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

# Condensed Financial Statements
# as at 30 June 2015
**(unaudited)**

**Bank Leumi le-Israel B.M.**
**Head Office: Leumi House, 34 Yehuda Halevi Street, Tel Aviv 65546, Israel**
**Tel: (972) 3-5148111, Fax: (972) 3-5149732**



**18 August 2015**

# Bank Leumi le-Israel B.M. and its Investee Companies
## Condensed Financial Statements as at 30 June 2015 (unaudited)

## Index

# 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 2014, except for the adoption of United States accounting standards regarding employee rights and the implementation of the directives of the Banking Supervision Department on the subject of the capitalization of software costs as outlined as detailed in Note 1c. These reports should be read in conjunction with the Annual Report for 2014.

### 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 1,200 billion at the end of June 2015, compared with NIS 1,223 billion at the end of 2014, a decrease of 1.9%. The decrease in total assets under management derives mainly from the realization of the declared money policy which the Bank operates and the progress of implementing the Bank's decision to exit international private banking activity in subsidiaries and representative offices abroad.

* 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 June 2015** | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| | NIS millions | | |
| Total assets (total balance sheet) | **393,751** | 369,041 (a) | 396,922 (a) |
| Credit to the public, net | **254,548** | 244,385 | 252,480 |
| Securities | **64,810** | 49,713 | 52,113 |
| Cash and deposits in banks | **46,170** | 49,902 | 60,615 |
| Investment in companies included on equity basis | **889** | 1,641 | 2,216 |
| Deposits of the public | **304,043** | 279,861 | 303,397 |
| Debentures, notes, and subordinated notes | **19,720** | 24,509 | 23,678 |
| Equity attributable to shareholders of the banking corporation | **28,273** | 25,705 (a) | 25,798 (a) |

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

| | For the three months ended 30 June | | For the six months ended 30 June | | For the year ended 31 December |
|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | 2014 |
| | NIS millions | | | | |
| Interest income, net | **2,000** | 1,905 | **3,516** | 3,662 | 7,363 |
| Expenses (income) in respect of credit losses | **12** | (16) | **93** | (67) | 472 |
| Total non-interest income | **983** | 1,258 | **3,408** | 2,652 | 5,141 |
| Of which: commissions | **1,035** | 1,040 | **2,086** | 2,080 | 4,167 |
| Total operating and other expenses | **2,162** | 2,616 (a) | **4,397** | 4,814 (a) | 9,371 (a) |
| Of which: Salary expenses | **1,345** | 1,320 (a) | **2,763** | 2,736 (a) | 5,151 (a) |
| Expenses related to the investigation in respect of overseas customers | **5** | 487 | **25** | 529 | 1,026 |
| Profit before taxes | **809** | 563 | **2,434** | 1,567 | 2,661 |
| Provision for taxes | **297** | 337 | **862** | 702 | 1,278 |
| Net profit for the period attributed to shareholders of the banking corporation | **518** | 229 (a) | **1,700** | 820 (a) | 1,413 (a) |
| Net profit per share attributed to shareholders of the banking corporation (in NIS) | **0.35** | 0.16 | **1.15** | 0.56 | 0.96 |
| Total profit for the period attributed to shareholders of the banking corporation | **1,632** | 293 | **2,452** | 904 | 915 |

(a) Restated as a result of the retroactive application of United States generally accepted accounting principles regarding employee rights and the directives of the Banking Supervision Department on the subject of the capitalization of software costs. For additional information, see Note 1c.1 to the financial statements.

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

| | **30 June 2015** | 30 June 2014 (f) | 31 December 2014 (f) |
|---|---|---|---|
| Credit to the public, net, to total balance sheet | 64.6 | 66.2 | 63.6 |
| Securities to total balance sheet | 16.5 | 13.5 | 13.1 |
| Deposits of the public to total balance sheet | 77.2 | 75.8 | 76.4 |
| Deposits of the public to total credit, net | 119.4 | 114.5 | 120.2 |
| Total capital to risk assets (a) | 13.97 | 14.03 | 13.90 |
| Tier I capital to risk assets | 9.52 | 9.11 | 9.09 |
| Leverage ratio (g) | 6.54 | -- | -- |
| Liquidity coverage ratio (g) | 106 | -- | -- |
| Capital (excluding non-controlling interests) to balance sheet | 7.2 | 7.0 | 6.5 |
| Net profit to average capital (excluding non-controlling interests) (c) | 13.1 | 6.6 | 5.4 |
| Rate of provision for tax on the profit before taxes | 35.4 | 44.8 | 48.0 |
| Expenses (income) in respect of credit losses to credit to the public, net (c) | 0.07 | (0.05) | 0.19 |
| Of which: expenses in respect of collective allowance to net credit to the public (c) | 0.22 | 0.10 | 0.22 |
| Expenses (income) in respect of credit losses to total credit risk to the public (c) | 0.05 | (0.04) | 0.12 |
| Net interest income to total balance sheet (c) | 1.79 | 1.99 | 1.86 |
| Total income to total balance sheet (b) (c) | 3.55 | 3.45 | 3.15 |
| Total income to total assets managed by the Group (b) (c) (d) | 1.16 | 1.06 | 1.02 |
| Total operating and other expenses to total balance sheet (c) | 2.25 | 2.63 | 2.36 |
| Total operating and other expenses to total assets managed by the Group (c) (d) | 0.73 | 0.81 | 0.77 |
| Net profit to average total assets (c) (e) | 0.85 | 0.44 | 0.40 |
| Interest margin | 1.87 | 2.01 | 1.87 |
| Operating and other expenses (excluding early retirement) to total income (b) | 63.5 | 76.2 | 74.9 |
| Non-interest income to operating and other expenses (excluding early retirement) | 77.5 | 55.1 | 54.9 |
| Non-interest income to total income (b) | 49.2 | 42.0 | 41.1 |

(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 noninterest income.
(c) On an annual basis.
(d) Includes off-balance sheet activity.
(e) Average assets represent the total of income-bearing balance sheet assets and other assets.
(f) Restated as a result of the retroactive application of United States generally accepted accounting principles regarding employee rights and the directives of the Banking Supervision Department on the subject of the capitalization of software costs, except for data for the Tier 1 capital to risk assets and overall capital including risk assets. For additional information, see Note 1c.1 to the financial statements.
(g) Pursuant to the directives of the Bank of Israel, the leverage ratio and the liquidity coverage ratio were calculated from the second quarter of 2015. Accordingly, comparative figures are not presented. For further information on the subject of the leverage ratio, see the Chapter – Capital Resources, Capital Adequacy and Transactions in the Shares of the Bank, below, and for further information on the subject of the liquidity coverage ratio, see the Chapter - Risk Exposure and Risk Management, below.

Since 1 January 2015, the Bank has implemented the United States accounting principles on the subject of employee rights. Accordingly, the comparative figures for prior periods have been adjusted. The main effects of the implementation of these principles as of 30 June 2015 are an increase in liabilities for employee rights and a corresponding decrease in the Bank's (net) accounting capital of NIS 1,273 million. This decrease in capital, pursuant to the transitional provisions, also impacted the regulatory capital.

For details of the effect of implementing the various standard on the balance sheet and statement of profit and loss, see Note 1c. to the financial statements, and with regard to the effect on regulatory capital, see Note 4 to the financial statements.

Net profit attributable to shareholders of the banking corporation (hereinafter: the net profit) in the first half of 2015 increased significantly (more than 100%), compared to the net profit reported in the corresponding period last year. The reported profit in this half was materially influenced by the profit on the sale of the shares in the Israel Corporation which was recorded in the first quarter amounting to NIS 418 million, net of tax (NIS 522 million before the effect of tax), compared to the reported profit last year which was influenced by the expenses in respect of the arrangements with the overseas authorities. The profit for the periods, excluding the abovementioned affects are as follows:

| | For the six months ended | |
|---|---|---|
| | **30 June 2015** | 30 June 2014 |
| | NIS millions | |
| Net profit reported | **1,700** | 820 |
| Return on capital reported | **13.1%** | 6.6% |
| Profit from the sale of shares of the Israel Corporation | **418** | - |
| Expenses in respect of arrangements with overseas authorities | **(25)** | (529) |
| Profit, net of the profit from the sale of shares in the Israel Corporation and expenses in respect of the arrangements with the overseas authorities ("proforma net profit") | **1307** | 1,349 |
| Return next of profit from the sale of shares in the Israel Corporation expenses in respect of the arrangements with the overseas authorities | **10.0%** | 10.9% |
| Reported efficiency ratio | **63.5%** | 76.2% |
| Efficiency ratio, net of profit on the sale of shares of the Israel Corporation and expenses in respect of arrangements with overseas authorities | **68.3%** | 67.9% |

As may be seen in the above table, the proforma net profit decreased by NIS 42 million (at a rate of 3.1%) between the periods. The main factors responsible for the decrease in this profit were:

1. A decrease in net interest income amounting to NIS 146 million, before the effect of tax, most of which is the effect of a fall in the average Bank of Israel interest rates between the two periods and in the effect of the negative index in this period, which was offset by an increase in the balance of credit.

2. An increase in expenses in respect of credit losses amounting to NIS 160 million, before the effect of tax, after the first half of 2014, in which the Group had income from credit losses amounting to NIS 67 million. The rate of expenses in respect of credit losses out of credit to the public, which was reported in the first half of 2015, was 0.07%.

3. An increase in noninterest financial income (excluding the abovementioned profit in respect of the sale of shares in the Israel Corporation) of NIS 197 million. Most of this increase was due to the profit on the sale of shares in Mobileye (NIS 288 million before tax) and an increase in income in respect of derivative instruments and exchange rate differences (NIS 133 million, before tax), which was mostly offset by losses in respect of activity for trading purposes (NIS 317 million, before tax).

4. An improvement in the profits of companies included on equity basis amounting to NIS 197 million, which was mainly due to the Bank's share in the profits of the Israel Corporation in the first quarter of 2015, compared with a loss in the first half of 2014. With effect from 31 March 2015, the Bank classified the investment in the Israel Corporation in the available-for-sale securities portfolio at the market value of the investment at 31 March 2015. Accordingly, until the first quarter of 2015, the profits of the Israel Corporation were taken to this item on an equity basis, and from the second quarter of 2015, there is no recording of current profits of the Israel Corporation, except for the profit in respect of adjustments to the fair value of the investment in the Israel Corporation, which is included in other comprehensive income.

The net profit for the second quarter of 2015 amounted to NIS 518 million compared with NIS 229 million in the corresponding period last year. The increase in profit derives primarily from expenses of NIS 487 million last year, in respect of the arrangements with the overseas authorities, which was partially offset by losses of activity for trading purposes amounting to NIS 369 million, before the effect of tax, compared with NIS 76 million in the corresponding period last year.

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

The net profit per share attributable to shareholders in the banking corporation in the first half of 2015 was NIS 1.15 compared with NIS 0.56 in the corresponding period last year. The net profit per share attributable to the shareholders in the banking corporation in the second quarter of 2015 was NIS 0.35, compared with NIS 0.16 in the corresponding period last year.

The return on capital in the first half of 2015 was 13.1%, compared with 6.6% in the first half of last year. The return on capital in the second quarter of 2015 was 7.8%, compared with 3.6% in the second quarter of 2014. In light of the fact that from 1 January 2015, there was high volatility in the Bank's capital (due particularly to the adoption of U.S. generally accepted accounting practice on the subject of employee rights), structured volatility was created in the Bank's return on capital which is not necessarily related to the Bank's profitability.

Aggregate total income after the effect of tax (in addition to the net profit, including, *inter alia*, adjustments in respect of the presentation of available-for-sale securities at fair value, adjustments of liabilities in respect of employee benefits and adjustments from translation of the financial statements) amounted to NIS 2,452 million in the first half of 2015, compared with NIS 904 million in the corresponding period last year. The increase in total profit arose from an increase in net profit, an increase in positive adjustments of the liability in respect of employee benefits amounting to NIS 517 million after tax, and an increase in positive adjustments in respect of available-for-sale securities amounting to NIS 140 million after tax.

In the second quarter of 2015, total profit amounted to NIS 1,632 million, compared with NIS 293 million in the corresponding period last year. The increase in total profit for the quarter derives from an increase in the net profit and an increase in positive adjustments of liabilities in respect of employee benefits amounting to NIS 1,365 million after tax, which was partially offset by a decrease in adjustments in respect of available-for-sale securities amounting to NIS 261 million after tax.

## 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.

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 August 2015 (Ref. no.: 2015-01-091077).

### Annual General Meeting – Election of Directors and Amendment of Articles

On 8 July 2015, the Annual General Meeting of the Bank (hereinafter "the Annual General Meeting") was held, at which it was resolved, *inter alia*, to approve the amendment of the Bank's Articles according to that set forth in the version attached as Appendix A to the Notice of Convening the General Meeting and the Election of Directors.

For information regarding the resolutions approved at the Annual General Meeting, see Immediate Reports regarding the results of the Annual General Meeting dated 8 July 2015 (Ref. nos. 2015-01-068943, 2015-012-068940). For further details regarding the election of directors at the General Meeting, see also the chapter "Directors", below.

### Merger between the Bank and Arab Israel Bank Ltd. ("the Arab Israel Bank")

On 4 May 2015, the Board of Directors of the Bank approved the execution of the Bank's merger with Arab Israel Bank. On 4 May 2015, the Board of Directors of Arab Israel Bank approved the execution of the aforesaid merger. The merger is expected to be effected on 31 December 2015.

See immediate reports dated 4 May 2015 (Ref. no. 2015-01-011190, 2015-01-011226) and 7 May 2015 (Ref. no. 2015-01-015192).

Pursuant to the merger agreement, Arab Israel Bank, which is an almost wholly-owned subsidiary of the Bank, will be merged within the Bank.

**Aims of the merger:**

The merger is intended for business and economy purposes, and it will enable Leumi Group to strengthen the group synergy between retail and commercial activity, and to bring about, *inter alia*, a saving in expenses and streamlining of the allocation of resources in Leumi Group, a saving in administrative time and operating costs, and an improvement in response times, as well as the control and ability to review the activity of the merged company. The expected synergy has the potential to create value in all operating, strategic, organizational and financial aspects.

The process will create an advantage for customers of the Arab Israel Bank, who are among Leumi Group customers, and will enable the abovementioned customers to be granted a value proposal in accordance with all of their needs, *inter alia*, in light of the improvement in the level of products offered to the customer, placing an emphasis on providing the customer with a varied and broad basket of services. In addition, the merger will significantly increase the customers' accessibility to the Bank's branches in view of the wide dispersal of Bank Leumi branches throughout Israel and will improve the level of service which Leumi Group can provide for these customers, while minimizing expenses.

In the context of the merger, the employees of the Arab Israel Bank will be absorbed as employees of the Bank, and all of the assets and liabilities of the Arab Israel Bank will be transferred to the Bank.

On 14 May 2015, the merger agreement was signed, in which it was provided, *inter alia*, that all minority shareholders in the Arab Israel Bank will have a right to receive from Bank Leumi cash payment in new Israeli shekels in an amount not exceeding NIS 1609.36 per share, less taxes, as required by law. On 26 May 2015, a general meeting of the shareholders of the Arab Israel Bank was held. The general meeting approved the merger with a majority of 99.72% of the share capital and voting rights. The minority shareholders holding 0.28% of the share capital and voting rights in the Arab Israel Bank opposed the merger. As a result, the Bank submitted a request to the District Court in Tel Aviv – Economy Department to approve the merger in accordance with the provisions of Section 321 of the Companies Law. The execution of the merger is subject to the decision of the court to approve the merger, despite the objection of minority shareholders.

# 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 June 2015 amounted to NIS 28,273 million, compared with NIS 25,798 million at the end of 2014, an increase of 9.6%. The increase is primarily attributable to the increase in other comprehensive income as outlined above.

The comparative figure for capital attributable to shareholders of the banking corporation has been restated in light of the retroactive application of United States generally accepted accounting principles on the subject of employee rights and directives of the Banking Supervision Department regarding the capitalization of software costs.

For further information, see Note 1c. to the financial statements.

The **capital to total assets ratio** reached 7.2% on 30 June 2015, compared with 6.5% on 31 December 2014.

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

**Implementation of the Basel III provisions in Israel**

On 30 May 2013, the Supervisor of Banks published the final directives for implementation of Basel III in Israel, by amending Proper Conduct of Banking Management Regulation 201-211. These regulations came into force on 1 January 2014.

According to the regulations, the capital components in the Group for the purpose of calculating capital adequacy are attributed to two tiers:

**a.** Tier 1, including Tier 1 shareholders' equity and additional Tier 1 capital;

**b.** Tier 2 capital.

The sum of these tiers is called "capital basis for capital adequacy" or "regulatory capital" or "overall capital".

**Tier 1 capital including Tier 1 shareholders' equity and additional Tier 1 capital:**

**Tier 1 shareholders' equity** 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 consolidated companies (minority interests), and deducting goodwill, other intangible 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".

**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. If any additional Tier 1 capital instruments are issued in the future, they will be required to comply with all the criteria set forth in Proper Conduct of Banking Business Management Regulation No. 202.

**Tier 2 capital:**

In the Basel III directives, the distinction between Upper Tier 2 and Lower Tier 2 was canceled.

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 recognition ceiling, which was computed to 1 January 2014, were determined according to 80% of the balance of instruments as of 31 December 2013, and at the beginning of each successive year, this ceiling is lowered by 10%. The capital instruments which were part of Tier 2 at 31 December 2013 include compound capital instruments which were, till now, classified to upper Tier 2 capital, and deferred notes, which were classified to lower Tier 2.

A description of the main features of regulatory capital instruments which have been issued is presented on the Bank's website: /http://leumi.co.il/home01/32587 in the chapter regarding >Financial information and meetings> Additional regulatory disclosures.

It should be noted that the amount actually recognized to Tier 2 capital is the lower of the amortized amount of the instruments themselves and their recognition ceiling according to the transitional provisions. From the beginning of 2014, capital instruments to be issued will be required to comply with the criteria set forth in Proper Conduct of Banking Business Management Regulation No. 202 for the purpose of their inclusion in capital.

The main criteria are that the instrument must include: (1) a mechanism for absorbing the losses of the reserve by conversion to ordinary shares or the amortization of the instrument when the Tier 1 shareholders' equity ratio of the banking corporation falls below 5%; (2) an item determining that on the occurrence of the defining event for non-compliance (as defined in Appendix E to Proper Conduct of Banking Management Regulation no. 202), the instrument will be converted immediately to ordinary shares or will be expunged.

The Bank, like many banks around the world, is prepared for raising these instruments.

**Capital Adequacy Target**

The capital adequacy ratios are calculated as the ratio of capital to weighted risk assets. The Tier 1 shareholders' equity ratio is calculated as the ratio of Tier 1 share ratio to weighted risk assets, and the overall capital ratio is calculated as the ratio of the amount of overall capital to weighted risk assets.

**Capital adequacy targets determined by the Bank of Israel:**

According to Proper Conduct of Banking Business Regulation 201 "Measurement and Capital Adequacy - Introduction, Incidence and Calculation of Requirements", all banking corporations are 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 total 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 the Bank. These targets will be achieved gradually. In addition, since 1 January 2015, all banking corporations in Israel are required to maintain a minimum overall capital ratio of 12.5%. A large banking corporation will be required to maintain a minimum overall capital ratio of 13.5% from 1 January 2017. This additional regulation applies to Leumi.

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 effective date for 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 April 2015 until 1 January 2017. The estimated effect of the amendment to the regulation on Leumi Group at the final effective date is 0.26% of the capital adequacy ratio, with the effect being spread in accordance with the regulation over eight quarters.

**Capital adequacy targets determined by the Bank:**

Capital planning in Leumi Group reflects a forward-looking vision of the risk appetite and the capital adequacy required as a consequence. The Group policy approved by the Board of Directors is to strengthen a higher level of capital adequacy than the minimum threshold that will be periodically specified by the Bank of Israel and higher than the rate required for covering risks as estimated in the ICAAP process. In addition, targets that the Group wishes to meet in the event of a stress scenario have been defined. As part of the regulatory review process, the Supervisor directed the determination of internal capital targets which will match the Bank's risk profile. Further thereto, the Board of Directors of the Bank has approved an increase in the Bank's internal Tier 1shareholders' equity target such that from 31 December 2017, it will stand at 10.5%. The Board of Directors of the Bank will reconvene to discuss this target no later than the end of 2016.

In future years, implementation of the regulations regarding employee rights is the factor which is expected to have the most significant effect on Leumi's Tier 1 shareholders' equity, mainly due to the fact that the measurement of the liability is in accordance with market interest rates and the high volatility that accompany this kind of measurement. The Bank is examining ways of moderating the volatility in capital arising from the regulations.

In addition, a decrease in overall capital is expected, as a result of the amortization of capital instruments attributed to Tier 2 capital, which were issued prior to the effective date of the directives for the implementation of Basel III, and a lowering of the ceiling of the amount recognized to capital of these capital instruments.

The main factors affecting the Bank's ability to fulfill the capital adequacy requirements when the new capital requirements come into effect (on 1 January 2017) are the following:

- In view of the transitional provisions, at 1 January 2017, only 80% of the effect of the amortization of certain components of the capital will be reflected.
- The Bank has profits from its current activity, which (net of the rate of increase in risk assets) constitute an accrual of Tier 1 shareholders' equity, i.e., a material addition to the abovementioned capital ratios.
- The implementation of the new standard for dealing with employee rights is the factor that will most significantly impact the capital ratio. An increase in market interest rates will result in a reduction in the required provision and an increase in capital, as actually occurred during the second quarter of 2015.
- The Bank is taking steps to complete the required capital by adopting management measures, such as:
    - Managing the increase in risk assets, through the improvement of the risk assets (improvement of the collateral, etc.), the selective allocation of capital in the credit, the sale of debts/risk, investment in nostro assets which require the allocation of lower capital.
    - Examining the issuance of share capital and/or capital instruments to be included in additional Tier 1 or Tier 2.
    - Selling assets and floating capital, while reducing the volume of risk assets.

The following is an analysis of the sensitivity to the main factors affecting the capital adequacy of Leumi Group:

- A change in the volume of risk assets – The risk assets of Leumi amounted to NIS 300.5 billion at the end of June 2015. Every increase of 1% in the risk assets (approx. NIS 3 billion) in future years will reduce the Tier 1 shareholders' equity capital adequacy ratio by 0.09%, and the overall capital ratio by 0.14%.
- Profit that will accrue or a change in the capital reserve – The Tier 1 shareholders' equity of Leumi amounted to NIS 28.6 billion at the end of June 2015. The overall capital amounted to NIS 42.0 billion. Every accrual of net profit and/or positive change in the capital reserve amounting to NIS 1 billion will improve the Tier 1 shareholders' equity adequacy ratio and the overall capital ratio by 0.33%.
- Accounting standards regarding employee rights – According to these standards, the actuarial liability for employees is discounted according to the market interest rates which are influenced by the Government of Israel debenture curve and by the United States AA corporate debenture margin. An increase of 0.1% across the interest curve for discounting, under the assumption that the curve rises and falls consistently, means an increase of 0.1% in the Tier 1 shareholders' equity ratio and in the overall capital ratio. (Under the transitional provisions, the effect is more moderate - only 40% of the impact in 2015, and an additional 20% in each subsequent year.)

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 chapter, "Description of the Banking Corporation's Business and Forward-Looking Information", below.

**Capital adequacy structure**

The Tier 1 shareholders' equity to risk assets ratio at 30 June 2015 is 9.52% compared to 9.09% as of 31 December 2014. The overall capital to risk assets ratio is 13.97% compared to 13.90% as of 31 December 2014.

**In this report, certain data required by Pillar 3 have been expanded and/or added in accordance with the directives of the Banking Supervision Department, as detailed below:**

| Subject | Table | Directors' Report | Financial Statements |
|---|---|---|---|
| General | 1 | - | |
| Capital Structure (Qualitative and Quantitative) | 2 | * Website | Note 4 |
| Capital Adequacy (Qualitative and Quantitative) | 3 | * Website | - |
| Risk Exposures and Assessment – General Qualitative Disclosure | | - | - |
| Credit Risk Exposures by Principal Types of Credit | 4(b) | * Website | - |
| Exposures by Geographic Area to Foreign Countries | 4(c) | Page 102 | Schedule D |
| Credit Risk Exposures by Counterparty and Principal Types of Credit | 4(d) | * Website | - |
| Credit Exposures by Repayment Period | 4(e) | * Website | - |
| Problematic Credit Risk Exposures and Credit Loss Expenses by Economic Sector | 4(f) | - | Schedule C |
| Total Impaired Loans and Provisions by Geographic Area | 4(g) | - | Schedule D |
| Movement in Balances of Allowance for Credit Losses | 4(h) | - | Note 3a.1 |
| Credit Exposures by Risk Weighting | 5 | * Website | - |
| Mitigation of Credit Risk (Qualitative and Quantitative) | 7 | * Website | - |
| Credit Exposures in Derivatives by Counterparty (Qualitative and Quantitative) | 8 | * Website | - |
| Securitization (Qualitative and Quantitative) | 9(f), 9(g) | * Website | Note 2 |
| Market Risk (Qualitative and Quantitative) | 10 | Page 104 | |
| Operational Risk - Qualitative Disclosure | | Page 115 | - |
| Investment in Shares (Qualitative and Quantitative) | | Page 57 | - |
| Investment in Shares of Companies Included on Equity Basis | 13(b) | Page 87 | - |
| Interest Risk | 14 | Page 107 | Schedule B |

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

**Leverage ratio**

On 28 April 2015, the Supervisor of Banks published Proper Conduct of Banking Management Regulation no. 218 "Leverage Ratio".

The directive adopts the instruction of the Basel Committee from January 2014, to add a simple leverage ratio, which is not based on risk, which will act as a supplementary measurement to the risk-based capital requirements and will limit the accumulation of the leverage in the banking sector.

The leverage ratio is defined as the measurement of the capital divided by the measurement of the exposure, with the ratio expressed in percentages. The capital for the purposes of measuring the leverage ratio is Tier 1 capital, as defined in Proper Conduct of Banking Management Regulation no. 202, taking into account the stipulated transitional arrangements. The total measurement of the exposure of a banking corporation is the amount of the balance sheet exposure, the exposures to derivatives and the exposures to transactions of financing securities and off-balance sheet items.

Pursuant to the directive, all banking corporations will be required to comply with a minimum leverage ratio of not less than 5% on a consolidated basis. In addition, a banking corporation, whose total balance sheet assets on a consolidated basis constitute 20% or more of the total balance sheet assets in the banking system, will be required to comply with a leverage ratio of not less than 6%. This further directive applies to Leumi.

A banking corporation which, on the date of the publication of the directive, does not comply with the abovementioned leverage ratio requirement, must increase the ratio in fixed quarterly rates by 1 January 2018. A banking corporation which, on the date of publication of the directive, complies with the abovementioned leverage ratio requirement, must not fall below the threshold as provided in the directive.

On the date of publication of the directive, Leumi complied with the threshold determined. The leverage ratio at 30 June 2015 was 6.54%.

## B. Other Information

## Principal Developments in the Economy (*)

In the first half of the year, the gross domestic product expanded at an annual rate of 2.5%, compared to the first half of 2014. However, in the second quarter of the year, growth was particularly slow: GDP rose by 0.3% in annual terms, while business products contracted by 1.0%, in annual terms, compared to the first quarter. This resulted from the sharp decline in exports and investments in sectors of the economy (with the exception of housing construction which grew).

**The Global Economy**

In July 2015, the International Monetary Fund (IMF) revised its forecast of expected development of global growth for 2015. In most of the advanced countries, there was a decline in the forecast (except for countries in the euro area) with the downward revision particularly strong in the United States, against a background of slow growth, especially in the first quarter. Thus, the forecast for the rate of growth in the American economy was revised downwards (by 0.6%), while in the countries in the euro area, the forecast was left unchanged. According to the Fund's revised estimates, growth in the United States and in the euro area in 2015 is expected to total 2.5% and 1.5%, respectively. The forecast for growth in world GDP in 2015 was revised downwards from 3.5% to 3.3%.

**The State Budget and its Financing**

Since the beginning of the year, the Government operated without an approved budget framework and, in accordance with the Economy and State Basic Law, the Government was able to expend 1/12 of the budget for 2014 each month. Between January and June, the Government had a surplus in the budget amounting to NIS 3.4 billion, compared with a deficit of NIS 4.7 billion in the first half of last year. As of the date of publishing the report, the State Budget Law for 2015 had not yet been approved.

**Foreign trade and capital transactions**

Israel’s aggregate trade deficit in the first six months of 2015 amounted to some US$ 3.4 billion, a decrease of some 44.3% compared with the deficit for the corresponding period last year. The reduction in the trade deficit originates in the effect of the significant decline, in dollar terms, in the value of imports of energy products (which led to a sharp decrease of more than US$ 5 billion in total imports), *inter alia*, against a backdrop of a fall in prices on the world market, compared with a more moderate fall in exports.

Foreign currency capital outflows in the first six months of 2015 were higher in volume than capital inflows. Direct investments in Israel, via the banking system, amounted to US$ 4.5 billion, while financial investments amounted to US$ 1.1 billion. However, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US$ 8.5 billion, most of which consisted of financial investments.

**Exchange rate and foreign currency balances**

In the first half of 2015, the shekel rose in value against the dollar by 3.1%, while, against the euro, there was an appreciation of 10.7%, a reflection of the euro's significant weakness against the dollar worldwide.

Foreign currency balances in the Bank of Israel at the end of June 2015 amounted to US$ 88.2 billion, compared with US$ 86.1 billion at the end of 2014. The increase in balances was mostly influenced by foreign currency purchases by the Bank of Israel in June, amounting to US$ 1.95 billion.

In the first half of 2015, foreign currency purchases by the Bank of Israel, as part of a program of purchases to offset the effect of gas production on the exchange rate, totaled US$ 1.55 billion.

---

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

## Inflation and Monetary Policy

The Israeli consumer price index fell by 0.2% in the first six months of 2015, while in the 12 months ended June 2015, the index fell by 0.4%, a rate which is situated below the lower limit of the Government's target range of the price stability of 1% to 3%. The item which contributed most to the fall in the index last year was transport and communication which constituted approximately one-fifth of the index and fell by 2.9%, against a backdrop of the decrease in world oil prices and the price of communication services in Israel.

The Bank of Israel interest rate stood at 0.25% in December 2014. The interest decision for March 2015 lowered the rate to 0.10%, and this level was retained in the interest decisions for April to August. The Monetary Committee took the view that, in light of the increase in the rate of appreciation in the effective exchange rate of the shekel against the basket of currencies, the reduction in interest to 0.1% is the most appropriate measure to support the attainment of policy targets.

## Capital market in Israel

The shares and convertible securities index rose in the first half of the year by 8.7%, following an increase of 11.5% in 2014. The price increases are mostly explained by the effect 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 rose by 17.9% during the first half of 2015, compared with the average for 2014, amounting to NIS 1,430 million. This was against a background of lively activity on the capital market in Israel and abroad.

The Government bond market during the first half of the year was characterized by price increases during the first quarter and price decreases in the second quarter. This is explained, *inter alia*, by an increase in the yield to maturity in the U.S. economy and a correction to sharp falls in long-term yields to maturity, both in Israel and around the world, which led to a record low in the first quarter of the year. Index-linked government bonds were unchanged from January to June, while the unlinked government bond index increased by 0.7% (the fixed-interest bond index increased by 0.8%, while the variable-interest bond (*Gilon*) index increased by 0.1%).

In the index-linked non-government debenture market (corporate bonds), there were moderate price increases of 0.5% over the period from January to June 2015, following price increases of 1.0% in 2014.

## Financial Assets held by the public

The value of the portfolio of financial assets held by the public increased in the first six months of 2015 by 2.6%, reaching NIS 3,253 billion at the end of June 2015. This increase in the value of the portfolio derived from an increase in all of its components, particularly in the components of shares in Israel and abroad. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached 24.6% at the end of June 2015, compared with 24.0% in December 2014.

## 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 2.2% in the first five months of 2015. This is the result of an increase of 1.7% in credit extended to the corporate sector and of 2.7% in credit extended to households. The development of components of credit to households indicated an increase of 2.8% in housing credit, with non-housing credit (consumer credit) expanding by 2.2%.

**The table below shows credit ratings of the State of Israel and of the Bank as at 10 August 2015:**

| | 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 | stable | P-1 |
| | S&P | A- | stable | A-2 |
| | Fitch | A- | stable | F1 |
| Local rating (in Israel) | Ma'alot | AAA | stable | - |
| | Midroog | Aaa | stable | P-1 |

On August 4 2015, S&P assigned Bank Leumi USA a 'BBB+' long-term issuer credit rating. The outlook on the rating is stable.

In June 2015, Moody's Credit Rating Agency approved the Bank's rating and raised the forecast to "stable".

**Development in Leumi share price**

From the beginning of the year until 30 June 2015, the price of Leumi shares rose from 1,338 points to 1,596 points, an increase of 19.3%. During this time, the Bank's market value increased from NIS 19.7 billion to NIS 23.5 billion.

On 10 August 2015, Leumi's share price stood at 1,656 points, reflecting a 3.8% increase since 30 June 2015. During this time, the Bank's market value increased to NIS 24.4 billion.

