terms of basis asset) (d) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Off-balance sheet financial instruments | - | - | 119 | - | - | - | - | - | - | 119 | - | - | 100 | - | - | 97 | - | - | |
| Total fair value | 2,495 | 4,540 | 13,077 | 18,114 | 9,316 | 11,789 | 1,056 | 319 | - | 60,706 | 0.88 | 3.03 | 63,269 | 1.27 | 3.21 | 64,336 | 1.29 | 3.15 | |
| Financial instruments, net | | | | | | | | | | | | | | | | | | | |
| Exposure to interest rate fluctuations | (222) | (883) | 2,074 | 1,421 | 4,894 | (3,874) | 532 | (133) | | | | | | | | | | | |
| Accumulated exposure in the sector | (222) | (1,105) | 969 | 2,390 | 7,284 | 3,410 | 3,942 | 3,809 | | | | | | | | | | | |

See notes on page 133.

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

| | 30 September 2014 | | | | | | | | | 31 December 2013 | | | | 30 September 2013 | | | | |
|---|---------------------------------|---------------------------|--------------------------------|--------------------------|---------------------------|----------------------|---------------------------|-------------------------|-------------------------|---------------------|-------------------------------|-----------------|---------------------|-------------------------------|--------------|---------------------|-------------------------------|--------------|
| | On demand up to one month | One to three months | Three months to one year | One to three years | Three to five years | Five to ten years | Ten to twenty years | Over twenty years | No repayment date | Total fair value | Internal rate of return | Duration (b) | Total fair value | Internal rate of return | Duration (b) | Total fair value | Internal rate of return | Duration (b) |
| | (NIS millions) | | | | | | | | | | (%) | (Years) | | (%) | (Years) | | (%) | (Years) |
| Foreign currency and foreign currency linked | | | | | | | | | | | | | | | | | | |
| Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | |
| Financial assets (a) | 46,301 | 10,859 | 5,713 | 7,372 | 4,667 | 4,966 | 278 | 168 | 199 | 80,523 | 2.32 | 0.97 | 77,800 | 2.40 | 0.99 | 77,227 | 2.41 | 0.98 |
| Derivative financial instruments (excluding options) | 62,362 | 75,502 | 56,079 | 12,913 | 7,963 | 12,071 | 474 | 52 | 160 | 227,576 | - | 0.92 | 168,127 | - | 0.87 | 159,232 | - | 0.93 |
| Options (in terms of basis asset) (d) | 1,259 | 3,575 | 7,693 | 4,556 | 617 | 649 | 161 | - | - | 18,510 | - | - | 13,784 | - | - | 8,530 | - | - |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total fair value | 109,922 | 89,936 | 69,485 | 24,841 | 13,247 | 17,686 | 913 | 220 | 359 | 326,609 | 2.32 | 0.88 | 259,711 | 2.40 | 0.86 | 244,989 | 2.41 | 0.91 |
| Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | |
| Financial liabilities (a) | 70,770 | 11,519 | 14,433 | 3,168 | 694 | 488 | 51 | 1 | 11 | 101,135 | 1.44 | 0.28 | 104,920 | 0.86 | 0.27 | 106,318 | 0.87 | 0.28 |
| Derivative financial instruments (excluding options) | 58,881 | 71,767 | 36,926 | 17,093 | 8,964 | 14,571 | 542 | 129 | 160 | 209,033 | - | 1.09 | 140,853 | - | 1.17 | 129,901 | - | 1.19 |
| Options (in terms of basis asset) (d) | 1,426 | 1,808 | 7,602 | 4,618 | 1,649 | 1,296 | 179 | - | - | 18,578 | - | - | 15,769 | - | - | 10,663 | - | - |
| Off-balance sheet financial instruments | - | - | 13 | - | - | - | - | - | - | 13 | - | 0.50 | 14 | - | 0.50 | 14 | - | 0.50 |
| Total fair value | 131,077 | 85,094 | 58,974 | 24,879 | 11,307 | 16,355 | 772 | 130 | 171 | 328,759 | 1.44 | 0.78 | 261,556 | 0.86 | 0.74 | 246,896 | 0.87 | 0.74 |
| Financial instruments, net | | | | | | | | | | | | | | | | | | |
| Exposure to interest rate fluctuations | (21,155) | 4,842 | 10,511 | (38) | 1,940 | 1,331 | 141 | 90 | | | | | | | | | | |
| Accumulated exposure in the sector | (21,155) | (16,313) | (5,802) | (5,840) | (3,900) | (2,569) | (2,428) | (2,338) | | | | | | | | | | |
| Total exposure to interest rate fluctuations | | | | | | | | | | | | | | | | | | |
| Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | |
| Financial assets (a) (c) | 218,806 | 22,994 | 33,722 | 32,610 | 22,799 | 15,729 | 3,387 | 514 | 4,680 | 355,241 | 2.17 | 1.04 | 353,432 | 2.62 | 1.08 | 346,903 | 2.65 | 1.12 |
| Derivative financial instruments (excluding options) | 134,175 | 178,099 | 111,847 | 61,190 | 35,138 | 40,802 | 1,027 | 52 | 971 | 563,301 | - | 1.22 | 479,943 | - | 1.39 | 468,896 | - | 1.41 |
| Options (in terms of basis asset) (d) | 5,173 | 5,265 | 10,370 | 4,697 | 1,783 | 1,379 | 161 | - | - | 28,828 | - | - | 22,294 | - | - | 17,076 | - | - |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total fair value | 358,154 | 206,358 | 155,939 | 98,497 | 59,720 | 57,910 | 4,575 | 566 | 5,651 | 947,370 | 2.17 | 1.12 | 855,669 | 2.62 | 1.23 | 832,875 | 2.65 | 1.26 |
| Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments | | | | | | | | | | | | | | | | | | |
| Financial liabilities (a) (c) | 226,547 | 23,192 | 30,019 | 25,757 | 11,900 | 11,414 | 1,023 | 320 | 294 | 330,466 | 0.91 | 0.72 | 328,960 | 1.46 | 0.75 | 321,970 | 1.39 | 0.77 |
| Derivative financial instruments (excluding options) | 130,763 | 179,491 | 108,022 | 65,524 | 34,728 | 42,825 | 1,195 | 156 | 931 | 563,635 | - | 1.26 | 481,033 | - | 1.47 | 470,117 | - | 1.47 |
| Options (in terms of basis asset) (d) | 5,715 | 4,024 | 10,414 | 4,688 | 1,653 | 1,296 | 179 | - | - | 27,969 | - | - | 21,637 | - | - | 16,967 | - | - |
| Off-balance sheet financial instruments | - | - | 153 | - | - | - | - | - | 154 | 307 | - | 0.05 | 289 | - | 0.09 | 279 | - | 0.08 |
| Total fair value | 363,025 | 206,707 | 148,608 | 95,969 | 48,281 | 55,535 | 2,397 | 476 | 1,379 | 922,377 | 0.91 | 1.03 | 831,919 | 1.46 | 1.14 | 809,333 | 1.39 | 1.16 |
| Financial instruments, net | | | | | | | | | | | | | | | | | | |
| Exposure to interest rate fluctuations | (4,871) | (349) | 7,331 | 2,528 | 11,439 | 2,375 | 2,178 | 90 | | | | | | | | | | |
| Accumulated exposure in the sector | (4,871) | (5,220) | 2,111 | 4,639 | 16,078 | 18,453 | 20,631 | 20,721 | | | | | | | | | | |

See notes on next page.

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

Notes:

- (a) Excluding book balances of derivative financial instruments, fair value of off-balance sheet financial instruments, and fair value of hybrid financial instruments. The figures in the "No repayment date" column are the non-discounted book balances, including overdue balances in the amount of NIS 398 million.
- (b) Weighted average as per fair value of effective duration.
- (c) Including non-monetary assets shown in "No repayment date" column.
- (d) Duration less than 0.05 years.

General comments:

- (a) In this table, the data by periods shows the present value of future cash flows, discounted at the internal rate of return used for discounting them to the fair value included in respect of the financial instrument, in consistency with the assumptions used to calculate the fair value of the financial instrument. For further details regarding the assumptions used in the calculation of the fair value of the financial instruments, see Note 18D in the Annual Financial Report.
- (b) The internal rate of return is the interest rate for discounting the cash flows expected from a financial instrument to the fair value included in respect of it.
- (c) The effective duration of a group of financial instruments constitutes an approximation of the percentage change in the fair value of the group of financial instruments that would be caused as a result of a small change (an increase of 0.1%) in the internal rate of return of each of the financial instruments.
- (d) The effect of hedging transactions is included in total assets or total liabilities, as applicable.
- (e) In calculating the duration of assets and liabilities in the CPI-linked segment an estimate was taken into account of early redemptions and withdrawals at exit points in savings plans, in accordance with a model estimating expected early redemptions based on the behavior of savers. The duration of total assets according to the original cash flow of the savings plans is higher and reaches 3.40 years, the duration of total liabilities reaches 3.09 years, and the internal rate of return (hereinafter – IRR) gap amounts to 0.12. The change in fair value on total assets is NIS 2,224 million and in total liabilities NIS 296 million.

Total Credit Risk to the Public by Economic Sector

Exhibit C

| 30 September 2014 | | | | | | | | | |
|--|----------------|-----------------|--------------------|---|--------------|--------------|---|---------------------------------|---|
| Overall credit risk (a) | | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | |
| In respect of activity of borrowers in Israel | Total | Problematic (e) | Total ¹ | ¹ Of which: | | | Credit losses (d) | | |
| | | | | | | | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | | | | (NIS millions) | | | | | |
| Agriculture | 2,212 | 136 | 2,205 | 1,857 | 134 | 84 | 6 | (1) | (55) |
| Industry | 29,734 | 2,251 | 28,686 | 19,102 | 2,242 | 656 | (57) | (73) | (591) |
| Construction and real estate - construction | 44,964 | 1,296 | 44,890 | 16,145 | 1,287 | 473 | (84) | (130) | (418) |
| Construction and real estate - real estate activity | 24,675 | 1,624 | 24,588 | 22,321 | 1,622 | 1,440 | (44) | (31) | (566) |
| Electricity and water | 3,941 | 1 | 3,377 | 2,911 | 1 | - | (7) | - | (3) |
| Commerce | 23,434 | 1,679 | 23,209 | 18,952 | 1,665 | 274 | 48 | 36 | (380) |
| Hotels, catering services and food | 3,237 | 144 | 3,222 | 2,914 | 144 | 125 | 12 | - | (36) |
| Transport and storage | 6,414 | 505 | 6,378 | 5,416 | 495 | 300 | 8 | 17 | (99) |
| Communications and computer services | 5,284 | 486 | 5,110 | 3,976 | 485 | 214 | (48) | 11 | (157) |
| Financial services | 25,954 | 70 | 18,585 | 10,990 | 54 | 28 | 44 | (42) | (64) |
| Business and other services | 8,310 | 196 | 8,253 | 6,342 | 196 | 106 | 18 | 11 | (77) |
| Public and community services | 7,876 | 40 | 7,833 | 6,467 | 40 | 11 | (3) | (1) | (13) |
| Total commercial | 186,035 | 8,428 | 176,336 | 117,393 | 8,365 | 3,711 | (107) | (203) | (2,459) |
| Private individuals - housing loans | 75,052 | 833 | 75,051 | 72,719 | 832 | - | 18 | 6 | (492) |
| Private individuals - other | 65,513 | 433 | 65,483 | 34,188 | 433 | 110 | 68 | 113 | (407) |
| Total public | 326,600 | 9,694 | 316,870 | 224,300 | 9,630 | 3,821 | (21) | (84) | (3,358) |
| Banks in Israel | 5,813 | - | 1,550 | 1,489 | - | - | (1) | - | - |
| Government of Israel | 23,143 | - | 294 | 294 | - | - | - | - | - |
| Total activity in Israel | 355,556 | 9,694 | 318,714 | 226,083 | 9,630 | 3,821 | (22) | (84) | (3,358) |

| 30 September 2014 | | | | | | | | | |
|--|----------------|-----------------|--------------------|---|---------------|--------------|---|---------------------------------|---|
| Overall credit risk (a) | | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | |
| In respect of activity of borrowers abroad | Total | Problematic (e) | Total ¹ | ¹ Of which: | | | Credit losses (d) | | |
| | | | | | | | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | | | | (NIS millions) | | | | | |
| Agriculture | 56 | 3 | 52 | 39 | 3 | 3 | - | - | (1) |
| Industry | 10,031 | 292 | 8,830 | 5,580 | 292 | 165 | (61) | 46 | (116) |
| Construction and real estate - construction | 10,506 | 664 | 10,126 | 7,652 | 664 | 601 | 9 | 45 | (333) |
| Electricity and water | 379 | - | 134 | 39 | - | - | - | - | - |
| Commerce | 8,037 | 189 | 7,979 | 5,281 | 189 | 182 | 27 | 75 | (125) |
| Hotels, catering services and food | 1,474 | 43 | 1,474 | 1,422 | 43 | 42 | 3 | 1 | (14) |
| Transport and storage | 356 | 24 | 216 | 211 | 24 | 24 | (1) | - | (10) |
| Communications and computer services | 633 | - | 373 | 208 | - | - | 1 | - | (3) |
| Financial services | 16,137 | 100 | 2,911 | 1,908 | 100 | 100 | 3 | 1 | (53) |
| Business and other services | 3,419 | 203 | 3,059 | 2,108 | 203 | 178 | 20 | 10 | (107) |
| Public and community services | 2,694 | 2 | 2,565 | 2,280 | 2 | 1 | 7 | - | (21) |
| Total commercial | 53,722 | 1,520 | 37,719 | 26,728 | 1,520 | 1,296 | 8 | 178 | (783) |
| Private individuals - housing loans | 1,201 | 53 | 1,201 | 1,200 | 53 | 33 | (1) | 2 | (16) |
| Private individuals - other | 1,175 | 38 | 1,160 | 978 | 38 | 31 | 1 | 26 | (13) |
| Total public | 56,098 | 1,611 | 40,080 | 28,906 | 1,611 | 1,360 | 8 | 206 | (812) |
| Banks abroad | 29,422 | - | 17,227 | 15,928 | - | - | 3 | - | (4) |
| Governments abroad | 4,017 | - | 288 | 216 | - | - | - | - | - |
| Total activity abroad | 89,537 | 1,611 | 57,595 | 45,050 | 1,611 | 1,360 | 11 | 206 | (816) |
| Total | 445,093 | 11,305 | 376,309 | 271,133 | 11,241 | 5,181 | (11) | 122 | (4,174) |

See notes on next page.

Total Credit Risk to the Public by Economic Sector (cont'd)

Exhibit C

- (a) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts², bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower credit limitations, in the amount of NIS 271,133, 42,047, 2,019, 16,172, 113,722 million respectively.
- (b) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk on off-balance sheet financial instruments as calculated for the purpose of single borrower credit limitations, except in respect of derivative instruments.
- (d) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").
- (e) Balance sheet and off-balance sheet impaired, substandard, or special mention credit risks, including in respect of housing loans for which there is an allowance by extent of arrears and housing loans for which there is no allowance by extent of arrears that are in arrears of 90 days or more.

Total Credit Risk to the Public by Economic Sector (cont'd)

Exhibit C

| 30 September 2013 | | | | | | | | | |
|---|----------------|--------------|----------------|----------------|--------------|--------------|--------------|------------|----------------|
| Overall credit risk (a) | | | | | | | | | |
| Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | | | | |
| Credit losses (d) | | | | | | | | | |
| Expenses in | | | | | | | | | |
| respect | | | | | | | | | |
| of credit | | | | | | | | | |
| losses | | | | | | | | | |
| Net | | | | | | | | | |
| accounting | | | | | | | | | |
| write-offs | | | | | | | | | |
| Balance of | | | | | | | | | |
| allowance | | | | | | | | | |
| for credit | | | | | | | | | |
| losses | | | | | | | | | |
| Of which: | | | | | | | | | |
| In respect of activity of | | | | | | | | | |
| borrowers in Israel | | | | | | | | | |
| Total | | | | | | | | | |
| Problematic (e) | | | | | | | | | |
| Total ¹ | | | | | | | | | |
| Debts (b) | | | | | | | | | |
| Problematic (e) | | | | | | | | | |
| Impaired | | | | | | | | | |
| (NIS millions) | | | | | | | | | |
| Agriculture | 2,086 | 107 | 2,078 | 1,778 | 107 | 45 | - | (2) | (41) |
| Industry | 29,346 | 1,858 | 27,654 | 18,713 | 1,809 | 615 | (8) | (10) | (541) |
| Construction and real estate - construction | 41,448 | 1,744 | 41,338 | 14,768 | 1,744 | 603 | (22) | (23) | (398) |
| Construction and real estate - real estate activity | 25,850 | 1,725 | 25,766 | 23,294 | 1,725 | 1,479 | (17) | (33) | (493) |
| Electricity and water | 4,644 | 1 | 3,968 | 3,491 | 1 | 1 | (7) | - | (4) |
| Commerce | 22,240 | 1,017 | 21,778 | 18,009 | 1,016 | 556 | (24) | 87 | (371) |
| Hotels, catering services and food | 2,815 | 284 | 2,785 | 2,492 | 284 | 198 | (19) | (19) | (21) |
| Transport and storage | 5,564 | 595 | 5,496 | 4,790 | 586 | 336 | (12) | 4 | (110) |
| Communications and computer services | 5,549 | 160 | 5,378 | 4,425 | 154 | 66 | 6 | - | (66) |
| Financial services | 28,374 | 733 | 18,667 | 11,595 | 700 | 366 | (111) | 247 | (214) |
| Business and other services | 8,344 | 148 | 8,149 | 6,426 | 148 | 131 | - | 11 | (172) |
| Public and community services | 7,417 | 82 | 7,377 | 6,088 | 82 | 35 | (1) | (2) | (7) |
| Total commercial | 183,677 | 8,454 | 170,434 | 115,869 | 8,356 | 4,431 | (215) | 260 | (2,438) |
| Private individuals - housing loans | 69,178 | 818 | 69,178 | 67,286 | 818 | - | 49 | 16 | (486) |
| Private individuals - other | 60,693 | 355 | 60,672 | 30,740 | 355 | 85 | 89 | 62 | (380) |
| Total public | 313,548 | 9,627 | 300,284 | 213,895 | 9,529 | 4,516 | (77) | 338 | (3,304) |
| Banks in Israel | 6,280 | - | 2,026 | 1,457 | - | - | 1 | - | (1) |
| Government of Israel | 36,893 | - | 335 | 335 | - | - | - | - | - |
| Total activity in Israel | 356,721 | 9,627 | 302,645 | 215,687 | 9,529 | 4,516 | (76) | 338 | (3,305) |

| 30 September 2013 | | | | | | | | | |
|---|----------------|---------------|----------------|----------------|---------------|--------------|------------|------------|----------------|
| Overall credit risk (a) | | | | | | | | | |
| Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | | | | |
| Credit losses (d) | | | | | | | | | |
| Expenses in | | | | | | | | | |
| respect | | | | | | | | | |
| of credit | | | | | | | | | |
| losses | | | | | | | | | |
| Net | | | | | | | | | |
| accounting | | | | | | | | | |
| write-offs | | | | | | | | | |
| Balance of | | | | | | | | | |
| allowance | | | | | | | | | |
| for credit | | | | | | | | | |
| losses | | | | | | | | | |
| Of which: | | | | | | | | | |
| In respect of activity of | | | | | | | | | |
| borrowers abroad | | | | | | | | | |
| Total | | | | | | | | | |
| Problematic (e) | | | | | | | | | |
| Total ¹ | | | | | | | | | |
| Debts (b) | | | | | | | | | |
| Problematic (e) | | | | | | | | | |
| Impaired | | | | | | | | | |
| (NIS millions) | | | | | | | | | |
| Agriculture | 70 | 10 | 55 | 43 | 10 | 9 | - | - | (3) |
| Industry | 9,750 | 455 | 8,708 | 5,854 | 454 | 339 | 13 | 12 | (183) |
| Construction and real estate - construction | 11,435 | 900 | 10,735 | 8,016 | 900 | 719 | 86 | 24 | (381) |
| Electricity and water | 436 | - | 196 | 37 | - | - | - | - | - |
| Commerce | 8,164 | 232 | 8,039 | 5,549 | 232 | 123 | 9 | 5 | (112) |
| Hotels, catering services and food | 1,912 | 68 | 1,910 | 1,778 | 68 | 60 | 11 | 11 | (10) |
| Transport and storage | 570 | 27 | 421 | 413 | 27 | 27 | (1) | (1) | (13) |
| Communications and computer services | 716 | - | 465 | 157 | - | - | - | - | (2) |
| Financial services | 15,670 | 127 | 3,934 | 3,024 | 125 | 106 | (2) | 1 | (62) |
| Business and other services | 3,263 | 195 | 3,076 | 2,150 | 195 | 195 | 65 | 4 | (105) |
| Public and community services | 1,945 | 2 | 1,844 | 1,596 | 2 | 1 | 4 | - | (15) |
| Total commercial | 53,931 | 2,016 | 39,383 | 28,617 | 2,013 | 1,579 | 185 | 56 | (886) |
| Private individuals - housing loans | 1,223 | 55 | 1,223 | 1,222 | 54 | 50 | 1 | 5 | (20) |
| Private individuals - other | 1,305 | 44 | 1,265 | 1,002 | 44 | 44 | - | 6 | (42) |
| Total public | 56,459 | 2,115 | 41,871 | 30,841 | 2,111 | 1,673 | 186 | 67 | (948) |
| Banks abroad | 30,804 | - | 11,737 | 10,720 | - | - | 3 | 5 | (2) |
| Governments abroad | 4,541 | - | 309 | 198 | - | - | - | - | - |
| Total activity abroad | 91,804 | 2,115 | 53,917 | 41,759 | 2,111 | 1,673 | 189 | 72 | (950) |
| Total | 448,525 | 11,742 | 356,562 | 257,446 | 11,640 | 6,189 | 113 | 410 | (4,255) |

See notes on next page.

Total Credit Risk to the Public by Economic Sector (cont'd)

Exhibit C

- (a) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts², bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower credit limitations, in the amount of NIS 257,446, 57,775, 1,098, 10,938, 121,268 million respectively.
- (b) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk on off-balance sheet financial instruments as calculated for the purpose of single borrower credit limitations, except in respect of derivative instruments.
- (d) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").
- (e) Balance sheet and off-balance sheet impaired, substandard, or special mention credit risks, including in respect of housing loans for which there is an allowance by extent of arrears and housing loans for which there is no allowance by extent of arrears that are in arrears of 90 days or more.

Total Credit Risk to the Public by Economic Sector (cont'd)

Exhibit C

| 31 December 2013 | | | | | | | | | |
|--|-------------------------|-----------------|--------------------|---|-----------------|----------|---|---------------------------------|---|
| In respect of activity of borrowers in Israel | Overall credit risk (a) | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | |
| | Total | Problematic (e) | Total ¹ | ¹ Of which: | | | Credit losses (d) | | |
| | | | | | | | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | | | | Debts (b) | Problematic (e) | Impaired | | | |
| (NIS millions) | | | | | | | | | |
| Agriculture | 2,125 | 113 | 2,116 | 1,823 | 113 | 51 | - | (5) | (45) |
| Industry | 29,219 | 2,256 | 27,673 | 18,592 | 2,218 | 580 | 36 | 8 | (523) |
| Construction and real estate - construction | 41,188 | 1,687 | 41,096 | 14,720 | 1,667 | 574 | (59) | (19) | (386) |
| Construction and real estate - real estate activity | 25,758 | 1,706 | 25,650 | 23,374 | 1,703 | 1,416 | (44) | (21) | (546) |
| Electricity and water | 4,471 | 1 | 3,876 | 3,530 | 1 | 1 | (11) | - | (4) |
| Commerce | 22,400 | 1,123 | 21,995 | 18,144 | 1,122 | 525 | (27) | 102 | (351) |
| Hotels, catering services and food | 2,924 | 316 | 2,887 | 2,622 | 316 | 233 | (14) | (6) | (26) |
| Transport and storage | 5,805 | 532 | 5,738 | 5,005 | 522 | 314 | (28) | 5 | (93) |
| Communications and computer services | 5,512 | 588 | 5,313 | 4,270 | 588 | 268 | 11 | (6) | (153) |
| Financial services | 29,434 | 218 | 19,122 | 10,678 | 208 | 197 | (118) | 240 | (146) |
| Business and other services | 8,258 | 153 | 8,158 | 6,362 | 153 | 123 | 5 | 16 | (83) |
| Public and community services | 7,451 | 56 | 7,413 | 6,109 | 56 | 14 | 18 | 13 | (13) |
| Total commercial | 184,545 | 8,749 | 171,037 | 115,229 | 8,667 | 4,296 | (231) | 327 | (2,369) |
| Private individuals - housing loans | 70,787 | 803 | 70,787 | 68,592 | 803 | - | 46 | 22 | (479) |
| Private individuals - other | 61,782 | 418 | 61,747 | 31,458 | 418 | 109 | 177 | 73 | (456) |
| Total public | 317,114 | 9,970 | 303,571 | 215,279 | 9,888 | 4,405 | (8) | 422 | (3,304) |
| Banks in Israel | 7,509 | - | 1,890 | 1,688 | - | - | 1 | - | (1) |
| Government of Israel | 39,536 | - | 338 | 338 | - | - | - | - | - |
| Total activity in Israel | 364,159 | 9,970 | 305,799 | 217,305 | 9,888 | 4,405 | (7) | 422 | (3,305) |

| 31 December 2013 | | | | | | | | | |
|--|-------------------------|-----------------|--------------------|---|-----------------|----------|---|---------------------------------|---|
| In respect of activity of borrowers abroad | Overall credit risk (a) | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | |
| | Total | Problematic (e) | Total ¹ | ¹ Of which: | | | Credit losses (d) | | |
| | | | | | | | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | | | | Debts (b) | Problematic (e) | Impaired | | | |
| (NIS millions) | | | | | | | | | |
| Agriculture | 62 | 4 | 57 | 48 | 4 | 4 | (2) | - | (1) |
| Industry | 9,526 | 447 | 8,569 | 5,764 | 447 | 331 | 57 | 16 | (230) |
| Construction and real estate - construction | 11,400 | 891 | 10,671 | 7,667 | 891 | 724 | 82 | 10 | (386) |
| Electricity and water | 411 | - | 175 | 37 | - | - | - | - | - |
| Commerce | 7,851 | 234 | 7,761 | 5,337 | 234 | 201 | 18 | 6 | (125) |
| Hotels, catering services and food | 1,900 | 212 | 1,899 | 1,847 | 212 | 45 | 28 | 18 | (13) |
| Transport and storage | 491 | 27 | 358 | 347 | 27 | 26 | - | (1) | (15) |
| Communications and computer services | 636 | - | 438 | 138 | - | - | - | - | (2) |
| Financial services | 17,211 | 94 | 3,450 | 2,344 | 92 | 74 | 3 | 27 | (36) |
| Business and other services | 2,995 | 198 | 2,781 | 1,947 | 198 | 197 | 70 | 3 | (109) |
| Public and community services | 2,118 | 2 | 2,004 | 1,767 | 2 | 2 | 5 | (1) | (15) |
| Total commercial | 54,601 | 2,109 | 38,163 | 27,243 | 2,107 | 1,604 | 261 | 78 | (932) |
| Private individuals - housing loans | 1,198 | 69 | 1,198 | 1,198 | 69 | 49 | 7 | 7 | (19) |
| Private individuals - other | 1,281 | 41 | 1,249 | 1,037 | 41 | 41 | 5 | 7 | (40) |
| Total public | 57,080 | 2,219 | 40,610 | 29,478 | 2,217 | 1,694 | 273 | 92 | (991) |
| Banks abroad | 32,646 | - | 14,408 | 13,016 | - | - | 2 | 5 | (1) |
| Governments abroad | 5,190 | - | 318 | 220 | - | - | - | - | - |
| Total activity abroad | 94,916 | 2,219 | 55,336 | 42,714 | 2,217 | 1,694 | 275 | 97 | (992) |
| Total | 459,075 | 12,189 | 361,135 | 260,019 | 12,105 | 6,099 | 268 | 519 | (4,297) |

See notes on next page.

Total Credit Risk to the Public by Economic Sector (cont'd)

Exhibit C

- (a) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts², bonds, securities borrowed or purchased under agreements to resell, assets in respect of derivative instruments and credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower credit limitations, in the amount of NIS 260,019, 59,816, 1,360, 12,969, 124,911 million respectively.
- (b) Credit to the public, credit to governments, deposits in banks and other debts, except bonds and securities borrowed or purchased under agreements to resell.
- (c) Credit risk on off-balance sheet financial instruments as calculated for the purpose of single borrower credit limitations, except in respect of derivative instruments.
- (d) Including in respect of off-balance sheet credit instruments (appearing in the balance sheet under "Other Liabilities").
- (e) Balance sheet and off-balance sheet impaired, substandard, or special mention credit risks, including in respect of housing loans for which there is an allowance by extent of arrears and housing loans for which there is no allowance by extent of arrears that are in arrears of 90 days or more.

Exposures to Foreign Countries

Exhibit D

Part A – Information on total foreign country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever the lower.

| 30 September 2014 | | | | | | | |
|---------------------------------------|-----------------------|----------|-----------|---|---------------------------------|--|--|
| Balance sheet exposure (a) | | | | | | | |
| Cross-border balance sheet exposure | | | | Balance sheet exposure of foreign offices of the banking corporation to local residents | | | |
| Country | To governments (c) | To banks | To others | Balance sheet exposure before deducting local liabilities | Deduction for local liabilities | Balance sheet exposure net after deducting local liabilities | |
| | (NIS millions) | | | | | | |
| United States | 2,269 | 5,994 | 9,747 | 17,155 | 8,701 | 8,454 | |
| United Kingdom | 228 | 5,229 | 3,678 | 7,283 | 1,953 | 5,330 | |
| France | - | 1,630 | 498 | - | - | - | |
| Switzerland | - | 793 | 979 | 1,778 | 1,031 | 747 | |
| Germany | - | 840 | 1,506 | - | - | - | |
| Belgium | 230 | 1,051 | 133 | - | - | - | |
| Italy | - | 228 | 75 | - | - | - | |
| Netherlands | - | 677 | 1,549 | - | - | - | |
| Others | 390 | 3,620 | 4,929 | 1,438 | 639 | 799 | |
| Total exposure to foreign countries | 3,117 | 20,062 | 23,094 | 27,654 | 12,324 | 15,330 | |
| Total exposure to LDC countries | 212 | 903 | 1,043 | 1,312 | 594 | 718 | |
| Total exposure to GIIPS countries (d) | - | 229 | 648 | - | - | - | |

| Balance sheet exposure | | | | Off-balance sheet exposure (a) (b) | | | |
|---------------------------------------|------------------------------|---------------------------------------|-------------------------------------|------------------------------------|---|-------------------------------------|---------------|
| | | | | | | Cross-border balance sheet exposure | |
| Country | Total balance sheet exposure | Problematic balance sheet credit risk | Of which: balance of impaired debts | Total off-balance sheet exposure | Of which: problematic off-balance sheet credit risk | Repayment period | |
| | (NIS millions) | | | | | Up to one year | Over one year |
| United States | 26,464 | 599 | 382 | 5,682 | - | 6,493 | 11,517 |
| United Kingdom | 14,465 | 475 | 445 | 2,981 | 5 | 4,783 | 4,352 |
| France | 2,128 | 8 | 8 | 983 | - | 754 | 1,374 |
| Switzerland | 2,519 | - | - | 522 | - | 1,739 | 33 |
| Germany | 2,346 | 2 | 2 | 290 | - | 1,880 | 466 |
| Belgium | 1,414 | - | - | 73 | - | 1,191 | 223 |
| Italy | 303 | - | - | 27 | - | 276 | 27 |
| Netherlands | 2,226 | 60 | 60 | 156 | - | 1,067 | 1,159 |
| Others | 9,738 | 446 | 413 | 1,107 | - | 5,921 | 3,018 |
| Total exposure to foreign countries | 61,603 | 1,590 | 1,310 | 11,821 | 5 | 24,104 | 22,169 |
| Total exposure to LDC countries | 2,876 | 399 | 366 | 769 | - | 1,817 | 341 |
| Total exposure to GIIPS countries (d) | 877 | - | - | 55 | - | 670 | 207 |

See notes on page 143.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Part A – Information on total foreign country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever the lower (cont'd).

| 30 September 2013 | | | | | | | |
|---------------------------------------|-------------------------------------|----------|-----------|---|---------------------------------|--|--|
| Balance sheet exposure (a) | | | | | | | |
| Country | Cross-border balance sheet exposure | | | Balance sheet exposure of foreign offices of the banking corporation to local residents | | | |
| | To governments (c) | To banks | To others | Balance sheet exposure before deducting local liabilities | Deduction for local liabilities | Balance sheet exposure net after deducting local liabilities | |
| Country | (NIS millions) | | | | | | |
| United States | 2,363 | 4,891 | 11,780 | 16,434 | 9,238 | 7,196 | |
| United Kingdom | 411 | 4,214 | 2,295 | 7,172 | 1,978 | 5,194 | |
| France | - | 1,807 | 1,000 | - | - | - | |
| Switzerland | - | 395 | 1,098 | 2,401 | 437 | 1,964 | |
| Germany | - | 2,190 | 1,860 | - | - | - | |
| Belgium | 428 | 148 | 197 | - | - | - | |
| Italy | - | 281 | 68 | - | - | - | |
| Netherlands | - | 804 | 1,580 | - | - | - | |
| Others | 347 | 1,714 | 2,308 | 1,887 | 799 | 1,088 | |
| Total exposure to foreign countries | 3,549 | 16,444 | 22,186 | 27,894 | 12,452 | 15,442 | |
| Total exposure to LDC countries | 149 | 600 | 1,118 | 1,692 | 781 | 911 | |
| Total exposure to GIIPS countries (d) | - | 449 | 216 | - | - | - | |

| Balance sheet exposure | | | | Off-balance sheet exposure (a) (b) | | | |
|---------------------------------------|------------------------------|---------------------------------------|-------------------------------------|--------------------------------------|---|------------------|---------------|
| Country | | | | Cross-border balance sheet exposure | | | |
| | Total balance sheet exposure | Problematic balance sheet credit risk | Of which: balance of impaired debts | Total off-balance sheet exposure (e) | Of which: problematic off-balance sheet credit risk | Repayment period | |
| | | | | | | Up to one year | Over one year |
| Country | (NIS millions) | | | | | | |
| United States | 26,230 | 563 | 430 | 8,607 | 18 | 8,215 | 10,819 |
| United Kingdom | 12,114 | 727 | 492 | 5,166 | - | 4,959 | 1,961 |
| France | 2,807 | 8 | 1 | 1,857 | - | 2,074 | 733 |
| Switzerland | 3,457 | 27 | 27 | 710 | - | 1,349 | 144 |
| Germany | 4,050 | 3 | 3 | 1,134 | - | 2,698 | 1,352 |
| Belgium | 773 | - | - | 197 | - | 432 | 341 |
| Italy | 349 | 1 | 1 | 32 | - | 167 | 182 |
| Netherlands | 2,384 | 62 | 47 | 157 | - | 1,370 | 1,014 |
| Others | 5,457 | 528 | 493 | 1,393 | - | 3,211 | 1,158 |
| Total exposure to foreign countries | 57,621 | 1,919 | 1,494 | 19,253 | 18 | 24,475 | 17,704 |
| Total exposure to LDC countries | 2,778 | 523 | 488 | 1,058 | - | 1,604 | 263 |
| Total exposure to GIIPS countries (d) | 665 | 2 | 2 | 41 | - | 329 | 336 |

See notes on page 143.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Part A – Information on total foreign country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever the lower (cont'd).

| 31 December 2013 | | | | | | | |
|---------------------------------------|-------------------------------------|----------|-----------|---|---------------------------------|--|--|
| Balance sheet exposure (a) | | | | | | | |
| Country | Cross-border balance sheet exposure | | | Balance sheet exposure of foreign offices of the banking corporation to local residents | | | |
| | To governments (c) | To banks | To others | Balance sheet exposure before deducting local liabilities | Deduction for local liabilities | Balance sheet exposure net after deducting local liabilities | |
| Country | (NIS millions) | | | | | | |
| United States | 3,092 | 5,074 | 10,340 | 16,219 | 8,365 | 7,854 | |
| United Kingdom | 457 | 3,702 | 3,552 | 7,433 | 2,188 | 5,245 | |
| France | - | 1,957 | 839 | - | - | - | |
| Switzerland | - | 378 | 757 | 2,238 | 463 | 1,775 | |
| Germany | - | 2,783 | 2,262 | - | - | - | |
| Belgium | 427 | 129 | 144 | - | - | - | |
| Italy | - | 264 | 64 | - | - | - | |
| Netherlands | - | 847 | 1,533 | - | - | - | |
| Others | 290 | 2,306 | 3,027 | 2,237 | 770 | 1,467 | |
| Total exposure to foreign countries | 4,266 | 17,440 | 22,518 | 28,127 | 11,786 | 16,341 | |
| Total exposure to LDC countries | 149 | 680 | 1,143 | 1,605 | 735 | 870 | |
| Total exposure to GIIPS countries (d) | - | 278 | 491 | - | - | - | |

| Balance sheet exposure | | | | Off-balance sheet exposure (a) (b) | | | |
|---------------------------------------|------------------------------|---------------------------------------|-------------------------------------|------------------------------------|---|-------------------------------------|---------------|
| Country | Total balance sheet exposure | Problematic balance sheet credit risk | Of which: balance of impaired debts | Total off-balance sheet exposure | Of which: problematic off-balance sheet credit risk | Cross-border balance sheet exposure | |
| | | | | | | Repayment period | |
| Country | (NIS millions) | | | | | Up to one year | Over one year |
| United States | 26,360 | 522 | 390 | 9,243 | 16 | 6,160 | 12,346 |
| United Kingdom | 12,956 | 750 | 581 | 5,543 | - | 3,595 | 4,116 |
| France | 2,796 | 9 | 1 | 1,923 | - | 1,001 | 1,795 |
| Switzerland | 2,910 | 21 | 21 | 773 | - | 862 | 273 |
| Germany | 5,045 | 161 | - | 1,028 | - | 3,305 | 1,740 |
| Belgium | 700 | - | - | 183 | - | 302 | 398 |
| Italy | 328 | - | - | 35 | - | 145 | 183 |
| Netherlands | 2,380 | 55 | 47 | 139 | - | 1,182 | 1,198 |
| Others | 7,090 | 523 | 489 | 1,459 | - | 4,339 | 1,284 |
| Total exposure to foreign countries | 60,565 | 2,041 | 1,529 | 20,326 | 16 | 20,891 | 23,333 |
| Total exposure to LDC countries | 2,842 | 508 | 480 | 1,072 | - | 1,708 | 264 |
| Total exposure to GIIPS countries (d) | 769 | - | - | 70 | - | 462 | 307 |

See notes on next page.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Notes:

- (a) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts appear before the effect of the allowance for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower debt limitations. This does not include elements of off-balance sheet risk.
- (b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.
- (c) Includes governments, official institutions and central banks.
- (d) Exposure to GIIPS countries includes the following countries: Portugal, Ireland, Italy, Greece, and Spain.