**The following table sets out the principal representative exchange rates:**

| | **30 June** | | 31 December | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 | 2013 |
| | In NIS | | | |
| U.S. dollar | **3.769** | 3.438 | 3.889 | 3.471 |
| Euro | **4.219** | 4.694 | 4.725 | 4.782 |
| Pound sterling | **5.926** | 5.860 | 6.064 | 5.742 |
| Swiss franc | **4.054** | 3.863 | 3.929 | 3.897 |

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

| | First half of | | |
|---|---|---|---|
| | **2015** | 2014 | Year 2014 |
| | (in percentages) | | |
| Rate of decrease in Israeli Consumer Price Index ("known" index) | **(0.5)** | (0.2) | (0.1) |
| Rate of increase (decrease) of the U.S. dollar exchange rate | **(3.1)** | (1.0) | 12.0 |
| Rate of decrease of the euro exchange rate | **(10.7)** | (1.8) | (1.2) |
| Rate of increase (decrease) of the pound sterling exchange rate | **(2.3)** | 2.1 | 5.6 |
| Rate of increase (decrease) of the Swiss franc exchange rate | **3.2** | (0.9) | 0.8 |

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

| | **2015** | 2014 | | | | |
|---|---|---|---|---|---|---|
| | **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) | **1.1** | (1.6) | (0.2) | 0.3 | 0.5 | (0.7) |
| Rate of increase (decrease) of the U.S. dollar exchange rate | **(5.3)** | 2.3 | 5.3 | 7.5 | (1.4) | 0.5 |
| Rate of increase (decrease) of the euro exchange rate | **(1.3)** | (9.5) | 1.6 | (1.0) | (2.5) | 0.6 |
| Rate of increase (decrease) of the pound sterling exchange rate | **0.8** | (3.0) | 1.4 | 2.0 | 0.9 | 1.1 |
| Rate of increase (decrease) of the Swiss franc exchange rate | **(0.9)** | 4.1 | 2.0 | (0.2) | (2.1) | 1.3 |

# General Environment and Effect of External Factors on Activity

## 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/or 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.

## Regulation, economy environment and effect of external factors on activity

Some of the information in this chapter is "forward-looking information". For the meaning of this term, see the section, "Description of the Banking Corporation's Business and Forward-Looking Information", below.

See detailed description in the 2014 financial statements (pages 40-53).

### Legislation and regulation relating to the Banking System

A large number of proposals for changes in regulations and in various provisions of the law were made during the period, which could have an impact of the characteristics of the Group's activity, the scope of activity in some of the Group's areas, the rate of profitability in some of the Group's activity and the credit risk and operating and legal risks to which the Group is exposed. Most of the regulations are at various stages of discussion, and consequently, it is not possible to assess whether they will be issued as binding directives, and if issued, what the ultimate directives that are established will be. Accordingly, at this stage, it is not possible to estimate the impact that those regulations will have on the overall activity of the Group.

### Execution Law (Amendment no. 47 and Temporary Provision) (Discharge for a Debtor Limited in Resources), 2015

On 3 August 2015, the abovementioned amendment to the Execution Law (Amendment no. 47 and Temporary Provision) (Discharge for a Debtor Limited in Resources) was published. The amendment to the law merged within it the proposed Execution Law (Amendment - Discharge for a Debtor), 2015, which was approved in a preliminary reading on 24 June 2015.

The Execution Law regulates "debtor limited in resources" proceedings. Pursuant to the law, the Registrar of Executions is entitled to declare a debtor as a debtor limited in resources, to establish a monthly order of payments in accordance with the debtor's financial ability and to impose on the debtor various restrictions provided in the law.

The amendment to the law is intended to enable debtors limited in resources to obtain the discharge to which they would have been entitled in a situation in which they had applied for bankruptcy proceedings, in accordance with the threshold conditions set forth in the proposal, including: the debtor was limited in resources for at least four years, at the date of making the request, the aggregate of his debts did not exceed NIS 800 thousand, the debtor has no realizable assets with any value, the debtor has complied with the payments order for the three preceding years and no request for bankruptcy is pending against the debtor. In the five years preceding the submission of a request for discharge: a receivership order with regard to the debtor has not been granted and the request of the debtor for the aforesaid order has not been rejected, the debtor has not been declared bankrupt and a request for bankruptcy which was submitted has not been rejected and a discharge order pursuant to the Bankruptcy Ordinance has not been given to the debtor.

In addition, the proposed law outlines restrictions for the grant of the discharge order.

## Proposed and draft legislation

### Proposed Debt Arrangement Law (Legislative Amendments), 2015

On 12 July 2015, the Ministerial Committee for Legislative Affairs approved the proposed Debt Arrangements Law (Legislative Amendments) 2015, which implements the final recommendations of the Committee to Examine Debt Arrangements in Israel.

The proposed law adopts a structured outline made of two stages for improving the debt arrangement procedure:

Stage 1 – Applies to a company in financial difficulties when still making payments to the bond-holders. At this stage, a special representative will be appointed on behalf of the bond-holders. The special representative will conduct the negotiations, sit as an observer in the board of directors of the company and its committees and provide the bond-holders with information on the steps which the company intends to take which are liable to impair the creditors. In addition, certain defenses will be accorded to the company in the course of the negotiations for an arrangement of the debt.

Stage 2 – When a company has failed to make a payment to its financial creditors (all as defined in the proposed law) for 45 days, it is presumed to be insolvent, and an official will be appointed by the court. In these circumstances, a trustee of the bonds must apply to the court with a request to open proceedings for the company's recovery or liquidation (unless an exceptional item exists as outlined in the law).

The proposed law relates to other topics, for example, if a stay of proceedings is not granted, a creditor is entitled to take steps to collect his debt pursuant to any law; the possibility of forcing a debt arrangement on the company pursuant to a request of a creditor in a case where the company is insolvent; requiring a trustee of a series of bonds that contains a stipulation for immediate repayment or for realizing collateral to convene a meeting of the bond-holders within 45 days of the date that the condition for making a decision on how to proceed was met; reducing the grounds for the existence of conflicts of interests with bond-holders; the appointment of a "lead trustee" by the company from the issue date to represent all of the bond series issued by the company; determining parameters for a limit on the total credit granted to a business group by institutional entities and the banking system; imposing a direct duty of supervision on an office-holder in the corporation for preventing the receipt of credit in excess of the credit limit; and compliance with the corporation's reporting duties (determination of a presumption that an office-holder has breached his obligation if the corporation has breached these duties), etc.

**Proposed Reduction in the Use of Cash Law, 2015**

On 27 July 2015, the Knesset plenum approved in a first reading the proposed Reduction in the Use of Cash Law. The proposal adopts the recommendations of the Committee to Examine the Reduction of the Use of Cash in the Israeli economy – the Locker Committee. According to the proposal, restrictions will be placed on the type and amount of the transactions in which cash may be used, and restrictions on the use and endorsement of cheques.

**Draft Pledge Law, 2015**

On 27 July 2015, the Knesset plenum approved in a first reading the proposed Pledge Law. The proposal is intended to constitute a comprehensive arrangement of the laws of liens. The proposed law is revolutionary in many ways and includes topics which will have repercussions for the banks, including: the possibility of a debtor creating additional liens on a mortgaged asset, without the consent of the lien-holder, the possibility of an individual creating a lien on future assets, the cancelation of the "floating lien" which currently exists, etc.

**Proposed Arrangement of Non-Bank Loan Law (Amendment no. 3), 2015**

On 27 July 2015, the Knesset plenum approved in a first reading the proposed Arrangement of Non-Bank Loan Law. Further to the proposed law, it was proposed to equate the norms applicable to the lenders that are not institutional and those applicable to institutional lenders, including the banking system. Among other things, it was proposed that a maximum interest ceiling would be established in the retail credit market that would also bind the banks. Exceeding the interest ceiling that was set would constitute a criminal offense. The Minister of Justice, with the consent of the Minister of Finance would be empowered to expand the incidence of the law, which currently only applies to individuals – to also include types of corporations, as will be determined.

**Proposed Electronic Clearing of Cheques Law, 2015**

On 29 June 2015, the proposed Electronic Clearing of Cheques Law was published in *Reshumot* ahead of a first reading. The proposal deals with the regulation of the method of electronic clearing of cheques by the banks, including the regulation of the evidential acceptability of the computerized cheque in a legal proceeding, the authorization of the Governor of the Bank of Israel, with the consent of the Minister of Justice and the Minister of Internal Security, to establish rules regarding the duty of retaining cheques and computerized cheques and regulating the extent of the Bank's responsibility to customers.

## Material directives of the Bank of Israel

**Regulations as a result of the recommendations of the Committee to Examine Debt Arrangements in Israel (Endoren Committee)**

On 28 April 2015, the Banking Supervision Department published regulations implementing the recommendations of the Committee to Examine Debt Arrangements in Israel, relating to setting internal limits on credit to leveraged borrowers, strengthening the standard for the management of leveraged loans, and establishing a format for reporting to the Banking Supervision Department with regard to debt arrangements.

The details of the regulations are as follows:

- **Amendment to the Proper Conduct of Banking Management Regulation no. 311 – Credit Risk Management**

  Pursuant to the amendment, banking corporations are required to set limits on the volume of leveraged loans in their credit portfolio, and restrictions on the provision of credit to borrowers with levels of leverage higher than generally accepted in the sector. Directives are provided in relation to the participation of a banking corporation in a syndication transaction, both as an organizer or a credit provider. In particular, an organizing banking corporation must manage risks carefully because of the fear of absorbing losses as a result of a delay in the process of selling exposures, while the participating banking corporation is required to make an independent risk assessment, as if the banking corporation itself initiates the loan.
  When extending credit to a corporation in a material amount (more than NIS 50 million), banking corporations will be required to obtain information on credit which the controlling owner in the borrowing corporation has taken to purchase the controlling shares in the corporation (or in the lien on them) and its past conduct, and to take it into account.

  In addition, banking corporations will be required to incorporate in their procedures, appropriate quantitative calculations, which will constitute a basis for the bank's considerations prior to executing a debt arrangement, and a demand for an examination of a number of alternatives, to utilize the debt repayment.

  The provisions of the amendment to the directive will apply to credit granted from 1 January 2016.

- **Amendment to the Proper Conduct of Banking Management Regulation no. 323 – Restrictions of the financing of capital transactions**

  The directive, which was, till now, devoted to the purchase of the means of control, was extended to apply to all "credit for a capital transaction purpose". A capital transaction is defined as one whose object is the purchase of a capital right in another corporation, self-purchase or capital allocation (for example, a dividend). The definition of capital, from which the percentage of the limit determined in the directive is derived, was reduced from the overall capital base to Tier 1 capital, as defined in Proper Conduct of Banking Management Regulation no. 202.

  The provisions of the amendment to the directive will apply to credit granted from 1 January 2016.

- **Proper Conduct of Banking Management Regulation no. 327 – Management of leveraged loans**

  Pursuant to the directive, the minimum expectations of the Banking Supervision Department from the banking corporations, regarding the risk management of these loans, were heightened. The new directive instructs the banking corporations to define what a leveraged loan is, and provides various standards in relation to these loans, including all matters related to the credit policy, periodic discussion in the board of directors, underwriting and valuation procedures, reporting and quantitative analysis, classification of leveraged loans, credit analysis, credit control and stress tests.

  The provisions of the amendment to the directive will apply to credit granted from 1 January 2016.

- **Reporting Directive for Supervision no. 811 – Report on the reorganization of a problem debt**

  The directive requires banking corporations to furnish a detailed quarterly report to the Banking Supervision Department on problem debt restructuring.

  This directive is effective for reporting from 30 September 2015.

**Licensing process and establishment of Banking Association in Israel**

On 5 May 2015, the Banking Supervision Department published a directive relating to the process of licensing and the establishment of banking associations in Israel. A "banking association" is a cooperative financial incorporation, owned and controlled by the members, which does not operate for profit purposes. A banking association is intended to allow its members to receive bank account management services, savings, receipt of loans, and receipt of other basic banking services. The shareholders of the companies in a banking association, being a cooperative financial institution, are the account holders themselves, and it is they who elect the board of directors of the association. In each banking association, rules will be established which will define the rights and conditions of the companies therein, subject to the requirements of the law and based on a common denominator between the members, and only a member of the association will be able to maintain an account therein.

The directive set forth the threshold conditions for setting up banking associations in Israel, and the stages required for their establishment. The directive constitutes an additional measure in adopting the recommendations of the team examining the increase of competition in the banking sector.

**Banking Order (Service to the Customer) (Supervision of Notification or Warning Service), 2015**

On 10 May 2015, the Governor of the Bank of Israel signed Banking Order (Service to the Customer) (Supervision of Notification or Warning Service), 2015, pursuant to which the service of notices or warning was declared as a service subject to supervision and the maximum amount of commission in respect thereof was set at NIS 5 per notice or warning.

**Amendment to Proper Conduct of Banking Management Regulation no. 308 – Compliance and the compliance function in a banking corporation**

On 3 June 2015, the Banking Supervision Department published an amended version of Regulation 308 regarding compliance and the compliance function in a banking corporation.

Pursuant to the amended regulation, the definition of the compliance provisions was greatly expanded, and it now includes all of the laws, regulations, regulatory provisions (including positions adopted by the Banking Supervision Department in dealing with customer enquiries), internal procedures and code of ethics.

In addition, the amended regulation includes provisions on the following: the responsibility of the Board of Directors to supervise the management of the risk compliance of the banking corporation, the responsibility of the senior management for effective management of the compliance risk, compliance policy, the compliance function and its characteristics, etc.

The effective date of the amendment is 1 January 2016.

**Draft amendment to Proper Conduct of Banking Management Regulation no. 313 – Restrictions on the Indebtedness of a Single Borrower and of a Group of Borrowers**

On 9 June 2015, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Management Regulation no. 313 on Restrictions on the Indebtedness of a Single Borrower and of a Group of Borrowers.

Further to the amendment to Regulation 313, *inter alia*, it is provided that the capital of the Bank, on the basis of which the maximum rates for the indebtedness of a borrower and the indebtedness of various groups of borrowers will be calculated, will be "Tier 1 capital" only, and not the full capital, as noted in the existing regulation. In addition, the maximum rate of indebtedness of a banking group of borrowers to a banking corporation will be reduced from 25% of the capital to 15%. A number of other terminological amendments were made, mostly in the details of the amounts that could be reduced for the purpose of calculating the various indebtednesses.

The effective date of the amendments to the regulation is 1 January 2016. Notwithstanding the aforesaid, for the purposes of the definition of capital, the following will apply: Tier 1 capital, as stated in the definition of capital with the addition of Tier 2 capital as will be published in the financial statements at 31 December 2015. This addition will be amortized in equal installments over 12 quarters until it is reduced to zero at 31 December 2018.

According to Leumi's current credit portfolio, the Bank is not expected to be materially affected by this regulation. However, in general, the Bank will need to take this directive into account when allocating credit facilities for financing future activity of the large borrowers and/or certain borrower groups. For information regarding the limits on the indebtedness of a borrower and of a group of borrowers, see the chapter "Description of the Group's Business by Segments and Areas of Activity".

**Amendment to Proper Conduct of Banking Management Regulation no. 411 – Previous of Money Laundering and Financing of Terrorism and Customer Identification**

On 4 August 2014, the Securities Authority and the Banking Supervision Department published an outline of principles that will enable the issue of ETFs that follow up on the yield of the shares of banks without these shares being considered for the purposes of "holding" of the issuing companies, and accordingly, not being counted for the purpose of the limit stipulated in the Banking Law, with regard to a holding of not more than 5% of each class of the means of control in the Bank ("the outline").

On 9 June 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Management Regulation no. 411 regarding the prevention of money laundering and the financing of terrorism and customer identification. The amendment added an exemption from the recording of beneficiaries in the account held by a trustee which is managed for holders of a "transparent" ETF in relation to the Tel Aviv Bank Index, in which the mechanism provided for the activation of the voting rights, as stated in clause 4.1.2 of the aforementioned outline, was approved by the Securities Authority and by the Bank of Israel in relation to carrying out the operational test stipulated in the outline.

**Amendment to Proper Conduct of Banking Management Regulation no. 454 – Early Repayment of Non-Housing Loan**

On 21 June 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Management Regulation no. 454 regarding early repayment of a non-housing loan. The object of the amendment is, as far as possible, to create uniformity between early repayment of a housing loan and the repayment of a non-housing loan and establish a consistent and disclosed mechanism for setting a rate of interest according to which the capitalization component in non-housing loans is computed.

In the earlier version, the directive applied to loans that were granted for a period of at least six months, and whose original amount did not exceed NIS 750 thousand. The incidence of the current directive was expanded and it will also apply to any loan which is not subject to the Banking Order (Early Repayment of a Housing Loan), and which is made to private individuals or small businesses, as defined in the directive. With regard to other loans, an early repayment commission will apply according to reasonable rules that will reflect the damage incurred by the banking corporation as a result of the early repayment and which will be provided in advance for these cases. The directive considers a number of topics, including: the method of computing the capitalization component on early repayment, the rate of commission due to the lack of early notice of at least 10 days, the method of furnishing the notice of early repayment, the timing of furnishing explanatory notes and their content.

The effective date of the regulation is 1 April 2016.

**Amendment to Proper Conduct of Banking Management Regulation no. 425 – Annual Reports for Customers of the Banking Corporations**

On 21 June 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Management Regulation no. 425 regarding annual reports for customers of the banking corporations. The amended version includes amendments and clarifications as a result of questions which arose from the banks at the stage of preparing for the implementation of the directive.

The effective date of the amendments is 28 February 2016, with respect to the annual reports of 2015.

**Proper Conduct of Banking Management Regulation no. 423 – Commission Track Service and Letter of the Banking Supervision Department regarding Commission Track Service**

On 21 June 2015, the Banking Supervision Department published a new Proper Conduct of Banking Management Regulation regarding the commission track service and a letter to banking corporations on this subject.

The purpose of the directive and the letter is to increase awareness among customers, both existing and new, of the commission track service and its features. The directive provides that with regard to new customers, when opening a current account, the banking corporation should furnish them with a condensed tariff list of current account management charges, together with explanatory notes regarding "commission track service". The explanatory page should present, *inter alia*, the prices of each commission track compared to the services included therein, according to the condensed tariff list not included in the commission track service, as well as information on how to sign up for the "commission track service".

In order for there to be a clear expression for the customer's choice as to how his account will be debited, the banking corporation must take steps when opening a current account to obtain the customer's approval for his desired method of debiting the account – debiting according to the "commission track service" or debiting according to the type of transactions that he will carry out.

With regard to existing customers, the directive provides that in order to enable customers to make an informed decision as regards the method of debiting appropriate to the nature of activity in the account, the banking corporation must furnish a customer who wishes to sign up to the commission track, prior to his enrolment, with written information of the amounts of commissions collected from him during the quarter preceding the one before the date of submitting the request for enrolment or in the quarter preceding the date of submitting the request.

In addition, the directive provides that the banking corporation should publish in a prominent position on the main page of its website a link to the explanatory notes entitled "Commissions – Commission Track Service".

The date of inception of the directive is 1 January 2016, except for the clause which discusses publicizing the link on the website, which comes into force on 1 August 2015.

In the context of a letter from the Banking Supervision Department to the banking corporations on the subject of the commissions track service, the banking corporations are required to locate among the existing customers those who during the months of January – May 2015, paid at least the sum of NIS 10 in each of the months separately, or paid in total more than NIS 50 for the entire period, for the two following services in aggregate: a transaction carried out by an official, a transaction via digital banking. These customers should be contacted in writing and notified of the actual amount debited in each of the said months, in comparison to the price of the basic track or the price of the expanded track, if they were signed up to it, and details of the method of enrolment to the commission track service. The notice should be sent no later than 1 October 2015.

**Letter from the Bank of Israel regarding an initiated application to grant credit to retail customers**

On 23 June 2015, the Banking Supervision Department published a letter concerning an initiated application for granting credit to retail customers.

In light of the substantial increase in the volume of retail credit and in order to ensure that the proposed credit corresponds to the needs of the customer, the banking corporations have been requested to establish policies, procedures and processes related to an initiated application for the grant of credit to a specific retail customer, and to ensure that the initiated application process, as mentioned above, is regulated and detailed.

Among other things, the banking corporations have been requested: to define specific, demarcated and clear target populations, to determine appropriate conversation scenarios, to establish a method for customer' applications, including the adaptation of marketing resources to the characteristics of the target populations, and to document the application for the customer.

The policy and procedures on this matter should be forwarded to the Banking Supervision Department no later than 1 September 2015.

**Amendment to the Banking Rules (Service to the Customer) (Commissions) (Amendment no. 2), 2015**

On 28 June 2015, an amendment to the Commissions Rules was published in subsidiary legislation, relating to various subjects, including: the prohibition of charging a commission for a debit card issued for a customer who has a credit card by virtue of the fact that it was issued by that banking corporation, for a period of 36 months from the issue date of the debit card, the cancelation of a commission on follow-up letters and the cancelation of a depositor's charge on the return of a cheque.

**Letter from the Bank of Israel regarding risk management in a computer cloud environment**

On 29 June 2015, the Bank of Israel issued a letter to the banking corporation regarding risk in a computer cloud environment. In the letter, the Bank of Israel notes that the use of computer cloud technology could expose the banking corporation to material operating risks connected to data security, business continuity, control and review of the IT assets, etc.

The letter sets forth principles and restrictions with regard to the use of computer cloud technology, including: a prohibition on the use of computer cloud services for core activities or core systems, conditions for storing customer information or data in a cloud outside the borders of Israel, and a determination that cloud computing constitutes an individual instance of outsourcing and it is subject to the rules applicable to this issue. The letter further provides that a banking corporation is required to obtain a written permit in advance from the Supervisor of Banks before any engagement with a supplier of cloud computing, pursuant to which information is stored with a supplier, even if this does not entail information on customers.

The letter also provides directives with regard to corporate governance, risk management and a requirement that should be included in an agreement with a supplier regarding cloud services.

**Amendment to Proper Conduct of Banking Management Regulation no. 301 – Board of Directors**

On 29 June 2015, Amendment to Proper Conduct of Banking Management Regulation no. 301 – Board of Directors was published. Pursuant to the amendment, decisions in the Audit Committee, in the Committee for Transactions with Related Persons and in the Remuneration Committee will be made in the presence of the members of the committee and factors whose attendance is permitted by the Companies Law, under conditions provided in the law. It is also provided that a board of directors shall not make decisions on the use of communication means, *inter alia*, even with regard to a transaction with someone who has proposed a candidate for the office of director in a banking corporation without a controlling core and his relative, as long as they are considered related persons.

**Amendment to Proper Conduct of Banking Management Regulation no. 470 – Debit cards and letter regarding the expansion of the distribution of debit cards**

On 29 June, 2015, the Banking Supervision Department issued an amendment to Proper Conduct of Banking Management Regulation no. 470 – Debit cards and also a letter regarding the expansion of the distribution of debit cards.

Pursuant to the amendment to Regulation 470, two chapters were added to the directive:

a. A chapter entitled "Debit Cards and Reloadable Cards" – which provides various regulations regarding these cards, including: instructions as to the customer billing date in these transactions; instructions as to the date of transferring the money from issuer to clearer, and from clearer to merchant; instructions as to the visual differentiation of the cards; and instructions as to the disclosure provided to the customer regarding transactions with these cards.

b. A chapter entitled "Use of EMV debit cards" – which provides instructions for assimilating an EMV security standard (smart card) for debit cards.

In the draft of the letter regarding the expansion of the distribution of debit cards, the Banking Supervision Department made stipulations regarding increasing the distribution of debit cards, including rules concerning offering cards to existing and new customers.

The amendments to the directive will come into effect on 1 April 2016, except for a number of clauses, which will be introduced gradually until 1 January 2018.

It was provided that, until no later than 31 December 2016, all debit cards (with the exception of ATM cards) issued by the Bank and Leumi Card, must comply with the EMV standard.

**Amendment to Proper Conduct of Banking Management Regulation no. 301A – Remuneration Policy in a Banking Corporation**

On 13 August 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Management Regulation 301A – Remuneration Policy in a Banking Corporation.

The main points of the amendment are as follows:

- The banking corporation is obliged to anchor in advance its ability to require a key employee to repay variable remuneration paid to him, and take all reasonable steps to return the actual remuneration, in particularly exceptional circumstances which the banking corporation is obliged to determine. In addition, the banking corporation will establish the recovery amount or the recovery rates appropriate for the various types of circumstances. Furthermore, the directive sets of the period of recovery. Notwithstanding the aforesaid, when the total amount of the variable remuneration in a certain calendar year does not exceed 1/6 of the remuneration determined in that year, there is no obligation to activate the recovery mechanism on this part of the variable remuneration.
- The remuneration of the chairman of the board of directors and the board members will be a fixed amount only. The directive established the mechanisms according to which it will be paid.
- A corporation in a banking group will not bear the costs of the employment of a senior office-holder or of an employee in the corporation, due to their term of office in another corporation in the group. This means that every corporation in the group must bear the costs of its senior office-holder or employee, in accordance with the scope of the position, authority and responsibility in this office.
- A prohibition on a key employee from receiving remuneration in any form whatsoever directly from the controlling owners in the corporation, their relatives or from corporations under the control of these factors. The directive will not apply to a non-external director, but it will apply to the chairman of the board of directors.

The directive includes detailed transitional provisions for its implementation.

## Material drafts of the Bank of Israel

**Draft Proper Conduct of Banking Management Regulation no. 450 – Procedures for Debt Collection**

On 18 May 2015, the Banking Supervision Department published a new draft regulation on the subject of procedures for debt collection, which is intended to organize the steps, which, in the opinion of the Banking Supervision Department, should be taken in order to increase fairness and transparency when collecting the debts of customers who are individuals and small businesses who do not repay their debts when due. The main subjects dealt with in the draft are: the determination of policy and procedures for dealing with debt collection; the involvement of senior management and the board of directors in the subject; the establishment of a designated function for dealing with the collection of debts, the provision of an interest ceiling for a loan in arrears; fair disclosure of the rate of arrears interest on a loan, the method for transferring customers' payments to reduce a debt; the duty to send a detailed notice to customers, continuity in customers' access to information using electronic means; the provision of information by the banking corporation directly to customers; supervision and control of the banking corporation on its agent; regulations regarding the fee of the agent of the banking corporation, etc.

**Draft amendment to Proper Conduct of Banking Management Regulation no. 357 – Management of Information Technology**

On 13 August 2015, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Management Regulation no. 357 – Management of Information Technology.

The main points of the proposed amendment are as follows:

- A relief whereby the IT manager and data security manager in a banking corporation can fulfill these positions in corporations which are controlled by the same banking corporation, on compliance with certain conditions.
- A determination that the banking corporation is no longer required to obtain the approval of the Supervisor of Banks for sending data to a foreign bank relating to its account via unencrypted electronic mail.
- The banking corporation is no longer required to notify the Supervisor of Banks of any new channel which permits receipt through a signature on an online agreement.
- The new technological activities required in the approval of the Supervisor of Banks and the new technological activities required only in a report to the Banking Supervision Department were defined. In addition, the requirements for reporting and for the receipt of the permit were updated.

**Additional regulations and topics**

**Pension counseling**

**Uniform Structure Circular for the Transfer of Information and Data in the Pension Savings Market**

On 6 May 2015, the Capital Markets, Insurance and Savings Commissioner in the Ministry of Finance ("the Commissioner") published a circular regarding a uniform structure for furnishing information and data in the pension savings market. The circular provides a structure of a "uniform entry" for use by the various factors in the pension savings market in the context of the various business transactions carried out among them, guaranteeing the following principles:

**a.** The complete, precise, reliable and available receipt and transfer of information, which is retrievable and replicable sufficiently quickly and effectively to comply with the provisions of the law.

**b.** The organization of the structure and content of the details of the information and data which is transferred between the various information producers and consumers in the pension savings field.

In addition, the circular provides the circumstances in which a license holder and an institutional entity are obliged to transfer the information required with regard to one of the interfaces dealt with in the circular.

The effective date of the circular will be 1 November 2015, with the exception of a number of topics which come into force gradually at later dates, up to 1 January 2017.

**Pension clearing system**

On 28 May 2015, the Commissioner published the following circulars on the subject of a central pension clearing system ("the system"):

a. A circular on the duty to use a central pension clearing system – which details and updates the transactions which institutional entities and license holders are obliged to execute via the system. The provisions of the circular will come into force gradually from 1 January 2016 through 1 July 2017.

b. A circular entitled "Payment for usage fees in a central pension clearing system" – which determines the usage fees approved by the Commissioner to collect from the system's users. The circular came into force on the date of its publication.

**Proposed Supervision of Pension Services (Provident Funds) Law (Amendment), 2015**

On 20 July 2015, the plenum of the Knesset approved in a first reading the proposed Supervision of Pension Services (Provident Funds) Law (Amendment), 2015 was published in *Reshumot*, prior to its approval in a first reading in the Knesset plenum.

Pursuant to the proposed law, it was proposed, *inter alia*:

a. To permit savers to make a withdrawal directly, even from a provident fund not paying a pension (the name of which, in the memorandum, it is proposed to change to "provident fund for savings").

b. To enable the payment of a pension from a provident fund for savings through a combination of a periodic withdrawal (annuity) and the purchase of longevity insurance from an external insurer.

c. To provide that on joining a new pension fund, the amount of savings standing at the disposal of the saver in inactive accounts in other new pension funds will be transferred to the new pension fund which the saver wishes to join, according to a mechanism for consolidating funds which is outlined in the proposed law.

The proposed law also includes an indirect amendment of the Supervision of Financial Services Law (Advice, Marketing and Pension Clearing System) whereby it is proposed to establish that, notwithstanding the provisions of the aforesaid law, which deals with the duty of executing a transaction for a customer as a part of pension counseling or pension marketing, pension counseling or pension marketing will not be required in cases where the transaction is executed by a customer, directly *vis-à-vis* the institutional entity, on signing up a customer to provident fund by his employer as a default, or when the institutional entity executes transactions in a pension product by virtue of a duty under the law.

**Explanatory document circular**

On 23 June 2015, the Commissioner issued an updated version of the circular in an explanatory document, which was intended to establish a new consistent version of the explanatory document to be furnished to customers by way of a counseling procedure or via pension marketing. The date of inception of the circular will be 1 July 2016 (except for the instruction included regarding the duty of a new license holder to clarify the identity of the products held by the customer via a central pension clearing system, which will come into force on 1 November 2015). A license holder is entitled to implement the instruction in the circular from the date of its publication.

**Circular on Power of attorney to License Holder**

On August 6, the Commissioner published an update of the circular on a power of attorney to a license holder, which included, *inter alia*, provisions regarding the expansion of possibilities by which a customer is entitled to approve the power of attorney pursuant to Appendix A of the circular (One-Time Authorization to Obtain Information), such that it will be possible to approve the aforesaid power of attorney via a bank's Internet website, credit card or cash withdrawal card in a automated telling machine, or through the approval of the power of attorney before a person on the Bank's behalf, who is not a license holder.

The effective date of the amended version of the circular is 1 November 2015. However, the provisions regarding the expansion of possibilities for approval of the power of attorney according to Appendix A to the circular will come into effect on the date of publication of the circular, and the effective date of other provisions of the circular will be revised.

**Amendment to consolidated circular directive – Chapter 4 – Management of Investment Assets (Conditions for Participation in a Consortium Transaction)**

In 2014, the Committee for the Review of the Investment Method of Institutional Entities in Adjusted Loans ("Goldschmidt Committee") published its report. In May 2015, the Capital Market, Insurance and Savings Commissioner in the Finance Ministry published various circulars which are intended to implement the Committee's recommendations. Among other things, a circular was published on 11 May 2015, setting forth the principles for the participation of an institutional entity in consortium and syndicate transactions. The circular relates to a number of issues characterizing these transactions, including the possibility of the existence of conflicts of interest between the organizer of a transaction and the other lenders in the transaction, a requirement from the institutional entity to receive information prior to entering into a transaction, and minimum requirements from the organizer of the transaction, such as: setting compulsory conditions in an agreement between the organizer and the lenders and between the lender and themselves; the definition of compulsory duties of the organizer and the information which he should furnish to the other lenders; the determination of the organizer's responsibility; and a determination that the organizer will hold at any time at least 10% of the value of the loan, etc.

The effective date of the circular is 1 August 2015.

**Memorandum of Insolvency Law and Economy Recovery Law, 2015**

On 3 August 2015, the Ministry of Justice published the Memorandum of Insolvency Law and Economy Recovery Law. The memorandum includes a comprehensive, structural and material reform of the insolvency proceedings for individuals and corporations. The memorandum contains provisions relating to all classes of debtors, as well as provisions dealing with specific aspects of the various types of debtors – individuals and corporations, with the exception of associations and public benefit companies.

The memorandum of the law includes, *inter alia*, the following innovations:

- The definition of insolvency will be according to a cash flow test, and accordingly, an insolvent person is someone who is unable to pay his debts when due, which replaces the balance sheet test which is currently in use.
- A creditor will be able to submit a request for the grant of an insolvency order only when the debtor has not paid a debt to him when due. A future creditor will not be entitled to submit a request to open proceedings, except in circumstances in which the debtor takes steps with the intention of defrauding his creditors.
- The court which is qualified to deal with matters of individual insolvency will be the magistrates' court, whereas insolvency proceedings for a corporation will be conducted before the district court.
- A request to open proceedings against a corporation will be submitted in a uniform manner. It is the court which will decide with regard to the track for dealing with a corporation – recovery or liquidation.
- With regard to individuals – the management of a large part of the proceedings will be transferred from the Official Receiver. The proceeding will begin with a period of examination in which the debtor's financial position will be examined and stay of proceeding will take effect. At the end of the examination, the Official Receiver will submit a report to the court, on the basis of which a recovery plan will be determined for the debtor. On completion of the plan, the individual will be discharged from his debts. If an individual is unable to pay his creditors, he will be discharged immediately. In addition, it is proposed to establish fast-recovery tracks for distressed debtors and those with small debts, some of which will be conducted by administrative factors, without the involvement of the court.
- Most of the debts with preferential rights (mainly the Tax Authority) will be canceled.
- A floating lien will only apply to the assets of the debtor when granting the order and to assets that will reach the debtor from this date onwards as consideration or as a replacement asset which may be identified and tracked.
- A creditor secured by a floating lien will be entitled to repay his secured debt from the floating lien only up to the amount equal to 75% of the value of the assets to which the lien applies. The balance of the assets under lien will be used to pay the general creditors.
- In a case where the general creditors are not paid at least 25% of the general debts or NIS 1 million, whichever is lower, ("the minimum creditor rate"), the secured creditor under a fixed lien will be entitled to payment of up to 75% of his secured debt and the balance of the assets registered under a fixed lien will be used as payment to the general creditors up to the completion of the minimum creditor rate. If the value of the balance of the assets under a fixed lien exceeds the amount required for payment of the minimum creditor rate, the value of the secured debt which each secured creditor is entitled to be paid from the asset under lien will rise accordingly.

- The directors in a corporation which is insolvent are required to take reasonable steps to minimize the extent of the insolvency.
- For the first time, a part relating to the management of insolvency proceedings that has interest aspects has been added.
- A corporation will be able to make a debt arrangement at an early stage, even before insolvency, with the aim of halting the deterioration, pursuant to the recommendations of the Committee for Examining Debt Arrangement in Israel (the Endoren Committee).

**Memorandum of the Credit Data Service Law (Establishment of a Credit Data Sharing System and Official in Charge of the System), 2015**

On 4 August 2015, a memorandum of the Credit Data Service Law (Establishment of a Credit Data Sharing System and Official in Charge of the System) was published, following the recommendations of the Interim Report of the Committee for Improving the System for Sharing Credit Data (Dorfman Committee).

The memorandum proposed establishing a credit database owned by the Bank of Israel, in which all of the information gathered pursuant to the law will be kept and furnished pursuant to the law. The Bank of Israel is to establish the database itself or though a third party. It is further proposed that an official be charged with responsibility for the system on behalf of the Bank of Israel who will be accorded various regulatory powers.

Contrary to the current situation, whereby a holder of a credit data license is authorized to collect data on a customer regarding only the failure to pay debts ("negative information") without the customer's consent, while positive data in a limited amount may be collected only with regard to customers in respect of which there is negative information or they have given their consent to the gathering of positive information, it is proposed to permit the gathering of all of the relevant information for the purpose of assessing the risk that a customer will meet payments, according to the international standard "Metro 2").

It is further proposed to augment the list of sources of information that are obliged to furnish information to the database, to the Israel Electric Company and water corporations.

In addition, it is proposed to change the consent mechanism for retaining the information collected as provided in the law; in the default position, credit data on a customer will be kept in the database, unless he has requested for information on him not be collected. However, where data indicating that a customer clearly does not meet his obligations as provided by the Minister has been furnished to the database, from that date and onwards, credit data about him will be kept. Notification of a customer's right to object to the keeping of data about him in the database will be furnished to him by the official in charge when the collection of the information about him gets underway. It is further proposed to permit a customer to request from the database that credit data about him not be furnished, even if he had conveyed his consent for retaining information about him. This provision is intended to address cases, *inter alia*, where the customer enters into a credit transaction in a uniform contract and is unaware that he has given his consent for the furnishing of information about him in the context of the commitment.

In addition, it is proposed that a credit data service license holder will be authorized to furnish a credit report to a credit provider on condition that he obtains the consent of the customer for furnishing a credit report about him and subject to the principle of reciprocity, i.e. on condition that the credit provider submits information to the database.

**Committee for Increasing Competition in Common Banking and Financial Services**

On 3 June 2015, the Minister of Finance and the Governor of the Bank of Israel appointed the Committee for Increasing Competition in Common Banking and Financial Services (Shtrum Committee). Pursuant to the letter of appointment, the members of the committee will examine the possibility of introducing new players to the competition in the provision of banking services, including the possibility of separating credit card companies from the banks. In addition, the committee will examine the implementation of supplementary measures required and the removal of barriers to the promotion of competition.

The committee intends to submit preliminary recommendations at the beginning of September 2015. At this stage, it is not possible to estimate what the committee's conclusions and recommendations will be, and whether the recommendations will be adopted and become operative legal provisions. Accordingly, it is impossible to assess the potential impact of the committee on the Group's activity.

**Draft of the Supervision Regulations of Financial Services (Insurance) (Maximum Commissions in Life Assurance and Structure by way of Housing Loan) (Amendment), 2015**

On 17 June 2015, the Capital Market, Insurance and Savings Division in the Ministry of Finance published a draft amendment to the Supervision Regulations of Financial Services (Insurance) (Maximum Commissions in Life Assurance and Structure by way of Housing Loan) which is intended to establish a maximum rate for agency fees in life assurance by way of a mortgage, similar to that established with regard to the insurance of a structure by way of a mortgage.

**Draft regulations of the Supervision of Financial Services (Provident Funds) (Purchase, Sale and Holding of Securities) (Amendment), 2015**

On 29 July 2015, draft regulations of the Supervision of Financial Services (Provident Funds) (Purchase, Sale and Holding of Securities) (Amendment), 2015 were published, in the context of which it is proposed to provide that an institutional investor included in a group of investors of which one has an engagement agreement with a banking corporation for the provision of management or operating services is not entitled to purchase or sell through or from that banking corporation, or through or from a related party to the institutional investor, a security or foreign currency, and is not entitled to hold securities through that banking corporation.

The draft regulations also provide rules regarding a competitive proceeding that institutional investor will be required to fulfill for the purpose of purchasing or selling securities, and for the purpose of holding and clearing securities.

## International regulations

**FATCA and the Uniform Reporting Standard for Automatic Information Exchange of the OECD**

**Memorandum to the Law to amend the Income Tax Ordinance (Amendment no.), 2015**

As part of implementing the FATCA agreement and preparations for signing agreements pursuant to the Uniform Reporting Standard for Automatic Information Exchange of the OECD (the CRS), on 25 June 2015, a memorandum of the Income Tax Law was published, the main points of which are as follows:

**Amendments in the Income Tax Ordinance:**

- Awarding of authority to the Minister of Finance to determine regulations addressing actions that an Israeli financial institution that has a duty to report must carry out.
- Empowering the Minister of Finance to determine conditions in the regulations, which when fulfilled, an Israeli financial institution that has a duty to report will close a new account which has been opened, with regard to which the financial institution has not managed to obtain declarations or documents.
- Imposing monetary sanctions on financial institutions because of the failure to do what is required in the procedure for identifying account holders and the failure to forward data / partial data in relation to accounts that it manages.
- Sanctions and the imposition of personal responsibility of an individual who commits actions with a view to avoiding the existence of exchanging information for enforcing the tax laws in another country.
- Granting authority to the Israel Tax Authority to transfer information to a tax authority in another country in accordance with an international agreement.

**Amendment to the Prohibition of Money Laundering Law**

A financial institution will be entitled to make use of the identification details that it obtains by virtue of the Prohibition of Money Laundering Law, in fulfilling its duties or in the course of its work, for the purposes of the FATCA or for the purpose of complying with an international agreement.

Leumi continues to implement the FATCA requirements and is prepared to comply with the requirements of the Standard for the Automatic Exchange of Information (CRS) of the OECD.

**Volcker Rule**

The Volcker Rule, which was established in the United States and applies to the Bank, provides restrictions on entering into transactions and investments of the monies of banking corporations ("proprietary trading") in financial instruments and on the financing and holdings in hedging and investment funds ("covered funds"). The law is a part of the Dodd-Frank Reform, which is intended to maintain the stability of the U.S. financial system and to prevent a situation where the monies of American taxpayers are used to rescue the financial system.

The regulations for implementing the law were published in December 2013, and the restrictions set forth in the law came into force on 21 July 2015. It is possible to continue to hold funds which were held prior to the inception of the law, until 21 July 2016. The U.S. authorities have announced that they intend to extend this date by a year, through to 21 June 2017.

The Bank is prepared for the law and, *inter alia*, has examined the relevant activity, adopted policy documents in the management and the Board of Directors and has established procedures for implementing the policy and complying with the provisions of the law.

## 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 2014.

In the first quarter of 2015, an accounting standard regarding employee rights was implemented for the first time and in the second quarter of 2015, the directives of the Banking Supervision Department on the subject of the capitalization of software costs were implemented for the first time.

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

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 signing the financial statements.

The principal critical accounting subjects referred to in the Annual Report as at 31 December 2014 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 claims, buildings and equipment, taxes on income and deferred taxes.

**Intangible assets**

In the context of Public Reporting Directive no. 662 of the Banking Supervision Department, the provisions for the implementation of Accounting Standard no. 38 – "Intangible Assets" was provided regarding the cost of software for self use. On 2 June 2015, the Supervisor of Banks sent a letter to the Bank stating that audits that had been conducted in a number of banking corporations had revealed defects in the internal control over financial reporting on the process of capitalizing software costs.

Pursuant to the directives of the Banking Supervision Department:

(1) The Bank has set a materiality threshold for each software development project in respect of which software costs have been capitalized at NIS 750 thousand.

(2) The estimate of the life of the software costs that have been capitalized has be revised such that it does not exceed five years, and;

(3) Various regulations were provided regarding software development projects whose total costs that may be capitalized in respect thereof are not lower than the abovementioned materiality threshold.

The Bank has dealt with these requirements as a change in accounting policy, including the retroactive application of the accounting policy of the comparative period.

As a result of the retroactive application of the aforementioned regulation, a decrease in capital as of 1 January 2013 amounting to NIS 346 million, after the effect of tax, was recorded.

For further information in respect of the effect of the retroactive application of the directives of the Banking Supervision Department on the subject of the capitalization of software costs, see Note 1c. to the financial statements.

**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 periods commencing 1 January 2013 and onwards, in order to comply with the requirement of the rules as aforesaid.

On 11 January 2015, the Supervisor of Banks published a supplementary circular, to the one published on 9 April 2014, including a format of disclosure on the subject of employee rights and on the topic of share-based payments. In addition, the circular updates other topics, including: discount rates, transitional provisions, requirements for disclosure in the report of other comprehensive income, in the note on accumulated other comprehensive income and the requirements for disclosure in the report of the Board of Directors.

It is noted in the circular that the Bank of Israel had come to the conclusion that Israel did not have a solid market for high-quality corporate debentures. Accordingly, the discount rate for employee benefits should be computed on the basis of the yield from government debentures in Israel with the addition of an average margin of international corporate debentures rated AA and above. For practical reasons, it was provided that the margin should be based on the margins of corporate debentures in the United States. A bank that believes that the changes in the margin obtained in a certain period are derived from irregular fluctuations in markets in such a way that the margins obtained thereby are not appropriate for use in discounting as aforesaid, should apply to receive a pre-ruling from the Banking Supervision Department. Examples of these situations may include, *inter alia*, changes in respect of which the margin obtained is higher than the margin on AA-rated (local) corporate debentures in Israel.

The Bank is required to retroactively amend the comparative figures for periods commencing 1 January 2013 and thereafter. As regards the accounting treatment of actuarial gains and losses arising from the changes in discount rates, it was provided as follows:

- The actuarial loss as of 1 January 2013 arising from the gap between the discount rate for computing reserves for covering index-linked employee rights provided according to the temporary provisions of the Public Reporting Directives (4%) and the discount rates at this date determined according to the new rules, as explained above, will be included in accumulated other comprehensive income.
- Actuarial gains recorded from 1 January 2013 and thereafter, as a result of current changes in the discount rates during the reporting year, will be recorded in accumulated other comprehensive income and will reduce the balance of the loss recorded as stated above until this balance is reduced to zero.
- Actuarial gains arising from current changes in discount rates during the reporting year after the recorded balance of the loss has been reduced to zero, as stated above, and actuarial losses, will be amortized using the straight-line method over the average period of service remaining of the employees who are expected to receive benefits under the plan.
- Other actuarial gains and losses (which do not arise as a result of a change in discount rates) as of 1 January 2013 and, in the subsequent period, will be included within accumulated other comprehensive income and will be amortized on a straight-line basis over the average period of service of the employees who are expected to receive benefits under the plan.
- The effect of the initial implementation on other employee benefits, all of the changes in which are carried to the profit and loss on a current basis (such as a jubilee bonus) will be carried to retained earnings.

In addition, the circular updates the disclosure requirements regarding employee rights and share-based payments in accordance with generally accepted accounting principles in banks in the United States.

On 12 January 2015, an FAQ was published regarding employees, including examples of the treatment of common benefits in the banking system, in accordance with generally accepted accounting principles in banks in the United States.

The cumulative effect of the initial adoption of the United States generally accepted accounting principles regarding employee rights as of 1 January 2013 is as follows: a decrease in capital amounting to NIS 687 million, after the effect of tax, of which a negative capital reserve of NIS 725 million, after the effect of tax, was recorded in accumulated other comprehensive income within "adjustments in respect of employee benefits". This benefit is in respect of an actuarial loss deriving from the gap between the discount rate for computing reserves to cover employee rights linked to the consumer price index determined according to the temporary provision in the Public Reporting Directives (4%), and the discount rates at this date of index-linked obligations to employees, which were determined by the Supervisor of Banks.
As of 30 June 2015, the balance of the fund of adjustments in respect of employee benefits amounted to NIS 1,273 million, after the effect of tax.

The balance of the liability for employee benefits as of 30 June 2015 at the discounting rate on the basis of corporate debentures in Israel ("deep market for the approach of the Israel Securities Authority") is NIS 134 million higher than the actual liability.

The actuarial models including assumptions regarding: rate of future salary increment, life expectancy, disability rates, leaving rates, rates of leaving with preferred conditions, rates of utilizing pension rights and rates of withdrawing compensation and remuneration monies. Notwithstanding that the parameters were determined with appropriate prudence and professionalism, a change in any one or more of the actuarial parameters and/or in the discounting rate and/or in the rate of increase in salary will result in a change in the amount of the Bank's obligation.

For further information regarding the effect of the standard as of 31 December 2014 and 30 June 2015, see Note 1c. to the financial statements.

The computation of the capital requirements pursuant to the Basel III provisions will be made in accordance with the transitional provisions established in Proper Conduct of Banking Management Regulation no. 299, which provides that the balance of other comprehensive income or loss arising from adjustments in respect of employee benefits, and the amount carried directly to retained earnings as of 1 January 2013 in respect of the effect of initial adoption will not be brought into account immediately, but will be subject to the transitional provisions, so that their effect will be spread as follows: 40% from 1 January 2015, and a further 20% on 1 January of each year, until full implementation commencing 1 January 2018.

For further details, see the 2014 Annual Report (pages 52 to 60).

# 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 first half of 2015 was NIS 1,700 million, compared with NIS 820 million in the corresponding period in 2014, an increase of 107.3%.

The net profit of the Leumi Group amounted to NIS 518 million in the second quarter of 2015, compared with NIS 229 million in the corresponding period last year, an increase of 126.2%.

For details of profits excluding exceptional items, see Chapter on Description of Leumi Group's Business Activities and their General Development.

**The change in the net profit in the second quarter of 2015 compared with the corresponding period in 2014 is as follows:**

| | For the three months ended | | Change | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | | |
| | NIS millions | | NIS millions | % |
| Net income interest | **2,000** | 1,905 | 95 | 5.0 |
| Income (expenses) in respect of credit losses | **12** | (16) | 28 | + |
| Non-interest income | **983** | 1,258 | (275) | (21.9) |
| Operating and other expenses | **2,162** | 2,616 (a) | (454) | (17.4) |
| Profit before taxes | **809** | 563 | 246 | 43.7 |
| Provision for tax | **297** | 337 | (40) | (11.9) |
| Profit after taxes | **512** | 226 | 286 | + |
| The Bank's share in profits (losses) of companies included on equity basis | **15** | (14) | 29 | + |
| Net profit (loss) attributed to non-controlling interests | **(9)** | 17 | (26) | - |
| Net profit attributed to shareholders in the banking corporation | **518** | 229 | 289 | 126.2 |

**The change in the net profit in the first half of 2015 compared with the corresponding period in 2014 is as follows:**

| | For the six months ended | | Change | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | | |
| | NIS millions | | NIS millions | % |
| Net income interest | **3,516** | 3,662 | (146) | (4.0) |
| Income (expenses) in respect of credit losses | **93** | (67) | 160 | + |
| Noninterest income | **3,408** | 2,652 | 756 | 28.5 |
| Operating and other expenses | **4,397** | 4,814 (a) | (417) | (8.7) |
| Profit before taxes | **2,434** | 1,567 | 867 | 55.3 |
| Provision for tax | **862** | 702 | 160 | 22.8 |
| Profit after taxes | **1,572** | 865 | 707 | 81.7 |
| The Bank's share in profits (losses) of companies included on equity basis | **146** | (51) | 197 | + |
| Net loss (profit) attributed to non-controlling interests | **(18)** | 6 | (24) | - |
| Net profit attributed to shareholders in the banking corporation | **1,700** | 820 | 880 | 107.3 |

(a) Restated as a result of the retroactive application of United States generally accepted accounting principles regarding employee rights of the directives of the Banking Supervision Department on the subject of the capitalization of software costs.

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

| | 2015 | | 2014 | | | |
|---|---|---|---|---|---|---|
| | **2nd quarter** | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | |
| Net income interest | **2,000** | 1,516 | 1,802 | 1,899 | 1,905 | 1,757 |
| Income (expenses) in respect of credit losses | **12** | 81 | 483 | 56 | (16) | (51) |
| Non-interest income | **983** | 2,425 | 1,214 | 1,275 | 1,258 | 1,394 |
| Other operating expenses | **2,162** | 2,235 (a) | 2,003 (a) | 2,554 (a) | 2,616 (a) | 2,198(a) |
| Profit before taxes | **809** | 1,625 | 530 | 564 | 563 | 1,004 |
| Provision for tax | **297** | 565 | 270 | 306 | 337 | 365 |
| Profit after taxes | **512** | 1,060 | 260 | 258 | 226 | 639 |
| The Bank's share in profits (losses) of companies included on equity basis | **15** | 131 | (252) | 345 | (14) | (37) |
| Net loss (profit) attributed to non-controlling interests | **(9)** | (9) | (7) | (11) | 17 | (11) |
| Net profit attributed to shareholders in the banking corporation | **518** | 1,182 | 1 | 592 | 229 | 591 |

(a) Restated as a result of the retroactive application of United States generally accepted accounting principles regarding employee rights of the directives of the Banking Supervision Department on the subject of the capitalization of software costs.

**Net interest income** of Leumi Group amounted in the first half of 2015 to NIS 3,516 million, compared with NIS 3,662 million in the corresponding period last year, a decrease of NIS 146 million or 4.0%. The decrease is mainly due to a fall in market interest rates (The average interest for the first half of 2014 was 0.83%, compared to average for the first half of 2015 of 0.15%.) and the impact of the negative index in the reported six months at a rate higher that the corresponding period last year. These effects were partially offset by an increase in the balance of credit.

In the second quarter of 2015, net interest income amounted to NIS 2,000 million compared with NIS 1,905 million in the corresponding period last year, an increase of 5.0%, which is primarily attributable to an increase in the index in the current quarter at a rate higher than that in the corresponding quarter last year and increase in the balance of the income-bearing assets (mainly credit) which was offset by the decrease in the Bank of Israel interest rate.

The ratio of net interest income to the average balance of income-bearing assets is 2.01% (in annual terms), compared with 2.24% in the corresponding period last year.

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

| | For the six months ended | | |
|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change |
| | NIS millions | | % |
| Households | **1,261** | 1,309 | (3.7) |
| Small businesses | **522** | 517 | 1.0 |
| Private banking | **114** | 144 | (20.8) |
| Commercial banking | **712** | 687 | 3.6 |
| Corporate banking | **580** | 630 | (7.9) |
| Financial management | **324** | 369 | (12.2) |
| Other | **3** | 6 | (50.0) |
| Total | **3,516** | 3,662 | (4.0) |

**Total interest margin** in the first half of 2015 was 1.87%, compared with 2.01% in the corresponding period in 2014.

**Expenses (income) in respect of credit losses** (including individual allowance and collective allowance) in the Leumi Group for the first half of 2015 amounted to expenses of NIS 93 million, 0.07% of credit to the public, compared with income of NIS 67 million (0.05%) in the corresponding period last year.

The increase in expenses in respect of credit losses in the first half of the year compared to the corresponding period last year was primarily attributable to an increase the collective allowance. The individual revs in respect of closes derive from collections in Israel and in offices in the United Kingdom and Romania.

Expenses in respect of credit losses for the second quarter of 2015 amounted to NIS 12 million, 0.01%, compared with income of NIS 16 million, (0.03%), in the corresponding period last year.

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

| | **2015** | | 2014 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **First half** | **2nd quarter** | 1st quarter | Year | 4th quarter | 3rd quarter | First half | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | | | |
| Individual expense (income) in respect of credit losses | **(186)** | **(112)** | (74) | (94) | 157 | (60) | (191) | (114) | (77) |
| Collective expense in respect of credit losses | **279** | **124** | 155 | 566 | 326 | 116 | 124 | 98 | 26 |
| Total expense (income) in respect of credit losses | **93** | **12** | 81 | 472 | 483 | 56 | (67) | (16) | (51) |
| **Percentage ratios (in annual terms):** | | | | | | | | | |
| Individual expenses (income) in respect of credit losses to total credit to the public, net | **(0.15)** | **(0.17)** | (0.12) | (0.03) | 0.25 | (0.10) | (0.15) | (0.19) | (0.12) |
| Collective expense in respect of credit losses to total credit to the public, net | **0.22** | **0.19** | 0.25 | 0.22 | 0.52 | 0.19 | 0.10 | 0.16 | 0.04 |
| Total expenses (income) in respect of credit losses to total credit to the public, net | **0.07** | **0.02** | 0.13 | 0.19 | 0.77 | 0.09 | (0.05) | (0.03) | (0.08) |
| Individual expense (income) in respect of credit losses to total credit risk to the public | **(0.09)** | **(0.12)** | (0.08) | (0.02) | 0.16 | (0.06) | (0.11) | (0.13) | (0.09) |
| Collective expense in respect of credit losses to total credit risk to the public | **0.14** | **0.13** | 0.16 | 0.14 | 0.33 | 0.12 | 0.07 | 0.11 | 0.03 |
| Total expenses (income) in respect of credit losses to total credit risk to the public | **0.05** | **0.01** | 0.08 | 0.12 | 0.49 | 0.06 | (0.04) | (0.02) | (0.06) |

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

| | **30 June 2015** | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| Credit loss allowance on a collective basis (NIS millions) | **3,159** | 2,727 | 3,041 |
| Balance of credit loss allowance on a collective basis to total credit to the public, net (%) | **1.24** | 1.12 | 1.20 |
| Balance of credit loss allowance on a collective basis to total credit risk to the public, net (%) | **0.80** | 0.74 | 0.78 |

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

| | **For the six months ended 30 June 2015** | | For the six months ended 30 June 2014 | |
|---|---|---|---|---|
| | NIS millions | % (a) | NIS millions | % (a) |
| Households | **94** | **0.2** | 121 | 0.2 |
| Small businesses | **57** | **0.5** | 50 | 0.4 |
| Private banking | **5** | **0.2** | (1) | (0.0) |
| Commercial banking | **(75)** | **(0.3)** | (21) | (0.1) |
| Corporate banking | **51** | **0.2** | (214) | (0.7) |
| Financial management and other | **(39)** | **(2.5)** | (2) | (0.1) |
| Total | **93** | **0.07** | (67) | (0.05) |

(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 six months ended 30 June 2015** | For the six months ended 30 June 2014 |
|---|---|---|
| | NIS millions | |
| Industry | **26** | (53) |
| Construction and real estate | **1** | (188) |
| Trade | **(52)** | 7 |
| Hotel, food and catering services | **8** | 5 |
| Transportation and storage | **9** | 20 |
| Information and communications | **19** | (9) |
| Financial services | **(17)** | 130 |
| Other business services | **9** | 6 |
| Private individuals - housing loans | **5** | 10 |
| Private individuals – other | **81** | 12 |
| Others | **5** | (11) |
| Total public | **94** | (71) |
| Total banks | **(1)** | 4 |
| Total goverments | **-** | - |
| Total | **93** | (67) |

**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 six months ended | | |
|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change |
| | NIS millions | | % |
| The Bank | **134** | (123) | + |
| Leumi Card | **6** | 10 | (40) |
| Arab Israel Bank | **-** | 5 | - |
| Leumi – U.S.A. | **2** | 7 | (71) |
| Leumi – U.K. | **(26)** | 32 | - |
| Leumi Romania | **(21)** | 3 | - |
| Others | **(2)** | (1) | - |
| Total expenses (income) in respect of credit losses | **93** | (67) | + |

## Problem credit risk

| | 30 June 2015 | | |
|---|---|---|---|
| | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | |
| **1. Problem credit risk:** (a) | | | |
| Impaired credit risk | **4,492** | **253** | **4,745** |
| Subordinate credit risk | **1,690** | **299** | **1,989** |
| Credit risk under special supervision (b) | **3,456** | **1,350** | **4,806** |
| Total problem credit | **9,638** | **1,902** | **11,540** |
| Of which: Unimpaired debts in arrears 90 days or more (b) | **924** | **-** | **-** |
| **2. Non-performing assets:** | | | |
| Impaired debts | **4,132** | **-** | **-** |
| Assets received in respect of credit cleared | **15** | **-** | **-** |
| Total non-performing assets | **4,147** | **-** | **-** |

| | 30 June 2014 | | |
|---|---|---|---|
| | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | |
| **1. Problem credit risk:** (a) | | | |
| Impaired credit risk | 5,358 | 274 | 5,632 |
| Subordinate credit risk | 2,045 | 640 | 2,685 |
| Credit risk under special supervision (b) | 2,639 | 445 | 3,084 |
| Total problem credit | 10,042 | 1,359 | 11,401 |
| Of which: Unimpaired debts in arrears 90 days or more (b) | 961 | - | - |
| **2. Non-performing assets:** | | | |
| Impaired debts | 4,876 | - | - |
| Assets received in respect of credit cleared | 34 | - | - |
| Total non-performing assets | 4,910 | - | - |

| | 31 December 2014 | | |
|---|---|---|---|
| | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | |
| **1. Problem credit risk:** (a) | | | |
| Impaired credit risk | 4,816 | 375 | 5,191 |
| Subordinate credit risk | 2,331 | 637 | 2,968 |
| Credit risk under special supervision (b) | 3,060 | 529 | 3,589 |
| Total problem credit | 10,207 | 1,541 | 11,748 |
| Of which: Unimpaired debts in arrears 90 days or more (b) | 941 | - | - |
| **2. Non-performing assets:** | | | |
| Impaired debts | 4,411 | - | - |
| Assets received in respect of credit cleared | 15 | - | - |
| Total non-performing assets | 4,426 | - | - |

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.

(a) Credit risk impaired, subordinate or under special supervision.

(b) 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 June 2015** | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| | % | | |
| Balance of impaired credit to the public not accruing interest income as a percentage of the balance of credit to the public | **1.6** | 2.0 | 1.7 |
| 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 | 0.4 |
| 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** | 1.5 | 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 | **94.7** | 77.7 | 90.5 |
| Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public | **2.6** | 2.7 | 2.7 |
| Expenses in respect of credit losses as a percentage of the average balance of credit to the public (in annual terms) | **0.1** | (0.1) | 0.2 |
| Net write-offs in respect of credit to the public as a percentage of the average balance of credit to the public (in annual | **0.1** | - | 0.1 |
| 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) | **8.9** | 0.7 | 7.6 |

**Noninterest income** of Leumi Group amounted to NIS 3,408 million in the first half of 2015, compared with NIS 2,652 million in the corresponding period last year, an increase of NIS 756 million or 28.5%.

Excluding profits from the sale of shares in the Israel Corporation, noninterest income in the first half of 2015 amounted to NIS 2,886 million, an increase of NIS 234 million, or 8.8%. Most of this increase in this income stems from the profit on the sale of Mobileye shares (NIS 288 million before tax) and an increase in income in respect of derivative instruments and exchange rates (NIS 133 million before tax), which was mostly offset by losses in respect of activities for trading purposes (NIS 317 million before tax).

In the second quarter of 2015, noninterest income amounted to NIS 983 million compared with NIS 1,258 million in the corresponding period last year, a decrease of NIS 275 million, or 21.9%. The decrease is due to losses of activity for trading purposes amounting to NIS 369 million before the effect of tax, compared to profit of NIS 76 million in the corresponding period last year.

**Noninterest income includes:**

| | For the six months ended | | Change | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | | |
| | NIS million | | NIS million | % |
| Noninterest financial income | **1,214** | 495 | 719 | + |
| Commissions | **2,086** | 2,080 | 6 | 0.3 |
| Other income | **108** | 77 | 31 | 40.3 |
| Total | **3,408** | 2,652 | 756 | 28.5 |

**Development of noninterest income by quarter is as follows:**

| | **2015** | | 2014 | | | |
|---|---|---|---|---|---|---|
| | **2nd quarter** | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | |
| Noninterest financial income | **(105)** | 1,319 | 76 | 224 | 172 | 323 |
| Commissions | **1,035** | 1,051 | 1,054 | 1,033 | 1,040 | 1,040 |
| Other income | **53** | 55 | 84 | 18 | 46 | 31 |
| Total | **983** | 2,425 | 1,214 | 1,275 | 1,258 | 1,394 |

**Details of noninterest financial income are as follows:**

| | For the six months ended | | Change | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | | |
| | NIS millions | | NIS millions | % |
| Net income (expenses) in respect of derivative instruments and net exchange rate differences | **130** | (3) | 133 | + |
| Profits from sale of available-for-sale debentures, net | **119** | 117 | 2 | 1.7 |
| Profits from investments in shares including dividends (a) | **1,065** | 164 | 901 | + |
| Net profits in respect of loans sold | **-** | - | - | - |
| Realized and unrealized profits and losses and adjustments of debentures and shares available for trade to fair value, net | **(100)** | 217 | (317) | - |
| Total | **1,214** | 495 | 719 | + |

(a) In the first half of 2015, including mainly profit from the sale of shares of the Israel Corporation and Mobileye amounting to NIS 522 million and NIS 288 million, respectively, before the effect of tax, and in the first half of 2014 including profit on the sale of shares of Partner and Tower amounting to NIS 70 million before the effect of tax and NIS 61 million, respectively, before the effect of tax.

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

| | 2015 | | 2014 | | | |
|---|---|---|---|---|---|---|
| | **2nd quarter** | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| | NIS millions | | | | | |
| Net income (expenses) in respect of derivative instruments and net exchange rate differences | **209** | (79) | (163) | (180) | 26 | (29) |
| Profits from sale of available-for-sale debentures, net | **15** | 104 | 78 | 10 | 35 | 82 |
| Profits from investments in shares including dividends (a) | **40** | 1,025 | 89 | 199 | 35 | 129 |
| Net profits in respect of loans sold | **-** | - | - | 28 | - | - |
| Realized and unrealized profits from adjustments of debentures and shares available for trade to fair value, net | **(369)** | 269 | 72 | 167 | 76 | 141 |
| Total | **(105)** | 1,319 | 76 | 224 | 172 | 323 |

(a) In the first quarter of 2015, includes mainly profit from the sale of shares of the Israel Corporation and Mobileye amounting to NIS 522 million and NIS 288 million, respectively, before the effect of tax. In 2014, includes mainly profit from the sale of shares of Partner amounting to NIS 70 million before the effect of tax, and in the first quarter of 2014, profit on the sale of shares of Mobileye, amounting to NIS 144 million, before the effect of tax, in the third quarter of 2014.

**Details of commissions are as follows:**

| | For the six months ended | | | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change | |
| | NIS millions | | NIS millions | % |
| Account management | **397** | 413 | (16) | (3.9) |
| Activity in certain securities and derivative instruments | **368** | 418 | (50) | (12.0) |
| Credit cards | **466** | 465 | 1 | 0.2 |
| Dealing with credit | **110** | 103 | 7 | 6.8 |
| Commissions for distribution of financial products | **155** | 138 | 17 | 12.3 |
| Conversion differences | **160** | 155 | 5 | 3.2 |
| Commissions from financing transactions | **265** | 236 | 29 | 12.3 |
| Other commissions | **165** | 152 | 13 | 8.6 |
| Total commissions | **2,086** | 2,080 | 6 | 0.3 |

The balance of the income from commissions in the first half of 2015 was influenced by a decrease in activity of the office in Switzerland as a result of concluding the sale of the activity to Julius Baer in the first quarter of 2015 (NIS 70 million).

Income from commissions constitutes 47.4% of the operating and other expenses, compared with 43.2% in the corresponding period last year and compared with 44.5% for the whole of 2014.

**The development of noninterest income by main activity segment is as follows:**

| | For the six months ended | | | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change | |
| | NIS millions | | NIS millions | % |
| Households | **917** | 902 | 15 | 1.7 |
| Small businesses | **263** | 246 | 17 | 6.9 |
| Private banking | **236** | 299 | (63) | (21.1) |
| Commercial banking | **262** | 249 | 13 | 5.2 |
| Corporate banking | **338** | 362 | (24) | (6.6) |
| Financial management | **1,350** | 563 | 787 | + |
| Other | **42** | 31 | 11 | 35.5 |
| Total | **3,408** | 2,652 | 756 | 28.5 |

The proportion of noninterest income from all income (i.e., net interest income and noninterest income) was 49.2%, compared with 42.0% in the corresponding period last year and compared with 41.1% for the whole of 2014.

**Total operating and other expenses** of Leumi Group in the first half of 2015 amounted to NIS 4,397 million, compared with NIS 4,814 million in the corresponding period last year, a decrease of NIS 417 million or 8.7%. Excluding the expenses in respect of arrangements with overseas authorities, operating and other expenses in the first half of 2015 amounted to NIS 4,372 million, compared with NIS 4,285 million in the corresponding period last year, an increase of NIS 87 million, or 2.0%.

In the second quarter of 2015, operating and other expenses amounted to NIS 2,162 million, compared to NIS 2,616 million in the corresponding period last year, a decrease of NIS 454 million, or 17.4%. Excluding the expenses in respect of arrangements with overseas authorities, operating and other expenses in the second quarter of 2015 amounted to NIS 2,157 million, compared with NIS 2,129 million in the corresponding period last year, an increase of NIS 28 million, or 1.3%.

**Operating and other expenses include:**

| | For the six months ended | | | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change | |
| | NIS millions | | NIS millions | % |
| Salaries and related expenses | **2,763** | 2,736 | 27 | 1.0 |
| Maintenance and depreciation of buildings and equipment | **855** | 817 | 38 | 4.7 |
| Other expenses (including amortization of intangible assets), excluding expenses related to the investigation of overseas customers | **754** | 732 | 22 | 3.0 |
| Total operating and other expenses, excluding expenses related to the investigation of overseas customers | **4,372** | 4,285 | 87 | 2.0 |
| Expenses related to the investigation of overseas customers | **25** | 529 | (504) | (95) |
| Total operating and other expenses, including expenses related to the investigation of | **4,397** | 4,814 | (417) | (8.7) |

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

| | **2015** | | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **First half** | **2nd quarter** | 1st quarter | for year | 4th quarter | 3rd quarter | First half | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | | | |
| Salary and related expenses | **1,836** | **901** | 935 | 4,063 | 1,081 | 974 | 2,008 | 981 | 1,027 |
| Yield bonus | **383** | **228** | 155 | 100 | (159) | 98 | 161 | 29 | 132 |
| Defined benefit expenses and other benefits after termination of employment | **544** | **216** | 328 | 988 | 140 | 281 | 567 | 310 | 257 |
| Total salary expenses | **2,763** | **1,345** | 1,418 | 5,151 | 1,062 | 1,353 | 2,736 | 1,320 | 1,416 |

The rate of accrual of bonus expenses (mostly to employees) is a derivative of the annual rate of accrual of profits. Due to the increase in the profit in the current quarter, compared to the corresponding quarter last year, there is a significant increase in this item. It should be clarified that the calculation of the final bonus is done at the year-end on the basis of the final results for the year.