General comments:

Pursuant to the directives of the Supervisor of Banks, exposure to foreign countries is shown on an end-risk basis, as follows:

- The accounting balance of a debt is to be dealt with as the amount of exposure to the legal country of residence of the debtor who bears the end risk after the effect of guarantees, liquid collateral and credit derivatives.
- The accounting balance of an investment in shares is to be dealt with as the amount of exposure to the country of residence of the issuer of the security.
- Off-balance sheet credit risk is shown as an off-balance sheet exposure to the country of residence of the counterparty to the transaction as it was calculated for the purposes of single borrower debt limitations.

From the aspect of determining end-risk, collateral is to be considered as follows:

- Third party guarantees according to the country of residence of the guarantor.
- Securities - The country of residence is that of the issuer of the security.
- The directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.

For purposes of determining end-risk, only specific collaterals were considered.

Part B – On 30 September 2014 and comparative periods there was no aggregate balance sheet exposure to foreign countries, of which the individual amount of exposure was between 0.75% and 1% of total consolidated assets or between 15% and 20% of shareholders' equity, whichever the lower.

Part C – The exposure to foreign countries with liquidity difficulties as defined by the Bank of Israel (a country which receives financial assistance from the IMF or its liabilities have a credit rating of CCC or lower) amounted to NIS 1,948 million and related to 14 countries.

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 September 2014 (the "Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.
4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:
 - (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;
 - (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;
 - (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this 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 our evaluation; and
 - (d) We have 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. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:
 - (a) All significant deficiencies and material weaknesses in the establishment 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 material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

23 November 2014

Rakefet Russak-Aminoach
President and Chief Executive Officer

Certification

I, Ron Fainaro, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 September 2014 (the "Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.
4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:
 - (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;
 - (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;
 - (c) We have evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this 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 our evaluation; and
 - (d) We have 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. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:
 - (a) All significant deficiencies and material weaknesses in the establishment 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 material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

23 November 2014

Ron Fainaro
Executive Vice President,
Head of Economics and Finance Division

Certification

I, Shlomo Goldfarb, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 September 2014 (the "Report").
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit the statement of a material fact that is necessary so that the statements included therein, in light of the circumstances under which such statements were included, are not misleading with reference to the period covered by the Report.
3. Based on my knowledge, the quarterly financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and changes in shareholders' equity and cash flows of the Bank for the dates and periods covered by the Report.
4. I and the Bank's other certifying officers are responsible for establishing and maintaining controls and procedures with regard to the Bank's disclosure and internal control of financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"), and also:
 - (a) We have established such controls and procedures, or caused such controls and procedures to be determined under our supervision, so as to ensure that material information relating to the Bank, including its consolidated corporations, is made known to us by others within the Bank and in those corporations, particularly during the period of preparation of the Report;
 - (b) We have established such internal control over financial reporting, or caused such internal control to be established under our supervision, so as to provide a reasonable level of confidence regarding the reliability of financial reporting and so that the financial statements for external purposes are prepared in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions;
 - (c) We have 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 our evaluation; and
 - (d) We have 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. I and the Bank's other certifying officers have disclosed to the Joint Auditors, the Board of Directors, the Audit Committee and the Financial Statements Review Committee of the Board of Directors of the Bank, based on our most recent evaluation of internal control over financial reporting:
 - (a) All significant deficiencies and material weaknesses in the establishment 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 material or immaterial, in which Management was involved or in which other employees were involved who have a significant role in the Bank's internal control over financial reporting.

The above does not derogate from my responsibility or the responsibility of any other person, pursuant to any law.

23 November 2014

Shlomo Goldfarb
Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Joint Auditors' Review Report to the Shareholders of Bank Leumi le-Israel B.M.

Introduction

We have reviewed the accompanying financial information of Bank Leumi le-Israel B.M. and its subsidiaries (hereinafter: "the Bank"), comprising the condensed consolidated interim balance sheet as of 30 September, 2014 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the nine month and three month periods ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for these interim periods in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with directives and guidelines of the Supervisor of Banks. Our responsibility is to express a conclusion on financial information for this interim periods based on our review.

We did not review the condensed financial information for the interim periods of certain consolidated companies, whose assets included on consolidation constitute approximately 1.5% of total consolidated assets at 30 September, 2014 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.7% of the total consolidated net interest income before credit loss expenses for the nine month and three month periods ended on that date. The condensed financial information for the interim periods of those companies was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such companies, is based solely on the said review reports of the other auditors.

Scope of review

We 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 instructions 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 and the review reports of other auditors, 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 generally accepted accounting principles in Israel (Israeli GAAP) for interim accounting periods and in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above conclusion, we draw attention to:

1. that stated in Note 6.C paragraphs 2 and 3 concerning claims against the Bank, including petitions for their approval as class actions.
2. that stated in Note 6.D paragraphs 1-2 concerning matters relating to a company included on equity basis and its investee companies.
3. that stated in Note 6.E paragraph 2 concerning investigations against the Group regarding its activities with US customers.

The Bank is unable to estimate what effect, if any, the said matters will have on the Bank, if any, on its financial condition and on its operating results, and whether or not they will be of a material nature.

Somekh Chaikin

Certified Public Accountants (Isr.)

Kost Forer Gabbay & Kasierer

Certified Public Accountants (Isr.)

23 November 2014

Condensed Consolidated Balance Sheet as at 30 September 2014

| | | 30 September 2014 | 30 September 2013 | 31 December 2013 |
|--|-------------|--------------------------|--------------------------|-------------------------|
| | | (Unaudited) | | (Audited) |
| | Note | (NIS millions) | | |
| Assets | | | | |
| Cash and deposits with banks | | 54,612 | 40,202 | 44,351 |
| Securities | 2 | 46,058 | 60,984 | 63,735 |
| Securities borrowed or purchased under agreements to resell | | 2,019 | 1,098 | 1,360 |
| Credit to the public | 3 | 253,206 | 244,736 | 244,757 |
| Allowance for credit losses | 3 | (3,725) | (3,844) | (3,883) |
| Credit to the public, net | | 249,481 | 240,892 | 240,874 |
| Credit to governments | | 510 | 533 | 558 |
| Investments in companies included on equity basis | | 2,062 | 1,944 | 1,689 |
| Buildings and equipment | | 3,627 | 3,647 | 3,638 |
| Intangible assets and goodwill | | 42 | 103 | 99 |
| Assets in respect of derivative instruments | 7 | 16,227 | 10,966 | 13,054 |
| Other assets | | 5,315 | 5,053 | 5,002 |
| Total assets | | 379,953 | 365,422 | 374,360 |
| Liabilities and equity | | | | |
| Deposits of the public | 3A | 286,632 | 279,839 | 286,003 |
| Deposits from banks | | 4,781 | 3,805 | 4,310 |
| Deposits from governments | | 391 | 437 | 397 |
| Securities lent or sold under agreements to repurchase | | 1,172 | 404 | 624 |
| Bonds, debentures and subordinated notes | | 23,932 | 25,596 | 25,441 |
| Liabilities in respect of derivative instruments | 7 | 15,702 | 12,078 | 13,487 |
| Other liabilities | | 18,661 | 16,851 | 17,333 |
| Total liabilities | | 351,271 | 339,010 | 347,595 |
| Non-controlling interests | | 334 | 331 | 340 |
| Equity attributable to shareholders of the banking corporation | | 28,348 | 26,081 | 26,425 |
| Total equity | 4 | 28,682 | 26,412 | 26,765 |
| Total liabilities and equity | | 379,953 | 365,422 | 374,360 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

David Brodet
Chairman of the
Board of Directors

Rakefet Russak-Aminoach
President and Chief
Executive Officer

Ron Fainaro
Executive Vice President,
Head of Economics and Finance
Division

Shlomo Goldfarb
Executive Vice President,
Chief Accounting Officer,
Head of Accounting Division

Date of approval of the financial statements: 23 November 2014

Condensed Consolidated Statement of Profit and Loss for the periods ended 30 September 2014

| | | For the three months ended 30 September | | For the nine months ended 30 September | | For the year ended 31 December |
|--|------|--|-------|---|-------|--------------------------------------|
| | | 2014 | 2013 | 2014 | 2013 | 2013 |
| | | (Unaudited) | | | | (Audited) |
| | Note | (NIS millions) | | | | |
| Interest income | 9 | 2,665 | 3,466 | 7,678 | 9,520 | 12,134 |
| Interest expenses | 9 | 766 | 1,520 | 2,117 | 3,973 | 4,777 |
| Net interest income | | 1,899 | 1,946 | 5,561 | 5,547 | 7,357 |
| Expenses (income) in respect of credit losses | 3 | 56 | (44) | (11) | 113 | 268 |
| Net interest income, after expenses in respect of credit losses | | 1,843 | 1,990 | 5,572 | 5,434 | 7,089 |
| Non-interest income | | | | | | |
| Non-interest financing income | 10 | 224 | 266 | 719 | 889 | 1,127 |
| Commissions | | 1,033 | 1,050 | 3,113 | 3,104 | 4,188 |
| Other income | | 71 | 66 | 120 | 104 | 202 |
| Total non-interest income | | 1,328 | 1,382 | 3,952 | 4,097 | 5,517 |
| Operating and other expenses | | | | | | |
| Salaries and related expenses | | 1,239 | 1,338 | 3,739 | 3,835 | 5,174 |
| Maintenance and depreciation of buildings and equipment | | 451 | 443 | 1,329 | 1,381 | 1,833 |
| Amortization of intangible assets and goodwill | | 44 | 79 | 58 | 85 | 88 |
| Other expenses | | 737 | 583 | 1,984 | 1,378 | 1,838 |
| Total operating and other expenses | | 2,471 | 2,443 | 7,110 | 6,679 | 8,933 |
| Profit before taxes | | 700 | 929 | 2,414 | 2,852 | 3,673 |
| Provision for taxes on the profit | | 357 | 345 | 1,111 | 1,092 | 1,391 |
| Profit after taxes | | 343 | 584 | 1,303 | 1,760 | 2,282 |
| Share of the banking corporation in ptofits (losses) after tax of companies included on equity basis (a) | | 345 (a) | (17) | 294 (a) | (128) | (293) |
| Net profit: | | | | | | |
| Before attribution to non-controlling interests | | 688 | 567 | 1,597 | 1,632 | 1,989 |
| Attributable to non-controlling interests | | (11) | (12) | (5) | (33) | (42) |
| Attributable to shareholders of the banking corporation | | 677 | 555 | 1,592 | 1,599 | 1,947 |
| Basic and diluted earnings per share (NIS) | | | | | | |
| Net profit attributable to shareholders of the banking corporation | | 0.46 | 0.38 | 1.08 | 1.09 | 1.32 |

- (a) Does not include the effect of the results of the Israel Corporation for the three month period ended 30 September 2014. The effect of significant events in the Israel Corporation, in respect of which Immediate Reports were published, that have quantitative effects were included in the results for the period ended 30 September 2014. See Note 1.B.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Statement of Comprehensive Income for the periods ended 30 September 2014

| | For the three months ended 30 September | | For the nine months ended 30 September | | For the year ended 31 December |
|---|--|-------------|---|--------------|--------------------------------------|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | (Unaudited) | | | | (Audited) |
| | (NIS millions) | | | | |
| Net profit before attribution to non-controlling interests | 688 | 567 | 1,597 | 1,632 | 1,989 |
| Less net profit (loss) attributed to non-controlling interests | 11 | 12 | 5 | 33 | 42 |
| Net profit attributed to shareholders of the Bank | 677 | 555 | 1,592 | 1,599 | 1,947 |
| Other comprehensive income (loss) before taxes: | | | | | |
| Adjustments for showing securities available for sale at fair value, net | 424 | (83) | 479 | (535) | (518) |
| Adjustments for translation of financial statements, net (a), after hedges (b) | 16 | (42) | 8 | (92) | (115) |
| Share of the banking corporation in other comprehensive income (loss) of companies included on equity basis | (2) (c) | 37 | (5) (c) | 11 | 11 |
| Other comprehensive income (loss) before taxes | 438 | (88) | 482 | (616) | (622) |
| Relevant tax effect | (60) | 31 | (135) | 146 | 130 |
| Other comprehensive income (loss) before attribution to non-controlling interests, after taxes | 378 | (57) | 347 | (470) | (492) |
| Less other comprehensive income (loss) attributed to non-controlling interests | - | 1 | - | (3) | (3) |
| Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes | 378 | (58) | 347 | (467) | (489) |
| Comprehensive income before attribution to non-controlling interests | 1,066 | 510 | 1,944 | 1,162 | 1,497 |
| Less comprehensive income (loss) attributed to non-controlling interests | 11 | 13 | 5 | 30 | 39 |
| Comprehensive income attributed to shareholders of the Bank | 1,055 | 497 | 1,939 | 1,132 | 1,458 |

- (a) Adjustments for translation of financial statements of foreign operations whose functional currency is different from the functional currency of the Bank.
- (b) Hedges – profits (losses) net in respect of hedging a net investment in foreign currency.
- (c) Does not include the effect of the business results of the Israel Corporation for the three month period ended 30 September 2014. The effect of significant events in the Israel Corporation, in respect of which Immediate Reports were published, that have quantitative effects were included in the results for the period ended 30 September 2014. See Note 1.B.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity for the period ended 30 September 2014

| For the three months ended 30 September 2014 (Unaudited) | | | | | | | | | | |
|---|-------------------------|---------|---|--|---|-------------------|--|--------|---------------------------|---------------|
| | <u>Capital reserves</u> | | | | | | | | | |
| | Share capital | Premium | Share-based payment transactions and others (a) | Total share capital and capital reserves | Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
| | (NIS millions) | | | | | | | | | |
| Balance at 30 June 2014 | 7,059 | 1,129 | 33 | 8,221 | (62) | 19,186 | (42) | 27,303 | 323 | 27,626 |
| Net profit for the period | - | - | - | - | - | 677 | - | 677 | 11 | 688 |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - | - | (10) | - | (10) | - | (10) |
| Other comprehensive loss, net, after effect of taxes | - | - | - | - | 378 | - | - | 378 | - | 378 |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| Balance at the end of the period | 7,059 | 1,129 | 33 | 8,221 | 316 | 19,853 | (42) | 28,348 | 334 | 28,682 |

| For the three months ended 30 September 2013 (Unaudited) | | | | | | | | | | |
|---|-------------------------|---------|---|--|---|-------------------|--|--------|---------------------------|---------------|
| | <u>Capital reserves</u> | | | | | | | | | |
| | Share capital | Premium | Share-based payment transactions and others (a) | Total share capital and capital reserves | Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
| | (NIS millions) | | | | | | | | | |
| Balance at 30 June 2013 | 7,059 | 1,129 | 23 | 8,211 | 49 | 17,360 | (43) | 25,577 | 318 | 25,895 |
| Net profit for the period | - | - | - | - | - | 555 | - | 555 | 12 | 567 |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - | - | 7 | - | 7 | - | 7 |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - | (58) | - | - | (58) | 1 | (57) |
| Changes in non-controlling interests | - | - | - | - | - | - | - | - | - | - |
| Balance at the end of the period | 7,059 | 1,129 | 23 | 8,211 | (9) | 17,922 | (43) | 26,081 | 331 | 26,412 |

(a) Including NIS 10 million of other capital reserves.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity (cont'd) for the period ended 30 September 2014

| For the nine months ended 30 September 2014 (Unaudited) | | | | | | | | | | |
|---|------------------|---------|---|----------------------------------|---|-------------------|--|--------|---------------------------|---------------|
| | Capital reserves | | | Total share capital and reserves | Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
| | Share capital | Premium | Share-based payment transactions and others (a) | | | | | | | |
| | (NIS millions) | | | | | | | | | |
| Balance at 31 December 2013 (Audited) | 7,059 | 1,129 | 33 | 8,221 | (31) | 18,278 | (43) | 26,425 | 340 | 26,765 |
| Net profit for the period | - | - | - | - | - | 1,592 | - | 1,592 | 5 | 1,597 |
| Dividend paid by consolidated companies | - | - | - | - | - | - | - | - | (10) | (10) |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - | - | (17) | - | (17) | - | (17) |
| Other comprehensive loss, net, after effect of taxes | - | - | - | - | 347 | - | - | 347 | - | 347 |
| Changes in non-controlling interests | - | - | - | - | - | - | 1 | 1 | (1) | - |
| Balance at the end of the period | 7,059 | 1,129 | 33 | 8,221 | 316 | 19,853 | (42) | 28,348 | 334 | 28,682 |

| For the nine months ended 30 September 2013 (Unaudited) | | | | | | | | | | |
|---|------------------|---------|---|----------------------------------|---|-------------------|--|--------|---------------------------|---------------|
| | Capital reserves | | | Total share capital and reserves | Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
| | Share capital | Premium | Share-based payment transactions and others (a) | | | | | | | |
| | (NIS millions) | | | | | | | | | |
| Balance at 31 December 2012 (Audited) | 7,059 | 1,129 | 23 | 8,211 | 458 | 16,296 | (44) | 24,921 | 307 | 25,228 |
| Net profit for the period | - | - | - | - | - | 1,599 | - | 1,599 | 33 | 1,632 |
| Dividend paid by consolidated companies | - | - | - | - | - | - | - | - | (6) | (6) |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - | - | 23 | - | 23 | - | 23 |
| Other comprehensive loss, net, after effect of taxes | - | - | - | - | (467) | - | - | (467) | (3) | (470) |
| Changes in non-controlling interests | - | - | - | - | - | 4 | 1 | 5 | - | 5 |
| Balance at the end of the period | 7,059 | 1,129 | 23 | 8,211 | (9) | 17,922 | (43) | 26,081 | 331 | 26,412 |

(a) Including NIS 10 million of other capital reserves.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the period ended 30 September 2014

| | For the year ended 31 December 2013 (Audited) | | | | | | | | | |
|--|---|---------|---|----------------------------------|---|-------------------|--|--------|---------------------------|---------------|
| | Capital reserves | | | Total share capital and reserves | Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
| | Share capital | Premium | Share-based payment transactions and others (a) | | | | | | | |
| | (NIS millions) | | | | | | | | | |
| Balance at 31 December 2012 (Audited) | 7,059 | 1,129 | 23 | 8,211 | 458 | 16,296 | (44) | 24,921 | 307 | 25,228 |
| Net profit for the period | - | - | - | - | - | 1,947 | - | 1,947 | 42 | 1,989 |
| Dividend paid by consolidated companies | - | - | - | - | - | - | - | - | (6) | (6) |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - | - | 24 | - | 24 | - | 24 |
| Benefit to employees in respect of share-based payments | - | - | 10 | 10 | - | - | - | 10 | - | 10 |
| Other comprehensive loss, net, after effect of taxes | - | - | - | - | (489) | - | - | (489) | (3) | (492) |
| Other adjustments in respect of companies included on equity basis | - | - | - | - | - | 11 | - | 11 | - | 11 |
| Loans to employees for purchase of the Bank's shares | - | - | - | - | - | - | 1 | 1 | - | 1 |
| Balance at 31 December 2013 (Audited) | 7,059 | 1,129 | 33 | 8,221 | (31) | 18,278 | (43) | 26,425 | 340 | 26,765 |

(a) Including NIS 10 million of other capital reserves.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows for the periods ended 30 September 2014

| | For the three months ended 30 September | | For the nine months ended 30 September | | For the year ended 31 December |
|--|--|--------------|---|----------------|--------------------------------------|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | (Unaudited) | | (Audited) | | |
| | (NIS millions) | | | | |
| Cash flows generated by operating activity | | | | | |
| Net profit for the period | 688 | 567 | 1,597 | 1,632 | 1,989 |
| Adjustments: | | | | | |
| Group share in undistributed profits of companies included on equity basis (a) | (337) | 24 | (264) | 164 | 340 |
| Depreciation of buildings and equipment (including impairment) | 177 | 179 | 539 | 589 | 768 |
| Decrease in provision for impairment of fixed assets | - | - | - | - | - |
| Amortization | 44 | 79 | 58 | 85 | 88 |
| Expenses (income) in respect of credit losses | 56 | (44) | (11) | 113 | 268 |
| Provision for impairment in assets transferred to Group ownership | (96) | - | (102) | - | 1 |
| Net gains on sale of securities available for sale (including impairment) | (208) | (236) | (483) | (676) | (747) |
| Realized and unrealized loss (gain) from adjustment to fair value of securities held for trading | (167) | 4 | (384) | 52 | (35) |
| Gain on realization of investment in companies included on equity basis | - | (1) | - | (18) | (15) |
| Loss (gain) on realization of buildings and equipment | - | (12) | (26) | (26) | (25) |
| Expenses deriving from share-based payment transactions | - | - | - | - | 10 |
| Deferred taxes , net | (31) | (83) | (12) | (109) | (127) |
| Severance pay and pension - increase in excess of provision over amount funded | (48) | (21) | (5) | 81 | 132 |
| Interest received in excess of accumulated interest (not yet received) for debentures available for sale | 33 | (24) | (150) | (78) | (140) |
| Interest not yet paid for debentures and subordinated notes | 312 | 136 | 792 | 601 | 1,428 |
| Effect of exchange-rate differences on balances of cash and cash equivalents | (389) | 75 | (374) | 475 | 653 |
| Other, net | (28) | (2) | (30) | (1) | (2) |
| Net change in current assets: | | | | | |
| Deposits in banks | 2,668 | 676 | 49 | 302 | 1,112 |
| Credit to the public | (4,072) | (2,857) | (8,033) | (582) | (893) |
| Credit to governments | (24) | (56) | 51 | (92) | (118) |
| Securities borrowed or purchased under agreements to resell | (385) | 875 | (659) | 337 | 75 |
| Assets in respect of derivative instruments | (4,365) | 934 | (3,168) | 492 | (1,595) |
| Securities held for trading | (461) | (1,780) | 172 | 33 | 652 |
| Other assets | (2) | (60) | (156) | (27) | 279 |
| Net change in current liabilities: | | | | | |
| Deposits from banks | (449) | (438) | 445 | (230) | 283 |
| Deposits of the public | 5,440 | 4,651 | (497) | (8,483) | (1,986) |
| Deposits from governments | 13 | (12) | (23) | (2) | (38) |
| Securities lent or sold under agreements to repurchase | 425 | (923) | 548 | (601) | (381) |
| Liabilities in respect of derivative instruments | 3,545 | (575) | 2,173 | (576) | 856 |
| Other liabilities | 380 | 620 | 974 | 956 | 1,158 |
| Net cash generated by operating activity (for operating activity) | 2,719 | 1,696 | (6,979) | (5,589) | 3,990 |

(a) Less dividend received, not including effect of the results of the Israel Corporation for the three month period ended 30 September 2014. The effect of significant events in the Israel Corporation, in respect of which Immediate Reports were published, that have quantitative effects were included in the results for the period ended 30 September 2014. See Note 1.B.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows (cont'd) for the periods ended 30 September 2014

| | For the three months ended 30 September | | For the nine months ended 30 September | | For the year ended 31 December |
|--|--|----------------|---|-----------------|--------------------------------------|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | (Unaudited) | | | | (Audited) |
| | (NIS millions) | | | | |
| Cash flows generated by investment activity | | | | | |
| Acquisition of securities available for sale | (7,209) | (15,545) | (19,324) | (46,754) | (61,350) |
| Proceeds from sale of securities available for sale | 4,968 | 10,393 | 18,784 | 27,427 | 33,528 |
| Proceeds from redemption of securities available for sale | 7,377 | 3,913 | 20,193 | 14,567 | 19,785 |
| Acquisition of shares in companies included on equity basis | - | - | (49) | (66) | (67) |
| Proceeds from realization of investment in companies included on equity basis | - | 1 | - | 73 | 73 |
| Acquisition of buildings and equipment | (187) | (192) | (552) | (546) | (698) |
| Proceeds from realization of buildings and equipment | - | 19 | 22 | 36 | 39 |
| Proceeds from realization of assets transferred to Group ownership | - | - | 3 | 3 | 3 |
| Net cash for investment activity | 4,949 | (1,411) | 19,077 | (5,260) | (8,687) |
| Cash flows generated by financing activity | | | | | |
| Redemption of debentures and subordinated notes | (889) | (2,127) | (2,301) | (2,530) | (3,512) |
| Additional purchase of shares in consolidated companies | - | - | (1) | - | - |
| Dividend paid to minority shareholders of consolidated companies | - | - | (10) | (6) | (6) |
| Loans to employees for purchase of the Bank's shares | 39 | - | 40 | 1 | 1 |
| Net cash for financing activity | (850) | (2,127) | (2,272) | (2,535) | (3,517) |
| Decrease in cash and cash equivalents | 6,818 | (1,842) | 9,826 | (13,384) | (8,214) |
| Balance of cash and cash equivalents at beginning of period | 45,770 | 39,702 | 42,777 | 51,644 | 51,644 |
| Effect of movements in exchange rates on cash balances and cash equivalents | 389 | (75) | 374 | (475) | (653) |
| Balance of cash and cash equivalents at end of period | 52,977 | 37,785 | 52,977 | 37,785 | 42,777 |

Interest and taxes paid and/or received and dividends received

| | For the three months ended 30 September | | For the nine months ended 30 September | | For the year ended 31 December |
|----------------------|--|---------|---|---------|--------------------------------------|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | (Unaudited) | | | | (Audited) |
| | (NIS millions) | | | | |
| Interest received | 2,392 | 3,126 | 7,584 | 9,482 | 12,474 |
| Interest paid | (1,040) | (1,786) | (2,510) | (4,360) | (5,360) |
| Dividends received | 9 | 10 | 37 | 59 | 75 |
| Taxes paid on income | 679 | (281) | (139) | (826) | (1,238) |

**Condensed Consolidated Statement of Cash Flows (cont'd)
for the periods ended 30 September 2014****Appendix A – Investment and financing activities not in cash:****For the year ended 31 December, 2013:**

- (1) During the year, assets were transferred from credit to the public to other assets in the amount of NIS 2 million, in respect of the settlement of loans.
- (2) During the year, fixed assets were acquired against a liability to suppliers in the amount of NIS 24 million.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Note 1 - Significant Accounting Policies

(A) General

The condensed consolidated interim financial statements as at 30 September 2014 have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) for financial reporting of interim periods and in accordance with the directives and instructions of the Supervisor of Banks regarding the preparation of quarterly financial statements of a banking corporation. The accounting principles used in preparing the interim reports are consistent with those used in preparing the audited financial statements as at 31 December 2013, except for that stated in paragraph C below. These statements should be read in conjunction with the annual financial statements as at 31 December 2013 and the accompanying notes.

The condensed consolidated interim financial statements were approved for publication by the Board of Directors on 23 November 2014.

(B) Principles for the preparation of the financial statements:

On subjects that are a core part of the banking business – in accordance with the directives and instructions of the Supervisor of Banks and in accordance with accounting principles generally accepted by US banks that were adopted within the framework of the Public Reporting Directives of the Supervisor of Banks.

On subjects that are not a core part of the banking business –in accordance with accounting principles generally accepted in Israel (Israeli GAAP) and in accordance with certain International Financial Reporting Standards (IFRS) and interpretations of the International Reporting Standards Interpretations Committee (IFRIC) relating to them, as set out in Public Reporting Directives of the Supervisor of Banks.

International standards are implemented as follows:

- In cases where there is no specific reference in the standards or interpretations to material issues, or there are a number of alternatives for the treatment of a material issue, the Bank acts according to specific implementation instructions decided on by the Supervisor.
- In cases where a material issue arises, which is not addressed in the international standards or the Supervisor's implementation instructions, the Bank treats the issue in accordance with generally accepted accounting principles in US banks that are applicable to those issues.
- In those places where an international standard that has been adopted contains a reference to another international standard which has been adopted in the Public Reporting Directives, the Bank acts in accordance with the provisions of the other international standard and the relevant instructions of the Banking Supervision Department.
- In those places where an international standard that has been adopted contains a reference to the definition of a term defined in the Public Reporting Directives, the reference to the definition in the Directives will replace the original reference.
- In those places where an international standard that has been adopted contains a reference to another international standard which has not been adopted in the Public Reporting Directives, the Bank acts in accordance with the Reporting Directives and with generally accepted accounting principles in Israel.

Use of estimates

When preparing the financial statements, in accordance with generally accepted accounting principles in Israel and directives and guidelines of the Supervisor of Banks, management is required to use estimates, evaluations and their discretion affecting the reported amounts of assets and liabilities, the disclosure relating to contingent assets and liabilities and amounts of income and expenses during the reporting period. It should be made clear that the actual results may differ from such estimates.

The estimates and the assumptions on which they are based are reviewed on a regular basis. Changes in accounting estimates are recognized in the period in which the estimates are amended and for each period affected in the future.

The estimates and the assessments are consistent with those used in preparing the annual financial statements.

Reclassification

Pursuant to the first-time implementation of certain accounting standards and directives of the Banking Supervision Department (see paragraph C below), certain sections in the financial statements and comparative figures have been reclassified to agree with the section headings and the manner of presentation in the current reporting period.

Bringing forward the date of publication of the financial statements

As a result of the instructions of the Bank of Israel regarding bringing forward the date of publication of the financial statements, a reporting gap was created between the end of the reporting period of the Israel Corporation and the end of the reporting period of the Bank. The Bank applies IAS28 that allows in such cases when applying the equity method, to use the financial statements of the Israel Corporation prepared at a date prior to that of the Bank with a three-month gap ("the reporting gap"). The reporting periods and the reporting gap between the end of the reporting periods will remain the same from period to period. In addition, when applying the equity method, adjustments will be made for the effect of significant transactions or significant events occurring in the reporting gap which are based on reliable and finite financial data.

The manner of transition to financial reporting including the initial reporting gap relating to the financial statements published in 2014 is made on a prospective basis.

As a result, in the third quarter of 2014, the effect of the results of the Israel Corporation for the second quarter of 2014 was recorded in the statements of the Bank, and the effect of the results of the Israel Corporation for the third quarter will be included in the statements of the Bank for the fourth quarter of the year 2014. This reporting gap is permanent.

Consistent with the above mentioned, the Bank made adjustments in respect of two significant transactions occurring in the reporting gap (these events will be reflected in the reports of the Israel Corporation for the third quarter), since in the Bank's opinion these are material events whose effect can be established in a reliable manner. For further information, see Note 6D.

Below is the effect of the reporting gap on the Bank's results for the three and nine month periods ended 30 September 2014 and prior periods, which have been reported in the past, had the Bank, at the initial implementation of the said accounting treatment, included the effect of the results of the Israel Corporation as if there were a reporting gap already in previous periods:

Below are figures of the pro-forma net profit of the Group:

| | For the three months ended 30 September 2014 (NIS millions) | | For the nine months ended 30 September 2014 (NIS millions) | | 31 December 2013 |
|--|--|-------------------|---|-------------------|---------------------|
| | | 30 September 2013 | | 30 September 2013 | |
| Net income as reported | 677 | 555 | 1,592 | 1,599 | 1,947 |
| Amendment in respect of the losses of a company included on equity basis with a gap of one quarter | - | (31) | (180) | (180) | (32) |
| Net profit – pro-forma | 677 (a) | 524 (b) | 1,412 (a) | 1,419 (b) | 1,915(c) |

- (a) Results of the Israel Corporation included for the three and nine month periods ended 30 June 2014 respectively, including adjustments for significant transactions.
- (b) Results of the Israel Corporation included for the three and nine month periods ended 30 June 2013 respectively.
- (c) Results of the Israel Corporation included for the twelve month period ended 30 September 2013.

(C) First-time Implementation of Accounting Standards, Updates to Accounting Standards, and Directives of the Banking Supervision Department

For reporting periods commencing 1 January 2014, the Bank implements the accounting standards and directives set out below:

1. Format of the statement of profit and loss for a banking corporation and adoption of generally accepted accounting principles in U.S. banks on the measurement of interest income

As of 1 January, 2014, the Bank applies the instructions set forth in the circular of the Banking Supervision Department regarding adoption of generally accepted accounting principles in U.S. banks on the measurement of interest income (ASC 310-20).