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

| | 2015 | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **First half** | **2nd quarter** | 1st quarter | 4th quarter | 3rd quarter | First half | 2nd quarter | 1st quarter |
| | NIS millions | | | | | | | |
| Depreciation | **335** | **173** | 162 | 156 | 146 | 300 | 149 | 151 |
| Maintenance of buildings and equipment | **520** | **261** | 259 | 262 | 274 | 517 | 256 | 261 |
| Other expenses and amortization of intangible assets, excluding expenses related to the investigation in respect of overseas customers | **754** | **378** | 376 | 506 | 301 | 732 | 404 | 328 |
| Total operating and other expenses, excluding expenses related to the investigation of overseas customers | **1,609** | **812** | 797 | 924 | 721 | 1,549 | 809 | 740 |
| Expenses related to the investigation of overseas customers | **25** | **5** | 20 | 17 | 480 | 529 | 487 | 42 |
| Total operating and other expenses, including expenses related to the investigation of overseas customers | **1,634** | **817** | 817 | 941 | 1,201 | 2,078 | 1,296 | 782 |

* Excluding salary

** Excluding exchange rate differences

Operating and other expenses (building and equipment maintenance, depreciation and other expenses) amounted to NIS 1,634 million in the first half of 2015, compared with NIS 2,078 million in the corresponding period last year, a decrease of NIS 444 million, or 21.4%.

Operating and other expenses were mainly influenced by the following factors:

1. With effect from the second quarter of 2015, the Bank is implementing the directives of the Banking Supervision Department on the subject of the capitalization of software costs by way of retroactive application including restatement of comparative figures.

   The implementation of the directors led to a reduction in depreciation expenses in the first half of 2015 amounting to NIS 54 million, compared to NIS 61 million in the first half of 2014.

2. Expenses in respect of arrangements with overseas authorities in the first half of 2015 amounting to NIS 25 million, compared with NIS 529 million in the first half of 2014. In the first half of 2015, a provision for SEC of NIS 20 million was made, in accordance with a directive of the Bank of Israel, and of NIS 5 million, in respect of legal advisors.

3. A provision for the expected costs of closing the office in Switzerland amounting to NIS 35 million was recorded in the first half of 2015.

Operating and other expenses, not including salary expenses, amounted to NIS 817 million in the second quarter of 2015, compared to NIS 1,296 million in the corresponding period last year, a decrease of NIS 479 million, or 37.0%. The decrease is primarily attributable to expenses in respect of arrangements with overseas authorities recorded in the second quarter of last year.

Operating expenses constitute 63.5% of total income, compared with 76.2% in the corresponding period in 2014 and compared with 74.9% for the whole of 2014. The operating expenses, excluding profits of the Israel Corporation and the expenses in respect of arrangements with overseas authorities, constitute 68.3% of total income in the first half of 2015, compared with 67.9% in the corresponding period last year and 66.7% in the whole of 2014.

Total operating and other expenses (in annual terms) constitute 2.25% of the total balance sheet, compared with 2.63% in the corresponding period in 2014, and compared with 2.36% for the whole of 2014.

**Profit before tax** of Leumi Group for the first half of 2015 amounted to NIS 2,434 million, compared with NIS 1,567 million in the corresponding period last year, an increase of 55.3%. Profit before tax of Leumi Group for the second quarter of 2015 amounted to NIS 809 million, compared with NIS 563 million in the corresponding period last year, an increase of 43.7%.

**The provision for tax on the profit** of the Leumi Group in the first half of 2015 amounted to NIS 862 million, compared with NIS 702 million in the corresponding period last year. The rate of the provision in the first half of 2015 was some 35.4% of the pre-tax profit, compared with 44.8% in the corresponding period last year, a decrease of some 9.4%. The decrease in the tax rate mainly derives from a fall in disallowed expenses, compared to the corresponding period last year.

**Profit after taxes** for the first half of 2015 amounted to NIS 1,572 million, compared with NIS 865 million in the corresponding period last year, an increase of 81.7%. Profit after taxes for the second quarter of 2015 amounted to NIS 512 million, compared with NIS 226 million in the corresponding period last year, an increase of 126.5%.

**The Group's share in profit after taxes of companies included on equity basis** amounted to a profit of NIS 146 million in the first half of 2015, compared with a loss of NIS 51 million in the corresponding period last year.

Since 31 March 2015, the Bank has classified the investment in the Israel Corporation in the portfolio of available-for-sale securities at the market value of the investment at 31 March 2015. The Bank's share in the profit on an equity basis of the Israel Corporation is for the first quarter of 2015. From the second quarter of 2015, the Bank includes the profit in respect of adjustments to the market value of the investment in the Israel Corporation only in other comprehensive income.

For further information, see chapter below on "Operating Segments in the Group" under (non-bank) companies included on equity basis

**Net profit before attribution to holders of non-controlling interests** in the first half of 2015 amounted to NIS 1,718 million, compared with a profit of NIS 814 million in the corresponding period last year, an increase of 111.1%. Net profit before attribution to holders of non-controlling interests in the second quarter of 2015 amounted to NIS 527 million, compared with a profit of NIS 212 million in the corresponding period last year, an increase of 148.6%.

**Net profit attributable to holders of non-controlling interests** in the first half of 2015 amounted to a profit NIS 18 million, compared with a loss of NIS 6 million in the corresponding period last year.

**Net profit attributable to shareholders in the banking corporation** in the first half of 2015 amounted to NIS 1,700 million, compared to a profit of NIS 820 million in the corresponding period last year, an increase of 107.3%. Net profit attributable to shareholders in the banking corporation in the second quarter of 2015 amounted to NIS 518 million, compared to a profit of NIS 229 million in the corresponding period last year, an increase of 126.2%.

**Return on capital** in the first half of 2015 was 13.1%, compared with 6.6% in the first half of 2014, and 5.4% for all of 2014.

| | **2015** | | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **First half** | **2nd quarter** | 1st quarter | Total 2014 | 4th quarter | 3rd quarter | First half | 2nd quarter | 1st quarter |
| | % (in annual terms) | | | | | | | | |
| Net profit attributable to the shareholders of the banking corporation | **13.1** | **7.8** | 19.3 | 5.4 | 0.0 | 9.5 | 6.6 | 3.6 | 9.8 |

**Basic net profit per share attributable to the shareholders of the banking corporation** was NIS 1.15 for the first half of 2015, compared with NIS 0.56 for the corresponding period last year.

**The following table is the condensed statement of comprehensive income:**

| | For the three months ended | | | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change | |
| | NIS millions | | NIS millions | % |
| Net profit attributable to shareholders in the banking corporation | **518** | 229 | 289 | + |
| Other comprehensive profit (loss) after tax: | | | | |
| Adjustments in respect of presenting availanle for sale securities at fair value, net | **(266)** | 63 | (329) | - |
| Adjustments from translation of financial statements net, after hedges | **(27)** | (18) | (9) | - |
| Adjustments of liabilities in respect of employee rights | **2,253** | 80 | 2,173 | + |
| Share of the banking corporation in other comprehensive loss of companies included on equity basis | **(8)** | 14 | (22) | - |
| Total other comprehensive income | **1,952** | 139 | 1,813 | + |
| Tax effect attributed to other comprehensive income | **(842)** | (76) | (766) | - |
| Other comprehensive income (loss) attributable to noncontrolling interests | **(4)** | (1) | (3) | - |
| Total profit attributable to shareholders in the banking corporation | **1,632** | 293 | 1,339 | + |

| | For the six months ended | | | |
|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change | |
| | NIS millions | | NIS millions | % |
| Net profit attributable to shareholders in the banking corporation | **1,700** | 820 | 880 | + |
| Other comprehensive profit (loss) after tax: | | | | |
| Adjustments in respect of presenting availanle for sale securities at fair value, net | **283** | 55 | 228 | + |
| Adjustments from translation of financial statements net, after hedges | **(6)** | (18) | 12 | 66.7 |
| Adjustments of liabilities in respect of employee rights | **1,004** | 185 | 819 | + |
| Share of the banking corporation in other comprehensive loss of companies included on equity basis | **12** | 7 | 5 | 71.4 |
| Total other comprehensive income | **1,293** | 229 | 1,064 | + |
| Tax effect attributed to other comprehensive income | **(544)** | (145) | (399) | - |
| Other comprehensive income (loss) attributable to noncontrolling interests | **(3)** | - | (3) | - |
| Total profit attributable to shareholders in the banking corporation | **2,452** | 904 | 1,548 | + |

## Structure and Development of Assets and Liabilities [(1)]

**Total assets** of Leumi Group as at 30 June 2015 amounted to NIS 393.8 billion, compared with NIS 396.9 billion at the end of 2014, a decrease of 0.8%, and compared with 30 June 2014, an increase of 6.7%.

The value of the assets in the balance sheet denominated in and linked to foreign currency was some NIS 82.9 billion, some 21.1% of total assets. During the first half of 2015, the shekel rose against the U.S. dollar by 3.1% and against the euro by 10.7%. The change in exchange rates in the first half of 2015 led to a decrease of 0.8% in the 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 and pension counseling services are provided amounting to some NIS 1,200 billion, compared with NIS 1,223 billion at the end of 2014 (about US$ 318 billion and US$ 314 billion, respectively).

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

| | **30 June 2015** | 31 December 2014 | From December 2014 | From June 2014 |
|---|---|---|---|---|
| | NIS millions | | Change % | |
| Total assets | **393,751** | 396,922 | (0.8) | 6.7 |
| Cash and deposits with banks | **46,170** | 60,615 | (23.8) | (7.5) |
| Securities | **64,810** | 52,113 | 24.4 | 30.4 |
| Credit to the public, net | **254,548** | 252,480 | 0.8 | 4.2 |
| Buildings and equipment | **3,054** | 3,162 | (3.4) | 0.6 |
| Deposits of the public | **304,043** | 303,397 | 0.2 | 8.6 |
| Deposits from banks | **4,581** | 4,556 | 0.5 | (11.9) |
| Debentures, notes and subordinated notes | **19,720** | 23,678 | (16.7) | (19.5) |
| Equity attibuted to shareholders of the banking corporation | **28,273** | 25,798 | 9.6 | 10.0 |

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

| | **30 June 2015** | 31 December 2014 | From December 2014 | From June 2014 |
|---|---|---|---|---|
| | NIS millions | | Change % | |
| Documentary credits, net | **1,711** | 1,624 | 5.4 | (10.0) |
| Guarantees securing credit, net | **5,504** | 5,969 | (7.8) | 3.7 |
| Guarantess to apartment purchasers, net | **18,492** | 17,523 | 5.5 | 14.2 |
| Other guarantees and liabilities, net | **16,886** | 16,863 | 0.1 | 10.1 |
| Derivative instruments (a) | **653,049** | 664,316 | (1.7) | 20.7 |
| Options of all types | **148,223** | 149,837 | (1.1) | 21.5 |

(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 304.0 billion as at 30 June 2015, compared with NIS 303.4 billion as at 31 December 2014, an increase of 0.2%, and compared with 30 June 2014, an increase of 8.6%, this, despite the movement of NIS 4 billion from Leumi Switzerland to Julius Baer on closing the transaction in mid-March 2015.

The changes in the exchange rate of the shekel in relation to foreign currencies in the first half of the year contributed to a decrease of 1.4% 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 June 2015 | 31 December 2014 | |
|---|---|---|---|
| | NIS millions | | Change % |
| Households | **119,747** | 115,480 | 3.7 |
| Small businesses | **26,169** | 26,090 | 0.3 |
| Private banking | **30,928** | 34,830 | (11.2) |
| Commercial banking | **45,774** | 44,598 | 2.6 |
| Corporate banking | **23,077** | 27,754 | (16.9) |
| Financial management and other | **58,348** | 54,645 | 6.8 |
| Total | **304,043** | 303,397 | 0.2 |

**Debentures, capital notes and subordinated notes** totaled NIS 19.7 billion on 30 June 2015, compared with NIS 23.7 billion as at 31 December 2014, a decrease of 16.7%, and compared with 30 June 2014, a decrease of 19.5%. In the first half of 2015, NIS 4.3 billion of debentures was repaid.

**Shelf prospectus and issue of debentures**

On 28 May 2015, the Bank published a shelf prospectus in accordance with a permit received from the Securities Authority.

On 19 July 2015, the Bank issued, pursuant to the abovementioned shelf prospectus, a total of NIS 2.85 billion of Series 177 and 178 debentures, as detailed below:

NIS 1,700,000,000 par value of Series 177 debentures, due for repayment in one installment on 30 June 2020, linked as to principal and interest to the consumer price index and bearing interest of 0.59% per annum, payable twice a year on 30 June in the years 2016 to 2020 (inclusive) and on 31 December in the years 2016 to 2019 (inclusive).
NIS 1,150,000,000 par value of Series 178 debentures, due for repayment in one installment on 31 March 2024, not linked as to principal and interest to any index and bearing interest of 3.01% per annum, payable twice a year on 30 June in the years 2016 to 2020 (inclusive) and on 31 December in the years 2016 to 2019 (inclusive), payable twice a year on 31 March in the years 2016 to 2024 (inclusive), and on 30 September in the years 2016 to 2023 (inclusive).

Debentures are not recognized for purpose of regulatory capital.

## 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 June 2015 | 31 December 2014 | Change | |
|---|---|---|---|---|
| | NIS millions | | NIS millions | % |
| Securities portfolios (a) | **599,963** | 618,728 | (18,765) | (3.0) |
| Assets in respect of which operating services are provided: (a)(b)(c) | | | | |
| Mutual funds | **65,278** | 74,052 | (8,774) | (11.8) |
| Provident and pension funds | **70,947** | 67,434 | 3,513 | 5.2 |
| Supplementary training funds | **70,309** | 65,466 | 4,843 | 7.4 |

(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 254.5 billion as at 30 June 2015, compared with NIS 252.5 billion as at 31 December 2014, an increase of 0.8%, and compared with 30 June 2014, an increase of 4.2%.

In addition to credit to the public, the Group invests in corporate debentures which, as at 30 June 2015, amounted to NIS 12,457 million, compared with NIS 15,005 million as at 31 December 2014, a decrease of 17.0%.

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

| | **30 June 2015** | | 31 December 2014 | | |
|---|---|---|---|---|---|
| | Overall credit risk to the public | Percentage of total | Overall credit risk to the public | Percentage of total | Change |
| | NIS millions | % | NIS millions | % | % |
| Agriculture | **2,164** | **0.6** | 2,221 | 0.6 | (2.6) |
| Mining and quarrying | **818** | **0.2** | 761 | 0.2 | 7.5 |
| Industry | **35,152** | **9.0** | 38,309 | 9.8 | (8.2) |
| Construction and real estate (b) | **86,820** | **22.1** | 83,690 | 21.3 | 3.7 |
| Electricity and water | **4,849** | **1.2** | 5,651 | 1.4 | (14.2) |
| Trade | **33,594** | **8.6** | 34,988 | 8.9 | (4.0) |
| Hotels, catering and food | **4,252** | **1.1** | 4,482 | 1.1 | (5.1) |
| Transportation and storage | **6,891** | **1.8** | 6,464 | 1.6 | 6.6 |
| Information and communications | **8,450** | **2.2** | 7,700 | 2.0 | 9.7 |
| Financial services | **38,567** | **9.8** | 42,708 | 10.9 | (9.7) |
| Other business services | **12,244** | **3.1** | 12,115 | 3.1 | 1.1 |
| Public and community services | **8,258** | **2.1** | 7,930 | 2.0 | 4.1 |
| Private individuals - housing loans | **81,276** | **20.6** | 77,939 | 19.9 | 4.3 |
| Private persons – other | **69,179** | **17.6** | 67,081 | 17.2 | 3.1 |
| Total | **392,514** | **100.0** | 392,039 | 100.0 | 0.1 |

(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 1,495 million and off-balance sheet credit risk amounting to NIS 1,682 million, compared to NIS 1,383 million and NIS 1,867 million, respectively, as at 31 December 2014.

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

| | **30 June 2015** | 31 December 2014 | Rate of change |
|---|---|---|---|
| | NIS millions | | % |
| Households | **114,649** | 110,696 | 3.6 |
| Small businesses | **25,107** | 24,034 | 4.5 |
| Private banking | **4,783** | 5,882 | (18.7) |
| Corporate banking | **56,759** | 58,761 | (3.4) |
| Commercial banking | **50,190** | 49,833 | 0.7 |
| Financial management and other | **3,060** | 3,274 | (6.5) |
| Total | **254,548** | 252,480 | 0.8 |

**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:**

| Credit ceiling in NIS thousands | | 30 June 2015<br>Percentage of total number of borrowers | Percentage of total balance sheet credit | Percentage of total off-balance sheet credit |
|---|---|---|---|---|
| From | To | % | | |
| - | 80 | **79.9** | **6.4** | **21.0** |
| 80 | 600 | **16.7** | **22.2** | **11.3** |
| 600 | 1,200 | **2.3** | **13.8** | **2.9** |
| 1,200 | 2,000 | **0.6** | **5.9** | **1.9** |
| 2,000 | 8,000 | **0.4** | **8.8** | **4.6** |
| 8,000 | 20,000 | **0.1** | **6.6** | **4.1** |
| 20,000 | 40,000 | **0.04** | **6.4** | **5.1** |
| 40,000 | 200,000 | **0.04** | **14.7** | **17.9** |
| 200,000 | 800,000 | **0.01** (a) | **11.0** | **22.6** |
| Above 800,000 | | **0.001** (b) | **4.2** | **8.6** |
| Total | | **100.0** | **100.0** | **100.0** |

| Credit ceiling in NIS thousands | | 31 December 2014<br>Percentage of total number of borrowers | Percentage of total balance sheet credit | Percentage of total off-balance sheet credit |
|---|---|---|---|---|
| From | To | % | | |
| - | 80 | 80.7 | 6.3 | 20.6 |
| 80 | 600 | 16.1 | 21.1 | 11.0 |
| 600 | 1,200 | 2.2 | 13.4 | 2.9 |
| 1,200 | 2,000 | 0.6 | 5.9 | 1.9 |
| 2,000 | 8,000 | 0.4 | 8.8 | 4.5 |
| 8,000 | 20,000 | 0.1 | 6.7 | 4.6 |
| 20,000 | 40,000 | 0.04 | 6.6 | 5.5 |
| 40,000 | 200,000 | 0.03 | 14.4 | 17.9 |
| 200,000 | 800,000 | 0.01 (a) | 11.5 | 21.6 |
| Above 800,000 | | 0.001 (b) | 5.3 | 9.5 |
| Total | | 100.0 | 100.0 | 100.0 |

(a) On 30 June 2015 - 159 borrowers and on 31 December 2014 - 153 borrowers.
(b) On 30 June 2015 - 17 borrowers and on 31 December 2014 - 18 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 June 2015** | | | | | |
|---|---|---|---|---|---|---|---|
| | | Number of borrowers | | Balance sheet credit | | Off-balance sheet credit risk | |
| Credit ceiling in NIS millions | | Total | Of which: Related parties | Total | Of which: Related parties | Total | Of which: Related parties |
| From | To | NIS millions | | | | | |
| 800 | 1,200 | **10** | **-** | **4,431** | **-** | **5,421** | **-** |
| 1,200 | 1,600 | **4** | **-** | **3,474** | **-** | **1,714** | **-** |
| 1,600 | 2,000 | **1** | **-** | **23** | **-** | **1,626** | **-** |
| 2,000 | 2,318 | **2** | **-** | **3,282** | **-** | **1,170** | **-** |
| Total | | **17** | **-** | **11,210** | **-** | **9,931** | **-** |

| | | 31 December 2014 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Number of borrowers | | Balance sheet credit | | Off-balance sheet credit risk | |
| Credit ceiling in NIS millions | | Total | Of which: Related parties | Total | Of which: Related parties | Total | Of which: Related parties |
| From | To | NIS millions | | | | | |
| 800 | 1,200 | 10 | - | 4,656 | - | 5,290 | - |
| 1,200 | 1,600 | 2 | - | 268 | - | 2,360 | - |
| 1,600 | 2,000 | 2 | - | 2,942 | - | 400 | - |
| 2,000 | 2,400 | 3 | - | 4,068 | - | 2,019 | - |
| 2,800 | 2,855 | 1 | - | 2,157 | - | 698 | - |
| Total | | 18 | - | 14,091 | - | 10,767 | - |

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.

## 2. Credit risk according to industry sectors:

| | 30 June 2015 | | |
|---|---|---|---|
| | Number of borrowers | Balance sheet credit | Off-balance sheet credit risk |
| | | NIS millions | |
| Industry and manufacturing | **4** | **1,156** | **3,828** |
| Construction and real estate | **6** | **2,761** | **3,262** |
| Public and community services | **1** | **667** | **275** |
| Information and communications | **1** | **1,970** | **347** |
| Financial services | **3** | **3,207** | **702** |
| Hotels, catering and food | **1** | **138** | **694** |
| Utilities | **1** | **1,311** | **823** |
| Total | **17** | **11,210** | **9,931** |

| | 31 December 2014 | | |
|---|---|---|---|
| | Number of borrowers | Balance sheet credit | Off-balance sheet credit risk |
| | | NIS millions | |
| Industry | 5 | 2,637 | 4,981 |
| Construction and real estate | 6 | 2,909 | 3,282 |
| Public and community services | 1 | 685 | 196 |
| Communications and computer services | 1 | 1,957 | 49 |
| Financial services | 3 | 3,570 | 865 |
| Utilities | 1 | 2,157 | 698 |
| Hotels, catering and food | 1 | 176 | 696 |
| Total | 18 | 14,091 | 10,767 |

## 3. Restrictions on indebtedness of borrower and group of borrowers

**a.** As of 30 June 2015, the Group had no credit exposure to a group of borrowers whose indebtedness exceeds 15% of the Bank's capital (for capital adequacy purposes).

**b.** The aggregate indebtedness of large borrowers, groups of borrowers and banking groups of borrowers whose debt exceeds 10% of the Bank's capital constituted 11.79% of the Bank's capital at 30 June 2015, 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 June 2015** | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Balance sheet | Off-balance sheet | Total | Balance sheet | Off-balance sheet | Total |
| | NIS millions | | | NIS millions | | |
| Impaired debts | **3,342** | **126** | **3,468** | 3,500 | 212 | 3,712 |
| Substandard debts | **1,446** | **287** | **1,733** | 2,062 | 619 | 2,681 |
| Special mention debts | **2,947** | **1,316** | **4,263** | 2,645 | 513 | 3,158 |
| Total | **7,735** | **1,729** | **9,464** | 8,207 | 1,344 | 9,551 |

**Problem credit risk:**

| | **30 June 2015** | 31 December 2014 |
|---|---|---|
| | Problem credit risk | Problem credit risk |
| | NIS millions | |
| Commercial problem credit risk | **10,293** | 10,439 |
| Retail problem credit risk | **1,247** | 1,309 |
| Total | **11,540** | 11,748 |
| Allowance for credit losses | **2,076** | 2,197 |
| Problem credit after allowance for credit losses | **9,464** | 9,551 |

**Credit to Governments** amounted to NIS 435 million as at 30 June 2015, compared with NIS 528 million on 31 December 2014, a decrease of 17.6%, and compared with 30 June 2014, a decrease of 9.9%.

## Securities

The Group's investments in securities amounted to NIS 64.8 billion on 30 June 2015, compared with NIS 52.1 billion, an increase of 24.4%, compared with 31 December 2014, and an increase of 30.4% compared with 30 June 2014.

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 June 2015** | | | | |
|---|---|---|---|---|---|
| | Adjusted cost | Unrealized gains from adjustments to fair value | Unrealized losses from adjustments to fair value | Fair value | Balance sheet value |
| | NIS millions | | | | |
| **Debentures** | | | | | |
| Available-for-sale | **49,588** | **298** | **(96)** | **49,790** | **49,790** |
| For trading | **10,411** | **18** (a) | **(106)**(a) | **10,323** | **10,323** |
| | **59,999** | **316** | **(202)** | **60,113** | **60,113** |
| **Shares and mutual funds** | | | | | |
| Available-for-sale | **3,285** | **820** | **(43)** | **4,062** | **4,062** |
| For trading | **699** | **-** (a) | **(64)** (a) | **635** | **635** |
| | **3,984** | **820** | **(107)** | **4,697** | **4,697** |
| **Total securities** | **63,983** | **1,136** | **(309)** | **64,810** | **64,810** |

(a) Carried to profit and loss.

| | 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | Adjusted cost | Unrealized gains from adjustments to fair value | losses from adjustments to fair value | Fair value | Balance sheet value |
| | NIS millions | | | | |
| **Debentures** | | | | | |
| Available-for-sale | 35,609 | 454 | (121) | 35,942 | 35,942 |
| For trading | 11,439 | 62 (a) | (24) (a) | 11,477 | 11,477 |
| | 47,048 | 516 | (145) | 47,419 | 47,419 |
| **Shares and mutual funds** | | | | | |
| Available-for-sale | 2,801 | 390 | (11) | 3,180 | 3,180 |
| For trading | 1,400 | 141 (a) | (27) (a) | 1,514 | 1,514 |
| | 4,201 | 531 | (38) | 4,694 | 4,694 |
| **Total securities** | 51,249 | 1,047 | (183) | 52,113 | 52,113 |

(a) Carried to profit and loss.

As at 30 June 2015, 83.1% of the Group's *nostro* portfolio was classified as available-for-sale securities and 16.9% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. 7.2% of the value of the securities represents investments in shares and funds of companies which are presented at cost or 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 June 2015** | | 31 December 2014 | |
|---|---|---|---|---|
| | Issued in Israel | Issued abroad | Issued in Israel | Issued abroad |
| | NIS millions | | NIS millions | |
| Agriculture | **-** | **-** | - | 4 |
| Mining and quarrying | **93** | **19** | - | - |
| Industry | **47** | **466** | 130 | 1,032 |
| Construction and real estate | **130** | **305** | 74 | 222 |
| Electricity and water | **945** | **260** | 537 | 260 |
| Trade | **55** | **-** | 104 | 3 |
| Hotels, catering and food | **-** | **-** | - | 7 |
| Transportation and storage | **-** | **19** | - | 141 |
| Information and communications | **40** | **148** | 45 | 322 |
| Financial services (a) | **213** | **9,391** | 439 | 11,040 |
| Business and other services | **18** | **228** | 12 | 486 |
| Public and community services | **22** | **58** | 25 | 122 |
| Total | **1,563** | **10,894** | 1,366 | 13,639 |

(a) Including asset-backed debentures.

## Available-for-sale portfolio

**a.** In the first half of 2015, there was positive movement in capital reserve of available-for-sale securities amounting to NIS 283 million (before the effect of tax). The positive movement was attributable to an increase in value of NIS 937 million (before the effect of tax) which was offset by profit from securities which were realized and transferred to profit and loss amounting to NIS 654 million. This compared with a positive movement of NIS 55 million in 2014 which was attributable to an increase in value of NIS 330 million (before the effect of tax), which was offset by a profit from securities which were realized and classified to the statement of profit and loss amounting to NIS 275 million.

**b.** Net profits from the sale of debentures amounting to NIS 119 million were recorded to the profit and loss statement, compared with profits of NIS 117 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 June 2015, amounted to a positive amount of NIS 526 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 carried to other comprehensive income, on the basis of the criteria set forth in the Significant Accounting Policies in Note 1 to the 2014 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 profits amounting to NIS 103 million were recorded in the profit and loss statement in the first half of 2015, compared with profits of NIS 230 million in the corresponding period last year. In respect of shares and funds, realized and unrealized profits were recorded amounting to NIS 3 million, compared with losses amounting to NIS 13 million in the corresponding period in 2014.

## Investments in securities issued abroad

The Group's securities portfolio includes some NIS 26 billion (US$ 6.9 billion) of securities issued abroad. About 93% of the portfolio is invested in debt instruments, all (except for 1.1%) of which are investment grade securities, of which some 94% are rated 'A-' and above. The investment in shares and funds represents 7% of the portfolio. The market risk of about half of the investment in shares and funds is fully hedged.

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 June 2015, amounted to NIS 13 million (NIS 8 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), all of which is investment grade, amounted as at 30 June 2015 to NIS 8.6 billion (US$ 2.3 billion) of asset-backed securities, compared with NIS 9.1 billion at the end of 2014. Of the said portfolio, NIS 7.8 billion (US$ 2.1 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 June 2015 includes investments in mortgage-backed debentures in the total amount of NIS 5.8 billion. 95% of the mortgage-backed debentures in the available-for-sale portfolio are issued directly by United States federal agencies (FNMA, FHLMC, GNMA), which, as of the date of the report, are rated AAA.

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

As of 30 June 2015, the cumulative net decrease in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to NIS 42 million. The decrease is as a result of a decline in market value and not as a result of a change in credit risk.

The total of the mortgage-backed debentures that are not (U.S.) government guaranteed and are not backed by American federal entities in both the available and trading portfolios, amounts to NIS 1,245 million.

The forecast term to maturity for each mortgage-backed debenture portfolio is, on average, 4.3 years. In addition to the mortgage-backed debentures, the Group's available-for-sale portfolio also includes other debentures that are backed by assets other than mortgages (credit for the purchase of motor vehicles and other types of credit), amounting to NIS 2.0 billion, of which CLO-type debentures account for NIS 1.9 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is 3.6 years on average.

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

The Group's securities portfolio as at 30 June 2015 is NIS 17.4 billion (US$ 4.6 billion), including non-asset-backed securities, include mainly securities of the U.S. government (NIS 11.7 million), banks and financial institutions and debentures of investment-grade companies.

Of these securities, NIS 15.3 billion (US$ 4.1 billion) are classified in the available-for-sale portfolio, and some NIS 2.1 billion in the trading portfolio. Of these securities, 95% are investment grade.

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 June 2015, 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 10 million (NIS 6 million after tax). In the first half of 2015, there was a decrease in value amounting to NIS 234 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 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 June 2015 amounted to NIS 2.2 billion (US$ 0.6 billion). The difference between the fair value and the adjusted cost, if any, is carried to the profit and loss statement.

**Investments in debentures issued in Israel**

Investments in debentures issued in Israel at 30 June 2015 amounted to NIS 36.1 billion, of which NIS 34.3 billion was in debentures issued by the Government of Israel in shekels and in foreign currency, with the balance being debentures issued by companies. 71.5% of the investments in corporate debentures amounting to NIS 1.3 billion are included in the available-for-sale portfolio, with the balance being in the trading portfolio.

In respect of the debenture portfolio of companies in the available-for-sale portfolio totaling NIS 1.3 billion, there is capital reserve amounting to NIS 31 million.

**Investments in shares and funds**

Total investments in shares and funds amounted to some NIS 4,697 million as at 30 June 2015, of which some NIS 3,396 million was in quoted shares and some NIS 1,301 million in unquoted shares. Out of the total investment, NIS 4,062 million is classified as available-for-sale and NIS 635 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 June 2015 amounts to NIS 4,697 million. The capital required for the purpose of the capital adequacy ratio in respect of these investments as of 30 June 2015 amounted to NIS 587 million.

For further details, see Note 2.

**Main changes in investment in shares**

**Sale of holdings in T.S.I. Roads Partnership (Route 6)**

On 16 June 2015, Leumi Partners Ltd. ("Leumi Partners"), a subsidiary of the Bank, signed agreements with a number of purchasers, including the Provident and Compensation Fund of Leumi Employees (whose share in the purchase was less than 10% of the total transaction) for the sale of its entire holdings as a limited partner in T.S.I. Roads Partnership (hereinafter, "the Partnership"). The Partnership invested in the Trans-Israel Highway (Route 6) through Derech Eretz Highway (1997) Ltd. ("Derech Eretz"). As part of the transactions, the holdings of 18.9% in the Partnership will be sold for aggregate proceeds of NIS 351 million (net of costs related to completion of the transaction). On fulfillment of certain conditions, Leumi may receive additional proceeds of NIS 4.3 million.

From the date of signing the sales agreement until actual payment, the proceeds will be linked to the consumer price index, and will bear interest at 6.5% per annum, and this will be adjusted to the allocation of monies from the Partnership to Leumi Partners and the injection of monies from Leumi Partners to the Partnership, if any.

The sale transactions will be completed subject to compliance with pending conditions, including the receipt of approval from the State, the approval of the banks that extended finance to Derech Eretz, the approval of the General Partner of the Partnership and the approval of the limited partners in the Partnership.

Leumi Partners is expected to record a profit before tax of approximately NIS 100 million in respect of the completion of the sale.

The price and terms of sale in the transactions with all the purchasers are identical.

For further information on the subject of the sale of the shares of the Israel Corporation in August 2015, see the Chapter - Activities of Companies Included on Equity Basis, below.

**Other assets and debit balances in respect of derivative instruments**

As of 30 June 2015, other assets (including intangible assets and goodwill) and debit balances in respect of derivative instruments amounted to NIS 21.7 billion, compared with NIS 23.8 billion at the end of 2014, a decrease of 9.0%.

**Other liabilities and credit balances in respect of derivative instruments**

As of 30 June 2015, other liabilities and credit balances in respect of derivative instruments amounted to NIS 34.8 billion, compared with NIS 37.4 billion at the end of 2014, a decrease of 7.1%.

# 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.

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 2014.