The circular establishes rules for the treatment of commissions from loan origination, commitments to extend credit, changes in the terms of a debt, and early repayment commission.

The main changes relate to the deferment of commission in respect of granting credit and credit allocation commissions, not spreading early repayment commissions and the treatment of changes in debt terms. Following implementation of the directive, certain income was reclassified to interest income.

Credit origination commissions

Commissions charged for originating credit, excluding loans for a period up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the life of the loan as an adjustment of the return. Income from the said commissions will be charged under the effective interest rate method and reported as part of interest income.

Credit allocation commissions

Credit allocation commissions are accounted for in accordance with the likelihood of the realization of the obligation to provide credit. If this is remote, the commission is recognized on a straight line basis over the term of the commitment, or the Bank defers recognition of income from such commissions until the date of exercise of the commitment or the date of expiry, whichever the earlier. If the commitment fee is recognized then the commissions are recognized by way of adjusting the yield over the life of the loan as stated above. If the commitment expires

unexercised, the commissions are recognized on the date of expiration and reported as part of income from commissions. For this purpose the Bank assumes that the probability of realizing the commitment is not remote.

Change in the terms of a debt

In cases of refinancing or restructuring of debts that are not problematic, the Bank considers whether the loan terms were changed significantly, if the present value of cash flows under the new terms of the loan were changed by at least 10% of the present value of the remaining cash flows under the existing conditions, or if there was a change in the currency of the loan etc. In such cases all commissions not yet amortized and early repayment commissions collected from the customer due to change in credit terms are recognized in profit or loss, or the above commissions are included as part of the net investment in the new loan and recognized as adjustments to the return as stated above.

Early Repayment Commissions

Early repayment commissions charged for early repayment, performed before 1 January 2014 and not yet amortized, are recognized over a period of three years or the remaining term of the loan, whichever is shorter. Commissions that were charged for early repayment performed after 1 January, 2014, are immediately recognized as part of interest income.

Effect of initial implementation

Implementation of the Directive is in a prospective manner.

Below is a disclosure of the effect of implementation of this directive on the net interest income, non-interest income, and the net profit of the bank in the three and nine month period ended 30 September 2014:

| For the three months ended 30 September 2014 (Unaudited) | | | |
|---|---|---|---|
| | Pursuant to the directive on measurement of interest income | Effect of implementation of the directive on measurement of interest income | Pursuant to previous reporting directives |
| | NIS millions | | |
| Interest income, net | 1,899 | (39) | 1,860 |
| Commissions | 1,033 | 53 | 1,086 |
| Net profit (after tax) | 677 | 9 | 735 |

| For the nine months ended 30 September 2014 (Unaudited) | | | |
|--|---|---|---|
| | Pursuant to the directive on measurement of interest income | Effect of implementation of the directive on measurement of interest income | Pursuant to previous reporting directives |
| | NIS millions | | |
| Interest income, net | 5,561 | (130) | 5,431 |
| Commissions | 3,113 | 158 | 3,271 |
| Net profit (after tax) | 1,592 | 17 | 1,658 |

2. Amounts reclassified outside other comprehensive income

On 30 September 2013, a circular was published concerning reporting amounts reclassified out of accumulated other comprehensive income. The circular includes disclosure requirements as follows:

- a. A new disclosure requirement in the note on accumulated other comprehensive income about the amounts reclassified out of accumulated other comprehensive income.
- b. A new disclosure requirement in the note on non-interest financing income about items in which were included the amounts reclassified from accumulated other comprehensive income.

The Bank implemented the directive from 1 January 2014 by way of retroactive implementation.

Implementation of the circular had no impact on the financial statements except on the presentation of the note on accumulated other comprehensive income (loss).

(D) New accounting standards and directives of the Supervisor of Banks in the period prior to their implementation

1. Adoption of US GAAP regarding employee rights

On 9 April 2014, the Supervisor of Banks published a circular regarding the adoption of the accounting rules in the United States on the subject of employee rights. The circular updates the recognition, measurement and disclosure requirements regarding benefits to employees in the Public Reporting Directives in accordance with the generally accepted accounting principles in banks in the United States.

The circular provides that the amendments to the Public Reporting Directives will apply from 1 January 2015, with the Bank, on initial implementation, correcting with retroactive effect the comparative figures for the period commencing 1 January 2013 and onwards, in order to comply with the requirement of the rules as aforesaid, *inter alia*, in accordance with the provisions of the circular:

- The temporary provision was cancelled in existing directives that determined the discount rate for calculating reserves to cover employee rights (at a rate of 4%). The discounting rate for computing the liability in respect of the employees' rights will be based on the market return on government bonds in Israel. It is stated in the circular that if it will be determined that there is a deep market of high-quality corporate debentures in Israel, the Bank of Israel will reconsider its instruction to make use of market yields of government bonds (see updated reference by the Bank of Israel to the discount rate below).
- A banking corporation must apply the accounting principles generally accepted in banks in the United States regarding share-based payments as stated in ASC 718 – Compensation - Stock Compensation.

Pursuant to the circular published by the Banking Supervision Department, the Bank is required to provide disclosure in the financial statements of at least the estimate of the quantitative effect on the shareholders' equity of the calculation of the liabilities for employees' rights due to the change in the discount rate. According to the Bank's assessment, if the new directives were applied at 30 September 2014 in accordance with the present interest environment, the expected effect on the shareholders' equity of the Bank as of 30 September 2014 in respect of the impact of the change in the discount rate would be a reduction of some NIS 3.8 billion, after the effect of tax (NIS 5.9 billion before the effect of tax), based on the market yield of government bonds at the reporting date.

If the liabilities were discounted on the basis of the market yields of AA-rated corporate debentures in Israel at the reporting date, a treatment which is consistent with the existence of a "deep market"

for high-quality corporate debentures in Israel, the expected impact on the Bank's shareholders' equity as of 30 September 2014 is a reduction of NIS 2.0 billion after the effect of tax (NIS 3.1 billion before the effect of tax). It is clear that this liability will be revised in accordance with changes in the relevant market interest rates in subsequent years.

On 20 November 2014, the Banking Supervision Department published a supplementary draft circular, which includes updates on the following subjects: the discount rate, transitional provisions on the initial implementation of the new rules, and the disclosure format on the subject of employee rights and the subject of share-based payments.

On the subject of the discount rate, it is stipulated in the circular that the Bank of Israel reached the conclusion that there is no "deep market" of high-quality corporate debentures in Israel. Accordingly, the draft stipulates that the discount rate for employee benefits will be calculated based on the yield of Israel government bonds plus an average margin of corporate bonds rated internationally as AA and above. The calculation of the margin will be based, according to the draft, on corporate bond margins in the US. In light of the proximity of the dates between the publication of the draft circular and the publication of the financial statements, no estimate was calculated for the alternative of US corporate bonds, but the Bank believes that if the provisions of the circular on this subject had been applied at the reporting date, there would have been a smaller decrease in equity than that shown above based on market yields at the reporting date on government bonds, but higher than the decrease in equity shown above based on market yields at the reporting date on corporate bonds rated AA in Israel.

On the subject of the transitional provisions, the draft stipulates that the negative effect on equity that stems from a change in the discount rate will be included in the framework of accumulated other comprehensive income. This balance will be offset from actuarial profits that will stem from current changes in the discount rates in future reporting periods, until they are cancelled out. In addition, provisions were set forth in the draft regarding the method of amortizing to profit and loss of actuarial profits and losses to be recorded in other comprehensive income as a result of changes in the discounting rates after the date of initial implementation.

The Bank will examine the possible implications of the provisions of the draft.

It should be clarified that the adoption of United States accounting principles on the subject of employees' rights could have additional effects on the Bank's capital. One of those possible effects is the method and period for accruing liabilities. From preliminary estimates and interpretations, it appears that the effect of change in the method of accruing liabilities is liable to result in a further reduction in shareholders' equity of some NIS 0.25 billion after the effect of tax (NIS 0.4 billion before the effect of tax). The Bank is examining further interpretations of the way of spreading liabilities and/or additional effects that are likely to increase these estimates.

Despite the significant effect of a reduction in the Bank's shareholders' equity, for the purpose of computing the capital requirement in accordance with the Basel III regulations, pursuant to the transitional provisions provided in the Proper Conduct of Banking Business Management Regulation No. 299, the balance of the accumulated profit or loss in respect of the remeasurements of net liabilities or net assets, in respect of a defined benefit for employees, will not be taken into account immediately, but, subject to the transitional provisions, in such a way that its effect will be spread until 2018.

For further details, see pages 44-50 in the 2013 Financial Report.

2. Collective allowance for credit losses

On 18 July 2013, a draft circular to update the Public Reporting Directives on the "Collective Allowance for Credit Losses" was forwarded for discussion to the Advisory Committee. The draft extends the applicability of the temporary provision on the subject of calculating a collective allowance for credit losses and provides comments and guidance for the method of calculation of the rate of the allowance, taking into account the adjustments required in respect of environmental factors. In addition, the draft requires significant expansion of the requirements for documentation

supporting the rates of allowance and the requirements for reporting to management and the Board of Directors.

The expected impact due to implementation of the guidelines in connection with calculating past loss rates will be dealt with by way of changing the estimate and will be recognized in profit or loss.

The initial date of implementation has not yet been finalized. At this stage, the Bank is unable to estimate the effect of adopting the draft once it is implemented.

3. Supervisory operating segments

On 3 November 2014, the Supervisor of Banks published a circular on the subject of reporting on supervisory operating segments. The circular updates the Public Reporting Directives regarding the requirement of reporting on supervisory operating segments as follows:

A requirement was added for disclosure on "supervisory operating segments" pursuant to the definitions of the Banking Supervision Department. The disclosure format includes the following segments: private banking, households, micro and small businesses, medium-size businesses, large businesses, institutional entities, and financial management.

Definitions were added to explain which customers will be included in each segment.

A separate disclosure requirement was added on the "Financial Management" segment.

It was clarified that a banking corporation that according to the approach of its management its operating segments differ substantially from the supervisory operating segments, a further disclosure will be made on operating segments pursuant to the approach of management.

The circular is not expected to have any effect of the financial statements apart from an effect on showing operating segments. Pursuant to the circular, as of the report for the year 2015, there will be a requirement in connection with balance sheet data. The remaining requirements in connection with the disclosures will apply as of the report of the first quarter of 2016.

4. Distinction between liabilities and equity

On 30 September 2014, the Supervisor of Banks published a circular on the subject of reporting of banking corporations and credit card companies in Israel according to generally accepted accounting principles in the US relating to the distinction between liabilities and equity.

According to the circular, a banking corporation is required to adopt the generally accepted accounting principles in US banks concerning examining the classification as equity or as liabilities of financial instruments including compound instruments. A banking corporation is to implement the generally accepted accounting principles in US banks concerning this subject and, inter alia, the rules for reporting, measurement and disclosure set forth in the provisions of Accounting Standards Codification 480 – "Distinguishing Liabilities from Equity", the provisions of Accounting Standards Codification 470-20 – "Debt with Conversion and Other Options", and the provisions of Accounting Standards Codification 505-30 – "Treasury Stock". In addition, in implementing the distinction between liabilities and equity, reference is to be made to the provisions of the Public Reporting Directives concerning embedded instruments as shown in Part A.1 on "Derivative Instruments and Hedging Activities".

The directives will be applicable from 1 January 2015 and thereafter, and at the time of initial implementation it is required to act pursuant to the transitional provisions determined for the above matters, including amendment of comparative figures, if necessary.

The Bank is examining the effect of adoption of the above rules on the financial statements.

Note 2 - Securities

| As at 30 September 2014 (Unaudited) | | | | | |
|---|-------------------------|---|--|---|----------------|
| | Balance sheet amount | Amortized cost (in shares - cost) | Accumulated other comprehensive profit (loss) | | Fair value (a) |
| | | | Profits | Losses | |
| | (NIS millions) | | | | |
| 1. Securities available for sale: | | | | | |
| Debentures - | | | | | |
| Government of Israel | 12,706 | 12,403 | 303 | - | 12,706 |
| Foreign governments | 3,526 | 3,517 | 11 | (2) | 3,526 |
| Financial institutions in Israel | 101 | 94 | 7 | - | 101 |
| Financial institutions abroad | 4,421 | 4,352 | 83 | (14) | 4,421 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 7,250 | 7,324 | 37 | (111) | 7,250 |
| Others in Israel | 725 | 692 | 33 | - | 725 |
| Others abroad | 2,636 | 2,619 | 35 | (18) | 2,636 |
| | 31,365 | 31,001 | 509 | (145) | 31,365 |
| Shares and mutual funds (b) | 3,595 | 3,160 | 456 | (21) | 3,595 |
| Total securities available for sale | 34,960 | 34,161 | 965 (c) | (166) (c) | 34,960 |
| As at 30 September 2014 (Unaudited) | | | | | |
| | Balance sheet amount | Amortized cost (in shares - cost) | Unrealized profits from adjustments to fair value | Unrealized losses from adjustments to fair value | Fair value (a) |
| | (NIS millions) | | | | |
| 2. Securities held for trading: | | | | | |
| Debentures - | | | | | |
| Government of Israel | 8,124 | 8,049 | 76 | (1) | 8,124 |
| Foreign governments | 203 | 197 | 6 | - | 203 |
| Financial institutions in Israel | 530 | 528 | 3 | (1) | 530 |
| Financial institutions abroad | 239 | 237 | 4 | (2) | 239 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 559 | 557 | 4 | (2) | 559 |
| Others in Israel | 394 | 390 | 5 | (1) | 394 |
| Others abroad | 632 | 626 | 10 | (4) | 632 |
| | 10,681 | 10,584 | 108 | (11) | 10,681 |
| Shares and mutual funds | 417 | 316 | 101 | - | 417 |
| Total securities held for trading | 11,098 | 10,900 | 209 (d) | (11) (d) | 11,098 |
| Total securities (e) (f) | 46,058 | 45,061 | 1,174 | (177) | 46,058 |

See notes on page 167.

Note 2 - Securities (cont'd)

| As at 30 September 2013 (Unaudited) | | | | | |
|---|-------------------------|---|--|---|----------------|
| | Balance sheet amount | Amortized cost (in shares - cost) | Accumulated other comprehensive profit (loss) | | Fair value (a) |
| | | | Profits | Losses | |
| | (NIS millions) | | | | |
| 1. Securities available for sale: | | | | | |
| Debentures - | | | | | |
| Government of Israel | 26,948 | 26,771 | 204 | (27) | 26,948 |
| Foreign governments | 3,797 | 3,793 | 7 | (3) | 3,797 |
| Financial institutions in Israel | 130 | 126 | 6 | (2) | 130 |
| Financial institutions abroad | 5,512 | 5,451 | 90 | (29) | 5,512 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 7,490 | 7,584 | 38 | (132) | 7,490 |
| Others in Israel | 831 | 789 | 43 | (1) | 831 |
| Others abroad | 2,098 | 2,087 | 29 | (18) | 2,098 |
| | 46,806 | 46,601 | 417 | (212) | 46,806 |
| Shares and mutual funds (b) | 2,771 | 2,705 | 152 | (86) | 2,771 |
| Total securities available for sale | 49,577 | 49,306 | 569 (c) | (298) (c) | 49,577 |
| As at 30 September 2013 (Unaudited) | | | | | |
| | Balance sheet amount | Amortized cost (in shares - cost) | Unrealized profits from adjustments to fair value | Unrealized losses from adjustments to fair value | Fair value (a) |
| | (NIS millions) | | | | |
| 2. Securities held for trading: | | | | | |
| Debentures - | | | | | |
| Government of Israel | 8,512 | 8,434 | 84 | (6) | 8,512 |
| Foreign governments | 435 | 441 | - | (6) | 435 |
| Financial institutions in Israel | 330 | 327 | 3 | - | 330 |
| Financial institutions abroad | 126 | 125 | 2 | (1) | 126 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 398 | 404 | 2 | (8) | 398 |
| Others in Israel | 509 | 497 | 12 | - | 509 |
| Others abroad | 659 | 669 | 3 | (13) | 659 |
| | 10,969 | 10,897 | 106 | (34) | 10,969 |
| Shares and mutual funds | 438 | 407 | 32 | (1) | 438 |
| Total securities held for trading | 11,407 | 11,304 | 138 (d) | (35) (d) | 11,407 |
| Total securities (e) (f) | 60,984 | 60,610 | 707 | (333) | 60,984 |

See notes on page 167.

Note 2 - Securities (cont'd)

| As at 31 December 2013 (Audited) | | | | | |
|---|-------------------------|---|--|---|----------------|
| | Balance sheet amount | Amortized cost (in shares - cost) | Accumulated other comprehensive profit (loss) | | Fair value (a) |
| | (NIS millions) | | Profits | Losses | |
| 1. Securities available for sale: | | | | | |
| Debentures - | | | | | |
| Government of Israel | 30,736 | 30,552 | 201 | (17) | 30,736 |
| Foreign governments | 3,843 | 3,840 | 6 | (3) | 3,843 |
| Financial institutions in Israel | 105 | 100 | 6 | (1) | 105 |
| Financial institutions abroad | 5,280 | 5,213 | 87 | (20) | 5,280 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 7,346 | 7,474 | 34 | (162) | 7,346 |
| Others in Israel | 721 | 683 | 39 | (1) | 721 |
| Others abroad | 2,002 | 1,992 | 28 | (18) | 2,002 |
| | 50,033 | 49,854 | 401 | (222) | 50,033 |
| Shares and mutual funds (b) | 2,828 | 2,744 | 156 | (72) | 2,828 |
| Total securities available for sale | 52,861 | 52,598 | 557(c) | (294)(c) | 52,861 |
| As at 31 December 2013 (Audited) | | | | | |
| | Balance sheet amount | Amortized cost (in shares - cost) | Unrealized profits from adjustments to fair value | Unrealized losses from adjustments to fair value | Fair value (a) |
| | (NIS millions) | | | | |
| 2. Securities held for trading: | | | | | |
| Debentures - | | | | | |
| Government of Israel | 7,104 | 7,057 | 56 | (9) | 7,104 |
| Foreign governments | 1,028 | 1,036 | - | (8) | 1,028 |
| Financial institutions in Israel | 327 | 322 | 5 | - | 327 |
| Financial institutions abroad | 116 | 114 | 2 | - | 116 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 279 | 282 | 1 | (4) | 279 |
| Others in Israel | 409 | 400 | 9 | - | 409 |
| Others abroad | 520 | 529 | 3 | (12) | 520 |
| | 9,783 | 9,740 | 76 | (33) | 9,783 |
| Shares and mutual funds | 1,091 | 1,017 | 78 | (4) | 1,091 |
| Total securities held for trading | 10,874 | 10,757 | 154 (d) | (37)(d) | 10,874 |
| Total securities (e) (f) | 63,735 | 63,355 | 711 | (331) | 63,735 |

See notes on next page.

Note 2 - Securities (Cont'd)**Notes:**

- (a) Fair value amounts are generally based on Stock Exchange prices, which do not necessarily reflect the price which would be received for the sale of a large volume of securities.
- (b) The balance sheet figure includes NIS 1,570 million with respect to shares which have no readily available fair value, which are shown at cost (30 September 2013 - NIS 415 million, 31 December 2013 - NIS 1,363 million).
- (c) Regarding securities available for sale, other comprehensive income (loss) – unrealized profits (losses) are included in equity under "Other comprehensive income (loss), net, after the effect of taxes", except for securities designated as fair value hedges.
- (d) Charged to the profit and loss statement, but not yet realized.
- (e) Of which a balance sheet value of NIS 10 million (30 September 2013 - NIS 26 million, 31 December 2013 - NIS 27 million), in respect of bonds of companies included on equity basis.
- (f) Including impaired bonds of NIS 32 million (30 September 2013 - NIS 32 million, 31 December 2013 - NIS 26 million).

General notes:

Securities lent in the amount of NIS 147 million (30 September 2013 - NIS 507 million, 31 December 2013 - NIS 571 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 1,672 million (30 September 2013 – NIS 1,527 million, 31 December 2013 – NIS 1,458 million).

For details of results of activity in investments in bonds and shares and in mutual funds – see Notes 9 and 10.

The distinction between Israeli bonds and foreign bonds is made according to the country of domicile of the issuing entity.

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities available for sale**

| | As at 30 September 2014 (Unaudited) | | | | |
|---|-------------------------------------|-------------------|--|--------------|---------------|
| | Balance sheet amount | Amortized cost | Accumulated other comprehensive income (loss) (a) | | Fair value |
| | | | Profits | Losses | |
| | (NIS millions) | | | | |
| 3. Debentures available for sale | | | | | |
| Pass-through securities | | | | | |
| Securities guaranteed by GNMA | 183 | 183 | 1 | (1) | 183 |
| Securities issued by FNMA and FHLMC | 1,548 | 1,587 | - | (39) | 1,548 |
| Total | 1,731 | 1,770 | 1 | (40) | 1,731 |
| Other mortgage-backed securities (including CMO and STRIPPED MBS) | | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 3,043 | 3,101 | 2 | (60) | 3,043 |
| Other mortgage-backed securities | 493 | 492 | 5 | (4) | 493 |
| Total | 3,536 | 3,593 | 7 | (64) | 3,536 |
| Asset-backed securities (ABS) | | | | | |
| Credit card receivables | 88 | 90 | - | (2) | 88 |
| Lines of credit for any purpose secured by dwelling | 2 | 2 | - | - | 2 |
| Other credit to private persons | 3 | 3 | - | - | 3 |
| Credit not to private persons | 1 | 1 | - | - | 1 |
| CLO-type debentures | 1,889 | 1,865 | 29 | (5) | 1,889 |
| Total | 1,983 | 1,961 | 29 | (7) | 1,983 |
| Total mortgage-backed and asset-backed debentures available for sale | 7,250 | 7,324 | 37 | (111) | 7,250 |

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after effect of taxes.

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)**

| | As at 30 September 2014 (Unaudited) | | | | |
|---|--|-------------------|--|---|------------|
| | Balance sheet amount (NIS millions) | Amortized cost | Unrealized profits from adjustments to fair value (a) | Unrealized losses from adjustments to fair value (a) | Fair value |
| 4. Debentures held for trading | | | | | |
| Pass-through securities | | | | | |
| Securities issued by FNMA and FHLMC | 10 | 10 | - | - | 10 |
| Total | 10 | 10 | - | - | 10 |
| Other mortgage-backed securities (including CMO and STRIPPED MBS) | | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 251 | 252 | - | (1) | 251 |
| Other mortgage-backed securities | 85 | 85 | 1 | (1) | 85 |
| Total | 336 | 337 | 1 | (2) | 336 |
| Asset-backed securities (ABS) | | | | | |
| Credit card receivables | 15 | 15 | - | - | 15 |
| Lines of credit for any purpose secured by dwelling | 1 | 1 | - | - | 1 |
| Credit for purchase of vehicle | 69 | 67 | 2 | - | 69 |
| Other credit to private persons | 16 | 16 | - | - | 16 |
| Credit not to private persons | 32 | 32 | - | - | 32 |
| Others | 80 | 79 | 1 | - | 80 |
| Total | 213 | 210 | 3 | - | 213 |
| Total mortgage-backed and asset-backed debentures held for trading | 559 | 557 | 4 | (2) | 559 |

(a) These profits (losses) were charged to profit and loss.

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)**

| | As at 30 September 2013 (Unaudited) | | | | |
|---|-------------------------------------|-------------------|--|--------------|---------------|
| | Balance sheet amount | Amortized cost | Accumulated other comprehensive income (loss) (a) | | Fair value |
| | | | Profits | Losses | |
| | (NIS millions) | | | | |
| 3. Debentures available for sale | | | | | |
| Pass-through securities | | | | | |
| Securities guaranteed by GNMA | 331 | 333 | 1 | (3) | 331 |
| Securities issued by FNMA and FHLMC | 1,662 | 1,728 | - | (66) | 1,662 |
| Total | 1,993 | 2,061 | 1 | (69) | 1,993 |
| Other mortgage-backed securities (including CMO and STRIPPED MBS) | | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 3,312 | 3,350 | 9 | (47) | 3,312 |
| Other mortgage-backed securities | 323 | 324 | - | (1) | 323 |
| Total | 3,635 | 3,674 | 9 | (48) | 3,635 |
| Asset-backed securities (ABS) | | | | | |
| Credit card receivables | 87 | 87 | - | - | 87 |
| Lines of credit for any purpose secured by dwelling | 2 | 2 | - | - | 2 |
| Other credit to private persons | 3 | 3 | - | - | 3 |
| Credit not to private persons | 1 | 1 | - | - | 1 |
| CLO-type debentures | 1,769 | 1,756 | 28 | (15) | 1,769 |
| Total | 1,862 | 1,849 | 28 | (15) | 1,862 |
| Total mortgage-backed and asset-backed debentures available for sale | 7,490 | 7,584 | 38 | (132) | 7,490 |

(a) Amounts charged to capital reserve as part of other comprehensive income, net after effect of taxes.

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)**

| | As at 30 September 2013 (Unaudited) | | | | |
|--|-------------------------------------|-------------------|--|---|------------|
| | Balance sheet amount | Amortized cost | Unrealized profits from adjustments to fair value (a) | Unrealized losses from adjustments to fair value (a) | Fair value |
| | (NIS millions) | | | | |
| 4. Debentures held for trading | | | | | |
| Pass-through securities | | | | | |
| Other securities | 4 | 4 | - | - | 4 |
| Total | 4 | 4 | - | - | 4 |
| Other mortgage-backed securities (including CMO and STRIPPED MBS) | | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 12 | 12 | - | - | 12 |
| Other mortgage-backed securities | 53 | 56 | - | (3) | 53 |
| Total | 65 | 68 | - | (3) | 65 |
| Asset-backed securities (ABS) | | | | | |
| Credit card receivables | 35 | 35 | - | - | 35 |
| Credit for purchase of vehicle | 172 | 171 | 1 | - | 172 |
| Other credit to private persons | 22 | 22 | - | - | 22 |
| CDO-type debentures | - | 3 | - | (3) | - |
| Others | 100 | 101 | 1 | (2) | 100 |
| Total | 329 | 332 | 2 | (5) | 329 |
| Total mortgage-backed and asset-backed debentures held for trading | 398 | 404 | 2 | (8) | 398 |

(a) These profits (losses) were charged to profit and loss.

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)**

| | As at 31 December 2013 (Audited) | | | | |
|---|----------------------------------|-------------------|--|--------|---------------|
| | Balance sheet amount | Amortized cost | Accumulated other comprehensive income (loss) (a) | | Fair value |
| | | | Profits | Losses | |
| | (NIS millions) | | | | |
| 3. Debentures available for sale | | | | | |
| Pass-through securities | | | | | |
| Securities guaranteed by GNMA | 232 | 233 | 1 | (2) | 232 |
| Securities issued by FNMA and FHLMC | 1,581 | 1,662 | - | (81) | 1,581 |
| Total | 1,813 | 1,895 | 1 | (83) | 1,813 |
| Other mortgage-backed securities (including CMO and STRIPPED MBS) | | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 3,363 | 3,423 | 6 | (66) | 3,363 |
| Other mortgage-backed securities | 355 | 355 | - | - | 355 |
| Total | 3,718 | 3,778 | 6 | (66) | 3,718 |
| Asset-backed securities (ABS) | | | | | |
| Credit card receivables | 85 | 86 | - | (1) | 85 |
| Lines of credit for any purpose secured by dwelling | 2 | 2 | - | - | 2 |
| Other credit to private persons | 3 | 3 | - | - | 3 |
| Credit not to private persons | 1 | 1 | - | - | 1 |
| CLO-type debentures | 1,724 | 1,709 | 27 | (12) | 1,724 |
| Total | 1,815 | 1,801 | 27 | (13) | 1,815 |
| Total mortgage-backed and asset-backed debentures available for sale | 7,346 | 7,474 | 34 | (162) | 7,346 |

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after effect of taxes.

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)**

| | As at 31 December 2013 (Audited) | | | | |
|--|----------------------------------|-------------------|--|---|------------|
| | Balance sheet amount | Amortized cost | Unrealized profits from adjustments to fair value (a) | Unrealized losses from adjustments to fair value (a) | Fair value |
| | (NIS millions) | | | | |
| 4. Debentures held for trading | | | | | |
| Pass-through securities | | | | | |
| Other securities | 4 | 4 | - | - | 4 |
| Total | 4 | 4 | - | - | 4 |
| Other mortgage-backed securities (including CMO and STRIPPED MBS) | | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 11 | 11 | - | - | 11 |
| Other mortgage-backed securities | 73 | 76 | - | (3) | 73 |
| Total | 84 | 87 | - | (3) | 84 |
| Asset-backed securities (ABS) | | | | | |
| Credit for purchase of vehicle | 57 | 56 | 1 | - | 57 |
| Other credit to private persons | 16 | 16 | - | - | 16 |
| Others | 118 | 119 | - | (1) | 118 |
| Total | 191 | 191 | 1 | (1) | 191 |
| Total mortgage-backed and asset-backed debentures held for trading | 279 | 282 | 1 | (4) | 279 |

(a) These profits (losses) were charged to profit and loss.

Note 2 - Securities (cont'd)

Additional information in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position

| | 30 September 2014 (Unaudited) | | | | | | | | | |
|---|-------------------------------|-------|---------|---------------|-------|---------------------|-------|---------|---------------|-------|
| | Less than 12 months | | | | | 12 months and above | | | | |
| | Unrealized losses | | | | | Unrealized losses | | | | |
| | Fair value | 0-20% | 20%-35% | More than 35% | Total | Fair value | 0-20% | 20%-35% | More than 35% | Total |
| | (NIS millions) | | | | | | | | | |
| Bonds | | | | | | | | | | |
| Government of Israel | 88 | - | - | - | - | 29 | - | - | - | - |
| Foreign governments | 597 | 1 | - | - | 1 | 109 | 1 | - | - | 1 |
| Financial institutions in Israel | 5 | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 559 | 6 | - | - | 6 | 276 | 8 | - | - | 8 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 1,398 | 10 | - | - | 10 | 3,882 | 101 | - | - | 101 |
| Others in Israel | 72 | - | - | - | - | - | - | - | - | - |
| Others abroad | 158 | 1 | - | - | 1 | 837 | 17 | - | - | 17 |
| Shares | 1 | - | - | - | - | 614 | 21 | - | - | 21 |
| Total securities available for sale | 2,878 | 18 | - | - | 18 | 5,747 | 148 | - | - | 148 |
| | 30 September 2013 (Unaudited) | | | | | | | | | |
| | Less than 12 months | | | | | 12 months and above | | | | |
| | Unrealized losses | | | | | Unrealized losses | | | | |
| | Fair value | 0-20% | 20%-35% | More than 35% | Total | Fair value | 0-20% | 20%-35% | More than 35% | Total |
| | (NIS millions) | | | | | | | | | |
| Bonds | | | | | | | | | | |
| Government of Israel | 1,384 | 27 | - | - | 27 | 8 | - | - | - | - |
| Foreign governments | 1,106 | 2 | - | - | 2 | 55 | 1 | - | - | 1 |
| Financial institutions in Israel | 9 | - | - | - | - | - | 2 | - | - | 2 |
| Financial institutions abroad | 694 | 7 | - | - | 7 | 908 | 22 | - | - | 22 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 5,013 | 124 | - | - | 124 | 322 | 8 | - | - | 8 |
| Others in Israel | 19 | 1 | - | - | 1 | 8 | - | - | - | - |
| Others abroad | 924 | 16 | - | - | 16 | 508 | 2 | - | - | 2 |
| Shares | 183 | 86 | - | - | 86 | - | - | - | - | - |
| Total securities available for sale | 9,332 | 263 | - | - | 263 | 1,809 | 35 | - | - | 35 |

Note 2 - Securities (cont'd)**Additional information in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position (cont'd)**

| | 31 December 2013 (Audited) | | | | | | | | | |
|---|----------------------------|-------|---------|------|-------|---------------------|-------|---------|------|-------|
| | Less than 12 months | | | | | 12 months and above | | | | |
| | Unrealized losses | | | | | Unrealized losses | | | | |
| | Fair | | | More | | Fair | | | More | |
| | value | 0-20% | 20%-35% | than | Total | value | 0-20% | 20%-35% | than | Total |
| | (NIS millions) | | | | | | | | | |
| Bonds | | | | | | | | | | |
| Government of Israel | 408 | 16 | - | - | 16 | 28 | - | - | - | - |
| Foreign governments | 1,032 | 2 | - | - | 2 | 45 | 1 | - | - | 1 |
| Financial institutions in Israel | - | - | - | - | - | 9 | 1 | - | - | 1 |
| Financial institutions abroad | 1,394 | 6 | - | - | 6 | 539 | 10 | 4 | - | 14 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 4,495 | 130 | - | - | 130 | 779 | 32 | - | - | 32 |
| Others in Israel | 9 | 1 | - | - | 1 | 66 | - | - | - | - |
| Others abroad | 601 | 13 | - | - | 13 | 351 | 5 | - | - | 5 |
| Shares | 966 | 72 | - | 1 | 73 | - | - | - | - | - |
| Total securities available for sale | 8,905 | 240 | - | 1 | 241 | 1,817 | 49 | 4 | - | 53 |

Note 2 - Securities (cont'd)**Additional information on mortgage-backed and asset-backed securities that are in an unrealized loss position**

| | 30 September 2014 (Unaudited) | | | | | |
|--|-------------------------------|--|----------------|--|------------|--|
| | Up to 12 months | | Over 12 months | | Total | |
| | | Unrealized losses from adjustments to fair value | Fair value | Unrealized losses from adjustments to fair value | Fair value | Unrealized losses from adjustments to fair value |
| | Fair value | | | | | |
| | (NIS millions) | | | | | |
| Mortgage-backed securities (MBS) | 24 | - | 1,563 | (40) | 1,587 | (40) |
| Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS) | 901 | (9) | 1,775 | (55) | 2,676 | (64) |
| Asset-backed securities (ABS) | 473 | (1) | 544 | (6) | 1,017 | (7) |
| Total | 1,398 | (10) | 3,882 | (101) | 5,280 | (111) |
| | | | | | | |
| | 30 September 2013 (Unaudited) | | | | | |
| | Up to 12 months | | Over 12 months | | Total | |
| | | Unrealized losses from adjustments to fair value | Fair value | Unrealized losses from adjustments to fair value | Fair value | Unrealized losses from adjustments to fair value |
| | Fair value | | | | | |
| | (NIS millions) | | | | | |
| Mortgage-backed securities (MBS) | 1,785 | (69) | - | - | 1,785 | (69) |
| Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS) | 2,396 | (47) | 104 | (1) | 2,500 | (48) |
| Asset-backed securities (ABS) | 832 | (8) | 218 | (7) | 1,050 | (15) |
| Total | 5,013 | (124) | 322 | (8) | 5,335 | (132) |
| | | | | | | |
| | 31 December 2013 (Audited) | | | | | |
| | Up to 12 months | | Over 12 months | | Total | |
| | | Unrealized losses from adjustments to fair value | Fair value | Unrealized losses from adjustments to fair value | Fair value | Unrealized losses from adjustments to fair value |
| | Fair value | | | | | |
| | (NIS millions) | | | | | |
| Additional details of asset-backed securities available for sale | | | | | | |
| Mortgage-backed securities (MBS) | 1,362 | (66) | 315 | (17) | 1,677 | (83) |
| Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS) | 2,435 | (56) | 289 | (10) | 2,724 | (66) |
| Asset-backed securities (ABS) | 698 | (8) | 175 | (5) | 873 | (13) |
| Total | 4,495 | (130) | 779 | (32) | 5,274 | (162) |

(-) Amounts less than NIS 1 million.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses**A. Debts^(a) and off-balance sheet credit instruments****Allowance for credit losses****1. Change in balance of allowance for credit losses**

| | For the three months ended 30 September 2014 (Unaudited) | | | | | |
|--|--|-------------|---------------|-------|-------------------|-------|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and govern- | |
| | Commercial | Residential | Other private | Total | ments | Total |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of the reporting period | 3,296 | 504 | 411 | 4,211 | 6 | 4,217 |
| Expenses (income) in respect of credit losses | (6) | 7 | 57 | 58 | (2) | 56 |
| Accounting write-offs | (132) | (3) | (133) | (268) | - | (268) |
| Collection of debts written off in previous years | 73 | - | 87 | 160 | - | 160 |
| Net accounting write-offs | (59) | (3) | (46) | (108) | - | (108) |
| Adjustments from translation of financial statements | 11 | - | (2) | 9 | - | 9 |
| Balance of allowance for credit losses at end of the reporting period ¹ | 3,242 | 508 | 420 | 4,170 | 4 | 4,174 |
| ¹ Of which: in respect of off-balance sheet credit instruments | 412 | - | 33 | 445 | - | 445 |

| | For the three months ended 30 September 2013 (Unaudited) | | | | | |
|---|--|-------------|------------------|-------|-------------------------------|-------|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and govern- ments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of reporting period | 3,422 | 511 | 418 | 4,351 | 3 | 4,354 |
| Expenses in respect of credit losses | (66) (b) | 4 (b) | 18 | (44) | - | (44) |
| Accounting write-offs (b) | (343) | (11) | (129) | (483) | - | (483) |
| Collection of debts written off in previous years (b) | 325 | - | 109 | 434 | - | 434 |
| Net accounting write-offs | (18) | (11) | (20) | (49) | - | (49) |
| Adjustments from translation of financial statements | (14) | 2 | 6 | (6) | - | (6) |
| Balance of allowance for credit losses at end of the reporting period ¹ | 3,324 | 506 | 422 | 4,252 | 3 | 4,255 |
| ¹ Of which: in respect of off-balance sheet credit instruments | 374 | - | 34 | 408 | - | 408 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**A. Debts^(a) and off-balance sheet credit instruments (cont'd)**
Allowance for credit losses**1. Change in balance of allowance for credit losses (cont'd)**

| | For the nine months ended 30 September 2014 (Unaudited) | | | | | |
|--|---|-------------|---------------|-------|--------------|-------|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and | |
| | Commercial | Residential | Other private | Total | govern-ments | Total |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of the reporting period | 3,301 | 498 | 496 | 4,295 | 2 | 4,297 |
| Expenses (income) in respect of credit losses | (99) | 17 | 69 | (13) | 2 | (11) |
| Accounting write-offs | (294) | (8) | (413) | (715) | - | (715) |
| Collection of debts written off in previous years | 319 | - | 274 | 593 | - | 593 |
| Net accounting write-offs | 25 | (8) | (139) | (122) | - | (122) |
| Adjustments from translation of financial statements | 15 | 1 | (6) | 10 | - | 10 |
| Balance of allowance for credit losses at end of the reporting period ² | 3,242 | 508 | 420 | 4,170 | 4 | 4,174 |
| ² Of which: in respect of off-balance sheet credit instruments | 412 | - | 33 | 445 | - | 445 |

| | For the nine months ended 30 September 2013 (Unaudited) | | | | | |
|--|---|-------------|---------------|---------|--------------|---------|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and | |
| | Commercial | Residential | Other private | Total | govern-ments | Total |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of reporting period | 3,691 | 475 | 395 | 4,561 | 4 | 4,565 |
| Expenses in respect of credit losses | (30) (b) | 50 (b) | 89 | 109 | 4 | 113 |
| Accounting write-offs | (681) | (21) | (357) | (1,059) | (5) | (1,064) |
| Collection of debts written off in previous years | 365 | - | 289 | 654 | - | 654 |
| Net accounting write-offs | (316) | (21) | (68) | (405) | (5) | (410) |
| Adjustments from translation of financial statements | (21) | 2 | 6 | (13) | - | (13) |
| Balance of allowance for credit losses at end of the reporting period ² | 3,324 | 506 | 422 | 4,252 | 3 | 4,255 |
| ² Of which: in respect of off-balance sheet credit instruments | 374 | - | 34 | 408 | - | 408 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**A. Debts^(a) and off-balance sheet credit instruments (cont'd)****2. Additional information on the method of calculating the credit loss allowance in respect of debts^(a) and on debts^(a) on which it was calculated**

| | 30 September 2014 (Unaudited) | | | | | |
|--|-------------------------------|-------------|------------------|---------|-------------------------------|---------|
| | Credit to the public | | | | Banks and govern- ments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| Recorded debt balance of debts^a | | | | | | |
| Examined on an individual basis | 110,364 | 49 | 1,653 | 112,066 | 16,535 | 128,601 |
| Examined on a collective basis ³ | 33,757 | 73,870 | 33,513 | 141,140 | 1,392 | 142,532 |
| ³ Of which: the allowance was calculated by extent of arrears | - | 72,703 | - | 72,703 | - | 72,703 |
| Total debts ¹ | 144,121 | 73,919 | 35,166 | 253,206 | 17,927 | 271,133 |
| Allowance for credit losses for debts^a: | | | | | | |
| Examined on an individual basis | 2,380 | 13 | 61 | 2,454 | 4 | 2,458 |
| Examined on a collective basis ⁴ | 450 | 495 | 326 | 1,271 | - | 1,271 |
| ⁴ Of which the allowance was calculated by extent of arrears (b) | - | 492 | - | 492 | - | 492 |
| Total allowance for credit losses | 2,830 | 508 | 387 | 3,725 | 4 | 3,729 |
| | | | | | | |
| | 30 September 2013 (Unaudited) | | | | | |
| | Credit to the public | | | | Banks and govern- ments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| Recorded debt balance of debts^a | | | | | | |
| Examined on an individual basis | 112,018 | 50 | 1,729 | 113,797 | 11,167 | 124,964 |
| Examined on a collective basis ³ | 32,468 | 68,458 | 30,013 | 130,939 | 1,543 | 132,482 |
| ³ Of which: the allowance was calculated by extent of arrears | - | 67,278 | - | 67,278 | - | 67,278 |
| Total debts ¹ | 144,486 | 68,508 | 31,742 | 244,736 | 12,710 | 257,446 |
| Allowance for credit losses for debts^a: | | | | | | |
| Examined on an individual basis | 2,592 | 16 | 78 | 2,686 | 3 | 2,689 |
| Examined on a collective basis ⁴ | 358 (c) | 490 (c) | 310 | 1,158 | - | 1,158 |
| ⁴ Of which the allowance was calculated by extent of arrears (b) | - | 487 | - | 487 | - | 487 |
| Total allowance for credit losses | 2,950 | 506 | 388 | 3,844 | 3 | 3,847 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 288 million (30 September 2013 – NIS 270 million).

(c) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**A. Debts^a and off-balance sheet credit instruments (cont'd)****2. Additional information on the method of calculating the credit loss allowance in respect of debts^(a) and on debts^(a) on which it was calculated (cont'd)**

| | 31 December 2013 (Audited) | | | | | |
|--|----------------------------|-------------|------------------|---------|-------------------------------|---------|
| | Credit to the public | | | | Banks and govern- ments | Total |
| | Commercial | Residential | Other private | Total | | |
| | | | | | | |
| Recorded debt balance of debts^a | | | | | | |
| Examined on an individual basis | 109,908 | 49 | 1,709 | 111,666 | 12,809 | 124,475 |
| Examined on a collective basis ³ | 32,564 | 69,741 | 30,786 | 133,091 | 2,453 | 135,544 |
| ³ Of which: the allowance was calculated by extent of arrears | - | 68,581 | - | 68,581 | - | 68,581 |
| Total debts ^a | 142,472 | 69,790 | 32,495 | 244,757 | 15,262 | 260,019 |
| Allowance for credit losses for debts^a: | | | | | | |
| Examined on an individual basis | 2,660 | 15 | 87 | 2,762 | 2 | 2,764 |
| Examined on a collective basis ⁴ | 268 | 483 | 370 | 1,121 | - | 1,121 |
| ⁴ Of which the allowance was calculated by extent of arrears (b) | - | 480 | - | 480 | - | 480 |
| Total allowance for credit losses | 2,928 | 498 | 457 | 3,883 | 2 | 3,885 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Including the balance of the allowance in excess of that required by the extent of arrears method, calculated on a collective basis in the amount of NIS 271 million.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts^(a)

1. Credit quality and arrears

| 30 September 2014 (Unaudited) | | | | | | |
|---|-------------------|--------------|--------------|----------------|---|---------------------------------|
| | Problem debts (b) | | | | Unimpaired debts - additional information | |
| | Non problematic | Not impaired | Impaired (c) | Total | In arrears of 90 days or more (d) | In arrears of 30 to 89 days (e) |
| (NIS millions) | | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate - construction | 15,308 | 441 | 396 | 16,145 | 6 | 20 |
| Construction & real estate - real estate activities | 20,745 | 156 | 1,420 | 22,321 | 6 | 10 |
| Financial services | 10,936 | 27 | 27 | 10,990 | - | 40 |
| Commercial - other | 63,369 | 2,971 | 1,597 | 67,937 | 35 | 90 |
| Total commercial | 110,358 | 3,595 | 3,440 | 117,393 | 47 | 160 |
| Private individuals - housing loans (f) | 71,885 | 834 | - | 72,719 | 813 | 524 |
| Private individuals - other | 33,761 | 320 | 107 | 34,188 | 88 | 173 |
| Total public - activity in Israel | 216,004 | 4,749 | 3,547 | 224,300 | 948 | 857 |
| Israeli banks | 1,489 | - | - | 1,489 | - | - |
| Government of Israel | 294 | - | - | 294 | - | - |
| Total activity in Israel | 217,787 | 4,749 | 3,547 | 226,083 | 948 | 857 |
| <u>Activity of borrowers abroad</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate | 6,990 | 63 | 599 | 7,652 | 43 | 26 |
| Commercial - other | 18,224 | 168 | 684 | 19,076 | 26 | 28 |
| Total commercial | 25,214 | 231 | 1,283 | 26,728 | 69 | 54 |
| Private individuals | 2,094 | 21 | 63 | 2,178 | 18 | 11 |
| Total public - activity abroad | 27,308 | 252 | 1,346 | 28,906 | 87 | 65 |
| Foreign banks | 15,928 | - | - | 15,928 | - | - |
| Foreign governments | 216 | - | - | 216 | - | - |
| Total activity abroad | 43,452 | 252 | 1,346 | 45,050 | 87 | 65 |
| Total public | 243,312 | 5,001 | 4,893 | 253,206 | 1,035 | 922 |
| Total banks | 17,417 | - | - | 17,417 | - | - |
| Total governments | 510 | - | - | 510 | - | - |
| Total | 261,239 | 5,001 | 4,893 | 271,133 | 1,035 | 922 |

See notes on page 184.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****1. Credit quality and arrears (cont'd)**

| 30 September 2013 (Unaudited) | | | | | | |
|---|-----------------------------------|------------------|--------------|----------------|---|------------------------------------|
| | Problem debts (b) | | | Total | Unimpaired debts - additional information | |
| | Non problematic (NIS millions) | Not impaired (g) | Impaired (c) | | In arrears of 90 days or more (d)(g) | In arrears of 30 to 89 days (e)(g) |
| | | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate - construction | 13,725 | 555 | 488 | 14,768 | 6 | 28 |
| Construction & real estate - real estate activities (g) | 21,687 | 151 | 1,456 | 23,294 | 7 | 26 |
| Financial services | 10,936 | 334 | 325 | 11,595 | - | 4 |
| Commercial - other (g) | 62,340 | 2,017 | 1,855 | 66,212 | 28 | 110 |
| Total commercial | 108,688 | 3,057 | 4,124 | 115,869 | 41 | 168 |
| Private individuals - housing loans | 66,468 | 818 | - | 67,286 | 806 | 696 |
| Private individuals - other | 30,393 | 265 | 82 | 30,740 | 74 | 185 |
| Total public - activity in Israel | 205,549 | 4,140 | 4,206 | 213,895 | 921 | 1,049 |
| Israeli banks | 1,457 | - | - | 1,457 | - | - |
| Government of Israel | 335 | - | - | 335 | - | - |
| Total activity in Israel | 207,341 | 4,140 | 4,206 | 215,687 | 921 | 1,049 |
| <u>Activity of borrowers abroad</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate | 7,116 | 181 | 719 | 8,016 | 26 | 125 |
| Commercial - other | 19,512 | 235 | 854 | 20,601 | 83 | 125 |
| Total commercial | 26,628 | 416 | 1,573 | 28,617 | 109 | 250 |
| Private individuals | 2,127 | 3 | 94 | 2,224 | - | 8 |
| Total public - activity abroad | 28,755 | 419 | 1,667 | 30,841 | 109 | 258 |
| Foreign banks | 10,720 | - | - | 10,720 | - | - |
| Foreign governments | 198 | - | - | 198 | - | - |
| Total activity abroad | 39,673 | 419 | 1,667 | 41,759 | 109 | 258 |
| Total public | 234,304 | 4,559 | 5,873 | 244,736 | 1,030 | 1,307 |
| Total banks | 12,177 | - | - | 12,177 | - | - |
| Total governments | 533 | - | - | 533 | - | - |
| Total | 247,014 | 4,559 | 5,873 | 257,446 | 1,030 | 1,307 |

See notes on page 184.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****1. Credit quality and arrears (cont'd)**

| | 31 December 2013 (Audited) | | | | | |
|---|----------------------------|-------------------|--------------|---------|---|-------------------|
| | | Problem debts (b) | | | Unimpaired debts - additional information | |
| | Non | Not | | | days or more | In arrears of 30 |
| | problematic | impaired (g) | Impaired (c) | Total | (d)(g) | to 89 days (e)(g) |
| | (NIS millions) | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate - construction | 13,684 | 558 | 478 | 14,720 | 6 | 16 |
| Construction & real estate - real estate activities | 21,786 | 196 | 1,392 | 23,374 | 5 | 22 |
| Financial services (g) | 10,472 | 6 | 200 | 10,678 | 1 | 9 |
| Commercial - other (g) | 61,866 | 2,677 | 1,914 | 66,457 | 31 | 83 |
| Total commercial | 107,808 | 3,437 | 3,984 | 115,229 | 43 | 130 |
| Private individuals - housing loans (f) | 67,789 | 803 | - | 68,592 | 786 | 602 |
| Private individuals - other | 31,046 | 306 | 106 | 31,458 | 90 | 185 |
| Total public - activity in Israel | 206,643 | 4,546 | 4,090 | 215,279 | 919 | 917 |
| Israeli banks | 1,688 | - | - | 1,688 | - | - |
| Government of Israel | 338 | - | - | 338 | - | - |
| Total activity in Israel | 208,669 | 4,546 | 4,090 | 217,305 | 919 | 917 |
| <u>Activity of borrowers abroad</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate | 6,783 | 166 | 718 | 7,667 | 34 | 122 |
| Commercial - other | 18,389 | 317 | 870 | 19,576 | 159 | 37 |
| Total commercial | 25,172 | 483 | 1,588 | 27,243 | 193 | 159 |
| Private individuals | 2,126 | 19 | 90 | 2,235 | - | 22 |
| Total public - activity abroad | 27,298 | 502 | 1,678 | 29,478 | 193 | 181 |
| Foreign banks | 13,016 | - | - | 13,016 | - | - |
| Foreign governments | 220 | - | - | 220 | - | - |
| Total activity abroad | 40,534 | 502 | 1,678 | 42,714 | 193 | 181 |
| Total public | 233,941 | 5,048 | 5,768 | 244,757 | 1,112 | 1,098 |
| Total banks | 14,704 | - | - | 14,704 | - | - |
| Total governments | 558 | - | - | 558 | - | - |
| Total | 249,203 | 5,048 | 5,768 | 260,019 | 1,112 | 1,098 |

See notes on page 184.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****1. Credit quality and arrears (cont'd)**

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.
- (c) As a rule, impaired debts do not accrue interest income. For information on certain impaired debts under troubled debt restructuring, see Note 3(B)(2)C.
- (d) Classified as problem debts that are not impaired, accruing interest income.
- (e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 559 million were classified as problem debts that are not impaired (30 September 2013 – NIS 906 million, 31 December 2013 – NIS 773 million).
- (f) Including balance of housing loans in the amount of NIS 178 million (30 September 2013 – NIS 204 million, 31 December 2013 – NIS 198 million) with a provision by extent of arrears, in which an arrangement was signed for the repayment of arrears by the borrower, with a change made to the repayment schedule in respect of the loan balance of which the repayment date has not yet arrived.
- (g) Reclassified.

Credit quality – status of debts in arrears^(a)

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming (not accruing interest income) after 90 days of arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is one day of arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears) and after 150 days of arrears, the Bank performs a charge-off of the debt. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts****a. Impaired debts and individual allowance**

| | 30 September 2014 (Unaudited) | | | | |
|---|--|-------------------------------------|--|-------------------------------------|---|
| | Balance (b) of impaired debts in respect of which there is an individual allowance (c) | Balance of individual allowance (c) | Balance (b) of impaired debts in respect of which there is no individual allowance (c) | Total balance (b) of impaired debts | Principal contractual balance of impaired debts |
| (NIS millions) | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate - construction | 127 | 39 | 269 | 396 | 1,149 |
| Construction & real estate - real estate activities | 795 | 219 | 625 | 1,420 | 2,497 |
| Financial services | 2 | 2 | 25 | 27 | 556 |
| Commercial - other | 735 | 381 | 862 | 1,597 | 5,003 |
| Total commercial | 1,659 | 641 | 1,781 | 3,440 | 9,205 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 79 | 53 | 28 | 107 | 1,817 |
| Total public - activity in Israel | 1,738 | 694 | 1,809 | 3,547 | 11,022 |
| Israeli banks | - | - | - | - | - |
| Government of Israel | - | - | - | - | - |
| Total activity in Israel | 1,738 | 694 | 1,809 | 3,547 | 11,022 |
| <u>Activity of borrowers abroad</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate | 390 | 246 | 209 | 599 | 789 |
| Commercial - other | 477 | 281 | 207 | 684 | 876 |
| Total commercial | 867 | 527 | 416 | 1,283 | 1,665 |
| Private individuals | 34 | 20 | 29 | 63 | 95 |
| Total public - activity abroad | 901 | 547 | 445 | 1,346 | 1,760 |
| Foreign banks | - | - | - | - | - |
| Foreign governments | - | - | - | - | - |
| Total activity abroad | 901 | 547 | 445 | 1,346 | 1,760 |
| Total public | 2,639 | 1,241 | 2,254 | 4,893 | 12,782 |
| Total banks | - | - | - | - | - |
| Total governments | - | - | - | - | - |
| Total | 2,639 | 1,241 | 2,254 | 4,893 | 12,782 |
| Of which: | | | | | |
| Measured by present value of cash flows | 1,666 | 884 | 1,395 | 3,061 | |
| Debts under troubled debt restructuring | 1,208 | 404 | 1,367 | 2,575 | |

See notes on page 187.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****a. Impaired debts and individual allowance (cont'd)**

| | 30 September 2013 (Unaudited) | | | | |
|---|--|---|--|---|--|
| | Balance (b) of impaired debts in respect of which there is an individual allowance (c) (NIS millions) | Balance of individual allowance (c) | Balance (b) of impaired debts in respect of which there is no individual allowance (c) | Total balance (b) of impaired debts | Principal contractual balance of impaired debts |
| <u>Activity of borrowers in Israel</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate - construction | 96 | 18 | 392 | 488 | 1,692 |
| Construction & real estate - real estate activities | 814 | 208 | 642 | 1,456 | 2,538 |
| Financial services | 278 | 134 | 47 | 325 | 1,012 |
| Commercial - other | 971 | 408 | 884 | 1,855 | 5,208 |
| Total commercial | 2,159 | 768 | 1,965 | 4,124 | 10,450 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 51 | 33 | 31 | 82 | 1,768 |
| Total public - activity in Israel | 2,210 | 801 | 1,996 | 4,206 | 12,218 |
| Israeli banks | - | - | - | - | - |
| Government of Israel | - | - | - | - | - |
| Total activity in Israel | 2,210 | 801 | 1,996 | 4,206 | 12,218 |
| <u>Activity of borrowers abroad</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate | 516 | 302 | 203 | 719 | 896 |
| Commercial - other | 620 | 350 | 234 | 854 | 952 |
| Total commercial | 1,136 | 652 | 437 | 1,573 | 1,848 |
| Private individuals | 64 | 52 | 30 | 94 | 94 |
| Total public - activity abroad | 1,200 | 704 | 467 | 1,667 | 1,942 |
| Foreign banks | - | - | - | - | - |
| Foreign governments | - | - | - | - | - |
| Total activity abroad | 1,200 | 704 | 467 | 1,667 | 1,942 |
| Total public | 3,410 | 1,505 | 2,463 | 5,873 | 14,160 |
| Total banks | - | - | - | - | - |
| Total governments | - | - | - | - | - |
| Total | 3,410 | 1,505 | 2,463 | 5,873 | 14,160 |
| Of which: | | | | | |
| Measured by present value of cash flows | 2,302 | 1,153 | 1,559 | 3,861 | |
| Debts under troubled debt restructuring (d) | 1,195 | 361 | 764 | 1,959 | |

See notes on page 187.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****a. Impaired debts and individual allowance (cont'd)**

| | 31 December 2013 (Audited) | | | | |
|---|--|-------------------------------------|--|-------------------------------------|---|
| | Balance (b) of impaired debts in respect of which there is an individual allowance (c) | Balance of individual allowance (c) | Balance (b) of impaired debts in respect of which there is no individual allowance (c) | Total balance (b) of impaired debts | Principal contractual balance of impaired debts |
| (NIS millions) | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate - construction | 108 | 23 | 370 | 478 | 1,651 |
| Construction & real estate - real estate activities | 979 | 176 | 413 | 1,392 | 2,520 |
| Financial services (d) | 157 | 143 | 43 | 200 | 1,160 |
| Commercial - other (d) | 1,006 | 356 | 908 | 1,914 | 4,999 |
| Total commercial | 2,250 | 698 | 1,734 | 3,984 | 10,330 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 67 | 44 | 39 | 106 | 1,793 |
| Total public - activity in Israel | 2,317 | 742 | 1,773 | 4,090 | 12,123 |
| Israeli banks | - | - | - | - | - |
| Government of Israel | - | - | - | - | - |
| Total activity in Israel | 2,317 | 742 | 1,773 | 4,090 | 12,123 |
| <u>Activity of borrowers abroad</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate | 503 | 302 | 215 | 718 | 900 |
| Commercial - other | 695 | 384 | 175 | 870 | 1,058 |
| Total commercial | 1,198 | 686 | 390 | 1,588 | 1,958 |
| Private individuals | 62 | 49 | 28 | 90 | 105 |
| Total public - activity abroad | 1,260 | 735 | 418 | 1,678 | 2,063 |
| Foreign banks | - | - | - | - | - |
| Foreign governments | - | - | - | - | - |
| Total public - activity abroad | 1,260 | 735 | 418 | 1,678 | 2,063 |
| Total public | 3,577 | 1,477 | 2,191 | 5,768 | 14,186 |
| Total banks | - | - | - | - | - |
| Total governments | - | - | - | - | - |
| Total | 3,577 | 1,477 | 2,191 | 5,768 | 14,186 |
| Of which: | | | | | |
| Measured by present value of cash flows | 2,203 | 1,147 | 1,115 | 3,318 | |
| Debts under troubled debt restructuring | 1,218 | 348 | 1,251 | 2,469 | |

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Recorded balance of debt.
- (c) Individual allowance for credit losses.
- (d) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****b. Average balance and interest income**

| | For the three months ended 30 September 2014 | | | For the three months ended 30 September 2013 | | |
|--|--|------------------------------------|--|--|------------------------------------|--|
| | Average balance (b) of impaired debts | Interest income recorded (c) | Of which: recorded on cash basis | Average balance (b) of impaired debts | Interest income recorded (c) | Of which: recorded on cash basis |
| | (Unaudited) | | | | | |
| | (NIS millions) | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate - construction | 448 | - | - | 581 | 2 | - |
| Construction & real estate - real estate activities | 1,248 | - | - | 1,662 | - | - |
| Financial services | 204 | - | - | 593 | - | - |
| Commercial - other | 1,424 | 44 | 44 | 2,131 | 16 | 16 |
| Total commercial | 3,324 | 44 | 44 | 4,967 | 18 | 16 |
| Private individuals - housing loans | - | - | - | - | - | - |
| Private individuals - other | 96 | - | - | 313 | 2 | 2 |
| Total public - activity in Israel | 3,420 | 44 | 44 | 5,280 | 20 | 18 |
| Israeli banks | - | - | - | - | - | - |
| Government of Israel | - | - | - | - | - | - |
| Total activity in Israel | 3,420 | 44 | 44 | 5,280 | 20 | 18 |
| <u>Activity of borrowers abroad</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate | 702 | 2 | 2 | 824 | 3 | 1 |
| Commercial - other | 826 | 4 | 4 | 776 | 3 | 3 |
| Total commercial | 1,528 | 6 | 6 | 1,600 | 6 | 4 |
| Private individuals | 76 | - | - | 93 | - | - |
| Total public - activity abroad | 1,604 | 6 | 6 | 1,693 | 6 | 4 |
| Foreign banks | - | - | - | 3 | - | - |
| Foreign governments | - | - | - | - | - | - |
| Total activity abroad | 1,604 | 6 | 6 | 1,696 | 6 | 4 |
| Total public | 5,024 | 50 | 50 | 6,973 | 26 | 22 |
| Total banks | - | - | - | 3 | - | - |
| Total governments | - | - | - | - | - | - |
| Total | 5,024 | 50 (d) | 50 | 6,976 | 26 (d) | 22 |

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
- (b) Average recorded balance of debt of impaired debts during the reporting period.
- (c) Interest income recorded in the reporting period, in respect of the average balance of impaired debts, at the time the debts were classified as impaired.
- (d) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded for the three month period ended 30 September 2014 in the amount of NIS 55 million (for the three month period ended 30 September 2013 - NIS 116 million).

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****b. Average balance and interest income (cont'd)**

| | For the nine months ended 30 September 2014 | | | For the nine months ended 30 September 2013 | | |
|--|--|------------------------------------|--|--|------------------------------------|--|
| | Average balance of impaired debts (b) | Interest income recorded (c) | Of which: recorded on cash basis | Average balance of impaired debts (b) | Interest income recorded (c) | Of which: recorded on cash basis |
| | (Unaudited) | | | | | |
| | (NIS millions) | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate - construction | 385 | 2 | 2 | 567 | 4 | 2 |
| Construction & real estate - real estate activities | 1,072 | 2 | 2 | 1,633 | - | - |
| Financial services | 176 | - | - | 554 | - | - |
| Commercial - other | 1,245 | 49 | 48 | 2,092 | 20 | 19 |
| Total commercial | 2,878 | 53 | 52 | 4,846 | 24 | 21 |
| Private individuals - housing loans | - | - | - | - | - | - |
| Private individuals - other | 85 | 3 | 3 | 575 | 4 | 4 |
| Total public - activity in Israel | 2,963 | 56 | 55 | 5,421 | 28 | 25 |
| Israeli banks | - | - | - | - | - | - |
| Government of Israel | - | - | - | - | - | - |
| Total activity in Israel | 2,963 | 56 | 55 | 5,421 | 28 | 25 |
| <u>Activity of borrowers abroad</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate | 693 | 6 | 6 | 812 | 6 | 3 |
| Commercial - other | 816 | 10 | 10 | 798 | 8 | 7 |
| Total commercial | 1,509 | 16 | 16 | 1,610 | 14 | 10 |
| Private individuals | 73 | 1 | 1 | 93 | 1 | 1 |
| Total public - activity abroad | 1,582 | 17 | 17 | 1,703 | 15 | 11 |
| Foreign banks | - | - | - | 2 | - | - |
| Foreign governments | - | - | - | - | - | - |
| Total activity abroad | 1,582 | 17 | 17 | 1,705 | 15 | 11 |
| Total public | 4,545 | 73 | 72 | 7,124 | 43 | 36 |
| Total banks | - | - | - | 2 | - | - |
| Total governments | - | - | - | - | - | - |
| Total | 4,545 | 73 (d) | 72 | 7,126 | 43 (d) | 36 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Average recorded balance of debt of impaired debts during the reporting period.

(c) Interest income recorded in the reporting period, in respect of the average balance of impaired debts, at the time the debts were classified as impaired.

(d) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded for the nine month period ended 30 September 2014 in the amount of NIS 268 million (for the nine month period ended 30 September 2013 – NIS 399 million).

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts^(a) (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring

| 30 September 2014 (Unaudited) | | | | | |
|---|------------------------------|--|--|-----------------------------|--------------|
| | Not accruing interest income | Accruing (b) in arrears of 90 days or more | Accruing (b) in arrears of 30 to 89 days | Accruing (b) not in arrears | Total (c) |
| (NIS millions) | | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate - construction | 232 | - | - | - | 232 |
| Construction & real estate - real estate activities | 842 | - | - | - | 842 |
| Financial services | 19 | - | - | - | 19 |
| Commercial - other | 558 | - | - | 30 | 588 |
| Total commercial | 1,651 | - | - | 30 | 1,681 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 57 | - | - | - | 57 |
| Total public - activity in Israel | 1,708 | - | - | 30 | 1,738 |
| Israeli banks | - | - | - | - | - |
| Government of Israel | - | - | - | - | - |
| Total activity in Israel | 1,708 | - | - | 30 | 1,738 |
| <u>Activity of borrowers abroad</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate | 220 | - | - | 183 | 403 |
| Commercial - other | 167 | - | - | 231 | 398 |
| Total commercial | 387 | - | - | 414 | 801 |
| Private individuals | 25 | - | - | 11 | 36 |
| Total public - activity abroad | 412 | - | - | 425 | 837 |
| Foreign banks | - | - | - | - | - |
| Foreign governments | - | - | - | - | - |
| Total activity abroad | 412 | - | - | 425 | 837 |
| Total public | 2,120 | - | - | 455 | 2,575 |
| Total banks | - | - | - | - | - |
| Total governments | - | - | - | - | - |
| Total | 2,120 | - | - | 455 | 2,575 |

See notes on page 192.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)**

| | 30 September 2013 (Unaudited) | | | | |
|---|---|---|--|--------------------------------|--------------|
| | Not accruing interest income (NIS millions) | Accruing (b) in arrears of 90 days or more | Accruing (b) in arrears of 30 to 89 days | Accruing (b) not in arrears | Total (c) |
| <u>Activity of borrowers in Israel</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate - construction | 130 | - | - | - | 130 |
| Construction & real estate - real estate activities | 570 | - | - | - | 570 |
| Financial services | 51 | - | - | - | 51 |
| Commercial - other | 254 | - | - | 37 | 291 |
| Total commercial | 1,005 | - | - | 37 | 1,042 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 43 | - | - | 2 | 45 |
| Total public - activity in Israel | 1,048 | - | - | 39 | 1,087 |
| Israeli banks | - | - | - | - | - |
| Government of Israel | - | - | - | - | - |
| Total activity in Israel | 1,048 | - | - | 39 | 1,087 |
| <u>Activity of borrowers abroad</u> | | | | | |
| <u>Public - commercial (d)</u> | | | | | |
| Construction & real estate | 186 | - | - | 296 | 482 |
| Commercial - other | 192 | - | - | 156 | 348 |
| Total commercial | 378 | - | - | 452 | 830 |
| Private individuals | 31 | - | - | 11 | 42 |
| Total public - activity abroad | 409 | - | - | 463 | 872 |
| Foreign banks | - | - | - | - | - |
| Foreign governments | - | - | - | - | - |
| Total activity abroad | 409 | - | - | 463 | 872 |
| Total public | 1,457 | - | - | 502 | 1,959 |
| Total banks | - | - | - | - | - |
| Total governments | - | - | - | - | - |
| Total | 1,457 | - | - | 502 | 1,959 |

See notes on next page.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)**

| | 31 December 2013 (Audited) | | | | |
|---|------------------------------|--|--|-----------------------------|--------------|
| | Not accruing interest income | Accruing (b) in arrears of 90 days or more | Accruing (b) in arrears of 30 to 89 days | Accruing (b) not in arrears | Total (c) |
| | (NIS millions) | | | | |
| <u>Activity of borrowers in Israel</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate - construction | 301 | - | - | - | 301 |
| Construction & real estate - real estate activities | 607 | - | - | - | 607 |
| Financial services | 48 | - | - | - | 48 |
| Commercial - other | 457 | - | - | 36 | 493 |
| Total commercial | 1,413 | - | - | 36 | 1,449 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 49 | - | - | 1 | 50 |
| Total public - activity in Israel | 1,462 | - | - | 37 | 1,499 |
| Israeli banks | - | - | - | - | - |
| Government of Israel | - | - | - | - | - |
| Total activity in Israel | 1,462 | - | - | 37 | 1,499 |
| <u>Activity of borrowers abroad</u> | | | | | |
| <u>Public - commercial</u> | | | | | |
| Construction & real estate | 222 | - | - | 304 | 526 |
| Commercial - other | 201 | - | - | 203 | 404 |
| Total commercial | 423 | - | - | 507 | 930 |
| Private individuals | 30 | - | - | 10 | 40 |
| Total public - activity abroad | 453 | - | - | 517 | 970 |
| Foreign banks | - | - | - | - | - |
| Foreign governments | - | - | - | - | - |
| Total activity abroad | 453 | - | - | 517 | 970 |
| Total public | 1,915 | - | - | 554 | 2,469 |
| Total banks | - | - | - | - | - |
| Total governments | - | - | - | - | - |
| Total | 1,915 | - | - | 554 | 2,469 |

- (a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
 (b) Accumulating interest income.
 (c) Included in impaired debts.
 (d) Reclassified.

Liabilities for granting additional credit to borrowers for whom there was a troubled debt restructuring in which changes were made to the terms of the credit amounted at 30 September 2014 in the consolidated to NIS 119 million (at 30 September 2013 – NIS 60 million, at 31 December 2013 – NIS 123 million).