**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 June 2015** | 31 December 2014 | Change | **30 June 2015** | 31 December 2014 | Change | **30 June 2015** | 31 December 2014 | Change |
| | NIS millions | | % | NIS millions | | % | NIS millions | | % |
| Households | **114,649** | 110,696 | 3.6 | **119,747** | 115,480 | 3.7 | **115,368** | 111,377 | 3.6 |
| Small businesses | **25,107** | 24,034 | 4.5 | **26,169** | 26,090 | 0.3 | **25,127** | 24,063 | 4.4 |
| Private banking | **4,783** | 5,882 | (18.7) | **30,928** | 34,830 | (11.2) | **6,447** | 10,346 | (37.7) |
| Commercial banking | **50,190** | 49,833 | 0.7 | **45,774** | 44,598 | 2.6 | **51,304** | 51,923 | (1.2) |
| Corporate banking | **56,759** | 58,761 | (3.4) | **23,077** | 27,754 | (16.9) | **58,223** | 60,723 | (4.1) |
| Financial management and other | **3,060** | 3,274 | (6.5) | **58,348** | 54,645 | 6.8 | **137,282** | 138,490 | (0.9) |
| Total | **254,548** | 252,480 | 0.8 | **304,043** | 303,397 | 0.2 | **393,751** | 396,922 | (0.8) |

**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 June 2015** | 31 December 2014 | Change | **30 June 2015** | 31 December 2014 | Change |
| | NIS millions | | % | NIS millions | | % |
| Households | **354** | 369 | (4.1) | **123,078** | 127,429 | (3.4) |
| Small businesses | **1,496** | 1,461 | 2.4 | **12,732** | 12,630 | 0.8 |
| Private banking | **249** | 336 | (25.9) | **80,025** | 94,520 | (15.3) |
| Commercial banking | **7,103** | 7,050 | 0.8 | **26,181** | 25,420 | 3.0 |
| Corporate banking | **32,014** | 31,468 | 1.7 | **56,756** | 52,890 | 7.3 |
| Financial management and other | **1,377** | 1,295 | 6.3 | **507,725** | 512,791 | (1.0) |
| Total | **42,593** | 41,979 | 1.5 | **806,497** | 825,680 | (2.3) |

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

| | For the three months ended | | | For the six months ended | | |
|---|---|---|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change | **30 June 2015** | 30 June 2014 | Change |
| | NIS millions | | % | NIS millions | | % |
| Households | **15** | 69 | (78.3) | **44** | 124 | (64.5) |
| Small businesses | **73** | 87 | (16.1) | **163** | 172 | (5.2) |
| Private banking | **(37)** | (496) | 92.5 | **(73)** | (519) | 85.9 |
| Commercial | **134** | 147 | (8.8) | **291** | 295 | (1.4) |
| Corporate | **199** | 277 | (28.2) | **333** | 544 | (38.8) |
| Financial management: | | | | | | |
| Capital markets | **94** | 30 | + | **24** | 59 | (59.0) |
| Non-bank investments | **21** | (11) | + | **852** | 44 | + |
| Other | **19** | 126 | (84.9) | **66** | 101 | (34.7) |
| Total | **518** | 229 | 126.2 | **1,700** | 820 | 107.3 |

Explanations for the changes in profitability are provided below.

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

| | **2015** | | 2014 | | | |
|---|---|---|---|---|---|---|
| | **2nd quarter** | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter |
| Households | **15** | 29 | (27) | 47 | 69 | 55 |
| Small businesses | **73** | 90 | 29 | 91 | 87 | 85 |
| Private banking | **(37)** | (36) | 61 | (465) | (496) | (23) |
| Commercial | **134** | 157 | 104 | 75 | 147 | 148 |
| Corporate | **199** | 134 | 310 | 315 | 277 | 267 |
| Financial management: | | | | | | |
| Capital markets | **94** | (70) | (43) | 11 | 30 | 29 |
| Non-bank investments | **21** | 831 | (245) | 497 | (11) | 55 |
| Other | **19** | 47 | (188) | 21 | 126 | (25) |
| Total | **518** | 1,182 | 1 | 592 | 229 | 591 |

## 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 June 2015** | 30 June 2014 | 31 December 2014 |
| | % | | |
| Households | **1.2** | 3.7 | 2.1 |
| Small businesses | **17.7** | 18.8 | 15.1 |
| Private banking | **(17.4)** | (83.5) | (106.5) |
| Commercial banking | **11.4** | 13.1 | 9.5 |
| Corporate banking | **8.9** | 15.1 | 15.6 |
| Financial management | **62.3** | 6.8 | 10.5 |
| Other | **16.0** | 35.8 | (8.6) |
| Total for net profit | **13.1** | 6.6 | 5.4 |

## 1. Households

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

| | Banking and finance | Credit cards | Capital market | Mortgages | Overseas activity: Banking and finance | Overseas activity: Mortgages | Total |
|---|---|---|---|---|---|---|---|
| | **For the three months ended 30 June 2015** | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | **160** | **57** | **1** | **849** | **(1)** | **3** | **1,069** |
| Intersegmental | **237** | **(3)** | **(1)** | **(670)** | **3** | **-** | **(434)** |
| **Non-interest income:** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| From external sources | **144** | **136** | **121** | **19** | **2** | **-** | **422** |
| Intersegmental | **(4)** | **40** | **-** | **-** | **-** | **-** | **36** |
| Total income | **537** | **230** | **121** | **198** | **4** | **3** | **1,093** |
| Expenses (income) in respect of credit losses | **38** | **4** | **-** | **9** | **-** | **-** | **51** |
| **Operating and other expenses:** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| To external sources | **702** | **155** | **92** | **61** | **3** | **2** | **1,015** |
| Intersegmental | **1** | **(1)** | **-** | **-** | **-** | **-** | **-** |
| Profit (loss) before taxes | **(204)** | **72** | **29** | **128** | **1** | **1** | **27** |
| Provision for (benefit from) taxes on profit | **(79)** | **25** | **11** | **49** | **-** | **-** | **6** |
| Profit (loss) after taxes | **(125)** | **47** | **18** | **79** | **1** | **1** | **21** |
| Group share in profits of companies included on equity basis after effect of tax | **-** | **1** | **-** | **-** | **-** | **-** | **1** |
| Net profit attributable to non-controlling interests | **-** | **(7)** | **-** | **-** | **-** | **-** | **(7)** |
| **Net profit (loss)** | **(125)** | **41** | **18** | **79** | **1** | **1** | **15** |

| | Banking and finance | Credit cards | Capital market | Mortgages | Overseas activity: Banking and finance | Overseas activity: Mortgages | Total |
|---|---|---|---|---|---|---|---|
| | For the three months ended 30 June 2014 | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | 144 | 59 | 1 | 669 | (1) | 2 | 874 |
| Intersegmental | 279 | (6) | - | (493) | 4 | (1) | (217) |
| **Non-interest income:** | - | - | - | - | - | - | - |
| From external sources | 131 | 139 | 117 | 20 | 1 | - | 408 |
| Intersegmental | - | 42 | - | - | - | - | 42 |
| Total income | 554 | 234 | 118 | 196 | 4 | 1 | 1,107 |
| Expenses (income) in respect of credit losses | 68 | 5 | - | 10 | - | - | 83 |
| **Operating and other expenses:** | - | - | - | - | - | - | - |
| To external sources | 601 | 157 | 94 | 54 | 3 | 2 | 911 |
| Intersegmental | - | - | - | - | - | - | - |
| Profit (loss) before taxes | (115) | 72 | 24 | 132 | 1 | (1) | 113 |
| Provision for (benefit from) taxes on profit | (41) | 23 | 8 | 49 | - | - | 39 |
| Profit (loss) after taxes | (74) | 49 | 16 | 83 | 1 | (1) | 74 |
| Group share in profits of companies included on equity basis after effect of tax | - | 2 | - | - | - | - | 2 |
| Net profit attributable to non-controlling interests | - | (7) | - | - | - | - | (7) |
| **Net profit (loss)** | (74) | 44 | 16 | 83 | 1 | (1) | 69 |

## Households (contd.)

| | Banking and finance | Credit cards | Capital market | Mortgages | Overseas activity: Banking and finance | Overseas activity: Mortgages | Total |
|---|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | **576** | **116** | **3** | **770** | **(2)** | **5** | **1,468** |
| Intersegmental | **212** | **(7)** | **(1)** | **(417)** | **6** | **-** | **(207)** |
| **Non-interest income:** | | | | | | | |
| From external sources | **271** | **270** | **253** | **40** | **4** | **-** | **838** |
| Intersegmental | **(1)** | **80** | **-** | **-** | **-** | **-** | **79** |
| Total income | **1,058** | **459** | **255** | **393** | **8** | **5** | **2,178** |
| Expenses (income) in respect of credit losses | **79** | **6** | **-** | **8** | **2** | **(1)** | **94** |
| **Operating and other expenses:** | | | | | | | |
| To external sources | **1,358** | **316** | **197** | **124** | **6** | **4** | **2,005** |
| Intersegmental | **2** | **(2)** | **-** | **-** | **-** | **-** | **-** |
| Profit (loss) before taxes | **(381)** | **139** | **58** | **261** | **-** | **2** | **79** |
| Provision for taxes (benefit) on profit | **(145)** | **48** | **22** | **98** | **-** | **-** | **23** |
| Profit (loss) after taxes | **(236)** | **91** | **36** | **163** | **-** | **2** | **56** |
| Group share in profits of companies included on equity basis after effect of tax | **-** | **2** | **-** | **-** | **-** | **-** | **2** |
| Net profit attributable to non-controlling interests | **-** | **(14)** | **-** | **-** | **-** | **-** | **(14)** |
| **Net profit (loss)** | **(236)** | **79** | **36** | **163** | **-** | **2** | **44** |
| **Return on equity** | | | | | | | **1.2%** |
| Average balance of assets | **26,489** | **10,744** | **166** | **75,355** | **37** | **208** | **112,999** |
| Of which: investments in companies included on equity basis | **-** | **3** | **-** | **-** | **-** | **-** | **3** |
| Average balance of credit to the public, net | **26,100** | **10,507** | **166** | **75,278** | **36** | **208** | **112,295** |
| Average balance of liabilities | **116,275** | **933** | **-** | **207** | **960** | **8** | **118,383** |
| Average balance of deposits of the public | **116,093** | **65** | **-** | **-** | **959** | **7** | **117,124** |
| Average balance of risk assets | **27,637** | **11,225** | **174** | **42,000** | **278** | **73** | **81,387** |
| Average balance of mutual funds and supplementary training funds | **-** | **-** | **82,157** | **-** | **-** | **-** | **82,157** |
| Average balance of securities | **-** | **-** | **44,809** | **-** | **189** | **-** | **44,998** |
| Average balance of other assets under management | **2,792** | **-** | **-** | **-** | **-** | **-** | **2,792** |
| Balance of credit to the public, net | **26,657** | **10,510** | **170** | **77,070** | **43** | **199** | **114,649** |
| Balance of deposits of the public | **118,787** | **61** | **-** | **-** | **891** | **8** | **119,747** |

## Households (contd.)

| | Banking and finance | Credit cards | Capital market | Mortgages | Overseas activity: Banking and finance | Overseas activity: Mortgages | Total |
|---|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2014 | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | 425 | 120 | 3 | 920 | (3) | 5 | 1,470 |
| Intersegmental | 422 | (13) | (1) | (576) | 8 | (1) | (161) |
| **Non-interest income:** | | | | | | | |
| From external sources | 265 | 272 | 234 | 41 | 3 | - | 815 |
| Intersegmental | 3 | 84 | - | - | - | - | 87 |
| Total income | 1,115 | 463 | 236 | 385 | 8 | 4 | 2,211 |
| Expenses (income) in respect of credit losses | 102 | 9 | - | 11 | - | (1) | 121 |
| **Operating and other expenses:** | | | | | | | |
| To external sources | 1,254 | 312 | 200 | 110 | 6 | 4 | 1,886 |
| Intersegmental | 1 | (1) | - | - | - | - | - |
| Profit (loss) before taxes | (242) | 143 | 36 | 264 | 2 | 1 | 204 |
| Provision for taxes (benefit) on profit | (89) | 46 | 13 | 98 | - | - | 68 |
| Profit (loss) after taxes | (153) | 97 | 23 | 166 | 2 | 1 | 136 |
| Group share in profits of companies included on equity basis after effect of tax | - | 3 | - | - | - | - | 3 |
| Net profit attributable to non-controlling interests | - | (15) | - | - | - | - | (15) |
| **Net profit (loss)** | (153) | 85 | 23 | 166 | 2 | 1 | 124 |
| **Return on equity** | | | | | | | 3.7% |
| Average balance of assets | 23,521 | 9,759 | 174 | 69,485 | 47 | 213 | 103,199 |
| Of which investments in companies included on equity basis | - | 2 | - | - | - | - | 2 |
| Average balance of credit to the public, net | 23,074 | 9,540 | 174 | 69,433 | 47 | 213 | 102,481 |
| Average balance of liabilities | 115,570 | 1,284 | - | 287 | 904 | 8 | 118,053 |
| Average balance of deposits of the public | 115,389 | 42 | - | - | 903 | 8 | 116,342 |
| Average balance of risk assets | 24,856 | 10,261 | 181 | 37,944 | 271 | 75 | 73,588 |
| Average balance of mutual funds and supplementary training funds | - | - | 76,641 | - | - | - | 76,641 |
| Average balance of securities | - | - | 47,812 | - | 185 | - | 47,997 |
| Average balance of other assets under management | 3,774 | - | - | - | - | - | 3,774 |
| Balance of credit to the public, net, at 31 December 2014 | 25,888 | 10,365 | 168 | 74,015 | 37 | 223 | 110,696 |
| Balance of deposits of the public at 31 December 2014 | 114,380 | 54 | - | - | 1,038 | 8 | 115,480 |

**Main Changes in the Scope of Operations**

Total credit to the public in the households segment increased by NIS 4.0 billion, or 3.6% compared with the end of 2014. Housing loans increased by 4.1%, while consumer credit increased by 2.5%. Deposits of the public increased by some NIS 4.3 billion.

**Main Changes in Net Profit**

In the first half of 2015, the profit in the households segment amounted to NIS 44 million, compared with a profit of NIS 124 million in the corresponding period last year, a decrease of NIS 80 million. The decrease derives mainly from an increase in operating and other expenses amounting to NIS 119 million, mainly as a result of an increase in salary expenses in respect of the allocation of a yield bonus per segment depending on the number of employees.

It should be clarified for the purposes of the manner of the attribution of noninterest income in the 'credit cards' products that a state of inter-segmental income and expenses exists when Leumi Card clears a card which the Bank has issued. In such a case, the clearing commission collected from the merchant is recorded as income in the Small Businesses segment or the Corporate segment and the interchange fee is recorded in the same segment as the expense, and at the same time, as income in the Household segment.

The return on capital on the net profit in the segment was 1.2%.

**Pension Counseling**

The pension assets of customers receiving counseling in the Leumi Group at the end of June 2015, 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 22.7 billion, an increase of 9.1% in comparison to the end of 2014.

**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 half of 2015** | First half of 2014 | Rate of change |
|---|---|---|---|
| | NIS millions | | % |
| From Bank funds | **8,706** | 7,072 | 23.1 |
| From Ministry of Finance funds: | | | |
| Loans | **3** | 18 | (83.3) |
| Standing loans | **4** | 9 | (55.5) |
| Total new loans | **8,713** | 7,099 | 22.7 |
| Refinanced loans | **3,143** | 1,703 | 84.5 |
| Total loans extended | **11,856** | 8,802 | 34.7 |

The Bank has joined the process of refinancing fast-track Treasury Loans initiated by the Housing and Construction Ministry, in conjunction with the Supervisor of Banks. As part of the process, the Bank has applied to borrowers who comply with the conditions offered by the Bank who have taken index-linked eligibility loans, and offered them to refinance the loan with the Bank's funds, at the average interest rate published by the Bank of Israel for loans of this type.

## 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 2013 | 68,152 | 13.0 |
| December 2014 | 73,919 | 8.5 |
| **June 2015** | **76,987** | **4.2** |

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. 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 2013 | 31,740 | 46.6 | 34,718 | 50.9 | 1,694 | 2.5 | 68,152 |
| December 2014 | 36,727 | 49.7 | 35,447 | 48.0 | 1,745 | 2.3 | 73,919 |
| **June 2015** | **40,746** | **52.9** | **34,705** | **45.1** | **1,536** | **2.0** | **76,987** |

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

| | Fixed | | Variable | | | Total credit portfolio |
|---|---|---|---|---|---|---|
| | Unlinked | CP.I.-linked | Unlinked | CP.I.-linked | Foreign currency | |
| | NIS millions | | | | | |
| December 2013 | 4,289 | 10,583 | 27,451 | 24,135 | 1,694 | 68,152 |
| December 2014 | 7,232 | 11,659 | 29,495 | 23,788 | 1,745 | 73,919 |
| **June 2015** | **10,284** | **12,147** | **30,462** | **22,558** | **1,536** | **76,987** |

**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):

| | **2015** | | 2014 | | | | 2012 |
|---|---|---|---|---|---|---|---|
| | **2nd quarter** | 1st quarter | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter | Annual average |
| | Percentage of loans extended | | | | | | |
| | % | | | | | | |
| Fixed – linked | **19.8** | 23.1 | 22.0 | 22.6 | 25.2 | 22.0 | 14.4 |
| Variable – every 5 years or more – linked | **11.6** | 13.1 | 14.8 | 18.1 | 18.1 | 17.6 | 29.1 |
| Variable – up to 5 years – linked | **1.0** | 1.2 | 2.3 | 1.5 | 1.9 | 2.1 | 2.5 |
| Fixed-unlinked | **35.8** | 28.8 | 25.7 | 20.5 | 18.7 | 20.7 | 13.4 |
| Variable – every 5 years or more – unlinked | **5.5** | 6.6 | 6.5 | 6.0 | 6.3 | 7.6 | 9.8 |
| Variable – up to 5 years – unlinked | **25.8** | 26.6 | 28.2 | 29.9 | 27.9 | 28.6 | 29.3 |
| Variable – foreign currency | **0.5** | 0.6 | 0.5 | 1.4 | 1.9 | 1.4 | 1.5 |

The percentage of new credit extended by the Bank in variable interest housing loans during the first half of 2015 was 46%, compared with 56% in 2014. 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. Excluding loans at variable interest, varying each period of 5 years and more, which a directive from the Supervisor of Banks dated 3 May 2011 excludes from the definition of variable interest loans, the percentage of housing credit extended in variable interest loans during the first half of 2015 was 28%, compared with 32% in 2014.

**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 2013 | 68,627 | 810 | 1.2 |
| December 2014 | 74,410 | 800 | 1.1 |
| **June 2015** | **77,484** | **747** | **1.0** |

The allowance for credit losses as at 30 June 2015, which includes the group allowance for housing loans (hereinafter, "the overall allowance") is NIS 497 million, representing 0.64% of the housing loan balance, compared with a balance of allowance of NIS 491 million as at 31 December 2014, representing 0.66% of the housing credit balance.

**Data relating to new housing credit:**

During the first half of 2015, new housing loans amounting to NIS 8.7 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 the Bank 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):

| | **2015** | | 2014 | | | | | 2013 |
|---|---|---|---|---|---|---|---|---|
| | **2nd quarter** | 1st quarter | Annual average | 4th quarter | 3rd quarter | 2nd quarter | 1st quarter | Annual average |
| Rate of financing | % | | | | | | | |
| Between 60% and 70% | **18.8** | 19.2 | 18.5 | 20.1 | 17.6 | 19.6 | 16.6 | 18.3 |
| Between 70% and 80% | **18.1** | 16.5 | 14.5 | 15.5 | 14.1 | 13.9 | 14.4 | 16.3 |
| Above 80% | *** 1.0** | * 2.4 | 0.4 | 0.5 | 0.4 | 0.3 | 0.5 | 0.9 |

* The increase in the financing rate above 80% stems from the Treasury Loan turnover campaign.

**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 June 2015 was 47.7%, compared with 49.5% at 31 December 2014.

**Development of new credit in which the repayment ratio is less than 2.5:**

The rate of credit extended in the first half of 2015 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 0.44% of the total new credit extended, compared to the average for 2014, when the rate was 0.5%.

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

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

The rate of new credit for housing loans in the first half of 2015, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at an average of 31% of the total new loans extended, compared with an average rate of 29% in 2014 and 30% in 2013.

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

The Bank does not extend loans secured by a second 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 units 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, and particularly, Prime interest, 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 has adopted a number of measures in order to contend with the increase in the abovementioned credit risks:

- As part of its risk management, it was decided to tighten the administrative restrictions for the following characteristics: the high rates of financing, ongoing monthly repayment capacity, credit ratings in accordance with the Bank's internal statistical model, loan products/tracks, types of interest and the amount of the loan.
- As part of credit risk management, the Bank periodically performed stress scenarios which examined the effect of a possible 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 half of 2015 was NIS 625 thousand (excluding the refinancing of Treasury loans), compared with NIS 585 thousand in 2014 and NIS 558 thousand in 2013.

## 2. Small Businesses

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

| | | | | | | Overseas activity | | |
|---|---|---|---|---|---|---|---|---|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Real estate | Total |
| | **For the three months ended 30 June 2015** | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | **207** | **5** | **-** | **1** | **78** | **11** | **2** | **304** |
| Intersegmental | **(32)** | **-** | **-** | **(1)** | **(9)** | **(1)** | **-** | **(43)** |
| **Non-interest income:** | | | | | | | | |
| From external sources | **78** | **30** | **8** | **-** | **18** | **6** | **-** | **140** |
| Intersegmental | **-** | **(10)** | **-** | **-** | **-** | **-** | **-** | **(10)** |
| Total income | **253** | **25** | **8** | **-** | **87** | **16** | **2** | **391** |
| Expenses (income) in respect of credit losses | **36** | **-** | **-** | **-** | **6** | **(2)** | **-** | **40** |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | **166** | **18** | **4** | **-** | **35** | **12** | **1** | **236** |
| Intersegmental | **(1)** | **2** | **-** | **-** | **-** | **-** | **-** | **1** |
| Profit before taxes | **52** | **5** | **4** | **-** | **46** | **6** | **1** | **114** |
| Provision for taxes on profit | **18** | **3** | **2** | **-** | **17** | **1** | **-** | **41** |
| **Net profit** | **34** | **2** | **2** | **-** | **29** | **5** | **1** | **73** |

| | | | | | | Overseas activity | | |
|---|---|---|---|---|---|---|---|---|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Real estate | Total |
| | For the three months ended 30 June 2014 | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | 200 | 5 | - | - | 80 | 14 | 3 | 302 |
| Intersegmental | (21) | (1) | - | (1) | (13) | (5) | (1) | (42) |
| **Non-interest income:** | | | | | | | | |
| From external sources | 72 | 31 | 8 | - | 17 | 5 | 1 | 134 |
| Intersegmental | (1) | (11) | - | - | - | - | - | (12) |
| Total income | 250 | 24 | 8 | (1) | 84 | 14 | 3 | 382 |
| Expenses in respect of credit losses | 18 | - | - | - | 3 | 10 | - | 31 |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | 152 | 14 | 4 | - | 28 | 9 | 2 | 209 |
| Intersegmental | - | 1 | - | - | - | - | - | 1 |
| Profit (loss) before taxes | 80 | 9 | 4 | (1) | 53 | (5) | 1 | 141 |
| Provision for (benefit from) taxes on the profit | 29 | 3 | 2 | - | 20 | (1) | - | 53 |
| Profit (loss) after taxes | 51 | 6 | 2 | (1) | 33 | (4) | 1 | 88 |
| Net profit attributable to non-controlling interests | (1) | - | - | - | - | - | - | (1) |
| **Net profit (loss)** | 50 | 6 | 2 | (1) | 33 | (4) | 1 | 87 |

## Small Businesses (contd.)

| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Overseas activity: Banking and finance | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | **384** | **10** | **-** | **1** | **150** | **20** | **3** | **568** |
| Intersegmental | **(31)** | **-** | **-** | **(1)** | **(14)** | **-** | **-** | **(46)** |
| **Non-interest income:** | | | | | | | | |
| From external sources | **155** | **60** | **18** | **-** | **37** | **11** | **1** | **282** |
| Intersegmental | **2** | **(21)** | **-** | **-** | **-** | **-** | **-** | **(19)** |
| Total income | **510** | **49** | **18** | **-** | **173** | **31** | **4** | **785** |
| Expenses (income) in respect of credit losses | **55** | **-** | **-** | **-** | **5** | **(3)** | **-** | **57** |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | **336** | **32** | **10** | **-** | **67** | **21** | **3** | **469** |
| Intersegmental | **-** | **3** | **-** | **-** | **-** | **-** | **-** | **3** |
| Profit before taxes | **119** | **14** | **8** | **-** | **101** | **13** | **1** | **256** |
| Provision for taxes on profit | **44** | **5** | **3** | **-** | **38** | **2** | **-** | **92** |
| Profit after taxes | **75** | **9** | **5** | **-** | **63** | **11** | **1** | **164** |
| Net profit attributable to non-controlling interests | **-** | **(1)** | **-** | **-** | **-** | **-** | **-** | **(1)** |
| **Net profit** | **75** | **8** | **5** | **-** | **63** | **11** | **1** | **163** |
| **Return on equity** | | | | | | | | **17.7%** |
| | | | | | | | | |
| Average balance of assets | **15,134** | **1,017** | **20** | **75** | **7,329** | **851** | **216** | **24,642** |
| Average balance of credit to the public, net | **15,127** | **1,001** | **20** | **73** | **7,327** | **851** | **216** | **24,615** |
| Average balance of liabilities | **18,905** | **1,567** | **-** | **-** | **5,822** | **1,091** | **193** | **27,578** |
| Average balance of deposits of the public | **18,905** | **-** | **-** | **-** | **5,683** | **1,091** | **192** | **25,871** |
| Average balance of risk assets | **12,291** | **907** | **29** | **44** | **7,409** | **1,120** | **216** | **22,016** |
| Average balance of mutual funds and supplementary training funds | **-** | **-** | **4,536** | **-** | **-** | **-** | **-** | **4,536** |
| Average balance of securities | **-** | **-** | **8,282** | **-** | **-** | **7** | **-** | **8,289** |
| Average balance of other assets under management | **128** | **-** | **-** | **-** | **-** | **-** | **-** | **128** |
| Balance of credit to the public, net | **15,473** | **1,009** | **9** | **69** | **7,376** | **942** | **229** | **25,107** |
| Balance of deposits of the public | **19,172** | **-** | **-** | **-** | **5,733** | **1,125** | **139** | **26,169** |

## Small Businesses (contd.)

| | | | | | | Overseas activity | | |
|---|---|---|---|---|---|---|---|---|
| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Banking and finance | Real estate | Total |
| | For the six months ended 30 June 2014 | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | 384 | 10 | - | 1 | 155 | 28 | 6 | 584 |
| Intersegmental | (29) | (1) | - | (1) | (25) | (9) | (2) | (67) |
| **Non-interest income:** | | | | | | | | |
| From external sources | 150 | 59 | 15 | - | 32 | 10 | 1 | 267 |
| Intersegmental | - | (21) | - | - | - | - | - | (21) |
| Total income | 505 | 47 | 15 | - | 162 | 29 | 5 | 763 |
| Expenses (income) in respect of credit losses | 37 | - | - | - | 6 | 7 | - | 50 |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | 321 | 27 | 8 | - | 58 | 18 | 3 | 435 |
| Intersegmental | 1 | 2 | - | - | - | - | - | 3 |
| Profit before taxes | 146 | 18 | 7 | - | 98 | 4 | 2 | 275 |
| Provision for taxes on the profit | 56 | 5 | 3 | - | 37 | - | - | 101 |
| Profit after taxes | 90 | 13 | 4 | - | 61 | 4 | 2 | 174 |
| Net profit attributable to non-controlling interests | (1) | (1) | - | - | - | - | - | (2) |
| **Net profit** | 89 | 12 | 4 | - | 61 | 4 | 2 | 172 |
| **Return on equity** | | | | | | | | 18.8% |
| | | | | | | | | |
| Average balance of assets | 14,592 | 926 | 22 | 78 | 6,908 | 997 | 283 | 23,806 |
| Average balance of credit to the public, net | 14,558 | 912 | 22 | 78 | 6,907 | 997 | 283 | 23,757 |
| Average balance of liabilities | 17,001 | 1,563 | - | - | 4,570 | 710 | 137 | 23,981 |
| Average balance of deposits of the public | 16,961 | - | - | - | 4,453 | 710 | 137 | 22,261 |
| Average balance of risk assets | 11,757 | 841 | 29 | 44 | 6,887 | 1,049 | 283 | 20,890 |
| Average balance of mutual funds and supplementary training funds | - | - | 3,954 | - | - | - | - | 3,954 |
| Average balance of securities | - | - | 8,516 | - | - | 9 | - | 8,525 |
| Average balance of other assets under management | 189 | - | - | - | - | - | - | 189 |
| Balance of credit, net, to the public at 31 December 2014 | 14,561 | 986 | 29 | 80 | 7,272 | 826 | 280 | 24,034 |
| Balance of deposits of the public at 31 December 2014 | 19,380 | - | - | - | 5,521 | 1,031 | 158 | 26,090 |

## Main Changes in the Scope of Operations

Total credit to the public in the segment increased by NIS 1.1 billion, or 4.5%, compared with the end of 2014. Public deposits increased by NIS 79 million, or 0.3%.

## Main Changes in the Net Profit

In the first half of 2015, net profit in the Small Businesses segment totaled NIS 163 million, compared with NIS 172 million in the corresponding period last year, a decrease of 5.2%. The decrease in profit derives mainly from an increase in operating and other expenses amounting to NIS 34 million, which was partly offset by an increase in noninterest income amounting to NIS 17 million.

The return on equity of the net profit in the segment was 17.7%.

## 3. Private Banking

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

| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Mortgages | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | **For the three months ended 30 June 2015** | | | | | | | | | |
| | NIS millions | | | | | | | | | |
| **Net interest income:** | | | | | | | | | | |
| From external sources | **(24)** | **-** | **1** | **1** | **4** | **(2)** | **-** | **7** | **-** | **(13)** |
| Intersegmental | **35** | **-** | **(1)** | **-** | **-** | **36** | **-** | **(5)** | **1** | **66** |
| **Non-interest income:** | | | | | | | | | | |
| From external sources | **7** | **1** | **41** | **-** | **5** | **31** | **18** | **2** | **-** | **105** |
| Intersegmental | **(1)** | **-** | **-** | **-** | **(1)** | **(6)** | **-** | **-** | **-** | **(8)** |
| Total income | **17** | **1** | **41** | **1** | **8** | **59** | **18** | **4** | **1** | **150** |
| Expenses in respect of credit losses | **(8)** | **-** | **-** | **-** | **(1)** | **(2)** | **-** | **-** | **-** | **(11)** |
| **Operating and other expenses:** | | | | | | | | | | |
| To external sources | **68** | **1** | **18** | **-** | **4** | **86** | **29** | **3** | **1** | **210** |
| Intersegmental | **-** | **-** | **-** | **-** | **-** | **1** | **-** | **-** | **-** | **1** |
| Profit (loss) before taxes | **(43)** | **-** | **23** | **1** | **5** | **(26)** | **(11)** | **1** | **-** | **(50)** |
| Provision for (benefit from) taxes on profit | **(13)** | **-** | **7** | **-** | **1** | **(5)** | **(4)** | **1** | **-** | **(13)** |
| **Net profit (loss)** | **(30)** | **-** | **16** | **1** | **4** | **(21)** | **(7)** | **-** | **-** | **(37)** |

| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Real estate | Overseas activity: Mortgages | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the three months ended 30 June 2014 | | | | | | | | | |
| | NIS millions | | | | | | | | | |
| **Net interest income:** | | | | | | | | | | |
| From external sources | (23) | - | (3) | 1 | 3 | 12 | - | 9 | - | (1) |
| Intersegmental | 38 | - | 3 | - | 1 | 34 | - | (6) | - | 70 |
| **Non-interest income:** | | | | | | | | | | |
| From external sources | - | - | 40 | - | 5 | 57 | 49 | 1 | - | 152 |
| Intersegmental | 8 | - | - | - | - | 4 | - | - | - | 12 |
| Total income | 23 | - | 40 | 1 | 9 | 107 | 49 | 4 | - | 233 |
| Expenses in respect of credit losses | - | - | - | - | - | - | - | - | - | - |
| **Operating and other expenses:** | | | | | | | | | | |
| To external sources | (46) | 1 | 17 | - | 3 | 688 | 50 | 3 | 1 | 717 |
| Intersegmental | 1 | - | - | - | - | (1) | 1 | - | - | 1 |
| Profit (loss) before taxes | 68 | (1) | 23 | 1 | 6 | (580) | (2) | 1 | (1) | (485) |
| Provision for (benefit from) taxes on profit | 25 | - | 8 | - | 3 | 3 | (2) | 1 | - | 38 |
| Loss attributable to non-controlling interests | - | - | - | - | - | 27 | - | - | - | 27 |
| Net profit (loss) | 43 | (1) | 15 | 1 | 3 | (556) | - | - | (1) | (496) |

## Private Banking (contd.)

| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Mortgages | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | | | | | |
| | NIS millions | | | | | | | | | |
| **Net interest income:** | | | | | | | | | | |
| From external sources | **(17)** | **-** | **3** | **1** | **7** | **8** | **-** | **16** | **-** | **18** |
| Intersegmental | **42** | **-** | **(3)** | **-** | **-** | **66** | **-** | **(10)** | **1** | **96** |
| **Non-interest income:** | | | | | | | | | | |
| From external sources | **17** | **1** | **81** | **-** | **10** | **76** | **56** | **3** | **-** | **244** |
| Intersegmental | **(2)** | **-** | **-** | **-** | **(1)** | **(5)** | **-** | **-** | **-** | **(8)** |
| Total income | **40** | **1** | **81** | **1** | **16** | **145** | **56** | **9** | **1** | **350** |
| Expenses in respect of credit losses | **7** | **-** | **-** | **-** | **-** | **(2)** | **-** | **-** | **-** | **5** |
| **Operating and other expenses:** | | | | | | | | | | |
| To external sources | **108** | **1** | **37** | **-** | **7** | **197** | **75** | **6** | **1** | **432** |
| Intersegmental | **1** | **-** | **-** | **-** | **-** | **1** | **-** | **-** | **-** | **2** |
| Profit (loss) before taxes | **(76)** | **-** | **44** | **1** | **9** | **(51)** | **(19)** | **3** | **-** | **(89)** |
| Provision for (benefit from) taxes on profit | **(26)** | **-** | **15** | **-** | **3** | **(4)** | **(4)** | **1** | **-** | **(15)** |
| Profit (loss) after taxes | **(50)** | **-** | **29** | **1** | **6** | **(47)** | **(15)** | **2** | **-** | **(74)** |
| attributable to non-controlling interests | **-** | **-** | **-** | **-** | **-** | **1** | **-** | **-** | **-** | **1** |
| **Net profit (loss)** | **(50)** | **-** | **29** | **1** | **6** | **(46)** | **(15)** | **2** | **-** | **(73)** |
| **Return on equity** | | | | | | | | | | **(17.4%)** |
| Average balance of assets | **1,721** | **77** | **3** | **59** | **851** | **4,393** | **-** | **803** | **-** | **7,907** |
| Average balance of credit to the public, net | **1,561** | **77** | **3** | **58** | **841** | **1,826** | **-** | **803** | **-** | **5,169** |
| Average balance of liabilities | **19,330** | **-** | **72** | **-** | **1,653** | **12,191** | **-** | **13** | **94** | **33,353** |
| Average balance of deposits of the public | **19,175** | **-** | **72** | **-** | **1,644** | **11,689** | **-** | **13** | **92** | **32,685** |
| Average balance of risk assets | **1,776** | **79** | **33** | **35** | **844** | **4,639** | **-** | **281** | **-** | **7,687** |
| Average balance of mutual funds and supplementary training funds | **-** | **-** | **10,084** | **-** | **-** | **354** | **1,656** | **-** | **-** | **12,094** |
| Average balance of securities | **-** | **-** | **50,772** | **-** | **-** | **2,477** | **20,225** | **-** | **-** | **73,474** |
| Average balance of other assets under management | **39** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **39** |
| Balance of credit to the public, net | **1,654** | **79** | **2** | **54** | **865** | **1,350** | **-** | **779** | **-** | **4,783** |
| Balance of deposits of the public | **19,430** | **-** | **98** | **-** | **1,645** | **9,649** | **-** | **13** | **93** | **30,928** |

## Private Banking (contd.)

| | Banking and finance | Credit cards | Capital market | Mortgages | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Mortgages | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2014 | | | | | | | | | |
| | NIS millions | | | | | | | | | |
| **Net interest income:** | | | | | | | | | | |
| From external sources | (35) | - | (3) | 1 | 6 | 24 | - | 19 | - | 12 |
| Intersegmental | 67 | - | 3 | - | 1 | 72 | - | (12) | 1 | 132 |
| **Non-interest income:** | | | | | | | | | | |
| From external sources | 9 | - | 83 | - | 9 | 84 | 102 | 2 | - | 289 |
| Intersegmental | 9 | - | - | - | 2 | (1) | - | - | - | 10 |
| Total income | 50 | - | 83 | 1 | 18 | 179 | 102 | 9 | 1 | 443 |
| Income in respect of credit losses | - | - | - | - | (1) | - | - | - | - | (1) |
| **Operating and other expenses:** | | | | | | | | | | |
| To external sources | 34 | 1 | 37 | - | 7 | 760 | 109 | 6 | 1 | 955 |
| Intersegmental | 1 | - | - | - | - | - | 1 | - | - | 2 |
| Profit (loss) before taxes | 15 | (1) | 46 | 1 | 12 | (581) | (8) | 3 | - | (513) |
| Provision for (benefit from) taxes on profit | 5 | - | 17 | - | 5 | 6 | (1) | 1 | - | 33 |
| Profit after taxes | - | - | - | - | - | 27 | - | - | - | 27 |
| **Net profit (loss)** | 10 | (1) | 29 | 1 | 7 | (560) | (7) | 2 | - | (519) |
| **Return on equity** | | | | | | | | | | (83.5%) |
| Average balance of assets | 1,380 | 68 | 22 | 54 | 740 | 7,868 | - | 802 | - | 10,934 |
| Average balance of credit to the public, net | 1,298 | 68 | 22 | 54 | 731 | 3,176 | - | 801 | - | 6,150 |
| Average balance of liabilities | 17,526 | - | 151 | - | 1,495 | 15,880 | - | 14 | 128 | 35,194 |
| Average balance of deposits of the public | 17,282 | - | 151 | - | 1,489 | 15,390 | - | 14 | 128 | 34,454 |
| Average balance of risk assets | 1,508 | 71 | 64 | 28 | 759 | 5,322 | - | 281 | - | 8,033 |
| Average balance of mutual funds and supplementary training funds | - | - | 8,691 | - | - | 81 | 1,555 | - | - | 10,327 |
| Average balance of securities | - | - | 43,002 | - | - | 1,765 | 33,319 | - | - | 78,086 |
| Average balance of other assets under management | 92 | - | - | - | - | - | - | - | - | 92 |
| Balance of credit to the public, net, as at 31 December 2014 | 1,494 | 74 | 4 | 61 | 781 | 2,642 | - | 826 | - | 5,882 |
| Balance of deposits of the public as at 31 December 2014 | 18,321 | - | 91 | - | 1,646 | 14,665 | - | 13 | 94 | 34,830 |

## Private Banking (contd.)

### Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 1.1 billion, or 18.7% compared with the end of 2014. Deposits of the public amounted to NIS 30.9 billion, a decrease or NIS 3.9 billion, or 11.2%. The decrease in the volume of credit to the public and deposits of the public in the segment stems mainly from the realization of the "declared money policy" which the Bank operates and from the progress of the realization of the Bank's decision to exit its international private banking activity, which was carried out through branches and representative offices abroad which focused on international private banking activity.

The completion of the sale of the activity of Leumi Switzerland to Julius Baer in March 2015 caused a decline in public deposits amounting to NIS 4.4 billion compared to December 2014, and a decrease in the level of off-balance sheet activity amounting to NIS 15.8 billion, compared with December 2014.

### Main Changes in the Net Profit

In the first half of 2015, the loss in the private banking segment totaled NIS 73 million, compared with a loss of NIS 519 million in the corresponding period last year. The loss in the first half of 2015 was primarily attributable to a provision for expenses in respect of the closure of the office in Switzerland, while the loss in the first half of 2014 was primarily attributable to expenses in respect of the arrangements with overseas authorities which were recorded in this segment.

## 4. Commercial Banking

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

| | Banking and finance | Credit cards | Capital market | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|
| | **For the three months ended 30 June 2015** | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | **171** | **2** | **-** | **111** | **126** | **-** | **45** | **455** |
| Intersegmental | **(26)** | **-** | **-** | **(49)** | **(20)** | **-** | **(7)** | **(102)** |
| **Non-interest income:** | | | | | | | | |
| From external sources | **73** | **19** | **6** | **16** | **16** | **-** | **3** | **133** |
| Intersegmental | **2** | **(8)** | **-** | **-** | **-** | **-** | **-** | **(6)** |
| Total income | **220** | **13** | **6** | **78** | **122** | **-** | **41** | **480** |
| Expenses (income) in respect of credit losses | **(17)** | **-** | **-** | **(10)** | **2** | **-** | **3** | **(22)** |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | **160** | **10** | **4** | **24** | **76** | **-** | **10** | **284** |
| Intersegmental | **1** | **(1)** | **-** | **-** | **-** | **-** | **-** | **-** |
| Profit before taxes | **76** | **4** | **2** | **64** | **44** | **-** | **28** | **218** |
| Provision for taxes | **30** | **-** | **1** | **24** | **17** | **-** | **12** | **84** |
| **Net profit** | **46** | **4** | **1** | **40** | **27** | **-** | **16** | **134** |

| | Banking and finance | Credit cards | Capital market | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|
| | For the three months ended 30 June 2014 | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | 159 | 2 | 1 | 86 | 130 | - | 33 | 411 |
| Intersegmental | (4) | (1) | (1) | (28) | (22) | - | (10) | (66) |
| **Non-interest income:** | | | | | | | | |
| From external sources | 13 | 21 | 6 | 15 | 14 | 1 | 4 | 74 |
| Intersegmental | 58 | (10) | - | - | - | - | - | 48 |
| Total income | 226 | 12 | 6 | 73 | 122 | 1 | 27 | 467 |
| Expenses (income) in respect of credit losses | 10 | - | - | (6) | (4) | - | 7 | 7 |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | 120 | 7 | 4 | 11 | 79 | 1 | 12 | 234 |
| Intersegmental | 1 | - | - | - | - | - | - | 1 |
| Profit before taxes | 95 | 5 | 2 | 68 | 47 | - | 8 | 225 |
| Provision for taxes on profit | 36 | 1 | 1 | 26 | 10 | - | 3 | 77 |
| Profit after taxes | 59 | 4 | 1 | 42 | 37 | - | 5 | 148 |
| Net profit attributable to non-controlling interests | - | (1) | - | - | - | - | - | (1) |
| **Net profit** | 59 | 3 | 1 | 42 | 37 | - | 5 | 147 |

## Commercial Banking (contd.)

| | Banking and finance | Credit cards | Capital market | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | **334** | **4** | **-** | **165** | **256** | **-** | **89** | **848** |
| Intersegmental | **(40)** | **-** | **-** | **(41)** | **(38)** | **-** | **(17)** | **(136)** |
| **Non-interest income:** | | | | | | | | |
| From external sources | **135** | **38** | **14** | **33** | **37** | **-** | **6** | **263** |
| Intersegmental | **14** | **(16)** | **-** | **1** | **-** | **-** | **-** | **(1)** |
| Total income | **443** | **26** | **14** | **158** | **255** | **-** | **78** | **974** |
| Income in respect of credit losses | **(34)** | **-** | **-** | **(26)** | **2** | **-** | **(17)** | **(75)** |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | **312** | **20** | **9** | **43** | **180** | **-** | **21** | **585** |
| Intersegmental | **1** | **(1)** | **-** | **-** | **-** | **-** | **-** | **-** |
| Profit before taxes | **164** | **7** | **5** | **141** | **73** | **-** | **74** | **464** |
| Provision for taxes on profit | **63** | **2** | **2** | **53** | **27** | **-** | **25** | **172** |
| Profit after taxes | **101** | **5** | **3** | **88** | **46** | **-** | **49** | **292** |
| Net profit attributable to non-controlling interests | **-** | **(1)** | **-** | **-** | **-** | **-** | **-** | **(1)** |
| **Net profit** | **101** | **4** | **3** | **88** | **46** | **-** | **49** | **291** |
| **Return on equity** | | | | | | | | **11.4%** |
| Average balance of assets | **23,522** | **358** | **51** | **9,920** | **14,906** | **-** | **3,674** | **52,431** |
| Average balance of credit to the public, net | **21,469** | **358** | **50** | **9,893** | **14,637** | **-** | **3,613** | **50,020** |
| Average balance of liabilities | **37,312** | **1,085** | **115** | **3,715** | **11,926** | **-** | **620** | **54,773** |
| Average balance of deposits of the public | **29,273** | **-** | **115** | **3,542** | **11,673** | **-** | **598** | **45,201** |
| Average balance of risk assets | **28,464** | **412** | **298** | **10,143** | **15,706** | **-** | **3,674** | **58,697** |
| Average balance of mutual funds and supplementary training funds | **-** | **-** | **4,897** | **-** | **-** | **96** | **-** | **4,993** |
| Average balance of securities | **-** | **-** | **27,737** | **-** | **1,615** | **1,377** | **-** | **30,729** |
| Average balance of other assets under management | **324** | **-** | **-** | **-** | **-** | **-** | **-** | **324** |
| Balance of credit to the public, net | **21,511** | **350** | **-** | **10,343** | **14,282** | **-** | **3,704** | **50,190** |
| Balance of deposits of the public | **30,089** | **-** | **-** | **3,773** | **10,496** | **-** | **1,416** | **45,774** |

**Commercial Banking (contd.)**

| | Banking and finance | Credit cards | Capital market | Real estate | Overseas activity: Banking and finance | Overseas activity: Capital market | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2014 | | | | | | | |
| | NIS millions | | | | | | | |
| **Net interest income:** | | | | | | | | |
| From external sources | 303 | 4 | - | 156 | 258 | - | 69 | 790 |
| Intersegmental | - | (1) | 1 | (41) | (40) | - | (22) | (103) |
| **Non-interest income:** | | | | | | | | |
| From external sources | 130 | 39 | 14 | 12 | 30 | 3 | 8 | 236 |
| Intersegmental | 16 | (18) | - | 15 | - | - | - | 13 |
| Total income | 449 | 24 | 15 | 142 | 248 | 3 | 55 | 936 |
| Expenses (income) in respect of credit losses | (38) | - | - | (10) | 22 | - | 5 | (21) |
| **Operating and other expenses:** | | | | | | | | |
| To external sources | 251 | 14 | 10 | 30 | 153 | 2 | 22 | 482 |
| Intersegmental | 1 | - | - | - | - | - | - | 1 |
| Profit before taxes | 235 | 10 | 5 | 122 | 73 | 1 | 28 | 474 |
| Provision for taxes | 89 | 2 | 2 | 46 | 28 | - | 10 | 177 |
| Profit after taxes | 146 | 8 | 3 | 76 | 45 | 1 | 18 | 297 |
| Net profit attributable to non-controlling interests | - | (2) | - | - | - | - | - | (2) |
| **Net profit** | 146 | 6 | 3 | 76 | 45 | 1 | 18 | 295 |
| **Return on equity** | | | | | | | | 13.1% |
| Average balance of assets | 23,434 | 322 | 174 | 8,680 | 13,808 | - | 3,003 | 49,421 |
| Average balance of credit to the public, net | 20,825 | 322 | 174 | 8,663 | 13,639 | - | 2,953 | 46,576 |
| Average balance of liabilities | 24,828 | 1,114 | 17 | 2,777 | 10,640 | - | 203 | 39,579 |
| Average balance of deposits of the public | 24,231 | - | 17 | 2,697 | 10,456 | - | 194 | 37,595 |
| Average balance of risk assets | 28,240 | 380 | 414 | 8,764 | 10,349 | - | 3,003 | 51,150 |
| Average balance of mutual funds and supplementary training funds | - | - | 5,743 | - | - | 120 | - | 5,863 |
| Average balance of securities | - | - | 18,669 | - | - | 1,377 | - | 20,046 |
| Average balance of other assets under management | 517 | - | - | - | - | - | - | 517 |
| Balance of credit,net, to the public at 31 December 2014 | 21,604 | 367 | 145 | 9,591 | 14,693 | - | 3,433 | 49,833 |
| Balance of deposits of the public at 31 December 2014 | 28,043 | - | 344 | 3,476 | 12,554 | - | 181 | 44,598 |

**Commercial Banking (contd.)**

**Main Changes in the Scope of Operations**

Total credit to the public in the Commercial segment increased by NIS 0.4 billion, an increase of 0.7%, compared with the end of 2014, and total deposits of the public increased by NIS 1.2 billion, or 2.6%.

**Main changes in net profit**

In the first half of 2015, net profit in the commercial banking segment totaled NIS 291 million, compared with NIS 295 million during the corresponding period in 2014, a decrease of NIS 4 million, or 1.4%. The decrease derives mainly from an increase in operating and other expenses amounting to NIS 102 million, which was mostly offset by an increase in total income in the segment amounting to NIS 38 million, and an increase in income from credit losses amounting to NIS 54 million, due to collections in the branch in the United Kingdom.

The return on equity of the net profit in the segment was 11.4%.

## 5. Corporate Banking

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

| | | | | | Overseas activity | | |
|---|---|---|---|---|---|---|---|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Real estate | Total |
| | **For the three months ended 30 June 2015** | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | **274** | **6** | **-** | **245** | **-** | **-** | **525** |
| Intersegmental | **(131)** | **(1)** | **-** | **(104)** | **-** | **1** | **(235)** |
| **Non-interest income:** | | | | | | | |
| From external sources | **(45)** | **49** | **4** | **59** | **1** | **-** | **68** |
| Intersegmental | **95** | **(23)** | **-** | **36** | **-** | **-** | **108** |
| Total income | **193** | **31** | **4** | **236** | **1** | **1** | **466** |
| Expenses in respect of credit losses | **(22)** | **-** | **-** | **(10)** | **-** | **-** | **(32)** |
| **Operating and other expenses:** | | | | | | | |
| To external sources | **101** | **27** | **2** | **46** | **-** | **1** | **177** |
| Intersegmental | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Profit before taxes | **114** | **4** | **2** | **200** | **1** | **-** | **321** |
| Provision for taxes on profit | **44** | **1** | **1** | **75** | **-** | **-** | **121** |
| Profit after taxes | **70** | **3** | **1** | **125** | **1** | **-** | **200** |
| Net profit attributable to non-controlling interests | **-** | **(1)** | **-** | **-** | **-** | **-** | **(1)** |
| **Net profit** | **70** | **2** | **1** | **125** | **1** | **-** | **199** |

| | | | | | Overseas activity | | |
|---|---|---|---|---|---|---|---|
| | Banking and finance | Credit cards | Capital market | Real estate | Banking and finance | Real estate | Total |
| | For the three months ended 30 June 2014 | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | 327 | 5 | 1 | 217 | (1) | 1 | 550 |
| Intersegmental | (149) | - | 1 | (89) | 2 | - | (235) |
| **Non-interest income:** | | | | | | | |
| From external sources | (24) | 48 | 3 | 77 | 1 | - | 105 |
| Intersegmental | 85 | (23) | - | 11 | - | - | 73 |
| Total income | 239 | 30 | 5 | 216 | 2 | 1 | 493 |
| Expenses in respect of credit losses | (29) | - | - | (98) | - | - | (127) |
| **Operating and other expenses:** | | | | | | | |
| To external sources | 89 | 20 | 2 | 60 | 2 | - | 173 |
| Intersegmental | 1 | - | - | - | - | - | 1 |
| Profit before taxes | 178 | 10 | 3 | 254 | - | 1 | 446 |
| Provision for taxes on profit | 66 | 3 | 1 | 96 | 1 | - | 167 |
| Profit (loss) after taxes | 112 | 7 | 2 | 158 | (1) | 1 | 279 |
| Net profit attributable to non-controlling interests | - | (2) | - | - | - | - | (2) |
| **Net profit (loss)** | 112 | 5 | 2 | 158 | (1) | 1 | 277 |

## Corporate Banking (contd.)

| | Banking and finance | Credit cards | Capital market | Real estate | Overseas activity: Banking and finance | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | **458** | **11** | **-** | **329** | **1** | **(1)** | **798** |
| Intersegmental | **(149)** | **(1)** | **-** | **(72)** | **-** | **4** | **(218)** |
| **Non-interest income:** | | | | | | | |
| From external sources | **(208)** | **94** | **6** | **130** | **1** | **1** | **24** |
| Intersegmental | **316** | **(45)** | **-** | **43** | **-** | **-** | **314** |
| Total income | **417** | **59** | **6** | **430** | **2** | **4** | **918** |
| Expenses in respect of credit losses | **48** | **-** | **-** | **3** | **-** | **-** | **51** |
| **Operating and other expenses:** | | | | | | | |
| To external sources | **192** | **47** | **4** | **84** | **1** | **3** | **331** |
| Intersegmental | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Profit before taxes | **177** | **12** | **2** | **343** | **1** | **1** | **536** |
| Provision for taxes on profit | **68** | **3** | **1** | **129** | **-** | **-** | **201** |
| Profit after taxes | **109** | **9** | **1** | **214** | **1** | **1** | **335** |
| Net profit attributable to non-controlling interests | **-** | **(2)** | **-** | **-** | **-** | **-** | **(2)** |
| **Net profit** | **109** | **7** | **1** | **214** | **1** | **1** | **333** |
| **Return on equity** | | | | | | | **8.9%** |
| | | | | | | | |
| Average balance of assets | **37,091** | **385** | **-** | **21,183** | **49** | **8** | **58,716** |
| Average balance of credit to the public, net | **35,367** | **358** | **-** | **21,127** | **49** | **8** | **56,909** |
| Average balance of liabilities | **20,838** | **2,723** | **-** | **6,205** | **106** | **320** | **30,192** |
| Average balance of deposits of the public | **19,621** | **-** | **-** | **5,573** | **105** | **320** | **25,619** |
| Average balance of risk assets | **48,888** | **420** | **25** | **38,091** | **111** | **8** | **87,543** |
| funds and supplementary training funds | **-** | **-** | **846** | **-** | **-** | **-** | **846** |
| Average balance of securities | **-** | **-** | **54,513** | **-** | **-** | **-** | **54,513** |
| Average balance of other assets under management | **174** | **-** | **-** | **-** | **-** | **-** | **174** |
| Balance of credit to the public, net | **34,908** | **364** | **-** | **21,433** | **54** | **-** | **56,759** |
| Balance of deposits of the public | **16,696** | **-** | **-** | **6,165** | **42** | **174** | **23,077** |

## Corporate Banking (contd.)

| | Banking and finance | Credit cards | Capital market | Real estate | Overseas activity: Banking and finance | Overseas activity: Real estate | Total |
|---|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2014 | | | | | | |
| | NIS millions | | | | | | |
| **Net interest income:** | | | | | | | |
| From external sources | 602 | 10 | 1 | 363 | - | 1 | 977 |
| Intersegmental | (236) | (1) | 1 | (116) | 4 | 1 | (347) |
| **Non-interest income:** | | | | | | | |
| From external sources | 23 | 94 | 6 | 140 | 2 | - | 265 |
| Intersegmental | 118 | (46) | - | 25 | - | - | 97 |
| Total income | 507 | 57 | 8 | 412 | 6 | 2 | 992 |
| Expenses in respect of credit losses | (63) | - | - | (151) | - | - | (214) |
| **Operating and other expenses:** | | | | | | | |
| To external sources | 195 | 39 | 5 | 86 | 4 | 1 | 330 |
| Intersegmental | 1 | - | - | - | - | - | 1 |
| Profit before taxes | 374 | 18 | 3 | 477 | 2 | 1 | 875 |
| Provision for taxes on profit | 141 | 5 | 1 | 180 | 1 | - | 328 |
| Profit after taxes | 233 | 13 | 2 | 297 | 1 | 1 | 547 |
| Net profit attributable to non-controlling interests | - | (3) | - | - | - | - | (3) |
| **Net profit** | 233 | 10 | 2 | 297 | 1 | 1 | 544 |
| **Return on equity** | | | | | | | 15.1% |
| Average balance of assets | 39,267 | 349 | 111 | 21,171 | 111 | 46 | 61,055 |
| Average balance of credit to the public, net | 37,698 | 321 | 111 | 21,131 | 111 | 46 | 59,418 |
| Average balance of liabilities | 17,753 | 2,796 | - | 5,462 | 543 | 164 | 26,718 |
| Average balance of deposits of the public | 16,317 | - | - | 4,856 | 543 | 164 | 21,880 |
| assets | 46,483 | 411 | 185 | 36,007 | 171 | 46 | 83,303 |
| Average balance of mutual funds and supplementary training funds | - | - | 2,093 | - | - | - | 2,093 |
| Average balance of securities | - | - | 61,025 | - | - | - | 61,025 |
| Average balance of other assets under management | 203 | - | - | - | - | - | 203 |
| Balance of credit to the public, net, at 31 December 2014 | 37,481 | 378 | - | 20,836 | 42 | 24 | 58,761 |
| Balance of deposits of the public at 31 December 2014 | 22,316 | - | - | 5,012 | 252 | 174 | 27,754 |

**Corporate Banking (contd.)**

**Main Changes in the Scope of Operations**

Total credit to the public in the segment decreased by NIS 2.0 billion compared with the end of 2014, a decrease of 3.4%. Total deposits of the public decreased by NIS 4.7 billion, or 16.9%.

**Main Changes in Net Profit**

In the first half of 2015, net profit in the Corporate Banking segment totaled NIS 333 million, compared with NIS 544 million during the corresponding period in 2014, a decrease of NIS 211 million. The decrease was attributable to expenses in respect of credit losses amounting to NIS 51 million which were recorded to the segment in the first half of 2015, as a result of an increase in the collective allowance, compared with income in respect of credit losses amounting to NIS 214 million as a result of collections, which were recorded in the corresponding period last year.

The return on equity of the net profit in the segment was 8.9%.

## 6. Financial Management – Capital Markets

| | For the three months ended 30 June | |
|---|---|---|
| | **2015** | 2014 |
| | NIS millions | |
| **Net interest income:** | | |
| From external sources | **(340)** | (231) |
| Intersegmental | **746** | 487 |
| **Non-interest income:** | **-** | - |
| From external sources | **71** | 352 |
| Intersegmental | **(110)** | (153) |
| Total income | **367** | 455 |
| Expenses (income) in respect of credit losses | **(14)** | (10) |
| **Operating and other expenses:** | **-** | - |
| To external sources | **229** | 381 |
| Intersegmental | **14** | 13 |
| Profit before taxes | **138** | 71 |
| Provision for taxes on profit | **36** | 37 |
| Profit after taxes | **102** | 34 |
| Group share in profits (losses) of companies included on equity basis after effect of tax | **14** | (16) |
| Net profit attributed to non-controlling interests | **(1)** | 1 |
| **Net profit** | **115** | 19 |

| | For the six months ended 30 June | | |
|---|---|---|---|
| | **2015** | 2014 | |
| | NIS millions | | |
| **Net interest income:** | | | |
| From external sources | **(184)** | (171) | |
| Intersegmental | **508** | 540 | |
| **Non-interest income:** | **-** | | |
| From external sources | **1,692** | 730 | |
| Intersegmental | **(342)** | (167) | |
| Total income | **1,674** | 932 | |
| Expenses (income) in respect of credit losses | **(39)** | (2) | |
| **Operating and other expenses:** | **-** | | |
| To external sources | **561** | 724 | |
| Intersegmental | **28** | 25 | |
| Profit before taxes | **1,124** | 185 | |
| Provision for taxes on profit | **391** | 29 | |
| Profit after taxes | **733** | 156 | |
| Group share in profits (losses) of companies included on equity basis after effect of tax | **144** | (54) | |
| Net profit attributed to non-controlling interests | **(1)** | 1 | |
| **Net profit** | **876** | 103 | |
| **Return on equity** | **62.3%** | 6.8% | |
| | | | |
| Average balance of assets | **132,146** | 113,557 | |
| Average balance of credit to the public, net | **3,420** | 3,760 | |
| Average balance of liabilities | **102,285** | 99,634 | |
| Average balance of deposits of the public | **57,617** | 50,325 | |
| Average balance of risk assets | **37,424** | 34,025 | |
| Average balance of mutual funds and supplementary training funds | **143,707** | 135,289 | |
| Average balance of securities | **374,352** | 392,673 | |
| Balance of credit to the public, net | **3,060** | 3,274 | (a) |
| Balance of deposits of the public | **58,342** | 54,636 | (a) |

(a) Balances as of 31 December 2014

### Financial Management – Capital Markets

The profit in the Financial Management segment in the first half of 2015 amounted to NIS 876 million, compared with NIS 103 million in the corresponding period in 2014. The increase in the profit resulted from an increase in noninterest income amounting to NIS 787 million, mainly due to profits from sales of shares in the Israel Corporation and Mobileye and from an improvement in the contribution of companies included on equity basis amounting to NIS 198 million. The increase was partially offset by an increase in the provision for tax.

It should be clarified that all of the actuarial income and expenses of the Bank are recorded in the Financial Management segment and not in Other Segments.

**Companies included on equity basis (non-banking) – (presented in the Financial Management Sector)**

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

Leumi Group's total investments in companies included on equity basis amounted to NIS 889 million on 30 June 2015, compared with NIS 2,216 million on 31 December 2014. The decrease in investments in companies included on equity basis derives since the presentation of the investment of the Israel Corporation in the financial statements since the end of the first half of 2015 in the available-for-sale securities portfolio, due to the sale of approximately 6.9% of the shares of the Israel Corporation and the cancelation of an agreement of the shareholders in the Israel Corporation, as set forth below.

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

| | Book value | | | Market value | | Capital adequacy requirements (a) | |
|---|---|---|---|---|---|---|---|
| | **30 June 2015** | 31 December 2014 | Change | **30 June 2015** | 31 December 2014 | **30 June 2015** | 31 December 2014 |
| | NIS millions | | % | NIS millions | | | |
| The Israel Corporation Ltd. | **-** | 1,318 | (100.0) | - | 2,566 | **-** | 165 |
| Others | **889** | 898 | (1.0) | - * | - * | **111** | 112 |
| Total | **889** | 2,216 | (59.9) | - | 2,566 | **111** | 277 |

* Of which, NIS 223 million at 30 June 2015 and NIS 194 million at 31 December 2014 are tradable.

The profits of companies included on equity basis in the first half of 2015 amounted to NIS 146 million, compared with a loss of NIS 51 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 six months ended | | |
|---|---|---|---|
| | **30 June2015** | 31 December 2014 | Change |
| | NIS millions | | % |
| The Israel Corporation Ltd. | **114** | (70) | + |
| Others | **32** | 19 | 68.4 |
| Total | **146** | (51) | + |

**The Israel Corporation Ltd.**

As of the date of signing this report, the Bank holds 5.9% 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.

On 7 January 2015, the Israel Corporation announced the completion of a process of splitting, wherein holdings in a number of subsidiaries were transferred from the Israel Corporation to Kenon Holdings, all of whose shares were allocated, prior to the transfer of the assets, to the shareholders in the Israel Corporation (hereinafter, "the split"). The shares of Kenon are listed for trading on the New York Stock Exchange and on the Tel Aviv Stock Exchange at the beginning of January 2015. The Bank's investment in the shares of Kenon is presented in the available-for-sale securities portfolio.

In anticipation of the aforementioned split, the Bank updated the Banking Supervision Department, that as a result of the split, the Bank will hold two non-bank corporations.

On 11 February 2015, the Bank sold 531,550 shares of the Israel Corporation Ltd. to a number of entities (hereinafter, "the purchasers") at a price of NIS 1,330 per share and aggregate consideration of NIS 707 million. The shares sold represent 6.904% of the issued and paid-up capital of the Israel Corporation.

The sale generated for the Bank a total of NIS 522 million, before the effect of tax, which is included in the financial statements for the first half of 2015.

In accordance with a directive of the Banking Supervision Department, dated 4 March 2015, the Bank will take steps to discontinue its significant influence in the Israel Corporation, including by way of a permanent waiver of the Bank's representation on the Board of Directors of the Israel Corporation and its right to appoint directors therein.

On 15 March 2015, the Board of Directors of the Bank resolved to confirm the cancelation of a shareholder agreement, and pursuant thereto, to waive the right to recommend the appointment of directors in the Israel Corporation.

Further to this resolution, a document was signed between the Bank and the companies which hold a controlling interest in the Israel Corporation, pursuant to which the shareholder agreement was canceled, including the right to recommend the appointment of directors. In addition, a notice was sent to the Israel Corporation by the two directors, who were appointed to the Israel Corporation in accordance with the Bank's recommendation, on the termination of their term of office in the Israel Corporation, with effect from 30 June 2015.

On 31 March 2015, as a result of the decrease in the rates of shareholding and the permanent waiver on the Bank's representation on the Board of Directors of the Israel Corporation, the Bank classified the investment in the Israel Corporation in the available-for-sale securities portfolio at the market value of the investment as of 30 June 2015. The Bank's share in the profits of the Israel Corporation for the first quarter of 2015 was accounted for on an equity basis.

In April 2015, the Bank sold 2,146,000 shares of Kenon Holdings for aggregate proceeds of NIS 174 million. The shares sold represent 4% of the issued and paid-up share capital of Kenon Holdings. This sale is expected to generate for the Bank a profit, before the effect of tax, of NIS 8.6 million, which was included in the financial statements for the second quarter of 2015.

In July 2015, Kenon Holdings distributed the shares of Tower which it held, as a dividend-in-kind to its shareholders. As a consequence, the Bank received 2,530,247 shares of Tower and sold them for aggregate consideration of NIS 130.4 million.

On 3 August 2015, the Bank sold 400,000 shares of the Israel Corporation Ltd. to a number of entities at a price of NIS 1,250 per share and aggregate proceeds of NIS 500 million. The shares sold represent approximately 5.2% of the issued and fully paid share capital of the Israel Corporation. The sale is expected to yield a profit for the Bank, before the effect of tax, amounting to NIS 290 million, which is expected to be included in the financial statements for the third quarter of 2015.

**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 is not part of other segments. In the first half of 2015, the profit in the "Others" segment amounted to NIS 66 million, compared with a profit of NIS 101 million in the corresponding period last year.

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

| | For the six months ended | | Change |
|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | NIS in millions |
| Net profit in the Bank | **30** | 27 | 3 |
| Other companies in Israel | **12** | 8 | 4 |
| Companies abroad | **-** | 1 | (1) |
| Tax adjustments (a) | **24** | 65 | (41) |
| Total | **66** | 101 | (35) |

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

## Activities in Products

**A. Capital market activity-** The Group's activities in the capital market include investment counseling, including counseling in supplementary training funds, operation of all the trading rooms in the Bank for market-making, trade, mediation in currencies, interest, derivatives and securities, brokerage and custody services, and banking and financial services for entities active in the capital market. A subsidiary company of Leumi Partners Ltd., Leumi Partners Underwriters, 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 | Private banking | Commercial banking | Corporate banking | Financial management and others | Overseas activities | Total |
|---|---|---|---|---|---|---|---|---|
| | **For the three months ended 30 June 2015** | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income | **-** | **-** | **-** | **-** | **-** | **1** | **-** | **1** |
| Non-interest income | **121** | **8** | **41** | **6** | **4** | **43** | **19** | **242** |
| Total income | **121** | **8** | **41** | **6** | **4** | **44** | **19** | **243** |
| Operating and other expenses | **92** | **4** | **18** | **4** | **2** | **43** | **32** | **195** |
| Profit (loss) before taxes | **29** | **4** | **23** | **2** | **2** | **1** | **(13)** | **48** |
| Net profit (loss) | **18** | **2** | **16** | **1** | **1** | **1** | **(8)** | **31** |

| | Households | Small businesses | Private banking | Commercial banking | Corporate banking | Financial management and others | Overseas activities | Total |
|---|---|---|---|---|---|---|---|---|
| | For the three months ended 30 June 2014 | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income | 1 | - | - | - | 2 | 1 | - | 4 |
| Non-interest income | 117 | 8 | 40 | 6 | 3 | 34 | 50 | 258 |
| Total income | 118 | 8 | 40 | 6 | 5 | 35 | 50 | 262 |
| Operating and other expenses | 94 | 4 | 17 | 4 | 2 | 38 | 70 | 229 |
| Profit (loss) before taxes | 24 | 4 | 23 | 2 | 3 | (3) | (20) | 33 |
| Net profit (loss) | 16 | 2 | 15 | 1 | 2 | (1) | (13) | 22 |

| | Households | Small businesses | Private banking | Commercial banking | Corporate banking | Financial management and others | Overseas activities | Total |
|---|---|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income | **2** | **-** | **-** | **-** | **-** | **2** | **-** | **4** |
| Non-interest income | **253** | **18** | **81** | **14** | **6** | **77** | **58** | **507** |
| Total income | **255** | **18** | **81** | **14** | **6** | **79** | **58** | **511** |
| Operating and other expenses | **197** | **10** | **37** | **9** | **4** | **85** | **82** | **424** |
| Profit (loss) before taxes | **58** | **8** | **44** | **5** | **2** | **(6)** | **(24)** | **87** |
| Net profit (loss) | **36** | **5** | **29** | **3** | **1** | **(2)** | **(18)** | **54** |

| | Households | Small businesses | Private banking | Commercial banking | Corporate banking | Financial management and others | Overseas activities | Total |
|---|---|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2014 | | | | | | | |
| | NIS millions | | | | | | | |
| Net interest income | 2 | - | - | 1 | 2 | 2 | - | 7 |
| Non-interest income | 234 | 15 | 83 | 14 | 6 | 71 | 106 | 529 |
| Total income | 236 | 15 | 83 | 15 | 8 | 73 | 106 | 536 |
| Operating and other expenses | 200 | 8 | 37 | 10 | 5 | 77 | 138 | 475 |
| Profit (loss) before taxes | 36 | 7 | 46 | 5 | 3 | (4) | (32) | 61 |
| Net profit (loss) | 23 | 4 | 29 | 3 | 2 | (1) | (23) | 37 |

In the first half of 2015, the net profit from capital market operations amounted to NIS 54 million, compared with a profit of NIS 37 million in the corresponding period last year. The increase in profit derives from an increase in the activity of households in the capital market.