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts^(a) (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

1. Restructurings carried out

| | For the three months ended 30 September 2014 | | | For the three months ended 30 September 2013 | | |
|---|---|--|---|--|-----------------------------------|---|
| | Number of contracts (Unaudited) (NIS millions) | Recorded debt balance before restructuring | Recorded debt balance after restructuring | Number of contracts | debt balance before restructuring | Recorded debt balance after restructuring |
| <u>Activity of borrowers in Israel</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate - construction | 9 | 1 | 1 | 1 | 12 | - |
| Construction & real estate - real estate activities | 3 | 329 | 325 | 1 | 11 | 11 |
| Financial services | - | - | - | - | - | - |
| Commercial - other | 27 | 98 | 98 | 16 | 1 | 1 |
| Total commercial | 39 | 428 | 424 | 18 | 24 | 12 |
| Private individuals - housing loans | - | - | - | - | - | - |
| Private individuals - other | 244 | 3 | 3 | 160 | 1 | 1 |
| Total public - activity in Israel | 283 | 431 | 427 | 178 | 25 | 13 |
| Israeli banks | - | - | - | - | - | - |
| Government of Israel | - | - | - | - | - | - |
| Total activity in Israel | 283 | 431 | 427 | 178 | 25 | 13 |
| <u>Activity of borrowers abroad</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate | 1 | 11 | 11 | 5 | 39 | 38 |
| Commercial - other | 3 | 20 | 20 | 19 | 60 | 60 |
| Total commercial | 4 | 31 | 31 | 24 | 99 | 98 |
| Private individuals | - | - | - | 2 | - | - |
| Total public - activity abroad | 4 | 31 | 31 | 26 | 99 | 98 |
| Foreign banks | - | - | - | - | - | - |
| Foreign governments | - | - | - | - | - | - |
| Total activity abroad | 4 | 31 | 31 | 26 | 99 | 98 |
| Total public | 287 | 462 | 458 | 204 | 124 | 111 |
| Total banks | - | - | - | - | - | - |
| Total governments | - | - | - | - | - | - |
| Total | 287 | 462 | 458 | 204 | 124 | 111 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts^(a) (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

1. Restructurings carried out (cont'd)

| | For the nine months ended 30 September 2014 | | | For the nine months ended 30 September 2013 | | |
|---|--|--|---|---|--|---|
| | Number of contracts (Unaudited) (NIS millions) | Recorded debt balance before restructuring | Recorded debt balance after restructuring | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring |
| <u>Activity of borrowers in Israel</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate - construction | 21 | 16 | 16 | 13 | 14 | 2 |
| Construction & real estate - real estate activities | 9 | 385 | 379 | 10 | 79 | 79 |
| Financial services | - | - | - | - | - | - |
| Commercial - other | 73 | 130 | 125 | 49 | 3 | 3 |
| Total commercial | 103 | 531 | 520 | 72 | 96 | 84 |
| Private individuals - housing loans | - | - | - | - | - | - |
| Private individuals - other | 569 | 6 | 6 | 625 | 5 | 5 |
| Total public - activity in Israel | 672 | 537 | 526 | 697 | 101 | 89 |
| Israeli banks | - | - | - | - | - | - |
| Government of Israel | - | - | - | - | - | - |
| Total activity in Israel | 672 | 537 | 526 | 697 | 101 | 89 |
| <u>Activity of borrowers abroad</u> | | | | | | |
| <u>Public - commercial</u> | | | | | | |
| Construction & real estate | 9 | 130 | 129 | 10 | 78 | 77 |
| Commercial - other | 31 | 177 | 171 | 47 | 197 | 195 |
| Total commercial | 40 | 307 | 300 | 57 | 275 | 272 |
| Private individuals | 11 | 2 | 2 | 44 | 6 | 6 |
| Total public - activity abroad | 51 | 309 | 302 | 101 | 281 | 278 |
| Foreign banks | - | - | - | - | - | - |
| Foreign governments | - | - | - | - | - | - |
| Total activity abroad | 51 | 309 | 302 | 101 | 281 | 278 |
| Total public | 723 | 846 | 828 | 798 | 382 | 367 |
| Total banks | - | - | - | - | - | - |
| Total governments | - | - | - | - | - | - |
| Total | 723 | 846 | 828 | 798 | 382 | 367 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)****2. Failed restructurings carried out^(b)**

| | For the three months ended 30 September 2014 | | For the three months ended 30 September 2013 | |
|--|---|------------------------------|---|------------------------------|
| | Number of contracts | Recorded debt balance (c) | Number of contracts | Recorded debt balance (c) |
| | (Unaudited) | | | |
| | (NIS millions) | | | |
| <u>Activity of borrowers in Israel</u> | | | | |
| <u>Public - commercial</u> | | | | |
| Construction & real estate - construction | 5 | - | 8 | 5 |
| Construction & real estate - real estate activities | 3 | 81 | 5 | 2 |
| Financial services | 1 | - | - | - |
| Commercial - other | 21 | 9 | 33 | 27 |
| Total commercial | 30 | 90 | 46 | 34 |
| Private individuals - housing loans | - | - | - (d) | -(d) |
| Private individuals - other | 216 | 1 | 170 | 4 |
| Total public - activity in Israel | 246 | 91 | 216 | 38 |
| Israeli banks | - | - | - | - |
| Government of Israel | - | - | - | - |
| Total activity in Israel | 246 | 91 | 216 | 38 |
| <u>Activity of borrowers abroad</u> | | | | |
| <u>Public - commercial</u> | | | | |
| Construction & real estate | - | - | 2 | 6 |
| Commercial - other | 5 | 22 | 5 | 68 |
| Total commercial | 5 | 22 | 7 | 74 |
| Private individuals | - | - | 5 | - |
| Total public - activity abroad | 5 | 22 | 12 | 74 |
| Foreign banks | - | - | - | - |
| Foreign governments | - | - | - | - |
| Total activity abroad | 5 | 22 | 12 | 74 |
| Total public | 251 | 113 | 228 | 112 |
| Total banks | - | - | - | - |
| Total governments | - | - | - | - |
| Total | 251 | 113 | 228 | 112 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Debts that during the reporting year went into arrears of 30 days or more and underwent a troubled debt restructuring during the 12 months preceding the date they became debts in arrears.

(c) Recorded balance of debt at the end of the quarter in which the failure was carried out.

(d) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****2. Additional information on impaired debts (cont'd)****c. Problem debts under restructuring (cont'd)****2. Failed restructurings carried out^(b) (cont'd)**

| | For the nine months ended 30 September 2014 | | For the nine months ended 30 September 2013 | |
|--|---|------------------------------|--|------------------------------|
| | Number of contracts (Unaudited) (NIS millions) | Recorded debt balance (c) | Number of contracts | Recorded debt balance (c) |
| <u>Activity of borrowers in Israel</u> | | | | |
| <u>Public - commercial</u> | | | | |
| Construction & real estate - construction | 20 | 5 | 14 | 6 |
| Construction & real estate - real estate activities | 5 | 95 | 11 | 7 |
| Financial services | 1 | - | 1 | - |
| Commercial - other | 93 | 33 | 63 | 41 |
| Total commercial | 119 | 133 | 89 | 54 |
| Private individuals - housing loans | - | - | - (d) | - (d) |
| Private individuals - other | 408 | 3 | 504 | 6 |
| Total public - activity in Israel | 527 | 136 | 593 | 60 |
| Israeli banks | - | - | - | - |
| Government of Israel | - | - | - | - |
| Total activity in Israel | 527 | 136 | 593 | 60 |
| <u>Activity of borrowers abroad</u> | | | | |
| <u>Public - commercial</u> | | | | |
| Construction & real estate | 2 | 12 | 4 | 8 |
| Commercial - other | 20 | 38 | 19 | 78 |
| Total commercial | 22 | 50 | 23 | 86 |
| Private individuals | 7 | 1 | 11 | 2 |
| Total public - activity abroad | 29 | 51 | 34 | 88 |
| Foreign banks | - | - | - | - |
| Foreign governments | - | - | - | - |
| Total activity abroad | 29 | 51 | 34 | 88 |
| Total public | 556 | 187 | 627 | 148 |
| Total banks | - | - | - | - |
| Total governments | - | - | - | - |
| Total | 556 | 187 | 627 | 148 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Debts that during the reporting year went into arrears of 30 days or more and underwent a troubled debt restructuring during the 12 months preceding the date they became debts in arrears.

(c) Recorded balance of debt at the end of the quarter in which the failure was carried out.

(d) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)**B. Debts^(a) (cont'd)****3. Additional information on housing loans**

Balances at the end of the period by loan to value ratio (LTV)^(b), type of repayment and type of interest

| | | 30 September 2014 (Unaudited) | | | |
|---------------------------------|-----------|--------------------------------------|---|--|---|
| | | | ¹ Of which: bullet and balloon | ¹ Of which: variable interest | Off-balance sheet credit risk total |
| Balance of housing loans | | Total ¹ (NIS millions) | | | |
| First charge: rate of financing | Up to 60% | 44,059 | 3,392 | 32,752 | 906 |
| | Above 60% | 27,847 | 1,201 | 21,551 | 309 |
| Second charge or without charge | | 744 | 38 | 588 | 1,118 |
| Total | | 72,650 | 4,631 | 54,891 | 2,333 |
| | | 30 September 2013 (Unaudited) | | | |
| | | | ¹ Of which: bullet and balloon | ¹ Of which: variable interest | Off-balance sheet credit risk total |
| Balance of housing loans | | Total ¹ (NIS millions) | | | |
| First charge: rate of financing | Up to 60% | 35,769 (c) | 2,999 | 27,734 | 1,391 (c) |
| | Above 60% | 30,703 | 1,677 | 24,379 | 388 |
| Second charge or without charge | | 689 | 37 | 559 | 121 (c) |
| Total | | 67,161 | 4,713 | 52,672 | 1,900 |
| | | 31 December 2013 (Audited) | | | |
| | | | ¹ Of which: bullet and balloon | ¹ Of which: variable interest | Off-balance sheet credit risk total |
| Balance of housing loans | | Total ¹ (NIS millions) | | | |
| First charge: rate of financing | Up to 60% | 37,175 | 3,038 | 28,542 | 762 |
| | Above 60% | 30,578 | 1,587 | 24,177 | 372 |
| Second charge or without charge | | 740 | 43 | 600 | 1,061 |
| Total | | 68,493 | 4,668 | 53,319 | 2,195 |

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) The ratio between the approved facility when the facility was granted and the value of the property, as approved by the Bank when the facility was granted. The LTV ratio is another indication of the Bank as to the assessment of customer risk when the facility was granted. On a quarterly basis, the minimum collective allowance of 0.35% is examined as required in Bank of Israel directives against the ratio of 0.75% required on credit with an LTV higher than 60%. It should be noted that the collective allowance is higher than the allowance required according to the LTV.

(c) Reclassified.

Note 3A – Deposits of the Public**A. Types of deposits by location raised and type of depositor**

| | 30 September 2014 | 30 September 2013(a) | 31 December 2013 |
|---------------------------------------|--------------------------|-----------------------------|-------------------------|
| | (Unaudited) | | (Audited) |
| | (NIS millions) | | |
| In Israel | | | |
| On demand | | | |
| Non-interest bearing | 47,907 | 40,246 | 43,800 |
| Interest bearing | 37,935 | 33,707 | 35,022 |
| Total on demand | 85,842 | 73,953 | 78,822 |
| Fixed term | 170,982 | 175,846 | 177,970 |
| Total deposits in Israel ¹ | 256,824 | 249,799 | 256,792 |
| Outside Israel | | | |
| On demand | | | |
| Non-interest bearing | 13,363 | 14,948 | 12,887 |
| Interest bearing | 3,059 | 890 | 2,587 |
| Total on demand | 16,422 | 15,838 | 15,474 |
| Fixed term | 13,386 | 14,202 | 13,737 |
| Total deposits outside Israel | 29,808 | 30,040 | 29,211 |
| Total deposits of the public | 286,632 | 279,839 | 286,003 |
| ¹ Of which: | | | |
| Deposits of private persons | 119,833 | 128,505 | 125,774 |
| Deposits of institutional entities | 30,765 | 27,633 | 29,554 |
| Deposits of corporations and others | 106,226 | 93,661 | 101,464 |

B. Deposits of the public by size

| | 30 September 2014 | 30 September 2013(a) | 31 December 2013 |
|-----------------|--------------------------|-----------------------------|-------------------------|
| | (Unaudited) | | (Audited) |
| | (NIS millions) | | |
| Up to 1 | 85,147 | 85,026 | 84,392 |
| From 1 to 10 | 75,845 | 80,367 | 80,261 |
| From 10 to 100 | 48,835 | 46,655 | 47,525 |
| From 100 to 500 | 30,538 | 24,482 | 26,907 |
| Above 500 | 46,267 | 43,309 | 46,918 |
| Total | 286,632 | 279,839 | 286,003 |

- (1) Commencing 31 December 2013, the Bank implements the circular of the Banking Supervision Department on disclosure of deposits, except for disclosure requirements on deposits of institutional bodies raised in Israel which the Bank has implemented since 1 January 2013.

Note 4 – Capital and Capital Adequacy

| | 30 September 2014 | 1 January 2014 | 30 September 2013 | 31 December 2013 |
|--|-------------------|----------------|--------------------|------------------|
| | (Basel III) (a) | | (Basel II) (b) (f) | |
| | (Unaudited) | (Audited) | (Unaudited) | (Audited) |
| | (NIS millions) | | | |
| A. Data | | | | |
| Capital for purposes of calculating capital ratio | | | | |
| Tier 1 capital, after deductions | 28,446 | 26,420 | 25,928 | 26,263 |
| Tier 2 capital, after deductions | 14,440 | 14,337 | 15,564 | 15,007 |
| Total capital | 42,886 | 40,757 | 41,492 | 41,270 |
| Weighted balances of risk assets | | | | |
| Credit risk | 269,425 | 256,009 | 247,418(f) | 247,548 |
| Market risk | 11,223 | 10,613 | 11,279 | 10,510 |
| Operational risk (c) | 20,568 | 20,426 | 20,711 | 20,426 |
| Total weighted balances of risk assets | 301,216 | 287,048 | 279,402 | 278,484 |
| Ratio of capital to risk components (%) | | | | |
| Ratio of Tier 1 capital to risk components | 9.44% | 9.20% | 9.28% | 9.43% |
| Ratio of total capital to risk components | 14.24% | 14.20% | 14.85% | 14.82% |
| Minimum Tier 1 capital ratio required by the Supervisor of Banks | 9.00% (e) | 9.00% (e) | - | - |
| Minimum total capital ratio required by the Supervisor of Banks | 12.50% (e) | 12.50% | 9.00% | 9.00% |
| B. Principal subsidiary companies | | | | |
| Arab Israel Bank | | | | |
| Ratio of Tier 1 capital to risk components | 11.93% | 11.58% | 11.60% | 11.85% |
| Ratio of total capital to risk components | 13.02% | 12.97% | 15.13% | 12.50% |
| Minimum Tier 1 capital ratio required by the Supervisor of Banks | 9.00% | 9.00% | - | - |
| Minimum total capital ratio required by the Supervisor of Banks | 12.50% (e) | 12.50% (e) | 9.00% | 9.00% |
| Leumi Card Ltd. | | | | |
| Ratio of Tier 1 capital to risk components | 15.91% | 16.40% | 16.40% | 16.00% |
| Ratio of total capital to risk components | 16.82% | 17.30% | 16.40% | 16.00% |
| Minimum Tier 1 capital ratio required by the Supervisor of Banks | 9.00% | 9.00% | - | - |
| Minimum total capital ratio required by the Supervisor of Banks | 12.50% (e) | 12.50% (e) | 9.00% | 9.00% |
| Bank Leumi USA (d) | | | | |
| Ratio of Tier 1 capital to risk components | 12.01% | 11.70% | 11.29% | 11.70% |
| Ratio of total capital to risk components | 14.93% | 14.54% | 14.09% | 14.54% |
| Minimum total capital ratio required by the local authorities | 10.00% | 10.00% | 10.00% | 10.00% |

(a) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on "Capital Measurement and Adequacy" applicable from 1 January 2014.

(b) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy" applicable until 31 December 2013.

(c) First Pillar capital allocation in respect of operational risk is in accordance with the Standardized Approach.

(d) The U.S. office is not obliged to calculate the capital adequacy ratio according to Basel III, and so the ratios reported are according to Basel I.

(e) As of 1 January 2015.

(f) Tier 1 shareholders' equity in Basel II data should be referred to as Tier 1 capital.

Note 4 – Capital and Capital Adequacy (cont'd)

| | 30 September 2014 | 1 January 2014 | 30 September 2013 | 31 December 2013 |
|---|-------------------|----------------|--------------------|------------------|
| | (Basel III) (a) | | (Basel II) (b) (c) | |
| | (Unaudited) | (Audited) | (Unaudited) | (Audited) |
| | (NIS millions) | | | |
| 3. Capital components for purposes of calculating the capital ratio | | | | |
| 1. Tier 1 shareholders' equity | | | | |
| Equity attributed to shareholders of the Bank | 28,348 | 26,425 | 25,918 | 26,244 |
| Differences between equity attributed to shareholders of the bank and Tier 1 shareholders' equity | 299 | 299 | 331 | 340 |
| Tier 1 shareholders' equity before regulatory adjustments and deductions | 28,647 | 26,724 | 26,249 | 26,584 |
| Regulatory adjustments and deductions: | | | | |
| Goodwill and intangible assets | (190) | (234) | (257) | (256) |
| Deferred tax assets | (6) | (66) | - | - |
| Equity investments in financial corporations that are not consolidated in reports to the public | - | - | - | - |
| Regulatory adjustments and deductions - Tier 1 shareholders' equity | (5) | (4) | (64) | (65) |
| Total regulatory adjustments and deductions - Tier 1 shareholders' equity | (201) | (304) | (321) | (321) |
| Total Tier 1 shareholders' equity, after regulatory adjustments and deductions | 28,446 | 26,420 | 25,928 | 26,263 |
| 2. Tier 2 capital | | | | |
| Tier 2 capital: instruments before deductions | 11,640 | 11,639 | 15,108 | 14,544 |
| Tier 2 capital: provisions before deductions | 2,800 | 2,698 | 520 | 528 |
| Total Tier 2 capital before deductions | 14,440 | 14,337 | 15,628 | 15,072 |
| Deductions: | | | | |
| Total deductions - Tier 2 capital | - | - | (64) | (65) |
| Total Tier 2 capital | 14,440 | 14,337 | 15,564 | 15,007 |

- (a) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on "Capital Measurement and Adequacy" applicable from 1 January 2014.
- (b) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211 on "Capital Measurement and Adequacy" applicable until 31 December 2013.
- (c) Tier 1 shareholders' equity in Basel II data should be referred to as Tier 1 capital.

| | 30 September 2014 | 1 January 2014 |
|---|-------------------|----------------|
| | (Basel III) | |
| | (Unaudited) | (Audited) |
| | (%) | |
| 1. Ratio of capital to risk components | | |
| Ratio of Tier 1 shareholders' equity to risk components before application of the effect of the transition in Directive 299 | 9.38% | 9.05% |
| Effect of the transitional directive | 0.06% | 0.15% |
| Ratio of Tier 1 shareholders' equity to risk components after application of the effect of the transition in Directive 299 | 9.44% | 9.20% |

Note 4 – Capital and Capital Adequacy (cont'd)

D. General

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 on *Measurement and Capital Adequacy*, so as to adapt them to the Basel III directives.

It should be emphasized that the Basel III directives set forth significant changes in the calculation of regulatory capital requirements, *inter alia*, relating to:

- Regulatory capital components
- Deductions from capital and regulatory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk in respect of impaired debts
- Allocation of capital in respect of CVA risk.

The amendments to the above directives came into effect on 1 January 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 on *Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions*.

In addition, on 29 August 2013, a circular of the Banking Supervision Department was published on *Basel Disclosure Requirements relating to the Composition of Capital*, which set forth updated disclosure requirements that banks will be required to include as part of the adoption of the Basel III directives.

Accordingly, in the context of the Note on Capital Adequacy in the quarterly financial statements in 2014, the disclosure is included of comparative figures for previous periods prepared in accordance with Basel II directives as adopted by the Supervisor of Banks, and the disclosure on audited comparative figures as at 1 January 2014 prepared in accordance with the Basel III directives.

E. Share-based Remuneration Plan

On 11 February 2014, the General Meeting of the Bank, approved the remuneration policy for office holders in the Bank for the years 2013-2016, after obtaining the approval of the Board of Directors pursuant to the approval and recommendation of the Remuneration Committee. The Remuneration Policy is based on Amendment 20 of the Companies Law regarding terms of office and employment of office holders in the Bank and on that stipulated in the new Proper Conduct of Banking Business Directive 301A concerning remuneration policy in a banking corporation.

As part of the approval of the performance-contingent annual basis for office holders in the Bank for 2013 and pursuant to the above remuneration policy, the Remuneration Committee and the Board of Directors of the Bank in March 2014 approved the allocation for no payment of 657,869 Performance Share Units ("PSU units"), to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank, in an equity track with the Trustee under Section 102 of the Income Tax Ordinance. Accordingly, the Bank issued on 13 April 2014 the above PSU units in the name of the Trustee, ESOP Management and Trust Services Ltd. ("the Trustee"). As set forth in the Private Offering Report published by the Bank on 31 March 2014 (Reference: 2014-01-030870) ("Private Offering Report"), and under the terms stated therein, the aggregate fair value of all the said PSU units amounts to about NIS 8.97 million.

The vesting of the PSU units will be in three equal tranches and is contingent on the business results of the Bank in each of the three calendar years 2014, 2015 and 2016, pursuant and subject to that stated and the terms set forth in the Bank's remuneration policy, and set forth in the Private Offering Report, whereby subject to the fulfillment of all the terms in relation to the vesting date, each PSU unit will be converted automatically to 1 ordinary share of NIS 1 par value each of the Bank, on reaching each vesting date.

In March 2014, the Remuneration Committee and the Board of Directors of the Bank approved the allocation for no payment of 81,414 Restricted Share Units (RSU), for two office holders in the Bank, in an equity track with the Trustee under Section 102 of the Income Tax Ordinance, pursuant to the provisions of the Remuneration Policy regarding the granting of signing rights to a new office holder, and as set forth in the Private Offering Report. Accordingly, the Bank issued on 13 April 2014 the above RSU units in the name of the

Trustee. As set forth in the Private Offering Report and under the terms stated therein, the aggregate fair value of all the said RSU units amounted to about NIS 1.1 million.

The vesting of the RSU units will be in three equal tranches and is contingent on the continued employment of each of the office holders with the Bank or with the banking group, at the vesting date of each of the tranches, pursuant and subject to that stated and the terms set forth in the Private Offering Report, whereby in the event of fulfillment of the said term, each RSU unit will be converted automatically to 1 ordinary share of NIS 1 par value each of the Bank, on reaching each vesting date.

If the terms set for the vesting of PSU units and RSU units into shares are not met at any of the vesting dates, the units which were to have been vested at that date will expire and become void, and all their associated rights will expire and become void.

The PSU units and RSU units allocated as above are not marketable, and pursuant to the approval of the Tel-Aviv Stock Exchange Ltd. ("the Stock Exchange"), the shares deriving from the vesting of the above units will be listed for trading on the Stock Exchange in the name of the nominee company of Bank Leumi Le-Israel B.M.

F. Changes in the Bank's equity

On 13 April 2014, the Bank issued 657,869 Performance Share Units (PSU), in the name of the trustee, ESOP Management and Trust Services Ltd. ("**the Trustee**"), to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank. If all the terms are met for exercising the said PSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering published by the Bank on 31 March ("Private Offering Report"), the said PSU units will vest into 657,869 ordinary shares of NIS 1 par value each of the Bank, which will constitute about 0.045% of the issued and paid-up capital of the Bank. At the date of publication of these statements no date had arrived for vesting into shares of the Bank for any of the PSU units.

On 13 April 2014, the Bank issued 81,414 Restricted Share Units (RSU), in the name of the trustee, for two office holders in the Bank. If all the terms are met for exercising the said RSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering, the said RSU units will vest into 81,414 ordinary shares of NIS 1 par value each of the Bank, which will constitute about 0.005% of the issued and paid-up capital of the Bank. At the date of publication of these statements no date had arrived for vesting into shares of the Bank for any of the RSU units.

If the terms set for the vesting of PSU units and RSU units into shares are not met at any of the vesting dates, the units which were to have been vested at that date will expire and become void, and all their associated rights will expire and become void.

The PSU units and RSU units allocated as above are not marketable, and pursuant to the approval of the Tel-Aviv Stock Exchange Ltd. ("the Stock Exchange"), the shares deriving from the vesting of the above units will be listed for trading on the Stock Exchange in the name of the nominee company of Bank Leumi Le-Israel B.M.

**Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis
at 30 September 2014 (Unaudited)**

| | Israeli currency | | Foreign currency (a) | | | | |
|--|----------------------------|----------------------|----------------------|----------------|------------------------|-------------------------------|----------------|
| | Unlinked (NIS millions) | Linked to the CPI | In U.S. dollars | In euro | In other currencies | Non- monetary items (b) | Total |
| Assets | | | | | | | |
| Cash and deposits with banks | 37,453 | 265 | 10,796 | 1,376 | 4,643 | 79 | 54,612 |
| Securities | 17,454 | 3,040 | 16,393 | 3,041 | 2,118 | 4,012 | 46,058 |
| Securities borrowed or purchased under agreements to resell | 2,019 | - | - | - | - | - | 2,019 |
| Credit to the public, net (c) | 155,557 | 52,763 | 29,283 | 5,549 | 6,164 | 165 | 249,481 |
| Credit to governments | 57 | 238 | 162 | 53 | - | - | 510 |
| Investments in companies included on equity basis | - | - | - | - | - | 2,062 | 2,062 |
| Buildings and equipment | - | - | - | - | - | 3,627 | 3,627 |
| Assets in respect of derivative instruments | 8,161 | 265 | 6,645 | 75 | 302 | 779 | 16,227 |
| Other assets, intangible assets and goodwill | 3,852 | 4 | 923 | 6 | 165 | 407 | 5,357 |
| Total assets | 224,553 | 56,575 | 64,202 | 10,100 | 13,392 | 11,131 | 379,953 |
| Liabilities | | | | | | | |
| Deposits of the public | 160,559 | 28,494 | 72,214 | 15,009 | 10,084 | 272 | 286,632 |
| Deposits from banks | 1,991 | 96 | 2,253 | 339 | 102 | - | 4,781 |
| Deposits from governments | 22 | 2 | 360 | 7 | - | - | 391 |
| Securities lent or sold under agreements to repurchase | 1,172 | - | - | - | - | - | 1,172 |
| Debentures, bonds and subordinated notes | 4,521 | 19,401 | - | - | 10 | - | 23,932 |
| Liabilities in respect of derivative instruments | 8,020 | 434 | 5,963 | 335 | 179 | 771 | 15,702 |
| Other liabilities | 9,291 | 6,421 | 2,158 | 26 | 160 | 605 | 18,661 |
| Total liabilities | 185,576 | 54,848 | 82,948 | 15,716 | 10,535 | 1,648 | 351,271 |
| Difference (d) | 38,977 | 1,727 | (18,746) | (5,616) | 2,857 | 9,483 | 28,682 |
| Effect of hedging derivative instruments: | | | | | | | |
| Derivative instruments (excluding options) | 343 | - | 6 | - | (349) | - | - |
| Effect of non-hedging derivative instruments: | | | | | | | |
| Derivative instruments (excluding options) | (16,377) | (2,251) | 17,663 | 4,072 | (3,139) | 32 | - |
| Options in the money, net (in terms of underlying asset) | (410) | - | (901) | 1,235 | 76 | - | - |
| Options out of the money, net (in terms of underlying asset) | 733 | - | (366) | (361) | (6) | - | - |
| Total | 23,266 | (524) | (2,344) | (670) | (561) | 9,515 | 28,682 |
| Effect of non-hedging derivative instruments: | | | | | | | |
| Options in the money, net (discounted par value) | 19 | - | (1,639) | 1,503 | 117 | - | - |
| Options out of the money, net (discounted par value) | 974 | - | (406) | (474) | (94) | - | - |

See notes on page 205.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd)
at 30 September 2013 (Unaudited)

| | Israeli currency | | Foreign currency (a) | | | | Non-monetary items (b) | Total |
|--|----------------------------|-----------|----------------------|---------|------------|--------|------------------------|-------|
| | | Linked to | In U.S. | In | In other | | | |
| | Unlinked (NIS millions) | the CPI | dollars | euro | currencies | | | |
| Assets | | | | | | | | |
| Cash and deposits with banks | 28,649 | 269 | 5,308 | 1,410 | 4,497 | 69 | 40,202 | |
| Securities | 30,948 | 4,503 | 16,704 | 4,016 | 1,604 | 3,209 | 60,984 | |
| Securities borrowed or purchased under agreements to resell | 1,098 | - | - | - | - | - | 1,098 | |
| Credit to the public, net (c) | 144,290 | 53,709 | 28,773 | 6,278 | 7,526 | 316 | 240,892 | |
| Credit to governments | 65 | 270 | 157 | 41 | - | - | 533 | |
| Investments in companies included on equity basis | - | - | - | - | - | 1,944 | 1,944 | |
| Buildings and equipment | - | - | - | - | - | 3,647 | 3,647 | |
| Assets in respect of derivative instruments | 7,542 | 296 | 603 | 166 | 1,978 | 381 | 10,966 | |
| Other assets, intangible assets and goodwill | 3,666 | 4 | 828 | 8 | 191 | 459 | 5,156 | |
| Total assets | 216,258 | 59,051 | 52,373 | 11,919 | 15,796 | 10,025 | 365,422 | |
| Liabilities | | | | | | | | |
| Deposits of the public | 147,669 | 27,948 | 76,539 | 16,594 | 10,691 | 398 | 279,839 | |
| Deposits from banks | 1,876 | 126 | 1,278 | 467 | 58 | - | 3,805 | |
| Deposits from governments | 20 | 48 | 364 | 5 | - | - | 437 | |
| Securities lent or sold under agreements to repurchase | 404 | - | - | - | - | - | 404 | |
| Debentures, bonds and subordinated notes | 4,525 | 21,061 | - | - | 10 | - | 25,596 | |
| Liabilities in respect of derivative instruments | 7,770 | 593 | 375 | 527 | 2,439 | 374 | 12,078 | |
| Other liabilities | 9,909 | 5,534 | 547 | 28 | 264 | 569 | 16,851 | |
| Total liabilities | 172,173 | 55,310 | 79,103 | 17,621 | 13,462 | 1,341 | 339,010 | |
| Difference (d) | 44,085 | 3,741 | (26,730) | (5,702) | 2,334 | 8,684 | 26,412 | |
| Effect of hedging derivative instruments: | | | | | | | | |
| Derivative instruments (excluding options) | 707 | - | - | - | (707) | - | - | |
| Effect of non-hedging derivative instruments: | | | | | | | | |
| Derivative instruments (excluding options) | (26,823) | (3,681) | 26,922 | 6,064 | (2,515) | 33 | - | |
| Options in the money, net (in terms of underlying asset) | 831 | - | (641) | (366) | 300 | (124) | - | |
| Options out of the money, net (in terms of underlying asset) | 1,265 | - | (1,191) | 257 | (331) | - | - | |
| Grand total | 20,065 | 60 | (1,640) | 253 | (919) | 8,593 | 26,412 | |
| Effect of non-hedging derivative instruments: | | | | | | | | |
| Options in the money, net (discounted par value) | 1,051 | - | (420) | (440) | (14) | (177) | - | |
| Options out of the money, net (discounted par value) | 4,587 | - | (3,370) | (694) | (523) | - | - | |

See notes on page 205.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd)
as at 31 December 2013 (Audited)

| | Israeli currency | | Foreign currency (a) | | | | |
|--|------------------|---------------|----------------------|---------|------------|-----------|---------|
| | Unlinked | Linked to the | In U.S. | In | In other | Non- | |
| | (NIS millions) | CPI | dollars | euro | currencies | monetary | Total |
| | | | | | | items (b) | |
| Assets | | | | | | | |
| Cash and deposits with banks | 29,847 | 272 | 6,667 | 2,475 | 4,964 | 126 | 44,351 |
| Securities | 34,323 | 3,410 | 16,506 | 3,745 | 1,832 | 3,919 | 63,735 |
| Securities borrowed or purchased under agreements to resell | 1,350 | - | - | 10 | - | - | 1,360 |
| Credit to the public, net (c) | 146,545 | 53,544 | 27,213 | 6,020 | 7,190 | 362 | 240,874 |
| Credit to governments | 65 | 273 | 176 | 44 | - | - | 558 |
| Investments in companies included on equity basis | - | - | - | - | - | 1,689 | 1,689 |
| Buildings and equipment | - | - | - | - | - | 3,638 | 3,638 |
| Assets in respect of derivative instruments | 8,678 | 309 | 2,076 | 347 | 202 | 1,442 | 13,054 |
| Other assets, intangible assets and goodwill | 3,684 | 4 | 922 | 7 | 126 | 358 | 5,101 |
| Total assets | 224,492 | 57,812 | 53,560 | 12,648 | 14,314 | 11,534 | 374,360 |
| Liabilities | | | | | | | |
| Deposits of the public | 154,825 | 28,779 | 74,139 | 16,883 | 10,756 | 621 | 286,003 |
| Deposits from banks | 1,717 | 117 | 1,840 | 523 | 113 | - | 4,310 |
| Deposits from governments | 24 | 3 | 360 | 10 | - | - | 397 |
| Securities lent or sold under agreements to repurchase | 624 | - | - | - | - | - | 624 |
| Debentures, bonds and subordinated notes | 4,554 | 20,877 | - | - | 10 | - | 25,441 |
| Liabilities in respect of derivative instruments | 8,362 | 514 | 2,054 | 835 | 269 | 1,453 | 13,487 |
| Other liabilities | 9,561 | 5,840 | 1,028 | 25 | 269 | 610 | 17,333 |
| Total liabilities | 179,667 | 56,130 | 79,421 | 18,276 | 11,417 | 2,684 | 347,595 |
| Difference (d) | 44,825 | 1,682 | (25,861) | (5,628) | 2,897 | 8,850 | 26,765 |
| Effect of hedging derivative instruments: | | | | | | | |
| Derivative instruments (excluding options) | 694 | - | - | - | (694) | - | - |
| Effect of non-hedging derivative instruments: | | | | | | | |
| Derivative instruments (excluding options) | (25,740) | (2,441) | 25,700 | 5,460 | (2,629) | (350) | - |
| Options in the money, net (in terms of underlying asset) | 1,125 | - | (1,127) | (43) | 36 | 9 | - |
| Options out of the money, net (in terms of underlying asset) | 876 | - | (1,284) | 462 | (59) | 5 | - |
| Total | 21,780 | (759) | (2,572) | 251 | (449) | 8,514 | 26,765 |
| Effect of non-hedging derivative instruments: | | | | | | | |
| Options in the money, net (discounted par value) | 1,226 | - | (1,279) | 25 | 16 | 12 | - |
| Options out of the money, net (discounted par value) | 4,252 | - | (3,947) | 65 | (428) | 58 | - |

(a) Including linked to foreign currency.

(b) Including derivative instruments whose basis refers to a non-monetary item.

(c) After deducting credit loss allowances attributed to the linkage basis in the amount of NIS 3,725 million (30 September 2013 – NIS 3,844 million, 31 December 2013 – NIS 3,883 million).

(d) Shareholders' equity including minority interests.