## 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 half of 2015 with a net profit of NIS 90 million, compared with NIS 103 million in the corresponding period last year.

During the first half of 2015, the volume of activity by Leumi Card cardholders increased by 4% compared with the corresponding period in 2014. The number of valid cards at 30 June 2015 increased by 5% compared with 30 June 2014.

On 4 June 2015, the company signed a cooperation agreement with Mizrahi Tefahot Bank Ltd., with the aim of issuing bank credit cards to customers of Bank Mizrahi.

On 29 April 2015, the company signed a special collective agreement ("the collective agreement") with representatives of the employees. The term of the agreement is from 1 January 2015 to 31 March 2018. The agreement was approved by the Board of Directors of the company and by the employees' representatives.

The collective agreement includes, *inter alia*, agreements regarding salary revisions, bonuses and social conditions, and other conditions relating to, *inter alia*, welfare issues.

The implementation of the collective agreement is expected to result in an increase in the company's expenses amounting to NIS 110 million over the term of the collective agreement.

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

| | Households | Small businesses | Private banking | Commercial banking | Corporate banking | Total |
|---|---|---|---|---|---|---|
| | **For the three months ended 30 June 2015** | | | | | |
| | NIS millions | | | | | |
| Net interest income | **54** | **5** | **-** | **2** | **5** | **66** |
| Non-interest income | **176** | **20** | **1** | **11** | **26** | **234** |
| Total income | **230** | **25** | **1** | **13** | **31** | **300** |
| Expenses in respect of credit losses | **4** | **-** | **-** | **-** | **-** | **4** |
| Operating and other expenses | **154** | **20** | **1** | **9** | **27** | **211** |
| Profit before taxes | **72** | **5** | **-** | **4** | **4** | **85** |
| Profit attributed to non-controlling interests | **(7)** | **-** | **-** | **-** | **(1)** | **(8)** |
| Net profit | **41** | **2** | **-** | **4** | **2** | **49** |

| | Households | Small businesses | Private banking | Commercial banking | Corporate banking | Total |
|---|---|---|---|---|---|---|
| | For the three months ended 30 June 2014 | | | | | |
| | NIS millions | | | | | |
| Net interest income | 53 | 4 | - | 1 | 5 | 63 |
| Non-interest income | 181 | 20 | - | 11 | 25 | 237 |
| Total income | 234 | 24 | - | 12 | 30 | 300 |
| Expenses in respect of credit losses | 5 | - | - | - | - | 5 |
| Operating and other expenses | 157 | 15 | 1 | 7 | 20 | 200 |
| Profit before taxes | 72 | 9 | (1) | 5 | 10 | 95 |
| Profit attributed to non-controlling interests | (7) | - | - | (1) | (2) | (10) |
| Net profit | 44 | 6 | (1) | 3 | 5 | 57 |

| | Households | Small businesses | Private banking | Commercial banking | Corporate banking | Total |
|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | |
| | NIS millions | | | | | |
| Net interest income | **109** | **10** | **-** | **4** | **10** | **133** |
| Non-interest income | **350** | **39** | **1** | **22** | **49** | **461** |
| Total income | **459** | **49** | **1** | **26** | **59** | **594** |
| Expenses in respect of credit losses | **6** | **-** | **-** | **-** | **-** | **6** |
| Operating and other expenses | **314** | **35** | **1** | **19** | **47** | **416** |
| Profit (loss) before taxes | **139** | **14** | **-** | **7** | **12** | **172** |
| Profit attributed to non-controlling interests | **(14)** | **(1)** | **-** | **(1)** | **(2)** | **(18)** |
| Net profit | **79** | **8** | **-** | **4** | **7** | **98** |

| | Households | Small businesses | Private banking | Commercial banking | Corporate banking | Total |
|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2014 | | | | | |
| | NIS millions | | | | | |
| Net interest income | 107 | 9 | - | 3 | 9 | 128 |
| Non-interest income | 356 | 38 | - | 21 | 48 | 463 |
| Total income | 463 | 47 | - | 24 | 57 | 591 |
| Expenses in respect of credit losses | 9 | - | - | - | - | 9 |
| Operating and other expenses | 311 | 29 | 1 | 14 | 39 | 394 |
| Profit before taxes | 143 | 18 | (1) | 10 | 18 | 188 |
| Profit attributed to non-controlling interests | (15) | (1) | - | (2) | (3) | (21) |
| Net profit | 85 | 12 | (1) | 6 | 10 | 112 |

The net profit from credit card activity in the first half of 2015 amounted to NIS 98 million, compared with NIS 112 million in the corresponding period in 2014. The decrease in net profit from credit card activity amounting to NIS 14 million was due to an increase in operating and other expenses amounting to NIS 22 million, mainly due the effect of the salary agreement in Leumi Card.

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

| | Small businesses | Private banking | Commercial banking | Corporate banking | Overseas activity | Total |
|---|---|---|---|---|---|---|
| | **For the three months ended 30 June 2015** | | | | | |
| | NIS millions | | | | | |
| Net interest income | **69** | **4** | **62** | **141** | **44** | **320** |
| Non-interest income | **18** | **4** | **16** | **95** | **3** | **136** |
| Total income | **87** | **8** | **78** | **236** | **47** | **456** |
| Expenses (income) in respect of credit losses | **6** | **(1)** | **(10)** | **(10)** | **3** | **(12)** |
| Operating and other expenses | **35** | **4** | **24** | **46** | **13** | **122** |
| Profit before taxes | **46** | **5** | **64** | **200** | **31** | **346** |
| Net profit | **29** | **4** | **40** | **125** | **18** | **216** |

| | Small businesses | Private banking | Commercial banking | Corporate banking | Overseas activity | Total |
|---|---|---|---|---|---|---|
| | For the three months ended 30 June 2014 | | | | | |
| | NIS millions | | | | | |
| Net interest income | 67 | 4 | 58 | 128 | 28 | 285 |
| Non-interest income | 17 | 5 | 15 | 88 | 5 | 130 |
| Total income | 84 | 9 | 73 | 216 | 33 | 415 |
| Expenses (income) in respect of credit losses | 3 | - | (6) | (98) | 7 | (94) |
| Operating and other expenses | 28 | 3 | 11 | 60 | 15 | 117 |
| Profit before taxes | 53 | 6 | 68 | 254 | 11 | 392 |
| Net profit | 33 | 3 | 42 | 158 | 8 | 244 |

| | Small businesses | Private banking | Commercial banking | Corporate banking | Overseas activity | Total |
|---|---|---|---|---|---|---|
| | **For the six months ended 30 June 2015** | | | | | |
| | NIS millions | | | | | |
| Net interest income | **136** | **7** | **124** | **257** | **85** | **609** |
| Noninterest income | **37** | **9** | **34** | **173** | **8** | **261** |
| Total income | **173** | **16** | **158** | **430** | **93** | **870** |
| Expenses (income) in respect of credit losses | **5** | **-** | **(26)** | **3** | **(17)** | **(35)** |
| Operating and other expenses | **67** | **7** | **43** | **84** | **28** | **229** |
| Profit before taxes | **101** | **9** | **141** | **343** | **82** | **676** |
| Net profit | **63** | **6** | **88** | **214** | **54** | **425** |

| | Small businesses | Private banking | Commercial banking | Corporate banking | Overseas activity | Total |
|---|---|---|---|---|---|---|
| | For the six months ended 30 June 2014 | | | | | |
| | NIS millions | | | | | |
| Net interest income | 130 | 7 | 115 | 247 | 59 | 558 |
| Noninterest income | 32 | 11 | 27 | 165 | 10 | 245 |
| Total income | 162 | 18 | 142 | 412 | 69 | 803 |
| Expenses (income) in respect of credit losses | 6 | (1) | (10) | (151) | 5 | (151) |
| Operating and other expenses | 58 | 7 | 30 | 86 | 27 | 208 |
| Profit before taxes | 98 | 12 | 122 | 477 | 37 | 746 |
| Net profit | 61 | 7 | 76 | 297 | 25 | 466 |

Net profit from real estate activity in the first half of 2015 amounted to NIS 425 million, compared to NIS 466 million in the corresponding period last year, the decrease deriving mainly from income in respect of credit losses amounting to NIS 35 million which were recorded this year, compared with income in respect of credit losses amounting to NIS 151 million which were recorded in the corresponding period last year, and from an increase in operating and other expenses amounting to NIS 21 million. The decrease in profit was offset by an increase in total income of NIS 67 million.

## 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 six months ended | | |
|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change |
| | NIS millions | | % |
| The Bank | **1,125** | 1,111 | 1.3 |
| Consolidated companies in Israel (a) | **449** | 257 | 74.7 |
| Overseas consolidated companies (b) | **(1)** | (480) | + |
| Companies included on equity basis (a) | **127** | (68) | + |
| Net profit | **1,700** | 820 | 107.3 |
| Profit of overseas subsidiaries, in nominal terms (US$ millions) (c) | **23** | (126) | + |

(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 holders of non-controlling interests.

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

- The contribution to the net profit excluding a material change, compared to the corresponding period last year. There was an increase in the Bank's profit which was attributable to the sale of the shares of the Israel Corporation, which was almost completely offset by a decrease in net interest income and an increase in credit loss expenses.

  Most of the explanations for the above changes, which derive mainly from the Bank's results, are presented above in the chapter, "Development of Income, Expenses and Tax Provision" as part of discussion on the Group's results.

- 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, primarily the sale of Mobileye in the first quarter of 2015.

- The low contribution of consolidated companies abroad to the net profit of the Group in the first half of 2015 was due to expenses of exchange rate differences which were recorded in respect of foreign subsidiaries whose functional currency is the shekel and to expenses recorded in respect of expected costs on the closure of the office in Switzerland which partly offset the profits of the offices in the functional currency in nominal terms, in a convenience translation to U.S. dollars. In the first half of 2014, the loss derives from expenses amounting to NIS 529 million in respect of the arrangements with overseas authorities.

- The improvement in the contribution of companies included on equity basis derives from profits of Israel Corporation which, was recorded only in respect of the first quarter of 2015, compared to a loss in the first half of last year.

# Activities of Major Investee Companies

## General

Bank Leumi Group operates in Israel and abroad through subsidiaries, comprising banks, finance companies and financial service companies. The Group also invests in non-bank corporations engaged in non-banking activity.

## Consolidated Companies in Israel

The Bank's investments in consolidated companies in Israel amounted to NIS 6,054 million on 30 June 2015, compared with NIS 6,020 million on 31 December 2014. The contribution to net profit in the first half of 2015 amounted to NIS 449.3 million, compared with NIS 256.6 million in the corresponding period in 2014, an increase of NIS 192.7 million.

**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 (a) | | |
|---|---|---|---|---|---|
| | For the six months ended | | | | |
| | **30 June 2015** | 30 June 2014 | **30 June 2015** | 30 June 2014 | Change |
| | % | | NIS millions | | % |
| Arab Israel Bank | **18.3** | 17.5 | **55.8** | 47.1 | 18.5 |
| Leumi Card | **11.7** | 15.4 | **71.9** | 83.4 | (13.8) |
| Leumi Partners (b) | **60.1** | 33.4 | **307.3** | 104.5 | + |
| Leumi Real Holdings | **0.3** | 0.6 | **1.4** | 2.6 | (46.2) |
| Others | **1.3** | 1.9 | **12.9** | 19.0 | (32.1) |
| Total consolidated companies in Israel | **15.5** | 9.9 | **449.3** | 256.6 | 75.1 |

(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 4,084 million on 30 June 2015, compared with NIS 4,123 million on 31 December 2014.

In the first half of 2015, the results of operations of the overseas consolidated subsidiaries amounted to a loss of NIS 1.1 million, compared with a loss of NIS 479.8 million in the corresponding period in 2014.

**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 six months ended | | | | |
| | **30 June 2015** | 30 June 2014 | **30 June 2015** | 30 June 2014 | Change |
| | % | | NIS millions | | % |
| Leumi USA (BLC) | **3.1** | 0.2 | **39.0** | 3.0 | + |
| Of which: Leumi USA | **3.6** | 0.2 | **38.2** | 2.2 | + |
| Leumi UK | **9.8** | 13.9 | **38.8** | 49.5 | (21.6) |
| Leumi Private Bank | **-** | - | **(45.3)** | (511.7) | 91.1 |
| Leumi Luxembourg | **-** | - | **(10.5)** | (25.2) | 58.3 |
| Leumi Re | **-** | 3.2 | **(1.6)** | 1.3 | - |
| Leumi Romania | **-** | 3.0 | **(9.6)** | 2.9 | - |
| Others | **-** | 1.7 | **(11.9)** | 0.4 | - |
| **Total overseas consolidated subsidiaries** | **-** | - | **(1.1)** | (479.8) | 99.8 |

* 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 six months ended | | |
|---|---|---|---|
| | **30 June 2015** | 30 June 2014 | Change |
| | In millions | | % |
| Leumi USA (BLC) - US$ | **10** | 12 | (16.7) |
| Of which: Leumi USA | **10** | 12 | (16.7) |
| Leumi UK - £ | **10** | 6 | 66.7 |
| Leumi Switzerland - CHF | **(2)** | (128) | 98.4 |
| Leumi Luxembourg - € | **1** | (5) | + |
| Leumi Re - US$ | **-** | 1 | + |
| Leumi Romania – ron * | **9** | 2 | + |
| Other - US$ | **(3)** | - | - |
| Total translated to the dollar | **23** | (126) | + |

* 1 ron at 30 June 2015 = NIS 0.942

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 June 2015 amounted to NIS 889 million, compared with NIS 2,216 million on 31 December 2014.

During the first half of 2015, the contribution to net profit amounted to a profit of NIS 146 million, compared with a loss of NIS 51 million in the corresponding period in 2014.

## Risk Exposure and Risk Management

This chapter is set out in more detail in the 2014 Financial Statements (pages 161-207), and should therefore be read in conjunction with the above Annual Report.

**Main changes in the risk environment**

The risk environment in which the Bank operated in the second quarter of 2015 was characterized by high volatility in global and local markets, particularly in light of concerns following the crisis in Greece and its effect on Europe and on weakness of the euro, and from the declining trend in stock market prices in China. In Israel, the volatility in the markets was reflected mainly in an increase in long-term government bond yields In addition, the establishment of a new government and the various programs for increasing competition in the banking system entail an increase in the competitive environment and the risk in business activity.

Globally, the trend of numerous regulatory changes continued, affecting all banking activities, a similar trend apparent in Israel. A trend which has intensified in recent quarters around the world is the increasing number of attempts in ability and in motivation to attack various financial entities. This trend reinforces the risk in all matters related to cyber risk and necessitates constant readiness on the part of the financial entities.

Leumi contends with the said challenges and risks, by changing its business activity and adapting it for new requirements, on the one hand, and to new threats, on the other, and via the adaptation of risk management to the changing environment.

With regard to the capital targets, Leumi is prepared to strengthen capital adequacy and achieve the capital targets required by the regulatory authorities, also in view of the initial implementation of the standard on employee rights which came into effect from the beginning of 2015, whose impact on the Bank's capital in the low and volatile interest rate environment is significant.

**Table of severity of risk factors**

In view of the new regulatory requirements in relation to the implementation of the standard on employee rights, an increase in the effect of changes in interest on the Bank's capital is anticipated. In this context, in the first quarter of 2015, it was decided to increase the exposure to interest risk from low-risk to medium-risk. It should be noted that the increase in interest risk does not derive from the deliberate risk-taking, but from changes in the accounting standards relating to employee rights.

Other than that, there has been no change in the severity of the risk factors in relation to the table published in the 2014 Annual Report.

**Credit risk**

This chapter is provided in great detail in the 2014 Annual Report (pages 170-186) 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 extend 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, which is determined, taking into account a large number of parameters, principally, financial stability, repayment capacity and the sector of the economy in which activity is concentrated.

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 main securities 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, there are directives which address the required adjustment between the currency base of the credit and the currency of the cash flow, which constitutes the source of repayment of the credit, and there is awareness of the subject of exposure to currency risks, 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/or commodity prices, the relevant business factor must 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/or commodity prices inherent in its activity.

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 keep risk to a minimum.

## 2. Credit exposure in respect of the fair value of derivatives by counterparty to the contract as at 30 June 2015:

| | AAA to AA- | A+ | A | A- | BBB to BBB- | BB+ to B- | Unrated | Total |
|---|---|---|---|---|---|---|---|---|
| Foreign banks | NIS millions | | | | | | | |
| Euro zone (a) | **1,853** | - | - | - | 1 | - | - | **1,854** |
| United Kingdom (b) | **1,994** | - | - | - | - | - | - | **1,994** |
| United States | **2,338** | - | - | - | - | - | - | **2,338** |
| Other | **303** | - | - | - | - | - | - | **303** |
| Total foreign banks | **6,488** | - | - | - | 1 | - | - | **6,489** |
| | | | | | | | | |
| Israeli banks (c) | - | **2,154** | - | - | - | - | - | **2,154** |
| | | | | | | | | |
| **Corporate customers, by sectors of the economy** | | | | | | | | |
| Financial services (d) | | | | | | | | **4,909** |
| Industry (e) | | | | | | | | **293** |
| Construction and real estate | | | | | | | | **90** |
| Transportation and storage | | | | | | | | **34** |
| Trade | | | | | | | | **183** |
| Electricity and water | | | | | | | | **86** |
| Business services | | | | | | | | **12** |
| Private individuals | | | | | | | | **20** |
| Information and communications (f) | | | | | | | | **234** |
| Others | | | | | | | | **37** |
| Total corporate customers | | | | | | | | **5,898** |
| Total exposure | | | | | | | | **14,541** |

(a) This amount includes transactions with 6 countries.
(b) This amount includes transactions with 11 banks.
(c) This amount includes transactions with 9 banks.
(d) This amount includes transactions with 473 customers, where the highest amount for a single customer is NIS 1,068 million.
(e) This amount includes transactions with 270 customers, where the highest amount for a single customer is NIS 34 million.
(f) This amount includes transactions with 64 customers, where the highest amount for a single customer is NIS 182 million.

### 3. Credit exposure to foreign financial institutions

**The following table presents credit exposure to foreign financial institutions (a):**

| | **As at 30 June 2015** | | | |
|---|---|---|---|---|
| | 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- | **12,357** | **4,985** | **2,131** | **19,473** |
| A+ to A- | **1,898** | **704** | **1** | **2,603** |
| BBB+ to BBB- | **149** | **257** | **128** | **534** |
| BB+ to B- | **-** | **-** | **13** | **13** |
| Below B- | **44** | **-** | **-** | **44** |
| Unrated | **139** | **-** | **142** | **281** |
| Total current credit exposure to foreign financial institutions | **14,587** | **5,946** | **2,415** | **22,948** |
| Problem debt balances | **-** | **-** | **-** | **-** |

| | As at 31 December 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- | 19,274 | 4,086 | 1,595 | 24,955 |
| A+ to A- | 2,138 | 29 | 1 | 2,168 |
| BBB+ to BBB- | 84 | 1,806 | 150 | 2,040 |
| BB+ to B- | 61 | 22 | 2 | 85 |
| Below B- | - | - | 1 | 1 |
| Unrated | 248 | - | 2 | 250 |
| Total current credit exposure to foreign financial institutions | 21,805 | 5,943 | 1,751 | 29,499 |
| 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 derivative instruments (fair value of derivatives).
(c) Including subordinated bank debentures amounting to NIS 616 million at 30 June 2015 and NIS 759 million at 31 December 2014.
(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:**

1. Credit exposures do not include investments in asset-backed securities (see the details in the note on securities).
2. 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.
3. For further information regarding the composition of the credit exposure in respect of derivative instruments *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 by country may be divided as follows: United States 47%, Europe (Germany, France, Switzerland, Spain and the Benelux countries) 17%, United Kingdom 22%, and other countries 14%.

Exposure includes deposits in foreign banks 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.

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 June 2015** | | |
|---|---|---|---|
| | Balance sheet credit risk | Off-balance sheet credit risk | Total current credit risk |
| | NIS millions | | |
| United States | **28,870** | **6,117** | **34,987** |
| United Kingdom | **13,156** | **3,796** | **16,952** |
| France | **2,116** | **1,227** | **3,343** |
| Germany | **2,936** | **267** | **3,203** |
| Switzerland | **2,466** | **430** | **2,896** |
| Belgium | **848** | **51** | **899** |
| Italy | **100** | **15** | **115** |
| The Netherlands | **1,717** | **213** | **1,930** |
| Denmark | **70** | **2** | **72** |
| Norway | **15** | **-** | **15** |
| Austria | **28** | **56** | **84** |
| Sweden | **56** | **5** | **61** |
| China | **959** | **937** | **1,896** |
| Canada | **568** | **253** | **821** |
| Brazil | **114** | **10** | **124** |
| Australia | **262** | **62** | **324** |
| Others | **6,759** | **861** | **7,620** |
| Total | **61,040** | **14,302** | **75,342** |

| | As at 31 December 2014 | | |
|---|---|---|---|
| | Balance sheet credit risk | Off-balance sheet credit risk | Total current credit risk |
| | NIS millions | | |
| United States | 30,378 | 6,279 | 36,657 |
| United Kingdom | 14,907 | 3,339 | 18,246 |
| France | 2,289 | 1,151 | 3,440 |
| Germany | 4,898 | 292 | 5,190 |
| Switzerland | 3,147 | 398 | 3,545 |
| Belgium | 1,154 | 74 | 1,228 |
| Italy | 273 | 27 | 300 |
| The Netherlands | 943 | 206 | 1,149 |
| Denmark | 119 | 7 | 126 |
| Norway | 648 | - | 648 |
| Austria | 46 | 60 | 106 |
| Sweden | 513 | 5 | 518 |
| China | 947 | 448 | 1,395 |
| Canada | 1,838 | 211 | 2,049 |
| Brazil | 1,254 | 22 | 1,276 |
| Australia | 1,395 | 61 | 1,456 |
| Others | 4,783 | 681 | 5,464 |
| Total | 69,532 | 13,261 | 82,793 |

**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 June 2015 in NIS millions:**

| Rating | 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 | **54,547** | **12,547** | **67,094** | **89.1** | **1,058** |
| High-income countries | **3,985** | **360** | **4,345** | **5.8** | **3** |
| Countries with mid-high income | **2,401** | **1,267** | **3,668** | **4.9** | **313** |
| Countries with mid-low income | **106** | **127** | **233** | **0.3** | **4** |
| Countries with low income | **1** | **1** | **2** | **-** | **-** |
| Total | **61,040** | **14,302** | **75,342** | **100.0** | **1,378** |

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 1,454 million and relates to 11 countries.

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

High income – more than US$ 12,736 per capita
Mid-high income - from US$ 4,126 to US$ 12,735 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 South Korea.

**b.** Countries with high income:

Cyprus, Hong Kong, Monaco, Singapore, Cayman Islands, Russia, Argentina and Croatia

**c.** Countries with mid-high income:

Argentina, Brazil, Bulgaria, Mexico, Panama, Romania, South Africa, Turkey, China Uruguay, Colombia and Peru

**d.** Countries with mid-low income:

Egypt, India, Paraguay, the Philippines, and the Ukraine

**e.** Countries with low income:

A large number of the African countries, Haiti and Nepal

**Overall exposure to certain foreign countries:**

| | **30 June 2015** | | | | |
|---|---|---|---|---|---|
| | Credit to the public | Bonds - banks and others | Bank deposits | Other | Total |
| | NIS millions | | | | |
| Ireland | **32** | **255** | **57** | **-** | **344** |
| Spain | **24** | **-** | **1** | **29** | **54** |
| Italy | **65** | **21** | **14** | **15** | **115** |
| Total (a) | **121** | **276** | **72** | **44** | **513** |

(a) The Group has no exposure to Portugal or Greece.

## Market and Liquidity Risks

This chapter is written in great detail in the Annual Financial Statements for 2014 (pages 187-198). 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):

| | **30 June 2015** | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| | NIS millions | | |
| **Capital requirements (a) in respect of :** | | | |
| Interest risks | **593** | 1,119 | 948 |
| Share price risk | **78** | 177 | 169 |
| Exchange rate risk | **50** | 100 | 200 |
| Options | **30** | 62 | 38 |
| Total capital requirements in respect of market risks | **751** | 1,458 | 1,355 |

### Main focus points in market risks

Market risk management is conducted in two main risk focal points – the banking portfolio and the trading portfolio. The definition of the trading portfolio is derived from the Basel directives and it includes the Bank's portfolio of tradable securities and derivative transactions in the tradable activity. The definition of the banking portfolio includes the transactions which are not included in the trading portfolio.

The management of market risks in respect of employee rights is partly carried out in the context of the banking portfolio and a further part carried out separately, and against it, there are "plan assets" which are intended to bear a long-term yield with the aim of servicing the value of the obligation. Since 1 January 2015, the Bank has applied U.S. accounting principles with regard to employee rights, as provided by the Bank of Israel, in particular, a change in the discounting rate of pension liabilities. The implementation of the new principles has a significant impact on the Bank's capital. The sensitivity of the actuarial liabilities for employee rights to a change of 1% is presented in Note 3b to the financial statements.

For further information on the application of the standard and its impact, see the Chapter "Critical Accounting Policy" above and Notes 1 and 3b to the financial statements.

### 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, whichever is earlier.

The interest exposure policy restricts the extent of exposure to possible changes in interest on the Bank's profits and on shareholders' equity. Accordingly, in each segment, the exposure to an unexpected change is measured at a parallel rate of 1% in interest in all the periods, and in various interest scenarios, and its effect on the potential erosion of economic value[1] and of the financial profit for twelve months forward in each of the segments and also for all segments together. Exposure of profit to interest is heavily influenced by the activity remeasured at market prices (derivative transactions and commercial 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).

[1] 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 interest risk is actually 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, the Bank considers some of the current account balances as a long-term liability. In addition, there are assumptions relating to early repayments in mortgages. These assessments have great importance in the management of interest risks, also due the substantial increase in balances in recent years.

The measurement of the exposure to changes in interest is made for both an increase and a decrease in each linkage sector. The table below presents exposure in the direction which conveys the maximum damage to the Bank. This measurement is intended to examine the sensitivity of the existing structure of assets and liabilities to changes in interest, and therefore the calculation carried out is done without changing the asset and liability structure, and it ignores the existence of an interest floor of 0% on deposits. It is probable that when the interest is clearly negative, the asset and liability structure will change. However, this is unlikely to occur.

**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 June 2015** | 30 June 2014 | 31 December 2014 |
| Banking portfolio | **900** | **722** | 314 | 506 |
| Trading portfolio | **450** | **101** | 219 | 220 |
| Total | **1,100** | **818** | 485 | 705 |
| | Potential erosion in annual profit | | | |
| | Limit | Actual | | |
| Total | **500** | **131** | 80 | 106 |

In the first half of 2015, the potential erosion in the economic value ranged from NIS 645 million to NIS 1,008 million, and in annual profit, from NIS 58 million to NIS 210 million. From the third quarter of 2015, the model for early repayment of mortgages was updated, which will reduce the exposure to interest risk.

In the first half of 2015, 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 June 2015** | | | | |
|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others |
| | NIS millions | | | | |
| Financial assets | **229,952** | **54,400** | **61,331** | **7,641** | **10,113** |
| Amounts receivable in respect of derivative financial and off-balance sheet instruments | **315,452** | **7,096** | **194,834** | **57,477** | **24,018** |
| Financial liabilities | **196,138** | **44,339** | **76,978** | **15,239** | **8,648** |
| Amounts payable in respect of derivative financial and off-balance sheet | **333,366** | **8,988** | **180,283** | **50,087** | **25,920** |
| Net fair value of financial instruments | **15,900** | **8,169** | **(1,096)** | **(208)** | **(437)** |

| | 30 June 2014 | | | | |
|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others |
| | NIS millions | | | | |
| Financial assets | 212,801 | 59,220 | 50,064 | 9,668 | 12,926 |
| Amounts receivable in respect of derivative financial and off-balance sheet instruments | 292,384 | 6,106 | 127,394 | 47,096 | 22,169 |
| Financial liabilities | 171,194 | 52,422 | 72,675 | 16,579 | 10,422 |
| Amounts payable in respect of derivative financial and off-balance sheet | 315,725 | 8,472 | 106,316 | 40,504 | 24,601 |
| Net fair value of financial instruments | 18,266 | 4,432 | (1,533) | (319) | 72 |

| | 31 December 2014 | | | | |
|---|---|---|---|---|---|
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others |
| | NIS millions | | | | |
| Financial assets | 222,410 | 55,524 | 64,967 | 9,373 | 12,730 |
| Amounts receivable in respect of derivative financial and off-balance sheet instruments | 322,255 | 6,776 | 198,239 | 56,168 | 35,421 |
| Financial liabilities | 182,348 | 50,496 | 87,313 | 15,721 | 9,732 |
| Amounts payable in respect of derivative financial and off-balance sheet | 340,762 | 9,046 | 177,771 | 50,011 | 38,888 |
| Net fair value of financial instruments | 21,555 | 2,758 | (1,878) | (191) | (469) |

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

| | **30 June 2015** | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair value, net, of financial instruments after the effect of changes in interest rates | | | | | Change in fair value | |
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others | Total | Total |
| | NIS millions | | | | | NIS millions | % |
| Immediate corresponding increase of 1% | **14,897** | **7,862** | **(1,293)** | **(217)** | **(452)** | **(1,531)** | **(6.86)** |
| Immediate corresponding increase of 0.1% | **15,800** | **8,138** | **(1,116)** | **(209)** | **(438)** | **(153)** | **(0.69)** |
| Immediate corresponding decrease of 1% | **16,997** | **8,542** | **(958)** | **(198)** | **(421)** | **1,634** | **7.32** |

| | 30 June 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair value, net, of financial instruments after the effect of changes in interest rates | | | | | Change in fair value | |
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others | Total | Total |
| | NIS millions | | | | | NIS millions | % |
| Immediate corresponding increase of 1% | 17,741 | 4,294 | (1,676) | (359) | 63 | (855) | (4.09) |
| Immediate corresponding increase of 0.1% | 18,213 | 4,418 | (1,547) | (323) | 71 | (86) | (0.41) |
| Immediate corresponding decrease of 1% | 18,856 | 4,584 | (1,434) | (277) | 82 | 893 | 4.27 |

| | 31 December 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair value, net, of financial instruments after the effect of changes in interest rates | | | | | Change in fair value | |
| | Israeli currency | | Foreign currency, including Israeli currency linked to foreign currency | | | | |
| | Unlinked | CPI-linked | Dollar | Euro | Others | Total | Total |
| | NIS millions | | | | | NIS millions | % |
| Immediate corresponding increase of 1% | 20,684 | 2,635 | (2,065) | (207) | (482) | (1,210) | (5.56) |
| Immediate corresponding increase of 0.1% | 21,468 | 2,746 | (1,897) | (193) | (470) | (121) | (0.56) |
| Immediate corresponding decrease of 1% | 22,516 | 2,911 | (1,741) | (173) | (456) | 1,282 | 5.89 |

* 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 2015, 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 June 2015 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Unlinked | CPI-linked | Foreign currency and foreign currency linked | Unlinked | CPI-linked | Foreign currency and foreign currency linked |
| **Average duration in years:** | | | | | | |
| Average duration of assets (a) | **1.11** | **3.14** | **0.92** | 1.03 | 2.96 | 0.96 |
| Average duration of liabilities (a) | **0.95** | **3.11** | **0.82** | 0.92 | 3.00 | 0.83 |
| Duration gap in years | **0.16** | **0.03** | **0.10** | 0.11 | (0.04) | 0.13 |
| IRR gap (%) | **2.02** | **1.65** | **0.87** | 2.29 | 1.22 | 1.16 |

(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 3.15 years, with an internal rate of return (hereinafter: IRR) gap of 1.35%.

The data presented above take into account early repayments of index-linked mortgage loans according to a model which estimates expected repayments on the basis of the borrowers' 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 3.51 years, and an IRR gap of about 1.35%.

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 1.06 years in unlinked shekels and 0.88 years in foreign currency, with an IRR gap of 1.65% and 0.58%, 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 future 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 shareholders' equity.

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.