6 - Contingent Liabilities and Special Commitments

| | 30 September 2014 | | 30 September 2013 | | 31 December 2013 | |
|--|-----------------------------------|---|---------------------------|--|---------------------------|--|
| | Balances of contracts (Unaudited) | Balance of allowance for credit losses (NIS millions) | Balances of contracts (a) | Balance of allowance for credit losses | Balances of contracts (a) | Balance of allowance for credit losses (Audited) |
| A. Off-balance sheet financial instruments | | | | | | |
| Balances of contracts or their stated amounts as at the end of the period | | | | | | |
| Transactions in which the balance reflects a credit risk: | | | | | | |
| Documentary credits | 2,073 | 4 | 1,772 | 5 | 1,867 | 4 |
| Credit guarantees | 5,732 | 95 | 6,075 | 80 | 5,490 | 84 |
| Guarantees to apartment purchasers | 16,351 | 22 | 15,394 | 20 | 15,529 | 22 |
| Other guarantees and liabilities (b) | 16,021 | 191 | 14,874 | 181 | 15,033 | 172 |
| Unutilized credit facilities for credit cards | 26,083 | 23 | 24,319 | 22 | 24,669 | 22 |
| Current loan account facilities and other credit facilities on demand not utilized | 14,570 | 24 | 13,071 | 25 | 14,158 | 24 |
| Irrevocable commitments to provide credit which has been approved and not yet granted (1) | 21,128 | 66 | 20,626 | 61 | 20,801 | 66 |
| Commitments to issue guarantees | 14,017 | 20 | 11,349 | 14 | 11,845 | 18 |
| Unutilized facilities for activity in derivative instruments | 5,097 | - | 5,791 | - | 6,406 | - |
| Approval in principle to maintain interest rate | 3,485 | - | 2,429 | - | 3,692 | - |
| (1) Of which: credit exposures in respect of commitments to supply liquidity to securitization structures under the auspices of other parties not utilized in the amount of NIS 222 million (30 September 2013 - NIS 212 million, 31 December 2013 - NIS 208 million). | | | | | | |
| The above commitments represent a relatively small part of the obligations of those securitizing entities. | | | | | | |
| B. Other contingent liabilities and special commitments | | | | | | |
| (1) Long-term rental contracts - Rental of buildings, equipment and vehicles and maintenance fees regarding commitments payable in the following years | | | | | | |
| First year | 211 | | 210 | | 225 | |
| Second year | 183 | | 190 | | 195 | |
| Third year | 166 | | 168 | | 174 | |
| Fourth year | 146 | | 157 | | 162 | |
| Fifth year | 115 | | 131 | | 130 | |
| After five years | 727 | | 829 | | 815 | |
| Total | 1,548 | | 1,685 | | 1,701 | |
| (2) Commitments to purchase securities | 858 | | 991 | | 568 | |
| (3) Commitments to invest in buildings, equipment and others | 162 | | 169 | | 56 | |
| (4) Commitments to underwriting of securities | - | | - | | - | |
| (5) Future deposits: Transactions with depositors for receipt of large deposits at future dates and at fixed rates of interest determined in advance as of the date of the agreement | | | | | | |
| Details of future deposits and deposit dates as determined by the terms of the transactions: | | | | | | |
| First year | 12 | | 17 | | 17 | |
| Second year | 6 | | 12 | | 12 | |
| Third year | - | | 6 | | 3 | |
| Total future deposits | 18 | | 35 | | 32 | |

See notes on next page.

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

- (a) Balances of the contracts or their denominated amounts at the end of the period, before the effect of the allowance for credit losses.
- (b) Including the Bank's liabilities such as its share in the Maof Clearing House Risk Fund in the amount of NIS 248 million (at 30 September 2013 and at 31 December 2013, the amount of NIS 120 million and NIS 145 million, respectively).

(C) Legal claims

In the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including petitions for approval of class actions.

In the opinion of the Management of the Bank and the managements of the consolidated companies, based on legal opinions regarding the chances of the claims succeeding, including the petitions for approval of class actions, appropriate provisions have been recorded in the Financial Statements, insofar as required, to cover damages resulting from the said claims.

In the opinion of the Management of the Bank and the managements of the consolidated companies, the total additional exposure arising from legal claims filed against the Bank and against the consolidated companies on various subjects, the amount of each of which exceeds NIS 2 million, and regarding which the chances of the claims succeeding are not remote, amounts to some NIS 96 million.

- (1) Details of claims in amounts in excess of 0.5% of the equity of the Bank at 30 September 2014 (about NIS 130 million) and in which there have been developments and changes in relation to that described in the 2013 Financial Statements:

- A. On 6 May 2008, a claim and a petition to approve it as a class action were filed in the Tel Aviv-Jaffa District Court. According to the plaintiff, the Bank charges its customers' accounts with the legal expenses incurred in handling said customers' debts, without obtaining the approval of any legal tribunal, and in violation of the directives of the Supervisor of Banks – "Proper Banking Management Directives – Charging Customers for Attorneys' Fees." Additionally, when the Bank charges its customers' accounts with legal expenses (both those approved by a legal tribunal and those that were not), the Bank collects interest on such expenses at the interest rate applicable to the account (which in many cases is excess interest on arrears) and not at the interest and linkage rates which the Bank is permitted to collect in accordance with the Adjudication of Interest and Linkage Law, 1961, and the provisions of the Execution Law. On 23 July 2014, a judgment was handed down by the Court approving a compromise arrangement between the parties. The compromise agreement determines, *inter alia*, that the Bank will initiate a uniform balance amendment of NIS 2,500 in the existing accounts of the customers in which collection proceedings are taking place or took place. Customers whose accounts are closed and who paid the Bank the whole amount of their debt, without a write off or waiver, will be entitled to request compensation from the Bank of NIS 2,500 as set forth in the judgment.
- B. On 13 July 2011, a petition was filed in the Tel-Aviv District Court for approval of a class action against Automatic Bank Services Ltd. (hereinafter: "ABS") and against Bank Hapoalim B.M., Bank Leumi Le-Israel B.M., First International Bank of Israel B.M., and Israel Discount Bank B.M. ABS is a service company jointly owned by the banks mentioned above, whose activities include operating an independent network of automatic teller machines (ATM). It is claimed in the petition that when withdrawing cash from an ATM operated by ABS, the user is not provided with fair disclosure that in addition to the commission charged by ABS for the withdrawal, he will be charged additional commission by the bank in which his account is held. In addition, it is claimed in the petition that the banks are not authorized to charge their customers additional commission, after they were already charged for the withdrawal by ABS. The total amount claimed in the class action, in the opinion of the petitioners, is NIS 153.3 million, with the addition of linkage differentials and interest. There are no details of the distribution between the defendants. The parties reached an agreed arrangement that was

approved by the Court, under which they will pay the plaintiffs about NIS 7 million. The Bank's share in the arrangement amounts to some NIS 300 thousand.

- C. On 17 March 2014, the provisional liquidator of a company in liquidation (the "Company" and "the Special Manager") filed a petition in the Central District Court to issue instructions against the Bank, in which it requested that the Court declare that the Bank will bear the payment of a liquidation fund to the Company of an aggregate amount of NIS 1,200 million, of which an amount of NIS 635 million to cover all the company's debts to its creditors and an amount of NIS 565 million for repayment of the full value of the assets of the Company in the principal amount standing as at 25 March 2001 in the amount of NIS 165 million, plus interest from that date at the rate it was obliged to pay the Bank.

According to the special manager, the Bank is to bear individual responsibility for the liabilities of the company, since allegedly the Bank is to be deemed an "office holder" in the company due to its apparent control over the company; since the Bank is to be deemed as a "director de-facto" or a "shadow director" in the company; because of its responsibility in jointly committing and / or jointly misleading in the apparent fraudulent actions detailed in the petition; and because of the Lenders' Liability doctrine. It should be noted that as part of the motion, the liquidator retained the right to file additional proceedings against the Bank and / or other officers of the company and / or individuals on behalf of the Bank and lawyers advising the Bank. The bank has filed its response to the petition.

- D. On 28 August 2013, a petition was filed with the Tel Aviv District Court to approve a class action against Bank Hapoalim, Bank Leumi, Bank Mizrahi-Tefahot, Israel Discount Bank, First International Bank, and the CEO's of these banks. The Supervisor of Banks, the Governor of the Bank of Israel, and the Antitrust Commissioner were joined as formal respondents. The subject of the petition is the unlawful charging of commissions regarding activities of conversion and delivery of foreign currency, without fair disclosure. According to the petitioners, the banks are concealing from the customers that, when selling / buying foreign currency, they are also charged in excess of exchange commission, as defined by them, a "price increase" or "price reduction" commission – i.e. exchange rate differences.

They argue that the disclosure made by the banks at the time of the transaction refers only to exchange commission and not to exchange rate differences. They argue that since the bank is a Forex "intermediary" and not a "market maker", it should charge customers the price it was charged for the foreign currency, perhaps with a miniscule addition, and in any case it should disclose this to the customer. As claimed by the petitioners, the direct damage caused to customers is at least NIS 10.5 billion over the last seven years, subject to documents and information they will receive as part of the claim.

Following submission of the petition for approval, the petitioners filed a motion for dismissal of the petition for approval against the CEO's, leaving only the banks. On 3 February 2014, the petitioners filed a petition to amend the petition for approval of a class action so that the amount claimed would be NIS 11.15 billion.

- (2) In addition, there are legal claims pending against the Bank, including petitions for the approval of class actions, as detailed below. In the opinion of the Management of the Bank, based on legal opinions with regard to the chances of these legal proceedings, it is not possible, at this stage, to estimate the chances of the claims, and therefore no provision has been recorded in respect thereof.

- A. On 30 June 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Israel Discount Bank and Bank Hapoalim, (hereinafter: "the banks"). It is claimed that the banks had an illegal restrictive arrangement regarding the rates of the commissions they collect from their customers, that they abused their monopolistic power (the banks constituting, it is argued, an "oligopoly"), and that they unlawfully enriched themselves at the expense of their customers. It is claimed, as an estimate, that had the rates not been coordinated between the banks, the commissions would have been significantly lower, by at least 25%. The total aggregate amount of the damage is estimated at NIS 3.5 billion, with the heading of the petition indicating the amount of the claim to be NIS 3 billion. No specific

attribution has been made of the damage claimed from each of the banks, but the petition mentions that the Bank's relative share of banking activity in Israel is estimated at some 30%. The Bank submitted its response to the petition for approval of the claim as a class action. The hearing in this file was incorporated with a later claim (see description in paragraph B. below – hereinafter "**the additional claim**"). On 29 November 2009, the Court decided to stay proceedings in the claim for two years (subject to the provisions set out in that decision) in view of the respondents' intention to submit a petition for leave to appeal the Commissioner's determination of 26 April 2009 in the Restrictive Practices Court. On 23 February 2012, the Court decided to continue the stay of proceedings until the decision of the Restrictive Practices Court on the appeal filed against the Commissioner's determination. The petitioners, on 29 October 2013, filed a petition to reinstate proceedings in the claim. On 16 November 2014, a petition was filed for approval of a compromise agreement in this case, in an additional claim and two additional proceedings against Bank Mizrahi-Tefahot Ltd. and the First International Bank of Israel Ltd. Pursuant to the compromise agreement, the Bank and the above four other banks will pay their customers a total amount of NIS 35,000,000 out of the funds deposited with the Trustee according to the agreement in the appeal proceedings against the decision of the Commissioner that the Restrictive Practices Court gave the validity of an agreed order (see Section E (1) below).

- B. On 27 April 2009, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank, Mizrahi Tefahot Bank and the First International Bank. The petition is based on the Antitrust Commissioner's determination of 26 April 2009. The petitioners allege that in accordance with the determination, the banks made restrictive arrangements for the exchange of information on commissions, to the detriment of competition between them, and which caused damage to the members of the group whose representation is sought in the petition, and that such was reflected in overpayments of commissions. The petitioners estimate the amount of the class action against all the respondents at NIS 1 billion. The petition does not make any clear attribution of a specific claimed amount to each of the respondents. Proceedings in the petition for approval have been stayed for two years, as stated in the decision of 29 November 2009, described in paragraph A. above. On 23 February 2012, the Court decided to continue the stay of proceedings until the decision of the Restrictive Practices Court on the appeal filed against the Commissioner's decision. On 16 November 2014, a petition was filed for approval of a compromise agreement in this case and additional cases as detailed in Section 2.A above.
- C. On 27 November, 2013, a petition for approval of a class action was filed in the Central District Court against the Bank, claiming that the Bank calculates incorrectly the theoretical value of options traded on the Tel Aviv Stock Exchange. According to the petitioners, the Bank uses the Black & Scholes mathematical model, which is the model relevant for determining the value of the option, but inserts an erroneous element. The erroneous element, according to the petitioners, is the expiry date of the option. They argue that the Bank adds an extra value date to this element, which affects the theoretical value of the option, and affects the judgment of customers regarding the feasibility of the transaction and its price. They further contend that other financial institutions do not make this mistake. According to the petitioners, they cannot accurately assess the damages, but estimate it to be tens of millions of shekels.
- D. On December 2, 2013, a petition for approval of a class action was filed in the Central District Court, against the Bank, on the subject of early repayment commission. According to the petitioners, the manner of calculating early repayment commission by the Bank, both for small loans and for large loans, is not compatible with Proper Conduct of Banking Business Directives. A financial opinion was attached to the petition, according to which the petitioner's personal damages are determined in the amount of about NIS 90 thousand. The petitioners claim that they are unable to assess the total amount of the claim at this stage.

- E. On 9 March 2014, a petition was filed in the Tel Aviv District Court to approve a class action against the Bank without specifying the amount claimed. According to the plaintiff, the Bank collects money from customers unlawfully in two cases. The first is when the Bank allows customers to exceed the credit limit and debits customer accounts with a fee in the amount of NIS 53 in respect of delivering a warning letter of the deviation from the credit limit. Second, "non-approved" deviations from the credit limit are merged into the excess debit balance in the account resulting in the charging of the maximum rate of interest. The Bank has filed its response to the petition.
- F. On 18 March 2014, a petition was filed in the Central District Court for approval of a class action against the Bank for an asserted amount of about NIS 155 million. According to the plaintiff, as part of the deducting of tax at source carried out by the Bank in securities transactions executed through it, the Bank's computer systems calculate long capital gains and / or short capital losses unlawfully. The incorrect data are presented to customers in the Leumi Trade system and the simulator existing in the system. The "group" for purpose of the proceedings is defined as: (1) Anyone who executed securities trading through Leumi Trade, and for whom, within the deduction of tax at source a long capital gain and / or a short capital loss was calculated; (2) Anyone who was presented by the Bank and / or by the Leumi Trade system with incorrect representations about capital gains and / or capital losses reflected in securities owned by him. According to the plaintiff, the aggregate damage caused to members of the first group is about NIS 79 million, and the aggregate damage caused to the members of the second group is about NIS 76.5 million.
- G. On 13 April 2014, a petition for approval of a class action was filed with the Tel Aviv District Court against the Bank in an amount of about NIS 184 million. The petitioner claims that when the customer's bank account goes over the approved credit limit, the Bank refuses to honor standing orders in the account, but charges commission which exceeds the amount of the standing order that was not honored.
- H. On 5 August 2014, a petition was filed with the Tel Aviv District Court to approve a class action against the Bank, Bank Hapoalim, Bank Mizrahi, Israel Discount Bank, First International Bank, Bank Otzar Hachayal, and Mercantile Discount Bank. The plaintiff claims that the respondent banks are in violation of the Banking Rules – Service to the Customer (Fees), in that they charge minimum fees for transferring foreign currency, at different levels, instead of one minimum fee only, which the plaintiff claims is required by the Rules, and that the violation that is shared by all the respondent banks is in fact a restrictive practice that contradicts the Antitrust Law. The amount of damages claimed is estimated by the plaintiff, for all the respondents together, at some NIS 1.5 billion. The Bank's share, according to the plaintiff, is some 30% of the market.

In addition, the plaintiff requests the Court, inter alia, to grant an order restricting the banks from charging a fee for a foreign currency transfer to another bank to a maximum of US \$30, and the fee for receiving foreign currency from another bank to a maximum amount of US \$10.

- (3) Below are details of claims and petitions for approval of class actions in material amounts filed against the bank's subsidiary companies (hereinafter – the subsidiary companies). In the opinion of the management of the Bank, based on the opinion of the management of each of the subsidiaries that are based on the opinion of legal counsel of the subsidiaries with regard to the chances of these legal proceedings, appropriate provisions have been included in the financial statements, where required, to cover damage resulting from the said claims:

- A. On 3 July 2014, a petition for approval of a class action was filed with the Tel-Aviv District Court against IsraCard, Leumi Card, the Bank, and Bank Hapoalim in the sum of NIS 200 million, concerning the charging of conversion commission and exchange rate differences commission when executing a transaction in foreign currency. According to the plaintiff's

claim, conversion commission is charged unlawfully and there is no fair disclosure of its collection or on the exchange rate differences and the method of calculation in the detailed statements sent to the customer.

(4) In addition, there are claims and petitions for the approval of class actions pending against the subsidiaries, as detailed below. In the opinion of the management of the Bank, based on the opinion of the management of each of the subsidiaries that are based on the opinion of legal counsel with regard to the chances of these legal proceedings, it is not possible, at this stage, to estimate their chances, and therefore no provision has been recorded in respect thereof:

A. On 28 April 2014, a petition for approval of a class action was filed with the Central District Court against Leumi Card, IsraCard, and C.A.L., in the amount of NIS 1.7 billion, relating to the charging of vendors with interchange commission in respect of transactions executed by means of debit cards and prepaid cards that are reloaded in advance. The petitioner claims that the interchange commission charged on these cards (as opposed to credit cards), did not receive approval from the Anti-Trust Court, and is a restrictive arrangement. In addition, the arrangement between the respondents under which proceeds of transactions are transferred to vendors with a delay of some 20 days is also a restrictive arrangement or a discriminating condition in a uniform contract.

B. On 17 November 2014, a petition for approval of a class action was filed with the Tel Aviv District Court, against Leumi Card for the amount of NIS 952 million. The petitioner claims that Leumi Card is acting illegally in its conduct concerning identification of customers in the IVR system (call forwarding in service centers) which discloses personal details of customers, in contravention of the Protection of Privacy Law. In addition, the petitioner claims that his request to block the possibility of hearing the information concerning his credit card after the identification was not accepted on the grounds that there is no possibility of effecting such a block.

(D) Israel Corporation Ltd. – a company included on equity basis

(1) Oil Refineries Ltd. (hereinafter – ORL), a company included on equity basis of the Israel Corporation Ltd. and its consolidated company had a working capital deficit at 30 June 2014, and other issues related to the business situation of the company and its cash flows. ORL and its consolidated company are taking steps to improve the level of liquidity and the level of profitability whose realization is subject, inter alia, to changes in selling prices and the prices of raw materials. The management of ORL and its consolidated company believes, based on cash flow forecasts stemming from current operations in combination with the steps taken, that ORL has sufficient sources of funds in the volume and timing required to meet its liabilities and to finance its future activity in the foreseeable future.

In addition, there are outstanding legal proceedings against ORL, including class actions, and there are other contingencies.

The management of ORL, based on the opinions of their legal advisors, cannot estimate the effect of the said legal proceedings, claims and contingencies, if any, and therefore, no provisions have been made in this regard in the financial statements of the Israel Corporation Ltd. and the above company.

(2) On 16 July 2014, all the conditions precedent for the completion of the Israel Corporation's share in the debt arrangement of Zim Integrated Shipping Services Ltd. (hereinafter – Zim) were met, and the arrangement was completed. With the completion of the arrangement, the Israel Corporation ceased its control of Zim, and therefore in accordance with the financial statements of the Israel Corporation at 30 June 2014, the Israel Corporation is expected to report a profit, in its financial statements for the third quarter, of about \$609 million resulting from the loss of control of Zim and reporting its investment in Zim as a company included on equity basis at its fair value derived from the amount of the investment of Israel Corporation

in the equity of Zim according to the arrangement. In accordance with the accounting policy described in Note 1B, on adjustments in respect of the effect of material transactions occurring in the reporting period gap, the Bank reported its share in the said profit of NIS 299 million in the financial statements for the third quarter.

On 7 August 2014, the Israel Corporation reported that a petition had been filed for approval as a derivative action by a shareholder against the Israel Corporation, Zim, directors and controlling owners of the Israel Corporation. The petitioner claims, in essence, that the undertaking of the Israel Corporation and the execution of an interested party transaction by it in the framework of Zim's debt arrangement were made ultra vires in contravention of the approval of the meeting of the shareholders of the Israel Corporation, and although the condition precedent to the undertaking by the Israel Corporation in this transaction was not met as well as other claims.

The Israel Corporation is studying the petition and the lawsuit.

- (3) On 4 September 2014, the Israel Corporation reported in an Immediate Report that it sold its holdings in a company included indirectly on equity basis for \$413 million. Accordingly, the Israel Corporation is expected to include in its financial statements for the third quarter a profit of about \$88 million. In accordance with the accounting policy described in Note 1B, on adjustments in respect of the effect of material transactions occurring in the reporting period gap, the Bank reported its share in the said profit of NIS 43 million.
- (4) On 12 October 2014, the Board of Directors of the Israel Corporation approved the step of corporate separation, so that the Israel Corporation will continue holding Israel Chemicals and ORL and its other holdings will be transferred to be held by all the shareholders in the company through a new company, whose shares will be distributed as a dividend in kind. The financial statements of the Israel Corporation at 30 June 2014 state that in the opinion of the management of the Israel Corporation, the step of changing the structure of the holdings of the company will be completed, if at all, during the second half of 2014. It should be noted that this step is subject to the receipt of approvals and agreements of third parties including regulatory approvals, which were not yet received at this time. The Bank is examining the effect of the split.
- (5) On 24 September 2014, the Israel Corporation completed the sale transaction of about 6.2% of the shares of Israel Chemicals Ltd. (hereinafter – ICL), whose shares were listed for trading during September on the NYSE, for some \$243 million. Pursuant to the sale, no profit will be recorded in the financial statements of the Israel Corporation but an increase is expected in its shareholders' equity of about NIS 150 million.
- (6) On 20 October 2014, the Sheshinski Committee published the final conclusions of the Committee for examining the taxation of natural resources. In accordance with these conclusions:

The mix of taxation on drilling of minerals in Israel will include three taxation tools: royalties, natural resources tax (a new tax) and Companies Tax. The rate of the State's share to be received in the mining area, in those cases in which a natural resources tax is to be levied is expected according to the Committee to range from 46% to 55%.

The recommendations of the Committee, as anchored in the legislation, will apply to the Dead Sea Works Ltd. ("DSW") as of 1 January 2017.

In addition, the conclusions of the Committee refer to the end of the franchise period in the Dead Sea and to amendments to the Law for Encouragement of Capital Investments.

The Israel Corporation, with the assistance of its financial and legal advisors, is reviewing the recommendations of the Committee, including the changes occurring in the final recommendations of the Committee in relation to the interim draft of the recommendations and their effect, including the effect on the Business results of the company. The Committee's recommendations require approval by the Government and primary legislation by the Knesset, and changes may occur in them.

- (5) On 19 May 2014, the Israel Corporation received the partial arbitration ruling concerning royalties ("arbitrators' ruling"). The main elements of the ruling received are as follows:
- a. Dead Sea Works ("DSW") is to pay royalties to the State on the sale of downstream products produced by companies controlled by Israel Chemicals whose plants are located in the Dead Sea region and beyond, including outside Israel.
 - b. Royalties will be paid according to the value of downstream products that will be determined based on the formula in Section 15 (a) (2) of the Concession Agreement as the sales price of the downstream product to unrelated third parties, less the deductions enumerated in paragraphs (I) , (II) and (III) of that Section.
 - c. As to metal magnesium, it was determined that the State and DSW are to conclude the discussion between them on the level of royalties to be paid by DSW in respect of metal magnesium, and in the absence of agreement between them, the discussion will be returned to arbitration.

The arbitrators' verdict was given to establish principles regarding liability to pay royalties for downstream products and does not include any reference regarding financial calculations arising from the ruling that is obtained. These calculations will be discussed in the next stage of the arbitration.

The Israel Corporation, with the assistance of its financial and legal advisors, reviewed the ruling of the arbitrators and its implications, in accordance with an estimate made by the management of Israel Chemicals and approved by the Board of Directors of Israel Chemicals, and a provision was made in its financial statements, net, against profit and loss. The Corporation's net share of the effect of the above provision on the results of the Corporation is about US \$70 million.

The ruling of the arbitrators is a partial ruling and the financial calculations as to the manner of implementation of the ruling have not yet been determined by them. The final amount to be ruled by the arbitrators, at the end of the second stage of the arbitration, and after the financial calculations are determined by them, as stated, will be derived, inter alia, from the amounts of sales, the prices prevailing in the market, and from the product mix, and so changes may occur in the amounts that would have been paid in 2013, as mentioned.

For further information on these issues, see the financial statements of the Israel Corporation Ltd. at 31 March 2014 and 31 December 2013.

(E) Contingent liabilities and other special commitments

- (1) In connection with the ruling of the Antitrust Commissioner as a result of negotiations conducted between the banks and the Commissioner, a compromise was reached and it was agreed the ruling would be canceled, and the bank will pay the Treasury the sum of NIS 70 million (the Bank's share being NIS 21 million), with the Bank having the possibility of paying the said sum (and also the other banks with respect to the amounts relating to them), instead of payment to the Treasury and subject to the conditions stipulated in agreements with the Commissioner, as part of the compromise arrangements in a number of petitions for the approval for class actions pending

against the Bank. On 15 June 2014, the Antitrust Tribunal approved the agreements between the parties and validated the agreed order.

- (2) US Authorities, including the United States Department of Justice (DOJ), the New York Department of Financial Services (NYDFS) and the United States Securities and Exchange Commission (SEC) have been carrying on investigations regarding the Group's activities vis-à-vis US customers.

The Group and its legal counsels are trying to bring the ongoing investigations to a conclusion. The agreements which are in process of being formulated relate to the Group's liability only, and do not grant any indemnity to officers or employees of the Group. To the extent they will be signed, the agreements which are in process of being formulated are not expected to lead to a guilty plea for the Group.

In light of the framework of the arrangements being formulated, and in light of the Group's estimations, on the basis of the position of its legal counsel, regarding the amounts which will be required as part of the said arrangements, including in respect of accompanying expenses, the provision has been increased by an amount of some NIS 480 million, and amounts to, as of 30 September 2014, an amount of some NIS 1,438 million. It is emphasized that this provision does not constitute an admission of any claim against the Group.

As long as agreements have not been signed or finalized with all the relevant Authorities, to the extent that such are required, it is not possible to determine with certainty the amount of the expense which is expected to be incurred by the Group in this regard, and the possibility still exists that the final amount of the expense will be significantly higher than the amount included in the Financial Statements.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates**A. Scope of activity**

| | 30 September 2014 (Unaudited) | | | | | |
|---|-------------------------------|---------|----------------------------------|--------------------------------------|---------------------------------------|---------|
| | Interest contracts | | Foreign currency contracts | Contracts in respect of shares | Commodities and other contracts | Total |
| | Shekel – index | Other | | | | |
| (NIS millions) | | | | | | |
| (1) Nominal amount of derivative instruments | | | | | | |
| a) Hedging derivatives (a) | | | | | | |
| Forward contracts | - | - | 720 | - | - | 720 |
| Swaps | - | 2,483 | - | - | - | 2,483 |
| Total | - | 2,483 | 720 | - | - | 3,203 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 2,483 | - | - | - | 2,483 |
| b) ALM derivatives (a)(b) | | | | | | |
| Futures contracts | - | 18,697 | 345 | 49,903 | 911 | 69,856 |
| Forward contracts | 10,415 | 23,573 | 175,762 | 238 | 47 | 210,035 |
| Exchange-traded options | | | | | | |
| Options written | - | 4,120 | 18,502 | 11,081 | 351 | 34,054 |
| Options purchased | - | 4,120 | 17,947 | 10,948 | 351 | 33,366 |
| Other options | | | | | | |
| Options written | - | 12,101 | 28,590 | 1,629 | 370 | 42,690 |
| Options purchased | - | 9,334 | 28,066 | 1,621 | 406 | 39,427 |
| Swaps | 666 | 269,754 | 28,471 | 16,533 | 507 | 315,931 |
| Total | 11,081 | 341,699 | 297,683 | 91,953 | 2,943 | 745,359 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 147,253 | - | - | - | 147,253 |
| c) Other derivatives (a) | | | | | | |
| Total | - | - | - | - | - | - |
| d) Credit derivatives and foreign exchange spot contracts | | | | | | |
| Credit derivatives in which the banking institution is a beneficiary | - | - | - | - | - | - |
| Spot foreign exchange contracts | - | - | 12,693 | - | - | 12,693 |
| Total | - | - | 12,693 | - | - | 12,693 |
| Grand total | 11,081 | 344,182 | 311,096 | 91,953 | 2,943 | 761,255 |

(a) Except credit derivatives and foreign exchange spot contracts.

(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

| | 30 September 2014 (Unaudited) | | | | | |
|---|-------------------------------|-------|----------------------------------|--------------------------------------|---------------------------------------|--------|
| | Interest contracts | | Foreign currency contracts | Contracts in respect of shares | Commodities and other contracts | Total |
| | Shekel – index | Other | | | | |
| | (NIS millions) | | | | | |
| (2) Gross fair value of derivative instruments | | | | | | |
| a) Hedging derivatives (a) | | | | | | |
| Gross positive fair value | - | 6 | 21 | - | - | 27 |
| Gross negative fair value | - | 139 | 27 | - | - | 166 |
| b) ALM derivatives (a)(b) | | | | | | |
| Gross positive fair value | 210 | 8,573 | 6,264 | 1,081 | 78 | 16,206 |
| Gross negative fair value | 324 | 8,086 | 5,974 | 1,104 | 76 | 15,564 |
| c) Other derivatives (a) | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| d) Credit derivatives | | | | | | |
| Credit derivatives in which the banking institution is a guarantor | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| Credit derivatives in which the banking institution is a beneficiary | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| e) Total | | | | | | |
| Gross positive fair value (c) | 210 | 8,579 | 6,285 | 1,081 | 78 | 16,233 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of assets in respect of derivative instruments | 210 | 8,579 | 6,285 | 1,081 | 78 | 16,233 |
| Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | | | | | | |
| | 4 | 42 | 777 | 99 | 2 | 924 |
| Gross negative fair value (c) | 324 | 8,225 | 6,001 | 1,104 | 76 | 15,730 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of liabilities in respect of derivative instruments | 324 | 8,225 | 6,001 | 1,104 | 76 | 15,730 |
| Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | | | | | | |
| | 44 | 21 | 1,090 | 80 | 3 | 1,238 |

(a) Except credit derivatives.

(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

(c) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 6 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 28 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

| | 30 September 2013 (Unaudited) | | | | | |
|---|-------------------------------|---------|----------------------------------|--------------------------------------|---------------------------------------|---------|
| | Interest contracts | | Foreign currency contracts | Contracts in respect of shares | Commodities and other contracts | Total |
| | Shekel – index | Other | | | | |
| (NIS millions) | | | | | | |
| (1) Nominal amount of derivative instruments | | | | | | |
| a) Hedging derivatives (a) | | | | | | |
| Forward contracts | - | - | 1,437 | - | - | 1,437 |
| Swaps | - | 2,461 | - | - | - | 2,461 |
| Total | - | 2,461 | 1,437 | - | - | 3,898 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | | | | | | |
| | - | 2,401 | - | - | - | 2,401 |
| b) ALM derivatives (a)(b) | | | | | | |
| Futures contracts | - | 9,859 | 19 | 34,237 | 5,308 | 49,423 |
| Forward contracts | 13,582 | 9,393 | 123,433 | 61 | 211 | 146,680 |
| Exchange-traded options | | | | | | |
| Options written | - | 2,665 | 5,706 | 6,617 | 2,436 | 17,424 |
| Options purchased | - | 2,665 | 5,881 | 6,617 | 2,436 | 17,599 |
| Other options | | | | | | |
| Options written | - | 12,691 | 21,348 | 994 | 284 | 35,317 |
| Options purchased | - | 9,245 | 20,959 | 823 | 289 | 31,316 |
| Swaps | 436 | 275,310 | 24,125 | 10,175 | 212 | 310,258 |
| Total | 14,018 | 321,828 | 201,471 | 59,524 | 11,176 | 608,017 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | | | | | | |
| | - | 152,723 | - | - | - | 152,723 |
| c) Other derivatives (a) | | | | | | |
| Total | - | - | - | - | - | - |
| d) Credit derivatives and foreign exchange spot contracts | | | | | | |
| Credit derivatives in which the banking institution is a guarantor | - | - | - | - | - | - |
| Credit derivatives in which the banking institution is a beneficiary | - | - | - | - | - | - |
| Spot foreign exchange contracts | - | - | 10,084 | - | - | 10,084 |
| Total | - | - | 10,084 | - | - | 10,084 |
| Grand total | 14,018 | 324,289 | 212,992 | 59,524 | 11,176 | 621,999 |

(a) Except credit derivatives and foreign exchange spot contracts.

(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

| | 30 September 2013 (Unaudited) | | | | | |
|---|-------------------------------|-------|----------------------------------|--------------------------------------|---------------------------------------|--------|
| | Interest contracts | | Foreign currency contracts | Contracts in respect of shares | Commodities and other contracts | Total |
| | Shekel – index | Other | | | | |
| | (NIS millions) | | | | | |
| (2) Gross fair value of derivative instruments | | | | | | |
| a) Hedging derivatives (a) | | | | | | |
| Gross positive fair value | - | 18 | 22 | - | - | 40 |
| Gross negative fair value | - | 127 | 18 | - | - | 145 |
| b) ALM derivatives (a)(b) | | | | | | |
| Gross positive fair value | 131 | 7,612 | 2,411 | 568 | 204 | 10,926 |
| Gross negative fair value | 292 | 7,307 | 3,585 | 580 | 182 | 11,946 |
| c) Other derivatives (a) | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| d) Credit derivatives | | | | | | |
| Credit derivatives in which the banking institution is a guarantor | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| Credit derivatives in which the banking institution is a beneficiary | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| e) Total | | | | | | |
| Gross positive fair value | 131 | 7,630 | 2,433 | 568 | 204 | 10,966 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of assets in respect of derivative instruments | 131 | 7,630 | 2,433 | 568 | 204 | 10,966 |
| Of which: book value of assets in not subject to a master netting arrangement or similar arrangements | 22 | 57 | 275 | 77 | 25 | 456 |
| Gross negative fair value (c) | 292 | 7,434 | 3,603 | 580 | 182 | 12,091 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of liabilities in respect of derivative instruments | 292 | 7,434 | 3,603 | 580 | 182 | 12,091 |
| Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | 227 | 31 | 620 | 48 | 26 | 952 |

(a) Except credit derivatives.

(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

(c) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 13 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

| | 31 December 2013 (Audited) | | | | | |
|---|----------------------------|---------|----------------------------------|--------------------------------------|---------------------------------------|---------|
| | Interest contracts | | Foreign currency contracts | Contracts in respect of shares | Commodities and other contracts | Total |
| | Shekel – index | Other | | | | |
| | (NIS millions) | | | | | |
| (1) Nominal amount of derivative instruments | | | | | | |
| a) Hedging instruments (a) | | | | | | |
| Forward contracts | - | - | 1,426 | - | - | 1,426 |
| Swaps | - | 2,581 | - | - | - | 2,581 |
| Total | - | 2,581 | 1,426 | - | - | 4,007 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 2,485 | - | - | - | 2,485 |
| b) ALM derivatives (a)(b) | | | | | | |
| Futures contracts | - | 8,320 | 348 | 35,508 | 6,640 | 50,816 |
| Forward contracts | 12,072 | 12,015 | 126,909 | 3 | 181 | 151,180 |
| Exchange-traded options | | | | | | |
| Options written | - | 4,779 | 8,586 | 14,592 | 405 | 28,362 |
| Options purchased | - | 4,779 | 8,762 | 14,592 | 405 | 28,538 |
| Other options | | | | | | |
| Options written | - | 10,710 | 26,974 | 864 | 239 | 38,787 |
| Options purchased | - | 8,102 | 26,143 | 796 | 252 | 35,293 |
| Swaps | 678 | 287,880 | 26,099 | 12,251 | 197 | 327,105 |
| Total | 12,750 | 336,585 | 223,821 | 78,606 | 8,319 | 660,081 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 158,832 | - | - | - | 158,832 |
| c) Other derivatives (a) | | | | | | |
| Total | - | - | - | - | - | - |
| d) Credit derivatives and foreign exchange spot contracts | | | | | | |
| Credit derivatives in which the banking institution is a guarantor | - | - | - | - | - | - |
| Credit derivatives in which the banking institution is a beneficiary | - | - | - | - | - | - |
| Spot foreign exchange contracts | - | - | 6,543 | - | - | 6,543 |
| Total | - | - | 6,543 | - | - | 6,543 |
| Overall total | 12,750 | 339,166 | 231,790 | 78,606 | 8,319 | 670,631 |

(a) Except credit derivatives and foreign exchange spot contracts.

(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**A. Scope of activity (cont'd)**

| | 31 December 2013 (Audited) | | | | | |
|--|----------------------------|-------|----------------------------------|--------------------------------------|---------------------------------------|--------|
| | Interest contracts | | Foreign currency contracts | Contracts in respect of shares | Commodities and other contracts | Total |
| | Shekel – index | Other | | | | |
| | (NIS millions) | | | | | |
| (2) Gross fair value of derivative instruments | | | | | | |
| a) Hedging derivatives (a) | | | | | | |
| Gross positive fair value | - | 36 | 37 | - | - | 73 |
| Gross negative fair value | - | 130 | 10 | - | - | 140 |
| b) ALM derivatives (a)(b) | | | | | | |
| Gross positive fair value | 118 | 7,928 | 3,275 | 1,557 | 103 | 12,981 |
| Gross negative fair value | 232 | 7,545 | 3,894 | 1,597 | 95 | 13,363 |
| c) Other derivatives (a) | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| d) Credit derivatives | | | | | | |
| Credit derivatives in which the banking institution is a guarantor | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| Credit derivatives in which the banking institution is a beneficiary | | | | | | |
| Gross positive fair value | - | - | - | - | - | - |
| Gross negative fair value | - | - | - | - | - | - |
| e) Total | | | | | | |
| Gross positive fair value | 118 | 7,964 | 3,312 | 1,557 | 103 | 13,054 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of assets in respect of derivative instruments | 118 | 7,964 | 3,312 | 1,557 | 103 | 13,054 |
| Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | 20 | 33 | 250 | 17 | 5 | 325 |
| Gross negative fair value (c) | 232 | 7,675 | 3,904 | 1,597 | 95 | 13,503 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of liabilities in respect of derivative financial instruments | 232 | 7,675 | 3,904 | 1,597 | 95 | 13,503 |
| Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | 54 | 35 | 528 | 315 | 4 | 936 |

(a) Except credit derivatives.

(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

(c) Of which: gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 16 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**B. Credit risk in respect of derivative instruments by counterparty to the contract**

| | 30 September 2014 (Unaudited) | | | | | |
|--|--------------------------------------|--------------|---------------------|-------------------------------------|--------------|---------------|
| | Stock Exchanges | Banks | Dealers/ brokers | Governments and central banks | Others | Total |
| | (NIS millions) | | | | | |
| Book balance of assets in respect of derivative instruments (a) (b) | 305 | 8,924 | 2,344 | 61 | 4,599 | 16,233 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Mitigation of credit risk in respect of financial instruments | - | 3,414 | 846 | 31 | 699 | 4,990 |
| Mitigation of credit risk in respect of cash collateral received | - | 577 | 318 | 20 | - | 915 |
| Net amount of assets in respect of derivative instruments | 305 | 4,933 | 1,180 | 10 | 3,900 | 10,328 |
| Off-balance sheet credit risk in respect of derivative instruments (d) | - | 3,713 | 854 | 88 | 4,694 | 9,349 |
| Mitigation of off-balance sheet credit risk | - | 113 | 14 | 27 | 607 | 761 |
| Net off-balance sheet credit risk in respect of derivative instruments | - | 3,600 | 840 | 61 | 4,087 | 8,588 |
| Total credit risk in respect of derivative instruments | 305 | 8,533 | 2,020 | 71 | 7,987 | 18,916 |
| Book balance of liabilities in respect of derivative instruments (a) (c) | 381 | 9,065 | 2,151 | 31 | 4,102 | 15,730 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Derivative financial instruments | - | 3,414 | 846 | 31 | 699 | 4,990 |
| Cash collateral pledged | - | 419 | 120 | - | 37 | 576 |
| Net amount of liabilities in respect of derivative instruments | 381 | 5,232 | 1,185 | - | 3,366 | 10,164 |

See notes on page 223.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**B. Credit risk in respect of derivative instruments by counterparty to the contract (cont'd)**

| | 30 September 2013 (Unaudited) | | | | | Total |
|--|--------------------------------------|--------|---------------------|-------------------------------------|--------|--------|
| | Stock Exchanges (NIS millions) | Banks | Dealers/ brokers | Governments and central banks | Others | |
| Book balance of assets in respect of derivative instruments (a) (b) | 103 | 7,456 | 1,609 | 28 | 1,770 | 10,966 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Mitigation of credit risk in respect of financial instruments | - | 6,565 | 1,547 | - | 742 | 8,854 |
| Mitigation of credit risk in respect of cash collateral received | - | 612 | 8 | - | 26 | 646 |
| Net amount of assets in respect of derivative instruments | 103 | 279 | 54 | 28 | 1,002 | 1,466 |
| Off-balance sheet credit risk in respect of derivative instruments (d) | - | 10,422 | 1,674 | 207 | 10,154 | 22,457 |
| Mitigation of off-balance sheet credit risk | - | 3,049 | 110 | - | 2,632 | 5,791 |
| Net off-balance sheet credit risk in respect of derivative instruments | - | 7,373 | 1,564 | 207 | 7,522 | 16,666 |
| Total credit risk in respect of derivative instruments | 103 | 7,652 | 1,618 | 235 | 8,524 | 18,132 |
| Book balance of liabilities in respect of derivative instruments (a) (c) | 135 | 7,535 | 1,655 | - | 2,766 | 12,091 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Derivative financial instruments | - | 6,565 | 1,547 | - | 742 | 8,854 |
| Cash collateral pledged | - | 685 | 25 | - | - | 710 |
| Net amount of liabilities in respect of derivative instruments | 135 | 285 | 83 | - | 2,024 | 2,527 |

See notes on next page.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**B. Credit risk in respect of derivative instruments by counterparty to the contract (cont'd)**

| | 31 December 2013 (Audited) | | | | | |
|--|----------------------------|--------|---------------------|-------------------------------------|--------|--------|
| | Stock Exchanges | Banks | Dealers/ brokers | Governments and central banks | Others | Total |
| | (NIS millions) | | | | | |
| Book balance of assets in respect of derivative instruments (a) (b) | 139 | 8,722 | 1,933 | 85 | 2,175 | 13,054 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Mitigation of credit risk in respect of financial instruments | - | 6,652 | 1,755 | - | 821 | 9,228 |
| Mitigation of credit risk in respect of cash collateral received | - | 938 | 90 | 32 | 43 | 1,103 |
| Net amount of assets in respect of derivative instruments | 139 | 1,132 | 88 | 53 | 1,311 | 2,723 |
| Off-balance sheet credit risk in respect of derivative instruments (d) | - | 10,519 | 2,269 | 326 | 11,123 | 24,237 |
| Mitigation of off-balance sheet credit risk | - | 3,290 | 448 | - | 2,960 | 6,698 |
| Net off-balance sheet credit risk in respect of derivative instruments | - | 7,229 | 1,821 | 326 | 8,163 | 17,539 |
| Total credit risk in respect of derivative instruments | 139 | 8,361 | 1,909 | 379 | 9,474 | 20,262 |
| Book balance of liabilities in respect of derivative instruments (a) (c) | 317 | 7,542 | 1,824 | - | 3,820 | 13,503 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Derivative financial instruments | - | 6,652 | 1,755 | - | 821 | 9,228 |
| Cash collateral pledged | - | 468 | 2 | - | - | 470 |
| Net amount of liabilities in respect of derivative instruments | 317 | 422 | 67 | - | 2,999 | 3,805 |

(a) The Bank did not offset master netting arrangements.

(b) Of which a book balance of assets in respect of standalone derivative instruments in the amount of NIS 16,227 million (at 30 September 2013 - NIS 10,966 million, at 31 December 2013 – NIS 13,054 million).

(c) Of which a book balance of standalone derivative instruments in the amount of NIS 15,702 million (at 30 September 2013 - NIS 12,078 million, at 31 December 2013 – NIS 13,487 million).

(d) Credit risk in respect of off-balance sheet financial instruments (except in respect of derivative instruments with negative fair value) before mitigation of credit risk, as calculated for the purpose of single borrower credit limitations.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)**C. Repayment Dates – Nominal Amounts: Balances**

| | 30 September 2014 (Unaudited) | | | | |
|---|--------------------------------------|-------------------------------------|---------------------------|--------------------|----------------|
| | Up to three months | From three months to one year | From one to five years | Over five years | Total |
| | (NIS millions) | | | | |
| Interest contracts: | | | | | |
| Shekel – index | 1,635 | 3,400 | 4,624 | 1,422 | 11,081 |
| Other | 35,640 | 76,031 | 147,738 | 84,773 | 344,182 |
| Foreign currency contracts | 198,138 | 77,011 | 18,408 | 17,539 | 311,096 |
| Contracts in respect of shares | 73,948 | 17,300 | 705 | - | 91,953 |
| Commodities and other contracts | 2,377 | 434 | 132 | - | 2,943 |
| Total | 311,738 | 174,176 | 171,607 | 103,734 | 761,255 |
| Total for 30 September 2013 (Unaudited) | 208,796 | 136,223 | 165,883 | 111,097 | 621,999 |
| Total for 31 December 2013 (Audited) | 261,696 | 130,243 | 161,704 | 116,988 | 670,631 |

Note 8 – Balances and fair value assessments of financial instruments

| | 30 September 2014 (Unaudited) | | | | |
|---|-------------------------------|-------------|-------------|-------------|---------|
| | Book | Fair value | | | |
| | value | Level 1 (a) | Level 2 (a) | Level 3 (a) | Total |
| | (NIS millions) | | | | |
| Financial assets | | | | | |
| Cash and deposits with banks | 54,612 | 38,697 | 14,862 | 1,072 | 54,631 |
| Securities (b) | 46,058 | 27,251 | 15,344 | 3,463 | 46,058 |
| Securities borrowed or purchased under agreements to resell | 2,019 | 2,019 | - | - | 2,019 |
| Credit to the public, net | 249,481 | 2,363 | 61,517 | 187,138 | 251,018 |
| Credit to governments | 510 | - | 47 | 480 | 527 |
| Assets in respect of derivative instruments | 16,227 | 1,087 | 12,013 | 3,127 | 16,227 |
| Other financial assets | 988 | 189 | - | 799 | 988 |
| Total financial assets | 369,895 (c) | 71,606 | 103,783 | 196,079 | 371,468 |
| Financial liabilities | | | | | |
| Deposits of the public | 286,632 | 2,583 | 154,121 | 132,586 | 289,290 |
| Deposits from banks | 4,781 | - | 4,447 | 404 | 4,851 |
| Deposits from governments | 391 | - | 323 | 91 | 414 |
| Securities lent or sold under agreements to repurchase | 1,172 | 1,172 | - | - | 1,172 |
| Debentures, notes and subordinated notes | 23,932 | 23,571 | 385 | 2,572 | 26,528 |
| Liabilities in respect of derivative instruments | 15,702 | 996 | 14,367 | 339 | 15,702 |
| Other financial liabilities | 8,207 | 179 | - | 8,032 | 8,211 |
| Total financial liabilities | 340,817 (c) | 28,501 | 173,643 | 144,024 | 346,168 |
| Off-balance sheet financial instruments | | | | | |
| Transactions whose balance represents credit risk | 307 | - | - | 307 | 307 |

- (a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.
- (b) For further details on the book value and fair value of securities, see Note 2.
- (c) Of which: assets and liabilities in the amounts of NIS 100,491 million and NIS 120,656 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 8A - 8C.

Note 8 – Balances and fair value assessments of financial instruments (cont'd)

| | 30 September 2013 (Unaudited) | | | | |
|---|-------------------------------|---------------|----------------|----------------|----------------|
| | Book | Fair value | | | |
| | value | Level 1 (a) | Level 2 (a) | Level 3 (a) | Total |
| | (NIS millions) | | | | |
| Financial assets | | | | | |
| Cash and deposits with banks | 40,202 | 29,907 | 9,334 | 993 | 40,234 |
| Securities (b) | 60,984 | 41,406 | 16,245 | 3,333 | 60,984 |
| Securities borrowed or purchased under agreements to resell | 1,098 | 1,098 | - | - | 1,098 |
| Credit to the public, net | 240,892 | 1,992 | 68,967 | 171,911 | 242,870 |
| Credit to governments | 533 | - | 53 | 504 | 557 |
| Assets in respect of derivative instruments | 10,966 | 502 | 9,039 | 1,425 | 10,966 |
| Other financial assets | 1,160 | 83 | - | 1,077 | 1,160 |
| Total financial assets | 355,835 (c) | 74,988 | 103,638 | 179,243 | 357,869 |
| Financial liabilities | | | | | |
| Deposits of the public | 279,839 | 1,484 | 140,793 | 139,407 | 281,684 |
| Deposits from banks | 3,805 | - | 3,551 | 241 | 3,792 |
| Deposits from governments | 437 | - | 327 | 130 | 457 |
| Securities lent or sold under agreements to repurchase | 404 | 404 | - | - | 404 |
| Debentures, notes and subordinated notes | 25,596 | 22,985 | 388 | 4,857 | 28,230 |
| Liabilities in respect of derivative instruments | 12,078 | 496 | 11,099 | 483 | 12,078 |
| Other financial liabilities | 7,416 | 83 | - | 7,320 | 7,403 |
| Total financial liabilities | 329,575 (c) | 25,452 | 156,158 | 152,438 | 334,048 |
| Off-balance sheet financial instruments | | | | | |
| Transactions whose balance represents credit risk | 279 | - | - | 279 | 279 |

- (a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.
- (b) For further details on the book value and fair value of securities, see note on securities.
- (c) Of which: Assets and liabilities in the amounts of NIS 106,198 million and NIS 87,393 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further information on financial instruments measured for fair value on a recurring and non-recurring basis, see Notes 8A – 8C.

Note 8 – Balances and fair value assessments of financial instruments (cont'd)

| | 31 December 2013 (Audited) | | | | |
|---|----------------------------|---------------|----------------|----------------|----------------|
| | Book | Fair value | | | |
| | value | Level 1 (a) | Level 2 (a) | Level 3 (a) | Total |
| | (NIS millions) | | | | |
| Financial assets | | | | | |
| Cash and deposits with banks | 44,351 | 32,061 | 11,492 | 823 | 44,376 |
| Securities (b) | 63,735 | 45,164 | 15,339 | 3,232 | 63,735 |
| Securities borrowed or purchased under agreements to resell | 1,360 | 1,360 | - | - | 1,360 |
| Credit to the public, net | 240,874 | 2,585 | 67,719 | 172,110 | 242,414 |
| Credit to governments | 558 | - | 47 | 537 | 584 |
| Assets in respect of derivative instruments | 13,054 | 1,272 | 9,971 | 1,811 | 13,054 |
| Other financial assets | 963 | 148 | - | 815 | 963 |
| Total financial assets | 364,895 (c) | 82,590 | 104,568 | 179,328 | 366,486 |
| Financial liabilities | | | | | |
| Deposits of the public | 286,003 | 2,828 | 141,591 | 143,385 | 287,804 |
| Deposits from banks | 4,310 | - | 3,862 | 434 | 4,296 |
| Deposits from governments | 397 | - | 331 | 83 | 414 |
| Securities lent or sold under agreements to repurchase | 624 | 624 | - | - | 624 |
| Debentures, notes and subordinated notes | 25,441 | 22,881 | 387 | 4,816 | 28,084 |
| Liabilities in respect of derivative instruments | 13,487 | 1,281 | 11,827 | 379 | 13,487 |
| Other financial liabilities | 7,779 | 148 | - | 7,590 | 7,738 |
| Total financial liabilities | 338,041 (c) | 27,762 | 157,998 | 156,687 | 342,447 |
| Off-balance sheet financial instruments | | | | | |
| Transactions whose balance represents credit risk | 289 | - | - | 289 | 289 |

- (a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.
- (b) For further details on the book value and fair value of securities, see the note on securities.
- (c) Of which: Assets and liabilities in the amounts of NIS 113,851 million and NIS 94,856 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further details of instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 8A - 8C.

Note 8A – Items measured at fair value**A. Items measured for fair value on a recurring basis**

| | As at 30 September 2014 (Unaudited) | | | |
|---|--|--|--|---------------------|
| | Fair value measurements using: | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| | (NIS millions) | | | |
| Assets | | | | |
| Securities available for sale: | | | | |
| Israeli government bonds | 11,183 | 1,523 | - | 12,706 |
| Foreign government bonds | 2,869 | 657 | - | 3,526 |
| Bonds of Israeli financial institutions | 39 | 62 | - | 101 |
| Bonds of overseas financial institutions | 410 | 4,011 | - | 4,421 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 5,357 | 1,893 | 7,250 |
| Other bonds in Israel | 440 | 285 | - | 725 |
| Other bonds abroad | 997 | 1,639 | - | 2,636 |
| Shares and mutual funds available for sale | 2,025 | - | - | 2,025 |
| Total securities available for sale | 17,963 | 13,534 | 1,893 | 33,390 |
| Securities held for trading: | | | | |
| Government of Israel bonds | 7,747 | 377 | - | 8,124 |
| Foreign government bonds | 200 | 3 | - | 203 |
| Bonds of financial institutions in Israel | 530 | - | - | 530 |
| Bonds of financial institutions abroad | - | 239 | - | 239 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 559 | - | 559 |
| Other bonds in Israel | 394 | - | - | 394 |
| Other bonds abroad | - | 632 | - | 632 |
| Shares and mutual funds held for trading | 417 | - | - | 417 |
| Total securities held for trading | 9,288 | 1,810 | - | 11,098 |
| Assets in respect of derivative instruments: | | | | |
| Shekel-index contracts | - | 70 | 140 | 210 |
| Interest contracts | 8 | 7,964 | 607 | 8,579 |
| Foreign currency contracts | 4 | 3,672 | 2,247 | 5,923 |
| Share contracts | 347 | 288 | 109 | 744 |
| Commodities and other contracts | 35 | 19 | 24 | 78 |
| Activity in Maof market | 693 | - | - | 693 |
| Total assets in respect of derivative instruments: | 1,087 | 12,013 | 3,127 | 16,227 |
| Others: | | | | |
| Credit and deposits in respect of lending of securites | 2,363 | 6 | - | 2,369 |
| Securities borrowed or purchased under agreements to resell | 2,019 | - | - | 2,019 |
| Other | 186 | - | - | 186 |
| Total others | 4,568 | 6 | - | 4,574 |
| Total assets | 32,906 | 27,363 | 5,020 | 65,289 |

Note 8A – Items measured at fair value (cont'd)**A. Items measured at fair value on a recurring basis (cont'd)**

| | As at 30 September 2014 (Unaudited) | | | |
|--|--|--|--|---------------------|
| | Fair value measurements using: | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| | (NIS millions) | | | |
| Liabilities | | | | |
| Liabilities in respect of derivative instruments: | | | | |
| Shekel-index contracts | - | 249 | 75 | 324 |
| Interest contracts | 8 | 8,216 | 1 | 8,225 |
| Foreign currency contracts | 4 | 5,441 | 263 | 5,708 |
| Share contracts | 347 | 420 | - | 767 |
| Commodities and other contracts | 35 | 41 | - | 76 |
| Activity in Maof market | 602 | - | - | 602 |
| Total liabilities in respect of derivative instruments | 996 | 14,367 | 339 | 15,702 |
| Others: | | | | |
| Deposits in respect of lending of securites | 2,583 | 19 | 9 | 2,611 |
| Securities lent or sold under agreements to repurchase | 1,172 | - | - | 1,172 |
| Others | 179 | - | - | 179 |
| Total others | 3,934 | 19 | 9 | 3,962 |
| Total liabilities | 4,930 | 14,386 | 348 | 19,664 |

Note 8A – Items measured for fair value (cont'd)**A. Items measured for fair value on a recurring basis (cont'd)**

| | As at 30 September 2013 (Unaudited) | | | |
|---|--|--|--|---------------------|
| | Fair value measurements using: | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| | (NIS millions) | | | |
| Assets | | | | |
| Securities available for sale: | | | | |
| Israeli government bonds | 25,381 | 1,567 | - | 26,948 |
| Foreign government bonds | 3,041 | 750 | 6 | 3,797 |
| Bonds of Israeli financial institutions | 68 | 62 | - | 130 |
| Bonds of overseas financial institutions | 405 | 4,987 | 120 | 5,512 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 137 | 5,570 | 1,783 | 7,490 |
| Other bonds in Israel | 450 | 372 | 9 | 831 |
| Other bonds abroad | 629 | 1,469 | - | 2,098 |
| Shares and mutual funds available for sale | 1,356 | - | - | 1,356 |
| Total securities available for sale | 31,467 | 14,777 | 1,918 | 48,162 |
| Securities held for trading: | | | | |
| Government of Israel bonds | 8,442 | 70 | - | 8,512 |
| Foreign government bonds | 206 | 229 | - | 435 |
| Bonds of financial institutions in Israel | 330 | - | - | 330 |
| Bonds of financial institutions abroad | - | 126 | - | 126 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 398 | - | 398 |
| Other bonds in Israel | 509 | - | - | 509 |
| Other bonds abroad | 14 | 645 | - | 659 |
| Shares and mutual funds held for trading | 438 | - | - | 438 |
| Total securities held for trading | 9,939 | 1,468 | - | 11,407 |
| Assets in respect of derivative instruments: | | | | |
| Shekel-index contracts (a) | - | 22 | 109 | 131 |
| Interest contracts (a) | 27 | 7,203 | 400 | 7,630 |
| Foreign currency contracts | 7 | 1,427 | 897 | 2,331 |
| Share contracts | 158 | 281 | 17 | 456 |
| Commodities and other contracts | 96 | 106 | 2 | 204 |
| Activity in Maof market | 214 | - | - | 214 |
| Total assets in respect of derivative instruments | 502 | 9,039 | 1,425 | 10,966 |
| Others: | | | | |
| Credit and deposits in respect of lending of securites | 1,992 | - | - | 1,992 |
| Securities borrowed or purchased under agreements to resell | 1,098 | - | - | 1,098 |
| Other | 83 | - | - | 83 |
| Total others | 3,173 | - | - | 3,173 |
| Total assets | 45,081 | 25,284 | 3,343 | 73,708 |

Note 8A – Items measured for fair value (cont'd)**A. Items measured for fair value on a recurring basis (cont'd)**

| | As at 30 September 2013 (Unaudited) | | | |
|--|--|--|--|---------------------|
| | Fair value measurements using: | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| | (NIS millions) | | | |
| Liabilities | | | | |
| Liabilities in respect of derivative instruments: | | | | |
| Shekel-index contracts (a) | - | 152 | 140 | 292 |
| Interest contracts (a) | 27 | 7,407 | - | 7,434 |
| Foreign currency contracts | 1 | 3,144 | 343 | 3,488 |
| Share contracts | 158 | 310 | - | 468 |
| Commodities and other contracts | 96 | 86 | - | 182 |
| Activity in Maof market | 214 | - | - | 214 |
| Total liabilities in respect of derivative instruments | 496 | 11,099 | 483 | 12,078 |
| Others: | | | | |
| Deposits in respect of lending of securities | 1,483 | 13 | - | 1,496 |
| Securities lent or sold under agreements to repurchase | 404 | - | - | 404 |
| Others | 83 | - | - | 83 |
| Total others | 1,970 | 13 | - | 1,983 |
| Total liabilities | 2,466 | 11,112 | 483 | 14,061 |

(a) Reclassified

Note 8A – Items measured for fair value (cont'd)**A. Items measured for fair value on a recurring basis (cont'd)**

| | As at 31 December 2013 (Audited) | | | |
|---|--|--|--|---------------------|
| | Fair value measurements using: | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| | (NIS millions) | | | |
| Assets | | | | |
| Securities available for sale: | | | | |
| Israeli government bonds | 29,185 | 1,551 | - | 30,736 |
| Foreign government bonds | 3,087 | 749 | 7 | 3,843 |
| Bonds of Israeli financial institutions | 45 | 60 | - | 105 |
| Bonds of overseas financial institutions | 371 | 4,789 | 120 | 5,280 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 97 | 5,516 | 1,733 | 7,346 |
| Other bonds in Israel | 381 | 331 | 9 | 721 |
| Other bonds abroad | 821 | 1,181 | - | 2,002 |
| Shares and mutual funds available for sale | 1,465 | - | - | 1,465 |
| Total securities available for sale | 35,452 | 14,177 | 1,869 | 51,498 |
| Securities held for trading: | | | | |
| Government of Israel bonds | 7,104 | - | - | 7,104 |
| Foreign government bonds | 772 | 256 | - | 1,028 |
| Bonds of financial institutions in Israel | 327 | - | - | 327 |
| Bonds of financial institutions abroad | - | 116 | - | 116 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 279 | - | 279 |
| Other bonds in Israel | 409 | - | - | 409 |
| Other bonds abroad | 9 | 511 | - | 520 |
| Shares and mutual funds held for trading | 1,091 | - | - | 1,091 |
| Total securities held for trading | 9,712 | 1,162 | - | 10,874 |
| Assets in respect of derivative instruments: | | | | |
| Shekel-index contracts | - | 32 | 86 | 118 |
| Interest contracts | 22 | 7,551 | 391 | 7,964 |
| Foreign currency contracts | 5 | 1,834 | 1,334 | 3,173 |
| Share contracts | 739 | 510 | - | 1,249 |
| Commodities and other contracts | 59 | 44 | - | 103 |
| Activity in Maof market | 447 | - | - | 447 |
| Total assets in respect of derivative instruments | 1,272 | 9,971 | 1,811 | 13,054 |
| Others: | | | | |
| Credit and deposits in respect of lending of securites | 2,585 | - | - | 2,585 |
| Securities borrowed or purchased under agreements to resell | 1,360 | - | - | 1,360 |
| Other | 148 | - | - | 148 |
| Total others | 4,093 | - | - | 4,093 |
| Total assets | 50,529 | 25,310 | 3,680 | 79,519 |

Note 8A – Items measured for fair value (cont'd)**A. Items measured for fair value on a recurring basis (cont'd)**

| | As at 31 December 2013 (Audited) | | | |
|--|--|--|--|---------------------|
| | Fair value measurements using: | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value |
| | (NIS millions) | | | |
| Liabilities | | | | |
| Liabilities in respect of derivative instruments: | | | | |
| Shekel-index contracts | - | 157 | 75 | 232 |
| Interest contracts | 22 | 7,653 | - | 7,675 |
| Foreign currency contracts | 14 | 3,430 | 304 | 3,748 |
| Share contracts | 739 | 551 | - | 1,290 |
| Commodities and other contracts | 59 | 36 | - | 95 |
| Activity in Maof market | 447 | - | - | 447 |
| Total liabilities in respect of derivative instruments: | 1,281 | 11,827 | 379 | 13,487 |
| Others: | | | | |
| Deposits in respect of lending of securites | 2,828 | 17 | - | 2,845 |
| Securities lent or sold under agreements to repurchase | 624 | - | - | 624 |
| Others | 148 | - | - | 148 |
| Total others | 3,600 | 17 | - | 3,617 |
| Total liabilities | 4,881 | 11,844 | 379 | 17,104 |

Note 8A – Items measured for fair value (cont'd)**B. Items measured for fair value on a non-recurring basis**

| As at 30 September 2014 (Unaudited) | | | | | |
|--|--|---|--|---------------------|--|
| Fair value measurements using: | | | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value | Total profit (loss) from changes in value for period |
| (NIS millions) | | | | | |
| Collateral-dependent impaired credit | - | - | 1,474 | 1,474 | (51) |
| Other assets | - | - | - | - | - |
| Total | - | - | 1,474 | 1,474 | (51) |
| As at 30 September 2013 (Unaudited) | | | | | |
| Fair value measurements using: | | | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value | Total profit (loss) from changes in value for period |
| (NIS millions) | | | | | |
| Collateral-dependent impaired credit | - | - | 1,661 | 1,661 | (125) |
| Other assets | - | - | - | - | - |
| Total | - | - | 1,661 | 1,661 | (125) |
| As at 31 December 2013 (Audited) | | | | | |
| Fair value measurements using: | | | | | |
| | Prices quoted in an active market (Level 1) | Other significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value | Total profit (loss) from changes in value for period |
| (NIS millions) | | | | | |
| Collateral-dependent impaired credit | - | - | 2,119 | 2,119 | (236) |
| Other assets | - | - | - | - | - |
| Total | - | - | 2,119 | 2,119 | (236) |

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3

| For the three months ended 30 September 2014 (Unaudited) | | | | | | | | | | |
|---|--|------------------------------|---|-------------------------|------------|-----------------|--|----------------------|------------------------|---|
| | <u>Realized and unrealized profits (losses), net, included</u> | | | | | | | | | Unrealized profits (losses) in respect of instruments held at 30 September 2014 |
| | Fair value at beginning of the year (NIS millions) | In profit and loss statement | In other comprehensive income in equity | Acquisitions and issues | Sales | Extinguishments | Adjustments from translation of financial statements | Transfers to Level 3 | Transfers from Level 3 | Fair value at 30 September 2014 |
| Assets | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | |
| Israeli government bonds | - | - | - | - | - | - | - | - | - | - |
| Foreign government bonds | 4 | 2 | - | - | (6) | - | - | - | - | - |
| Bonds of financial institutions in Israel | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | - | - | - | - | - | - | - | - | - | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,748 | 159 | 11 | 97 | - | (122) | - | - | - | 1,893 |
| Others in Israel | 9 | (1) | - | - | - | (8) | - | - | - | - |
| Others abroad | - | - | - | - | - | - | - | - | - | - |
| Total bonds available for sale | 1,761 | 160 | 11 | 97 | (6) | (130) | - | - | - | 1,893 |
| Shares available for sale | - | - | - | - | - | - | - | - | - | - |
| Assets in respect of derivative instruments: | | | | | | | | | | |
| Shekel-index contracts | 110 | 10 | - | - | - | - | - | 20 | - | 140 |
| Interest contracts | 482 | 157 | - | - | - | (32) | - | - | - | 607 |
| Foreign currency contracts | 916 | 769 | - | 562 | - | - | - | - | - | 2,247 |
| Share contracts | 32 | 77 | - | - | - | - | - | - | - | 109 |
| Commodities and other contracts | - | 24 | - | - | - | - | - | - | - | 24 |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - |
| Total assets in respect of derivative instruments | 1,540 | 1,037 | - | 562 | - | (32) | - | 20 | - | 3,127 |
| Total others | - | - | - | - | - | - | - | - | - | - |
| Total assets | 3,301 | 1,197 | 11 | 659 | (6) | (162) | - | 20 | - | 5,020 |
| Liabilities in respect of derivative instruments: | | | | | | | | | | |
| Shekel-index contracts | 70 | (8) | - | - | - | - | - | 13 | - | 75 |
| Interest contracts | 3 | (2) | - | - | - | - | - | - | - | 1 |
| Foreign currency contracts | 274 | (11) | - | - | - | - | - | - | - | 263 |
| Share contracts | - | - | - | - | - | - | - | - | - | - |
| Commodities and other contracts | - | - | - | - | - | - | - | - | - | - |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - |
| Total liabilities in respect of derivative instruments | 347 | (21) | - | - | - | - | - | 13 | - | 339 |
| Total others | 7 | 2 | - | - | - | - | - | - | - | 9 |
| Total liabilities | 354 | (19) | - | - | - | - | - | 13 | - | 348 |

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

| | For the three months ended 30 September 2013 (Unaudited) | | | | | | | | | | Unrealized profits in respect of instruments held at 30 September 2013 |
|--|--|------------------------------|---|-------------------------|--------------|-----------------|--|--------------------------|----------------------------|---------------------------------|--|
| | Realized and unrealized profits (losses), net, included | | | | | | | | | | |
| | Fair value at beginning of the year (NIS millions) | In profit and loss statement | In other comprehensive income in equity | Acquisitions and issues | Sales | Extinguishments | Adjustments from translation of financial statements | Transfers to Level 3 (a) | Transfers from Level 3 (a) | Fair value at 30 September 2013 | |
| Assets | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Israeli government bonds | - | - | - | - | - | - | - | - | - | - | - |
| Foreign government bonds | 6 | - | - | - | - | - | - | - | - | 6 | 1 |
| Bonds of financial institutions in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 119 | 1 | - | - | - | - | - | - | - | 120 | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,692 | (3) | (8) | 277 | (151) | (25) | 1 | - | - | 1,783 | (5) |
| Others in Israel | 9 | - | - | - | - | - | - | - | - | 9 | - |
| Others abroad | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds available for sale | 1,826 | (2) | (8) | 277 | (151) | (25) | 1 | - | - | 1,918 | (4) |
| Shares available for sale | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds for trading | - | - | - | - | - | - | - | - | - | - | - |
| Shares for trading | - | - | - | - | - | - | - | - | - | - | - |
| Assets in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts (a) | 95 | 7 | - | - | - | - | - | 3 | 4 | 109 | 13 |
| Interest contracts (a) | 637 | (224) | - | - | - | (13) | - | - | - | 400 | (293) |
| Foreign currency contracts | 992 | (173) | - | 78 | - | - | - | - | - | 897 | 371 |
| Share contracts | 20 | (3) | - | - | - | - | - | - | - | 17 | 4 |
| Commodities and other contracts | 12 | (10) | - | - | - | - | - | - | - | 2 | (6) |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total assets in respect of derivative instruments | 1,756 | (403) | - | 78 | - | (13) | - | 3 | 4 | 1,425 | 89 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| Total assets | 3,582 | (405) | (8) | 355 | (151) | (38) | 1 | 3 | 4 | 3,343 | 85 |
| Liabilities | | | | | | | | | | | |
| Liabilities in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts (a) | 139 | (4) | - | - | - | - | - | 1 | 4 | 140 | 21 |
| Interest contracts (a) | - | - | - | - | - | - | - | - | - | - | - |
| Foreign currency contracts | 335 | 8 | - | - | - | - | - | - | - | 343 | 11 |
| Share contracts | - | - | - | - | - | - | - | - | - | - | - |
| Commodities and other contracts | - | - | - | - | - | - | - | - | - | - | - |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities in respect of derivative instruments | 474 | 4 | - | - | - | - | - | 1 | 4 | 483 | 32 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | 474 | 4 | - | - | - | - | - | 1 | 4 | 483 | 32 |

(a) Reclassified

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

| For the nine months ended 30 September 2014 (Unaudited) | | | | | | | | | | | |
|--|---|------------------------------|---|-------------------------|--------------|-----------------|--|--------------------------|------------------------|---|--------------|
| | Realized and unrealized profits (losses), net, included | | | | | | | | | Unrealized profits (losses) in respect of instruments held at 30 September 2014 | |
| | Fair value at beginning of the year (NIS millions) | In profit and loss statement | In other comprehensive income in equity | Acquisitions and issues | Sales | Extinguishments | Adjustments from translation of financial statements | Transfers to Level 3 (1) | Transfers from Level 3 | Fair value at 30 September 2014 | |
| Assets | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Israeli government | - | - | - | - | - | - | - | - | - | - | - |
| Foreign governments | 7 | - | - | - | (7) | - | - | - | - | - | - |
| Financial institutions in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 120 | (1) | - | - | - | (119) | - | - | - | - | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,733 | 30 | 2 | 479 | (160) | (191) | - | - | - | 1,893 | 24 |
| Others in Israel | 9 | - | - | - | - | (9) | - | - | - | - | - |
| Others abroad | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds available for sale | 1,869 | 29 | 2 | 479 | (167) | (319) | - | - | - | 1,893 | 24 |
| Shares available for sale | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds for trading: | | | | | | | | | | | |
| Israeli government | - | - | - | - | - | - | - | - | - | - | - |
| Foreign governments | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | - | - | - | - | - | - | - | - | - | - | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | - | - | - | - | - | - | - | - | - | - |
| Others in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Others abroad | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds available for trading | - | - | - | - | - | - | - | - | - | - | - |
| Shares for trading | - | - | - | - | - | - | - | - | - | - | - |
| Assets in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts | 86 | 25 | - | - | - | - | - | 29 | - | 140 | 80 |
| Interest contracts | 391 | 292 | - | - | - | (76) | - | - | - | 607 | 246 |
| Foreign currency contracts | 1,334 | (54) | - | 967 | - | - | - | - | - | 2,247 | 1,925 |
| Share contracts | - | 109 | - | - | - | - | - | - | - | 109 | 99 |
| Commodities and other contracts | - | 24 | - | - | - | - | - | - | - | 24 | 24 |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total assets in respect of derivative instruments | 1,811 | 396 | - | 967 | - | (76) | - | 29 | - | 3,127 | 2,374 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| Total assets | 3,680 | 425 | 2 | 1,446 | (167) | (395) | - | 29 | - | 5,020 | 2,398 |
| Liabilities | | | | | | | | | | | |
| Liabilities in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts | 75 | (23) | - | - | - | - | - | 23 | - | 75 | 19 |
| Interest contracts | - | 1 | - | - | - | - | - | - | - | 1 | 1 |
| Foreign currency contracts | 304 | (41) | - | - | - | - | - | - | - | 263 | (43) |
| Share contracts | - | - | - | - | - | - | - | - | - | - | - |
| Commodities and other contracts | - | - | - | - | - | - | - | - | - | - | - |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities in respect of derivative instruments | 379 | (63) | - | - | - | - | - | 23 | - | 339 | (23) |
| Total others | - | 9 | - | - | - | - | - | - | - | 9 | 9 |
| Total liabilities | 379 | (54) | - | - | - | - | - | 23 | - | 348 | (14) |

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

| | For the nine months ended 30 September 2013 (Unaudited) | | | | | | | | | | Unrealized profits in respect of instruments held at 30 September 2013 |
|--|---|------------------------------|---|-------------------------|--------------|-----------------|--|--------------------------|----------------------------|---------------------------------|--|
| | Realized and unrealized profits (losses), net, included | | | | | | | | | | |
| | Fair value at beginning of the year (NIS millions) | In profit and loss statement | In other comprehensive income in equity | Acquisitions and issues | Sales | Extinguishments | Adjustments from translation of financial statements | Transfers to Level 3 (a) | Transfers from Level 3 (a) | Fair value at 30 September 2013 | |
| Assets | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Israeli government bonds | - | - | - | - | - | - | - | - | - | - | - |
| Foreign government bonds | 11 | - | - | - | (5) | - | - | - | - | 6 | 1 |
| Bonds of financial institutions in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 123 | (2) | - | - | - | (1) | - | - | - | 120 | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,401 | (32) | (21) | 945 | (419) | (92) | 1 | - | - | 1,783 | - |
| Others in Israel | - | (9) | - | - | - | (1) | - | 19 | - | 9 | - |
| Others abroad | 74 | (1) | - | - | - | (73) | - | - | - | - | - |
| Total bonds available for sale | 1,609 | (44) | (21) | 945 | (424) | (167) | 1 | 19 | - | 1,918 | 1 |
| Shares available for sale | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds for trading | - | - | - | - | - | - | - | - | - | - | - |
| Shares for trading | - | - | - | - | - | - | - | - | - | - | - |
| Assets in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts (a) | 117 | (29) | - | - | - | - | - | 35 | (14) | 109 | 16 |
| Interest contracts (a) | 573 | (115) | - | - | - | (58) | - | - | - | 400 | (228) |
| Foreign currency contracts | 619 | (406) | - | 684 | - | - | - | - | - | 897 | (61) |
| Share contracts | 14 | 3 | - | - | - | - | - | - | - | 17 | 5 |
| Commodities and other contracts | 12 | (10) | - | - | - | - | - | - | - | 2 | (7) |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total assets in respect of derivative instruments | 1,335 | (557) | - | 684 | - | (58) | - | 35 | (14) | 1,425 | (275) |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| Total assets | 2,944 | (601) | (21) | 1,629 | (424) | (225) | 1 | 54 | (14) | 3,343 | (274) |
| Liabilities | | | | | | | | | | | |
| Liabilities in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts (a) | 154 | (12) | - | - | - | - | - | 18 | (20) | 140 | 3 |
| Interest contracts (a) | - | - | - | - | - | - | - | - | - | - | - |
| Foreign currency contracts | 318 | 25 | - | - | - | - | - | - | - | 343 | 30 |
| Share contracts | - | - | - | - | - | - | - | - | - | - | - |
| Commodities and other contracts | - | - | - | - | - | - | - | - | - | - | - |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities in respect of derivative instruments | 472 | 13 | - | - | - | - | - | 18 | (20) | 483 | 33 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | 472 | 13 | - | - | - | - | - | 18 | (20) | 483 | 33 |

(a) Reclassified

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

| <u>For the year ended 31 December 2013 (Audited)</u> | | | | | | | | | | | |
|--|------------------------------|---|-------------------------|--------------|-----------------|--|----------------------|------------------------|--------------------------------|------------------|---|
| <u>Realized and unrealized profits (losses), net, included</u> | | | | | | | | | | | Unrealized profits (losses) in respect of instruments held at |
| Fair value at beginning of the year (NIS millions) | In profit and loss statement | In other comprehensive income in equity | Acquisitions and issues | Sales | Extinguishments | Adjustments from translation of financial statements | Transfers to Level 3 | Transfers from Level 3 | Fair value at 31 December 2013 | 31 December 2013 | |
| Assets | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Israeli government bonds | - | - | - | - | - | - | - | - | - | - | - |
| Foreign government bonds | 11 | (1) | - | - | (4) | - | 1 | - | 7 | - | - |
| Bonds of financial institutions in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 123 | (2) | - | - | - | (1) | - | - | 120 | - | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,401 | (97) | (15) | 1,006 | (445) | (118) | 1 | - | 1,733 | 8 | - |
| Others in Israel | - | (8) | - | - | - | (2) | - | 19 | 9 | - | - |
| Others abroad | 74 | (1) | - | - | - | (73) | - | - | - | - | - |
| Total bonds available for sale | 1,609 | (109) | (15) | 1,006 | (449) | (194) | 2 | 19 | - | 1,869 | 8 |
| Shares available for sale | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds for trading | - | - | - | - | - | - | - | - | - | - | - |
| Shares for trading | - | - | - | - | - | - | - | - | - | - | - |
| Assets in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts | 117 | (55) | - | - | - | - | 38 | (14) | 86 | 37 | - |
| Interest contracts | 573 | (99) | - | - | - | (83) | - | - | 391 | (364) | - |
| Foreign currency contracts | 619 | (482) | - | 1,197 | - | - | - | - | 1,334 | (98) | - |
| Share contracts | 14 | (14) | - | - | - | - | - | - | - | - | - |
| Commodities and other contracts | 12 | (12) | - | - | - | - | - | - | - | - | - |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total assets in respect of derivative instruments | 1,335 | (662) | - | 1,197 | - | (83) | - | 38 | (14) | 1,811 | (425) |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| Total assets | 2,944 | (771) | (15) | 2,203 | (449) | (277) | 2 | 57 | (14) | 3,680 | (417) |
| Liabilities | | | | | | | | | | | |
| Liabilities in respect of derivative instruments: | | | | | | | | | | | |
| Shekel-index contracts | 154 | (76) | - | - | - | - | 19 | (22) | 75 | (66) | - |
| Interest contracts | - | - | - | - | - | - | - | - | - | - | - |
| Foreign currency contracts | 318 | (14) | - | - | - | - | - | - | 304 | 13 | - |
| Share contracts | - | - | - | - | - | - | - | - | - | - | - |
| Commodities and other contracts | - | - | - | - | - | - | - | - | - | - | - |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities in respect of derivative instruments | 472 | (90) | - | - | - | - | 19 | (22) | 379 | (53) | - |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| Total liabilities | 472 | (90) | - | - | - | - | 19 | (22) | 379 | (53) | - |

Note 8C – Additional information on significant unobservable data and assessment techniques used in fair value measurement of items classified in Level 3

As at 30 September 2014

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

| | Fair value | Assessment technique | Unobservable inputs | Range | Average (3) |
|---|------------|--------------------------|--|--|-------------------------------|
| Assets | | | | | |
| Securities available for sale (1) | | | | | |
| Asset-backed securities (ABS) or Mortgage-backed securities (MBS) | 1,893 | Discounting cash flows | Margin Probability of default Rate of early repayment Loss rate | 70-230 bp 2.5%-6% 20% 30%-40% | 162 bp 4.25% 20% 35% |
| Assets in respect of derivative instruments (2) | | | | | |
| Shekel-index interest contracts | 105 | Discounting cash flows | Inflationary expectations | 0.1%-1.08% | 0.29% |
| | 35 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.35% |
| Interest contracts | 607 | Discounting cash flows | Inflationary expectations | 0.03%-100%(*) | 2.35% |
| Foreign currency contracts | 215 | Discounting cash flows | Transaction counterparty risk | 0.1%-1.08% | 0.29% |
| | 2,032 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.35% |
| Share contracts | 109 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.35% |
| Commodities and other contracts | 24 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.35% |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments (2) | | | | | |
| Interest contracts | 75 | Discounting cash flows | Inflationary expectations | 0.1%-1.08% | 0.29% |
| Foreign currency contracts | 263 | Discounting cash flows | Inflationary expectations | 0.1%-1.08% | 0.29% |
| B. Items measured for fair value on a non-recurring basis | | | | | |
| Collateral-contingent impaired debt | 1,474 | Fair value of collateral | | | |

* In respect of a failed counterparty.

B. Qualitative information regarding Level 3 fair value measurement

- Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default. Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
- Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction. Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
- The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 8C – Additional information on significant unobservable data and assessment techniques used in fair value measurement of items classified in Level 3 (cont'd)

As at 30 September 2013

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

| | Fair value | Assessment technique | Unobservable inputs | Range | Average (3) |
|---|------------|--------------------------|--|---------------------------------------|-------------------------------|
| Assets | | | | | |
| Securities available for sale (1) | | | | | |
| Asset-backed securities (ABS) or Mortgage-backed securities (MBS) | 1,783 | Discounting cash flows | Margin Probability of default Rate of early repayment Loss rate | 115-532 bp 2%-6% 20% 40%-80% | 239 bp 4.50% 20% 60% |
| Assets in respect of derivative instruments (2) | | | | | |
| Shekel-index interest contracts | 100 | Discounting cash flows | Inflationary expectations | 0.09%-1.66% | 0.88% |
| | 9 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.56% |
| Interest contracts | 400 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.56% |
| Foreign currency contracts | 222 | Discounting cash flows | Inflationary expectations | 0.09%-1.66% | 0.88% |
| | 675 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.56% |
| Share contracts | 17 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.56% |
| Commodities and other contracts | 2 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.56% |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments (2) | | | | | |
| Shekel-index contracts | 140 | Discounting cash flows | Inflationary expectations | 0.09%-1.66% | 0.88% |
| Foreign currency contracts | 343 | Discounting cash flows | Inflationary expectations | 0.09%-1.66% | 0.88% |
| B. Items measured for fair value on a non-recurring basis | | | | | |
| Collateral-contingent impaired debt | 1,661 | Fair value of collateral | | | |

* In respect of a failed counterparty.

B. Qualitative information regarding Level 3 fair value measurement

- Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default.
Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
- Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction.
Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
- The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 8C – Additional information on significant unobservable data and assessment techniques used in fair value measurement of items classified in Level 3 (cont'd)

As at 31 December 2013

A. Quantitative information regarding fair value measurement in Level 3 (in NIS million)

| | Fair value | Assessment technique | Unobservable inputs | Range | Average (3) |
|---|------------|--------------------------|--|--|-------------------------------|
| A. Items measured for fair value on a recurring basis | | | | | |
| Assets | | | | | |
| Securities available for sale (1) | | | | | |
| Asset-backed securities (ABS) or Mortgage-backed securities (MBS) | 1,733 | Discounting cash flows | Margin Probability of default Rate of early repayment Loss rate | 75-240 bp 2.5%-6% 10%-20% 30%-40% | 167 bp 4.25% 15% 35% |
| Assets in respect of derivative instruments (2) | | | | | |
| Shekel-index interest contracts | 86 | Discounting cash flows | Inflation forecasts | 0.19%-1.66% | 0.90% |
| Interest contracts | 391 | Discounting cash flows | Transaction counterparty risk | 0.03%-100% (*) | 1.34% |
| Foreign currency contracts | 247 | Discounting cash flows | Inflation forecasts | 0.19%-1.66% | 0.90% |
| | 1,087 | Discounting cash flows | Transaction counterparty risk | 0.03%-100% (*) | 1.34% |
| Liabilities | | | | | |
| Liabilities in respect of derivative instruments (2) | | | | | |
| Shekel-index interest contracts | 75 | Discounting cash flows | Inflation forecasts | 0.19%-1.66% | 0.90% |
| Foreign currency contracts | 304 | Discounting cash flows | Inflation forecasts | 0.19%-1.66% | 0.90% |
| B. Items measured for fair value on a non-recurring basis | | | | | |
| Collateral-contingent impaired debt | 2,119 | Fair value of collateral | | | |

* In respect of a failed counterparty.

B. Qualitative information regarding fair value measurement in Level 3

- Unobservable inputs used for the fair value measurement of asset-backed or mortgage-backed securities are margin rates, probability of default, early repayment rate, and the severity of a loss in the event of default. Any significant increase/decrease in unobservable parameters will be reflected in a significantly lower/higher fair value.
- Unobservable inputs used for the fair value measurement of derivatives are the credit risk of the counterparty to the transaction and the forecast rate of inflation. The higher/lower the credit risk of the counterparty to the transaction, the lower/higher will be the fair value of the transaction. Any change in the forecast rate of inflation will affect the fair value of transactions in accordance with the indexation position of the Bank for these transactions. The more the inflation forecast increases (decreases), and the Bank is committed to pay the amount linked to the index, the fair value of the transactions will decrease (increase). The more the inflation forecast increases (decreases), and the counterparty to the transaction is committed to pay the Bank the amount linked to the index, the fair value of the transactions will increase (decrease).
- The average figure referring to the unobservable parameter of "Transaction counterparty risk" reflects a weighted average.

Note 9 – Interest income and expenses

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|----------------|---|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| | (Unaudited) | | | |
| | (NIS millions) | | | |
| A. Interest income (a) | | | | |
| From credit to the public | 2,414 | 3,065 | 6,895 | 8,366 |
| From credit to governments | 5 | 8 | 14 | 19 |
| From deposits with Bank of Israel and cash | 37 | 56 | 124 | 270 |
| From deposits with banks | 33 | 27 | 67 | 64 |
| From securities borrowed or purchased under agreement to resell | 3 | 6 | 10 | 16 |
| From debentures (b) | 173 | 304 | 568 | 785 |
| Total interest income | 2,665 | 3,466 | 7,678 | 9,520 |
| B. Interest expenses (a) | | | | |
| On deposits of the public | (445) | (946) | (1,289) | (2,606) |
| On deposits from governments | (2) | (2) | (5) | (7) |
| On deposits from banks | (5) | (10) | (23) | (30) |
| On securities lent or sold under agreement to repurchase | (2) | (4) | (7) | (12) |
| On debentures, bonds and subordinated notes | (312) | (558) | (793) | (1,318) |
| Total interest expenses | (766) | (1,520) | (2,117) | (3,973) |
| Total interest income, net | 1,899 | 1,946 | 5,561 | 5,547 |
| C. Details of the net effect of hedging derivative instruments interest income and expenses (b) | | | | |
| Interest income | (12) | (11) | (33) | (38) |
| Interest expenses | - | 1 | - | - |
| D. Details of accumulated interest income from bonds | | | | |
| Available for sale | 140 | 230 | 481 | 609 |
| For trading | 33 | 74 | 87 | 176 |
| Total included in interest income | 173 | 304 | 568 | 785 |

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 10 million and NIS 67 million for the three month and nine month period ended on 30 September 2014 (NIS 38 million and NIS 95 million for the three month and nine month period ended on 30 September 2013 respectively).

Note 10 – Non-interest financing income

| | For the three months ended 30 September | | For the nine months ended 30 September | |
|--|--|-------|---|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | (Unaudited) | | (Unaudited) | |
| | (NIS millions) | | | |
| A. Non-interest financing income in respect of activities not for trading purposes | | | | |
| A.1. From activity in derivative instruments | | | | |
| Ineffective portion of hedging relationships (a) | 7 | 1 | 10 | 10 |
| Net income (expense) from ALM derivative instruments (b) | 1,214 | (313) | 900 | (1,094) |
| Total from activity in derivative instruments | 1,221 | (312) | 910 | (1,084) |
| A.2. From investment in bonds | | | | |
| Profits from sale of bonds available for sale (g) | 12 | 35 | 129 | 170 |
| Losses from sale of bonds available for sale (g) (h) | (2) | (1) | (2) | (13) |
| Total from investment in bonds | 10 | 34 | 127 | 157 |
| A.3. Exchange rate differentials, net | (1,397) | 352 | (1,093) | 1,228 |
| A.4. Profits (losses) from investment in shares | | | | |
| Profits from sale of shares available for sale (d) (g) | 229 | 215 | 403 | 559 |
| Losses from sale of shares available for sale (g) | (31) | (13) | (47) | (40) |
| Profit from sale of shares in companies included on equity basis | - | 1 | - | 18 |
| Dividend from shares available for sale | 1 | 3 | 7 | 23 |
| Total from investment in shares | 199 | 206 | 363 | 560 |
| A.5. Profits in respect of loans sold (c) | 28 | 16 | 28 | 93 |
| Total non-interest financing income in respect of activities not for trading purposes | 61 | 296 | 335 | 954 |
| B. Non-interest financing income in respect of activities not for trading purposes | | | | |
| Income (expenses) net in respect of other derivative instruments | (4) | (26) | - | (13) |
| Realized and unrealized profits (losses) from fair value adjustments of bonds held for trading, net (e) | 128 | (17) | 358 | (94) |
| Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net (f) | 39 | 13 | 26 | 42 |
| Total from trading activities | 163 | (30) | 384 | (65) |
| Total non-interest financing income in respect of activities not for trading purposes | 224 | 266 | 719 | 889 |

See notes on next page.

Note 10 – Non-interest financing income (cont'd)**Notes**

- (a) Excluding the effective part of hedging relationships.
- (b) Derivative instruments comprising part of the Bank's asset and liability management not designated for hedging relationships.
- (c) During 2014 a loan was sold of NIS 344 million for the three and nine month period ended 30 September 2013. During 2013 a loan was sold of NIS 365 million and NIS 465 million for the three and nine month period ended 30 September 2013.
- (d) Including mainly profit from the sale of Mobileye, Tower and Otzar Hityashvut Hayehudim in the amount of NIS 144 million, NIS 38 million and NIS 30 million, respectively, before the effect of tax in the third quarter of 2014, profit on the sale of shares in Tower and Electra of NIS 22 million and NIS 17 million respectively, before the effect of tax in the second quarter of 2014, and profit from the sale of shares in Partner and Tower of NIS 70 million and NIS 39 million before the effect of tax, respectively, in the first quarter of 2014.
Profit from the sale of shares in Migdal of NIS 163 million before the effect of tax respectively, was recorded in the third quarter of 2013. Profit from the sale of Cesarstone of NIS 86 million before the effect of tax was recorded in the second quarter of 2013, and profit from the sale of shares in Migdal and Partner of NIS 180 million and NIS 34 million before the effect of tax respectively, was recorded in the first quarter of 2013.
- (e) Of which part of the profits (losses) related to bonds held for trading still held at the balance sheet date in the amount of NIS 49 million and NIS 72 million for the three month and nine month period ended 30 September 2014 (for the three month and nine month period ended 30 September 2013, NIS 58 million and NIS 67 million, respectively).
- (f) Of which part of the profits (losses) related to shares held for trading still held at the balance sheet in the amount of NIS 41 million and NIS 58 million for the three month and nine month period ended 30 September 2014 (for the three month and nine month period ended 30 September 2013, NIS 8 million and NIS 31 million, respectively).
- (g) Including provisions for impairment related to bonds for trading of NIS 0.9 million and NIS 10.3 million for the three and nine month period ended 30 September 2013, respectively).
- (h) Including provisions for impairment related to shares for trading of NIS 12 million for the three and nine month period ended 30 September 2014 (for the three and nine month period ended 30 September 2013, NIS 10 million and NIS 26 million respectively).
- (i) Reclassified from accumulated other comprehensive income.

Note 11 - Operating Segments

| | For the three months ended 30 September 2014 (Unaudited) | | | | | | | |
|--|---|------------------------------|----------------------|-----------------------|-------------------------------|------------------------------------|------------------|-----------------------|
| | Household segment (NIS millions) | Small business segment | Corporate segment | Commercial segment | Private banking segment | Financial management segment | Other segment | Total consolidated |
| Interest income, net - from outside entities | 848 | 302 | 503 | 420 | (26) | (148) | - | 1,899 |
| Non-interest income - from outside entities | 404 | 139 | 387 | 148 | 143 | 190 | (83) | 1,328 |
| Intersegmental income (expenses) | (145) | (49) | (384) | (66) | 115 | 437 | 92 | - |
| Total income | 1,107 | 392 | 506 | 502 | 232 | 479 | 9 | 3,227 |
| Expenses (income) in respect of credit losses | 55 | 29 | (156) | 81 | 3 | 44 | - | 56 |
| Net profit (loss) attributable to shareholders of the banking corporation | 42 | 87 | 315 | 87 | (452) | 580 | 18 | 677 |
| | For the three months ended 30 September 2013 (Unaudited) | | | | | | | |
| | Household segment (NIS millions) | Small business segment | Corporate segment | Commercial segment | Private banking segment | Financial management segment | Other segment | Total consolidated |
| Interest income (expenses), net - from outside entities | 907 | 287 | 703 | 438 | (18) | (371) | - | 1,946 |
| Non-interest income (expenses) - from outside entities | 414 | 148 | 91 | 125 | 103 | 497 | 4 | 1,698 |
| Intersegmental income (expenses) | (200) | (59) | (303) | (73) | 96 | 520 | 19 | (316) |
| Total income | 1,121 | 376 | 491 | 490 | 181 | 646 | 23 | 3,328 |
| Expenses (income) in respect of credit losses | 13 | 19 | (84) | 7 | - | 1 | - | (44) |
| Net profit (loss) attributable to shareholders of the banking corporation | 16 | 79 | 255 | 139 | (93) | 142 | 17 | 555 |

Note 11 - Operating Segments (cont'd)

| | For the nine months ended 30 September 2014 (Unaudited) | | | | | | | |
|---|--|------------------------------|----------------------|-----------------------|-------------------------------|------------------------------------|------------------|-----------------------|
| | Household segment | Small business segment | Corporate segment | Commercial segment | Private banking segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income, net - from outside entities | 2,318 | 886 | 1,480 | 1,223 | (14) | (332) | - | 5,561 |
| Non-interest income - from outside entities | 1,219 | 406 | 652 | 410 | 432 | 866 | (33) | 3,952 |
| Intersegmental income (expenses) | (219) | (137) | (634) | (156) | 257 | 810 | 79 | - |
| Total income | 3,318 | 1,155 | 1,498 | 1,477 | 675 | 1,344 | 46 | 9,513 |
| Expenses (income) in respect of credit losses | 176 | 79 | (370) | 60 | 2 | 42 | - | (11) |
| Net profit (loss) attributable to shareholders of the banking corporation | 160 | 258 | 857 | 392 | (1,000) | 811 | 114 | 1,592 |
| | For the nine months ended 30 September 2013 (Unaudited) | | | | | | | |
| | Household segment | Small business segment | Corporate segment | Commercial segment | Private banking segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income (expenses), net - from outside entities | 2,253 | 843 | 1,999 | 1,239 | (72) | (716) | 1 | 5,547 |
| Non-interest income (expenses) - from outside entities | 1,214 | 431 | 101 | 370 | 375 | 1,475 | 131 | 4,097 |
| Intersegmental income (expenses) | (134) | (173) | (573) | (157) | 356 | 774 | (93) | - |
| Total income | 3,333 | 1,101 | 1,527 | 1,452 | 659 | 1,533 | 39 | 9,644 |
| Expenses (income) in respect of credit losses | 140 | 77 | (212) | 152 | 3 | (47) | - | 113 |
| Net profit (loss) attributable to shareholders of the banking corporation | 86 | 205 | 788 | 304 | (34) | 291 | (41) | 1,599 |

Note 11 - Operating Segments (cont'd)

| | For the year ended 31 December 2013 (Audited) | | | | | | | |
|--|---|------------------------------|----------------------|-----------------------|-------------------------------|------------------------------------|------------------|-----------------------|
| | Household segment | Small business segment | Corporate segment | Commercial segment | Private banking segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income (expenses), net - from outside entities | 2,941 | 1,125 | 2,528 | 1,656 | (72) | (821) | - | 7,357 |
| Non-interest income - from outside entities | 1,640 | 588 | 80 | 492 | 533 | 2,040 | 144 | 5,517 |
| Intersegmental income (expenses) | (127) | (218) | (577) | (194) | 442 | 780 | (106) | - |
| Total income | 4,454 | 1,495 | 2,031 | 1,954 | 903 | 1,999 | 38 | 12,874 |
| Expenses (income) in respect of credit losses | 179 | 112 | (166) | 186 | 9 | (52) | - | 268 |
| Net profit (loss) attributable to shareholders of the banking corporation | 109 | 288 | 966 | 412 | (15) | 227 | (40) | 1,947 |

Note 12 – Accumulated Other Comprehensive Income (Loss)**A. Changes in accumulated other comprehensive income (loss), after effect of tax**

| For the three months ended 30 September 2014 (Unaudited) | | | | | | |
|---|---|---|---|-------------|---|--|
| Other comprehensive income before attribution to non-controlling interests | | | | | | |
| | Adjustments for presentation of securities available for sale at fair value (NIS millions) | Translation adjustments (a), net after effect of hedges (b) | Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method | Total | Other comprehensive income attributed to non- controlling interests | Other comprehensive income attributed to shareholders of the Bank |
| Balance at 30 June 2014 | 171 | (357) | 120 | (66) | (4) | (62) |
| Net change in the period | 312 | 68 | (2) | 378 | - | 378 |
| Balance at 30 September 2014 | 483 | (289) | 118 | 312 | (4) | 316 |

| For the three months ended 30 September 2013 (Unaudited) | | | | | | |
|---|---|---|---|-------------|---|--|
| Other comprehensive income before attribution to non-controlling interests | | | | | | |
| | Adjustments for presentation of securities available for sale at fair value (NIS millions) | Translation adjustments (a), net after effect of hedges (b) | Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method | Total | Other comprehensive income attributed to non- controlling interests | Other comprehensive income attributed to shareholders of the Bank |
| Balance at 30 June 2013 | 201 | (243) | 86 | 44 | (5) | 49 |
| Net change in the period | (39) | (55) | 37 | (57) | 1 | (58) |
| Balance at 30 September 2013 | 162 | (298) | 123 | (13) | (4) | (9) |

- (a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments for companies included on equity basis.
- (b) Profits (losses), net in respect of a net hedge of investment in foreign currency.

Note 12 – Accumulated Other Comprehensive Income (Loss) (cont'd)**A. Changes in accumulated other comprehensive income (loss), after effect of tax (cont'd)**

| For the nine months ended 30 September 2014 (Unaudited) | | | | | | |
|---|---|---|--|-------------|--|---|
| Other comprehensive income before attribution to non-controlling interests | | | | | | |
| | Adjustments for presentation of securities available for sale at fair value | Translation adjustments (a), net after effect of hedges (b) | Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method | Total | Other comprehensive income attributed to non-controlling interests | Other comprehensive income attributed to shareholders of the Bank |
| (NIS millions) | | | | | | |
| Balance at 31 December 2013 | 179 | (337) | 123 | (35) | (4) | (31) |
| Net change in the period | 304 | 48 | (5) | 347 | - | 347 |
| Balance at 30 September 2014 | 483 | (289) | 118 | 312 | (4) | 316 |

| For the nine months ended 30 September 2013 (Unaudited) | | | | | | |
|---|---|---|--|-------------|--|---|
| Other comprehensive income before attribution to non-controlling interests | | | | | | |
| | Adjustments for presentation of securities available for sale at fair value | Translation adjustments (a), net after effect of hedges (b) | Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method | Total | Other comprehensive income attributed to non-controlling interests | Other comprehensive income attributed to shareholders of the Bank |
| (NIS millions) | | | | | | |
| Balance at 31 December 2012 | 494 | (149) | 112 | 457 | (1) | 458 |
| Net change in the period | (332) | (149) | 11 | (470) | (3) | (467) |
| Balance at 30 September 2013 | 162 | (298) | 123 | (13) | (4) | (9) |

| For the year ended 31 December 2013 (Audited) | | | | | | |
|---|---|---|--|-------------|--|---|
| Other comprehensive income before attribution to non-controlling interests | | | | | | |
| | Adjustments for presentation of securities available for sale at fair value | Translation adjustments (a), net after effect of hedges (b) | Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method | Total | Other comprehensive income attributed to non-controlling interests | Other comprehensive income attributed to shareholders of the Bank |
| (NIS millions) | | | | | | |
| Balance at 31 December 2012 | 494 | (149) | 112 | 457 | (1) | 458 |
| Net change in the period | (315) | (188) | 11 | (492) | (3) | (489) |
| Balance at 31 December 2013 | 179 | (337) | 123 | (35) | (4) | (31) |

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments for companies included on equity basis.

(b) Profits (losses), net in respect of a net hedge of investment in foreign currency.

Note 12 – Accumulated Other Comprehensive Income (Loss) (cont'd)**B. Changes in accumulated other comprehensive income (loss), before and after effect of tax**

| | For the three months ended 30 September | | | | | | For the nine months ended 30 September | | | | | | For the year ended 31 December | | |
|---|---|------------|-----------|------------|------------|-----------|--|------------|-----------|------------|------------|-----------|--------------------------------|------------|-----------|
| | 2014 | | | 2013 | | | 2014 | | | 2013 | | | 2013 | | |
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| | (Unaudited) | | | | | | | | | | | | (Audited) | | |
| | (NIS millions) | | | | | | | | | | | | | | |
| Changes in components of other comprehensive income (loss) before attribution to non-controlling interests: | | | | | | | | | | | | | | | |
| Adjustments for presentation of securities available for sale at fair value | 632 | (130) | 502 | 153 | (45) | 108 | 962 | (254) | 708 | 141 | (52) | 89 | 229 | (79) | 150 |
| (Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss | (208) | 18 | (190) | (236) | 89 | (147) | (483) | 79 | (404) | (676) | 255 | (421) | (747) | 282 | (465) |
| Net change in the period | 424 | (112) | 312 | (83) | 44 | (39) | 479 | (175) | 304 | (535) | 203 | (332) | (518) | 203 | (315) |
| Translation adjustments (a) | | | | | | | | | | | | | | | |
| Adjustments for translation of financial statements | 181 | - | 181 | (77) | - | (77) | 149 | - | 149 | (248) | - | (248) | (318) | - | (318) |
| Hedges (b) | (165) | 52 | (113) | 35 | (13) | 22 | (141) | 40 | (101) | 156 | (57) | 99 | 203 | (73) | 130 |
| Net change in the period | 16 | 52 | 68 | (42) | (13) | (55) | 8 | 40 | 48 | (92) | (57) | (149) | (115) | (73) | (188) |
| Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method | (4) | 2 | (2) | 33 | 4 | 37 | (9) | 4 | (5) | (5) | 16 | 11 | (8) | 19 | 11 |
| Net change in the period | (4) | 2 | (2) | 33 | 4 | 37 | (9) | 4 | (5) | (5) | 16 | 11 | (8) | 19 | 11 |
| Total net change in the period | 436 | (58) | 378 | (92) | 35 | (57) | 478 | (131) | 347 | (632) | 162 | (470) | (641) | 149 | (492) |
| Changes in components of other comprehensive income (loss) attributed to non-controlling interests: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total net change in the period | - | - | - | 1 | - | 1 | - | - | - | (3) | - | (3) | (3) | - | (3) |
| Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation: | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total net change in the period | 436 | (58) | 378 | (93) | 35 | (58) | 478 | (131) | 347 | (629) | 162 | (467) | (638) | 149 | (489) |

- (a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments for companies included on equity basis.
- (b) Profits (losses), net in respect of a net hedge of investment in foreign currency.

Note 13 – Events after the balance sheet date and various matters

Merger of Leumi Finance

On 11 November 2014, the Board of Directors of the Bank and the Board of Directors of Leumi Finance Ltd. ("Leumi Finance") approved the merger of Leumi Finance, which is a wholly-owned and controlled subsidiary of the Bank, with and within the Bank, pursuant to the Eighth Part of the Companies Law, 1999. On execution of the merger, all of the assets and obligations of Leumi Finance, including debt certificates (debentures, subordinated notes and subordinated capital notes) issued by Leumi Finance, will be transferred to the Bank, Leumi Finance will cease to exist as a separate legal entity, will be dissolved without a liquidation and will be delisted from the records maintained by the Registrar of Companies.

Cooperation arrangement with Julius Baer and the sale of activity in Switzerland

According to the cooperation arrangement, Leumi Group will refer to Julius Baer existing and future customers with private banking needs in Europe, and at the same time, Julius Baer will refer to Leumi existing and future customers with private banking needs in Israel.

This strategic partnership will allow us to offer our customers, who are interested in private banking services in Europe or the Far East, the best value proposals and private banking services of the highest level.

In addition, as part of the cooperation, the unit in Switzerland, Leumi Private Bank, will sell to Julius Baer its assets as defined in the agreement, for consideration of CHF 10 million, in excess of the net value of the assets transferred, subject to adjustments. At the same time as the completion of the transaction and in coordination with the relevant authorities, Leumi Private Bank will take steps to close its banking activity, and to allocate shareholders' equity as a dividend to the Bank.

At the same time as the agreement between the parties regarding Leumi Private Bank, the parties agreed on their intention to enter into a transaction in accordance with an outline plan to be agreed between the parties to sell Bank Leumi Luxembourg to Julius Baer. The parties recently decided that Bank Leumi Luxembourg will not be sold to Julius Baer and the parties are examining other alternatives for this.

The agreement between Leumi Private Bank and Julius Baer includes an undertaking for various indemnities for a two year period. The amount of indemnity is limited to the amount derived from the shareholders' equity of the units in Switzerland and Luxembourg, as at 31 March 2014 (around CHF 300 million). The undertaking for indemnification is backed by a guarantee of the Bank for the event that Leumi Private is unable to fulfill the indemnity undertaking.

The transaction is subject to the approval of the general meeting of Leumi Private Bank.

The Bank estimates that, at this stage, the transaction is unlikely to have a significant impact on the results of the Group's operations and the consolidated balance sheet.

As of the end of September 2014, Leumi Private Bank has assets under management amounting to CHF 4.5 billion and Leumi Luxembourg assets under management amounting to CHF 0.95 billion.