The limits of basis exposure, which are 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 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 the tax exposure arising from exchange rate differences in respect of foreign investments, which are defined as units whose functional currency is identical to the shekel, 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 June 2015** | 30 June 2014 | 31 December 2014 |
| Unlinked | (65%)-65% | **(23.2)** | (12.8) | (1.2) |
| CPI-linked | (50%)-50% | **23.0** | 11.8 | 3.9 |
| Foreign currency | (15%)-15% | **0.2** | 1.0 | 2.7 |

During the first half of 2015, the average rate of equity invested in the linked sector stood at a surplus of about 23% of the exposed capital, fluctuating between a surplus of 7.2% and 26.6% 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 half of 2015, 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 foreign currencies as at 30 June 2015. 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 | **3** | **(11)** | **5** | **1** | **(3)** |
| Increase of 10% in exchange rate | **8** | **(24)** | **12** | **3** | **(6)** |
| Decrease of 5% in exchange rate | **(5)** | **4** | **(4)** | **(1)** | **3** |
| Decrease of 10% in exchange rate | **(1)** | **1** | **(10)** | **(2)** | **7** |

### 3. Exposures in dealing rooms

**Market risks in the trading portfolio derive from of the Bank's activity as a market-maker in the foreign currency and derivatives trading rooms and as a manager of positions in shekels nostro and foreign currency nostro:**

- Foreign currency dealing room – The trading room acts as a market-maker in various currencies, interest rates, derivative instruments and Government of Israel debentures in favor of the provision of immediate trading services to customers who are in these instruments. 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 which were approved by the Market Risks Management Committee. Because of the dynamic nature of the activity, these restrictions are regularly monitored at least once a day by the middle office.
- In the nostro trading dealing rooms, pro-active activity is carried out in the context of which exposures are initiated to interest, foreign currency and negotiable credit risks. In nostro shekels, most of the exposure is to Government of Israel debentures and, in foreign currency nostro, the exposure is to foreign government debentures, banks, corporations and asset-backed debentures. This activity is managed and monitored at least once a week, in accordance with the restrictions, some of which have been approved by the Board of Directors and some, by the Chief Risk Officer. All of the restrictions have been validated by the Risk Management Division.

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

The Bank examines the loss which may be incurred in a stress event from market risks and from all of the risks by means of several tools, which also include various assumptions. Among other things, the Bank uses a value-at-risk model to measure stress loss which may be incurred from market risks. For this purpose, 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 June 2015** | 30 June 2014 | 31 December 2014 | **30 June 2015** | 30 June 2014 | 31 December 2014 |
| Actual | **278** | 94 | 156 | **59** | 54 | 42 |
| Limit | **500** | 500 | 500 | **400** | 400 | 400 |

In the first half of 2015, the Group complied with all the VaR restrictions prescribed by the Board of Directors.

At the beginning of the third quarter of 2015, a transition to measuring the Value at Risk based on a historical simulation was approved, in which identical weight is given to each observation on the basis of the past two years, instead of a parametric simulation, which was the usual practice. In addition, warning limits were approved at the Board of Directors level for the Value at Risk in relation to the banking portfolio and the trading portfolio. From the third quarter of 2015, the Bank began to measure the Value at Risk accordingly.

**Risks of marketable credit, shares and funds in the nostro**

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.) and also in funds and shares with a high diversification.

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 under the management of 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 is an integral part of the strategic business management of Leumi Group and is adapted to the requirements of Proper Conduct of Banking Management Regulation no. 342 for the management of liquidity risk and requirements of Directive no 221 "Liquidity Coverage Ratio, (LCR), which adopts the recommendations of the Basel III Committee for the calculation of a minimum liquidity ratio, with adaptation to the Israeli economy. Pursuant to this directive, the LCR ratio must not be less than 60% by the end of 2015 and will increase to 80% in 2016 and to 100% from 2017.

Leumi retains a proper level of liquidity, through the investment of the nostro portfolio in high-quality and diversified assets in shekels and foreign currency which will enable it to meet all of the liquidity requirements in a variety of stress scenarios, and through fund-raising policy of various stable and diversified long-term sources with an emphasis on raising retailers' deposits and preparation for the mobilization of long-term debentures.

In recent years, with the decline in the level of interest, and regulatory changes taking place in Israel and throughout the world, the availability of foreign resident deposits has contracted as a source of financing and a significant trend of transition of retail deposits to the capital market has been created, while increasing financing from corporations, most of which are financial. Against the backdrop of these trends, liquidity management constitutes an ongoing administrative challenge.

The management of liquidity risk exposure is routinely and specifically examined, controlled and discussed by the forums and committees at the level of the Board of Directors, management and intermediate ranks, as outlined in the annual reports in the part dealing with the market risk and other financial risk policy to the Report of the Board of Directors. In this context, the forecast of cash flows, trends in various segments of deposits, depositor concentrations and fund-raising costs are closely monitored. The exposure to liquidity risk is routinely managed at the Group level, and process of collective monitoring had been built up. The subsidiaries establish policy for the management of liquidity risk and manage liquidity independently and appropriately with the collective policy and subject to the local regulatory provisions in each company. In addition, credit lines have been determined for the subsidiaries, which were approved in Leumi's Board of Directors, in the event of stress scenarios, in which there is a requirement for an injection of funds for the subsidiaries, subject to the regulatory restrictions on the transfer of monies.

From 1 April 2015, the Bank has been measuring and managing liquidity risk using two key models for all currencies and for the foreign currency separately:

- An internal model for estimating the liquidity risk under a variety of scenarios that relate to various market situations relating to the whole banking system and, specifically, to Leumi. The scenarios examine that the liquid means at the Bank's disposal in all currencies and in foreign currency separately are sufficient to address the liquidity requirements in stress scenarios of liquidity which last longer than a month. The model is based on the assessment of quality and dispersal of the asset portfolio and uses suitable security coefficients which have been examined on an historical basis in accordance with the level of risk, the story of the scenario and based on the opinion of the professional factors. In addition, the model assesses the stability of the deposits of the public according to the customers' characteristics, with the retail deposits being attributed to low repayment rates, creating a distinction between the sources in the significantly sensitive currencies in the stress periods compared to shekel sources. In relation to credit, the model assesses what proportion will be due for final repayment and what proportion will be recycled, as a function of the credit characteristics. The limits for the internal model were determined at a number of management levels, with the Board of Directors at the top. During the period under review, the Bank maintained a liquidity ratio above 1, in accordance with the provisions of Regulation 342.

- The measurement of the minimum coverage ratio (LCR) is carried out pursuant to Regulation no 221. In the second quarter of the year, the average consolidated liquidity coverage ratio stood was 106%. The high coverage ratio is based, as aforesaid, on the maintenance of a portfolio of diversified and high-quality assets ("security buffer") which is invested in Israeli currency, mainly deposits in the Bank of Israel and Government of Israel debentures, and in foreign currency, mostly government or government-guaranteed debentures, and a variety of various long-term stable financing sources. The classification of the various assets, deposits, facilities and collateral, and the use of coefficients, is carried out as provided in Regulation no. 221.

**Below is the liquidity coverage ratio at the Group level (NIS in billions) on the basis of the average daily observations in the second quarter:**

| | Total weighted value* (average) |
|---|---|
| Total high-quality liquid assets | 75.5 |
| **Outgoing cash flows, net** | 71.0 |
| Of which: | |
| Retail deposits from individuals and small businesses | 10.6 |
| Wholesale financing | 72.1 |
| Liquidity coverage ratio | 106% |

* Weighted value is the computed value of assets – after using the appropriate collateral coefficients, or the rates of incoming cash or outgoing cash flow (with regard to incoming or outgoing cash flows).

The models act as dynamic management tools and enable control, supervision and review at a routine daily level of the liquidity position and the reported results for all of the relevant management and control. In addition, the exposures are reported in the President and CEO's Report and in the quarterly risk document which is discussed in the management, the Risk Management Committee of the Board of Directors and in the plenum of the Board of Directors, or which is discussed as necessary.

The Bank has prepared a shelf plan to deal with a liquidity crisis, which includes a system of warning lights which is able to indicate a change in the Bank's liquidity position. When a warning sign appears, a designated forum will be convened in order to assess the situation and examine the necessity for activating the plan, depending on the level of severity. The plan includes detailed operative measures relating, *inter alia*, to the orders for the sale of assets, policy for dealing with customers and reporting systems for all of the corporate factors, the Board of Directors and the Bank of Israel.

# 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 June 2015** | | | As at 31 December 2014 | | |
|---|---|---|---|---|---|---|
| | Unlinked | CPI-linked | Foreign currency (b) | Unlinked | CPI-linked | Foreign currency (b) |
| | NIS millions | | | | | |
| Total assets (a) | **247,578** | **53,295** | **105,538** | 237,123 | 54,203 | 123,611 |
| Total liabilities (a) | **226,361** | **51,761** | **107,940** | 210,338 | 59,148 | 127,649 |
| Surplus (deficit) of assets in segment | **21,217** | **1,534** | **(2,402)** (c) | 26,785 | (4,945) | (4,038)(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; the investment in shares and funds classified as a non-monetary item.

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 June 2015 amounted to some NIS 30 billion, compared with NIS 39 billion at the end of December 2014.

The Bank also has a securities portfolio of some NIS 58 billion, invested mainly in Government of Israel debentures and foreign government debentures. This compares with a balance of NIS 44 billion at 31 December 2014.

The balance of liquid assets represent around 25.8% of the financial assets of the Bank, an increase of 0.7% compared with the level at 31 December 2014.

## Operational risks

This chapter is set out in great detail in the Financial Report for 2014 (pages 187-198) 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 and cyber security.

The management of operational risks in Leumi Group is carried out from a systemic perspective, using three lines of defense through a uniform and systematic group methodology which is outlined by the Operational Risk Management Department in the Risk Management Division, 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, which is managed in all of the Bank's divisions.

A significant focal point of risk in the range of operational risks is data technology risks. The Bank is a progressive and leading bank in technological innovation, with the aim of creating advanced services for its customers. Alongside the business opportunities which are generated with the technological progress, the exposure level to data security risk and to system failure increases, which are liable to expose the Bank to impairment in business activity and to impairment of goodwill. Data security risks in Leumi are managed on the basis of an orderly policy for mapping and risk management, implementation of controls and hedging of risks.

**Cyber risk** (Reporting as prospective information) – In recent years, an increase in the degree of cyber threats can be discerned. Attacks are being 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 implementing supervision and control mechanisms and procedures.

In Leumi, there are centers operating monitoring unusual cyber activity and attacks. Leumi persists in the improvement of the defense from cyber attacks.

In the first half of 2015, Leumi experienced no serious data security or cyber events.

## Compliance Risks

This chapter was written in great detail in the 2014 annual report (pages 165-166 and 201-202). Accordingly, the chapter below should be read in conjunction with the contents of the annual report.

In April 2015, an Upper Committee for the Compliance Risk Management was appointed, in conjunction with the Risk Management Division, Compliance, Internal Audit, and the Legal Division and representatives of the business lines and Leumi Technologies.

In recent years, compliance risks have increased, banks around the world are absorbing substantial penalties in respect of failure to comply with regulations in many and various areas, from activity in the capital market and the sale of various financial products ("conduct risk"), through the violation of international sanctions, to the area of private banking. In addition, the frequent changes in regulations require constant pro-active monitoring and assessments within a short time-frame, which require the allocation of several resources.

As a result of changes in legislation and the principles of enforcement in Israel and around the world, and in view of the provision of services by the Bank to foreign resident customers, compliance with international laws and principles has become more complex than in the past and the risk of violations of the regulatory requirements of foreign countries, including in respect of monies previously received from existing customers and from past customers of the Bank and its foreign subsidiaries, became significant. In addition to consumer issues and the topics regarding the prohibition of money laundering and the financing of terrorism, the importance of compliance with laws related to the principles of investment management, the provision of banking services and the compliance of foreign resident customers with the tax laws relevant to them (cross-border activity) has increased.

As a result of the changes in legislation and in enforcement around the world and the beginning of the United States investigation into Leumi Group, the Bank has taken steps over the past three years on a number of planes to reduce these exposures. Pursuant thereto, contact was made with all private U.S. customers in order to obtain their signatures on W9 tax forms, which evidence the fact that they declare their monies to the U.S. authorities as required. The Bank is prepared to comply with the FATCA rules and the inter-government agreement (IGA) to guarantee compliance with the U.S. requirements.

On 16 March 2015, the Supervisor of Banks issued a letter on "Risk management arising from the cross-border activity of customers". According to this circular, it is required to establish policy for dealing with cross-border activity with an emphasis on tax indebtedness. Pursuant to this policy, the Bank will determine risk hierarchies for customers on these aspects and will obtain their signatures on declaration forms. These declarations will include the customer's declaration on their countries of residence for tax purposes, the customer's declaration that their accounts have been duly reported to these countries and a confidentiality waiver vis-à-vis the overseas authorities.

Further to dealing with the subject of the United States, it was decided to exit the representative and other offices overseas that have been engaged in private banking, including closing the major bulk of the representative offices abroad, the sale of the activity of the Bank's office in Switzerland, and the decision to exit the office in Luxembourg. A "declared money policy" has been established, which is aimed to ensure, based on indications of risk, that new foreign residents and new monies transferred to the Bank from various countries are declared by the customers to their countries of origin. Furthermore, under the said policy, a risk-oriented multi-year outline was defined for dealing with the Bank's existing non-United States customers, with the aim of ensuring that their monies were declared or in the process of being declared, so that all of the customers of the Bank and of the Bank's overseas subsidiaries will comply with the "declared money policy" adopted by the Bank. The implementation of the said policy will naturally take some time and is being adapted to regulatory processes defined in Israel and around the world for dealing with this topic, and on the basis of the rating carried on the risk level of various customers. The implementation is also being carried out paying attention to the "Automatic Exchange of Information" Agreement of the OECD, which, the Ministry of Finance of the State of Israel has announced, it will join.

The management of all the compliance risks is carried out in Leumi by allocating the responsibility among three "lines of defense", whereby the management of cross-border activity risk is handled by the International Private Banking Department, assisted by the Compliance Department and the Legal Counsel Department of the Bank. As a further part of the Bank's preparedness for overall management of the compliance risks that have arisen and have become more complex, over the past year, the Bank has made a structural change in the compliance function, centralizing the employees of the "second line" from the field to the head office, and defining their duty, *inter alia*, in the detection of broad-based compliance risk. In addition, on the corporate side, the handling of foreign resident customers was concentrated in a number of centers in the Banking Division, which specialize in dealing with the requirements of customers and compliance with the necessary regulations, and was applied in the integration of the compliance function as a "second line" in the activity of trading rooms.

## Legal Proceedings

The Report of the Board of Directors in the Annual Report for 2014 sets forth legal, civil and other proceedings in which the Bank and consolidated subsidiaries are parties.

For further details regarding changes that have occurred in connection with legal proceedings and new claims which have been submitted, see 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 expenses as a result of the abovementioned claims.

**Arrangement with the U.S. authorities**

As outlined in Note 18 to the annual financial statements for 2014, on 22 December 2014, Leumi Group signed a Deferred Prosecution Agreement (DPA) with the United States Department of Justice (DOJ) and a consent order with the New York Department of Financial Services (NYDFS).

On 4 January 2015, the Bank paid a total of US$ 400 million in accordance with the said arrangements (US$ 270 million to the DOJ and US$ 130 million to the NYDFS).

The Bank made full provisions for the said amounts; in previous reporting periods, and therefore, the payment of the said amounts has no impact on the financial results for the period.

As set forth in the financial statements at 31 December 2014 and 31 March 2015, pursuant to the consent order signed by the NYDFS, a monitor was appointed by the NYDFS to examine, among other things, the Group's activity. In the second quarter of 2015, a number of working meetings were held with the monitor that the NYDFS announced that it intended to appoint and with his team, as preparation for the commencement of the monitor's work. On 15 July 2015, the appointment of the monitor was formally approved by the NYDFS, and his term of office commenced in accordance with the applicable consent order.

In order to comply with the provisions of the arrangements as aforesaid, the Bank has appointed a special steering committee which supervises the fulfillment of the Bank's and the offices' undertakings according to the arrangements and submits reports thereon to the Bank's management and Board of Directors.

As a result of the investigations, a numbers of actions have been served against the Bank and office-holders who served and who are serving in the Bank. For details regarding the abovementioned actions, see Note 6 to the financial statements.

On 11 January, 2015, the Ministry of Justice published a notice, according to which the Attorney-General ordered a comprehensive review of the Bank's arrangements with the U.S. authorities, and also ordered a combined team to be set up, comprising enforcement and consultative bodies for a thorough examination. The team will present its conclusions to the Attorney-General to consider the issues. In addition, the Banking Supervision Department announced that it is undertaking an audit process relating to aspects of proper conduct of banking management, as well as aspects of the personal responsibility of employees and office-holders in the matter. In May 2015, the Banking Supervision Department furnished a draft audit report. The Bank responded to this draft in June 2015. On 3 August 2015, the Bank was furnished with a second draft of the audit report, to which the Bank is responding.

On 15 February 2015, the Board of Directors decided to establish an independent claims committee in order to make recommendations to the Board of Directors of the Bank on the correct legal course of action for the Bank, in view of all of the circumstances and proceedings relating to the events that led to the Bank's undertaking in arrangements with the U.S. authorities, including to examine (a) whether to serve, and in whose name, one or more monetary claims against any office-holder and/or employee, past or present in the Bank Group, in respect of damages caused to the Bank because of the events which are the subject of the arrangements; (b) whether to work towards one or more of the arrangements in the context of legal proceedings which are pending in connection with U.S. customers, and, if so, in whose name and under what conditions; (c) whether to serve, and in whose name, one or more monetary claims against any office-holder and/or employees, past or present, in the

Bank Group, for the return of bonuses on the basis of profits which the corporations of the Bank generated over the years from the customers in relation to whom the Bank has arrived at arrangements with the U.S. authorities.

On 11 March 2015, the Tel-Aviv District Court approved the establishment of the independent claims committee and postponed the continuation of the discussions before it for four months, in order to enable the committee to complete its work. (See update on this subject in Note 6d.1 in the financial statements). Immediately following the decision of the court, the committee commenced its work. On 2 July 2015, a request was made for an extension to the completion of committee's work, this, in light of the complexity of the issue, the numerous documents which it is examining and the various entities which have been summoned to be heard before it. On 8 July 2015, the court approved the extension of the stay of proceedings in the file described in Note 6d.1 of the financial statements, and of the work of the Independent Committee such that its conclusions would be submitted to the Board of Directors of the Bank, which would approve the subject by 12 October 2015.

As noted in the financial statements as of 31 December 2014, there is an investigation pending by the United States Securities and Exchange Commission (SEC) in connection with the Group's activities in securities and investment advice with U.S. resident customers. During the first quarter of 2015, a meeting was held with the SEC in which the documents requested by the SEC were discussed. During the period, the Group supplied the SEC with the documents it required.

According to the legal advice received by the Group from its attorneys in the United States, due to the broad discretion given to the SEC and due to the special facts and the defense claims concerning the Group's interests, the Group is unable, at this stage, to evaluate the amount that the Group may be required to pay as a result of the investigation.

Since it is not possible to evaluate the total amount of the expense that may be incurred by the Group regarding this investigation, based on the opinion of its lawyers advising the Group in the United States in the SEC's investigation regarding the impossibility of estimating the expected amount of expenses, the Group considers that there is no reason to make any provision in the financial statements in respect thereof. Nevertheless, in accordance with an instruction of the Bank of Israel, dated 25 May 2015, according to which, "for the time being, the Bank is obliged to include a provision for the amount of the expected loss it estimates in respect of the investigation. For reasons of prudence, this provision must not be less than US$ 5 million. The Bank made a provision of US$ 5 million in the 31 March 2015 financial statements.

**Merger of the Bank and the Arab Israel Bank Ltd. (hereinafter "the Arab Israel Bank")**

On 4 May 2015, the Board of Directors of the Bank approved the execution of a merger of the Arab Israel Bank and the Bank. On 4 May 2015, the Board of Directors of the Arab Israel Bank approved the said merger. The merger is expected to be take effect on 31 December 2015.

Pursuant to the merger agreement, the Arab Israel Bank, which is an almost wholly-owned subsidiary of the Bank, will be merged with and within the Bank.

As part of the merger, the employees of the Arab Israel Bank will be absorbed as employees of the Bank, and all of the assets and liabilities of the Arab Israel Bank will be transferred to the Bank.

Om 14 May 2015, the merger agreement was signed, providing, *inter alia*, that all minority shareholders in the Arab Israel Bank will have the right to receive from Bank Leumi a cash payment in new Israeli shekels of an amount not exceeding NIS 1,609.36 for each share, net of taxes as required by law. On 26 May 2015, a general meeting of the shares of the Arab Israel Bank was held. The general meeting approved the merger proposal by a majority of 99.72% of the share capital and voting rights. The minority shareholders holding 0.28% of the share capital and voting rights in the Arab Israel Bank opposed the merger. As a result, the Bank submitted a request for approval of the merger pursuant to the provisions of Section 321 of the Companies Law to the Tel Aviv District Court – Economic Department. The execution of the merger is subject to the court's decision to approve the merger, notwithstanding the objection of the minority shareholders.

**Monetary penalty – Committee for the Imposition of a Monetary Sanction on the matter of Banking Corporations**

On 28 June 2015, the Bank received a decision of the Committee for Imposing Monetary Sanctions on the Matter of Banking Corporations (hereinafter "the Committee") whereby the Committee resolved to levy the Bank with a monetary penalty amounting to NIS 4.2 million in respect of nine incidents of a breach of the provisions of the Prohibition of Money Laundering Order and Regulations (Ways and Dates for Forwarding a Report of Banking Corporations and Entities set forth in the Third Schedule to the Law, for a Database), 2002, which deals with reporting to the Prohibition of Money Laundering Authority on non-routine activity.

**Monetary penalty – pursuant to Section 52p of the Securities Law**

On August 5 2015, the Bank received a demand for payment of a monetary penalty amounting to NIS 750 thousand. The monetary penalty was imposed on the Bank further to an audit conducted between February and July 2014 by the Investment Advice Department in the Bank.

The amount of the monetary penalty was determined due to three breaches which were included in the audit report, and after the Authority found it appropriate to reduce the amount of the monetary penalty by 37.5%, due, *inter alia*, to the intensive measures adopted by the Bank to remedy and prevent the re-occurrence of the breaches.

# D. Additional Matters

## Leumi for the Community

**Management of community relations**

Leumi's social commitment is reflected in the continuous investment in tomorrow's generation and the provisions of opportunities and tools for its success. Leumi has chosen to focus on the advancement of education, culture and art and activity to reduce the gaps between the outlying areas and the central region of the country. Leumi's social involvement is demonstrated in three main channels: the "Leumi Tomorrow - The Centennial Fund for Endowing Israel’s Future Generation" Association (R.A.), financial donations and sponsorships for social objectives and the volunteering activities of the employees.

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

The association has decided to focus its donations in the next three years principally in the "Leumi Tomorrow" – Youth Leading Change" association, an association that has carried the banner of advancing and nurturing youth from the social periphery and returning them to the social circle, preparation for recruitment to the IDF, completing matriculation examinations, etc., as well as promoting gifted youth to reinforce science subjects and enrichment in studies. The associations support thousands of young people and, each year, are evidence of success in the programs and effectiveness of the investment. In addition to the monetary donations, Leumi employees volunteer to support trainees and groups in the association, thereby identifying with the objectives and symbolizing the volunteering activity as a "banner project".

**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. Leumi employees volunteer to accompany groups and youngsters from the association "Leumi Tomorrow - Youth Leading Change". In addition, they have begun to participate in programs which promote financial empowerment. The activities are carried out in conjunction with social organizations, welfare departments and local authorities.

**"Young Israeli Entrepreneurs" organization**

Leumi is an involved partner in the "Young Israeli Entrepreneurs" organization, in which youth experience setting up a start-up company which advances a business idea of a product development. Leumi's contribution to the organization focuses on assisting in the operation of the program in the social and geographic outlying areas, and the adoption of the program by branches of the Bank throughout Israel, and recruiting volunteer mentors from among employees of the Group. Leumi recently hosted the National Young Entrepreneurs competition, in which the winning group took part in the international competition in Berlin.

**Summary of Donations and Sponsorships**

In the first half of the year, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 18.9 million, of which donations totaled some NIS 13.7 million.

**The summary of donations and sponsorships in the first half of 2015 by topic is as follows:**

Education, children and youth – 9.1 million
Culture and art – NIS 2.2 million
Community and society – NIS 6.4 million
Health – NIS 1.2 million

## Internal Auditor

Details regarding the 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 2014.

The 2015 work program of the Internal Audit Division was submitted to the Audit Committee on 23 December 2014, and was approved in the Audit Committee on 30 December 2014. On 19 January 2015, it was submitted to the Board of Directors and approved in the Board of Directors on 10 February 2015.

The Internal Auditor's annual report for 2014 was submitted to the Audit Committee on 26 February 2015 and discussed in the Committee on 3 March 2015. On 11 March 2015, the report was submitted to the Board of Directors and discussed in the plenum on 15 March 2015.

The annual reports of the internal auditors of subsidiaries in Israel for 2014 were submitted to the Audit Committee on 12 March 2015 and were discussed in the Committee on 18 March 2015.

The annual reports of the internal auditors of overseas units for 2014 were submitted to the Audit Committee on 28 April 2015 and discussed in the Audit Committee on 3 May 2015.

# 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 1992 (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 and is in the process of adopting the new COSO model.

During 2015, the Bank validated and updated 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 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 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 June 2015, 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.

As regards the procedure for approval of the financial statements, see the corporate governance questionnaire in the periodic report, which was published on 31 March 2015 (Ref. no. 2015-01-070033).

# Organizational Structure and Appointments

### Appointments and retirements

### Appointments:

**Mr. Danny Cohen**, member of Bank management, Head of the Human Resources Division and Chairman of the Board of Directors of the Arab Israel Bank will continue in his position as Head of the Human Resources Division until 31 December 2015. On 1 January 2016, he will be appointed to the position of Head of the Banking Division, and at the same time, he will continue in his position as Chairman of the Board of Directors of the Arab Israel Bank until the merger.

**Ms. Tamar Yassur**, member of Bank management, Head of the Banking Division and Chairman of the Board of Directors of Leumi Card will continue in her position as Head of the Banking Division until 31 December 2015. On 1 January 2016, she will be appointed to the position of Head of the Digital Banking Division, and, at the same time, she will continue in her position as Chairman of the Board of Directors of Leumi Card.

**Ms. Hila Eran-Zik**, manager of Credit and Deputy Vice President of Bank Leumi New York was appointed to the position of the Head of the Risk Management Division, Chief Risk Officer and member of the Bank management at the rank of senior vice-president, with effect from 1 October 2015.

### Retirements:

**Dr Hedva Ber**, member of Bank management, ceased to serve in her position as Chief Risk Officer and Head of the Risk Management Division on 5 July 2015, after 7 years of employment in the Bank.

**Ms. Ronit Rinder** will cease to serve in her position as Head of Building Procurement and Logistics Department and retire on 31 October 2015, after 36 years of employment in the Bank.

## Organizational structure:

### Private Banking Department

On 1 January 2015, a change in organizational structure was made, whereby the Private Banking Department in the Bank was transferred to the responsibility of the Banking Division.

### Building Procurement and Logistics Department

On 15 June 2015, the Department for Building Procurement and Logistics Department was eliminated and responsibility for the procurement, building, maintenance sections and assets was transferred to the Head of the Financial Division. Responsibility for the Logistics Center was transferred to the Human Resources Division.

### Digital Banking Division

On 1 January 2016, a new division was set up in Leumi for Digital Banking, which is subject to the President and CEO. The establishment of the division will constitute an additional and significant step in the digital revolution. The division will manage the Bank's digital activity, lead and implement advanced digital innovation in Leumi Group, significantly upgrade the customer experience and accord him a transparent service in a friendly and intuitive interface at a very attractive price. The division will also manage the marketing, innovation, business development and "Big Data" activity in the Bank and in the Group.

### Bank Leumi Nominee Company Limited

On 26 May 2015, the Board of Directors of the Bank approved the decision of the board of directors of a subsidiary - Bank Leumi Nominee Company Limited, to cease the activity of the nominee company. The aforesaid cessation of activity is not expected to materially impact the Bank's operating results. The nominee company is taking steps to implement the decision, including operating with its customers to transfer the registration of securities that they issued to other nominee companies. The nominee company will continue to provide nominee company services for securities of Bank Leumi.

For further information on the subject of the merger between the Bank and the Arab Israel Bank, see the Chapter - Description of Leumi Group's Business Activities and their General Development.

## Provident and Severance Pay Funds of the Bank's Employees

In March 2015, the Bank entered into an agreement with institutional entities from the Migdal Group to transfer the provident funds which have been accrued or will be accrued since 2008 and onwards and severance pay funds which have been accrued or will be accrued in the provident and severance pay funds of the Bank's employees, on behalf of first-generation employees that have chosen or will choose, on retirement a track of social security arrangement, to a non-contributory fund under the management of Migdal.

In addition, on 25 March 2015, the Bank received approval from the Tax Authority for the transfer of the severance pay funds accumulated in the Bank's central severance pay fund in favor of the severance pay component in personal provident funds maintained on the employees' behalf, and the conditions and mechanism for the withdrawal of monies from the severance pay central fund.

## Signing of agreement on the area of computing

On 30 June 2015, software, development and maintenance license agreements were signed by the Bank and Temenos Ltd. for the Bank's digital activity and for a project to replace the Mortgage Department's system in the Bank.

The amount of the total expected investment in the project is not material.

The agreement includes the possibility of the Bank continuing the project so that, in the future, it will include expanding the project to replacing other core systems of the Bank.

## Board of Directors

During the first half of 2015 and up to the date of publication of this Report, the following changes took place in the composition of the Board of Directors:

In accordance with the law, at the Annual General Meeting of the Bank, five directors terminated their terms of office: Mr. Rami Guzman, Professor Arieh Gans, Adv. Haim Samet (external director), Professor Efraim Sadka and Professor Yedidya Stern.

On 3 July, 2015, Professor Gans and Professor Sadka terminated their terms of office as directors in the Bank. Mr. Rami Guzman is expected to terminate his term of office as a director in the Bank on 1 November 2015. Professor Yedidya Stern and Mr. Haim Samet offered themselves for re-election.

On 8 July 2015, the Annual General Meeting of the Bank ("Annual General Meeting") took place with the following topics, *inter alia*, on the agenda:

1. Election of three external directors pursuant to Regulation 301 of the Banking Supervision Department for a period of three years, from the candidates proposed by the Committee for the Appointment of Directors in Banking Corporations, which was appointed pursuant to Section 36a of Banking Law and pursuant to the provisions of Sections 11d(a)(1) and (2) of the Banking Ordinance.
2. Election of two external directors pursuant to Section 239 of the Companies Law, 1999, for a period of three years, from the candidates proposed by the Committee for the Appointment of Directors in Banking Corporations, which was appointed pursuant to Section 36a of Banking Law and pursuant to the provisions of Sections 11d(a)(1) and (2) of the Banking Ordinance.

At the Annual General Meeting, incumbent directors, Mr. Haim Samet was re-elected as external director pursuant to Regulation 301 of the Banking Supervision Department for a period of three years and Mr. Yedidya Stern was re-elected as external director pursuant to Section 239 of the Companies Law, 1999. In addition, Ms. Tamar Gottlieb was elected as external director pursuant to Regulation 301 of the Banking Supervision Department and Dr. Shmuel (Molli) Ben-Zvi and Mr. Ohad Marani was also elected as external director pursuant to Section 239 of the Companies Law, 1999.

For further details regarding the results of the Annual General Meeting, see Immediate Report of 8 July 2015 (Ref. no. 2015-01-068940).

The election of the directors who were elected at the Annual General Meeting is conditional on the approval or absence of objection of the Supervisor of Banks pursuant to Section 11a of the Companies Ordinance. The order of the commencement of the terms of office of the elected directors will be in accordance with that date of receiving the approval or absence of objection of the Supervisor of Banks, as aforesaid, in relation to those elected directors, taking account of the number of vacant positions on the Board of Directors of the Bank and the date on which those positions became vacant. There are currently 14 directors on the Board of Directors.

During the period of January to June 2015, the Board of Directors held 23 plenary meetings and 53 committee meetings. In addition, 11 meetings of the Independent Claims Committee, headed by Retd. Justice Uri Goren, were held, in connection with the U.S. customers affair.

At the meeting of the Board of Directors held on 18 August 2015, it was resolved to approve and publish the Group’s condensed unaudited consolidated financial statements as of 30 June 2015 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<br>Chairman of the Board of Directors | Rakefet Russak-Aminoach<br>President and Chief Executive Officer |

**18 August 2015**

# Rates of Income and Expenses[a]

Exhibit A

Part A – Average balances and interest rates - assets

| | For the three months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 (j) | | |
| | Average balance (b) | Interest income | Rate of income | Average balance (b) | Interest income | Rate of income |
| | NIS millions | | % | NIS millions | | % |
| **Income-bearing assets** | | | | | | |
| Credit to the public (c) | | | | | | |
| In Israel | **224,418** | **2,442** | **4.42** | 216,451 | 2,323 | 4.36 |
| Outside Israel | **22,706** | **217** | **3.88** | 22,913 | 220 | 3.90 |
| Total (i) | **247,124** | **2,659** | **4.37** | 239,364 | 2,543 | 4.32 |
| Credit to the Government | | | | | | |
| In Israel | **427** | **6** | **5.74** | 449 | 6 | 5.45 |
| Outside Israel | **-** | **-** | **-** | 42 | - | - |
| Total | **427** | **6** | **5.74** | 491 | 6 | 4.98 |
| Deposits in banks | | | | | | |
| In Israel | **8,692** | **23** | **1.06** | 6,385 | 18 | 1.13 |
| Outside Israel | **908** | **2** | **0.88** | 1,428 | 3 | 0.84 |
| Total | **9,600** | **25** | **1.05** | 7,813 | 21 | 1.08 |
| Deposits in central banks | | | | | | |
| In Israel | **25,427** | **7** | **0.11** | 21,161 | 39 | 0.74 |
| Outside Israel | **4,838** | **2** | **0.17** | 6,330 | 2 | 0.13 |
| Total | **30,265** | **9** | **0.12** | 27,491 | 41 | 0.60 |
| Securities borrowed or purchased under resale agreements | | | | | | |
| In Israel | **1,989** | **-** | **-** | 1,346 | 3 | 0.89 |
| Outside Israel | **-** | **-** | **-** | - | - | - |
| Total | **1,989** | **-** | **-** | 1,346 | 3 | 0.89 |
| Bonds available for sale (d) | | | | | | |
| In Israel | **45,114** | **74** | **0.66** | 39,007 | 144 | 1.48 |
| Outside Israel | **4,429** | **14** | **1.27** | 4,290 | 18 | 1.69 |
| Total | **49,543** | **88** | **0.71** | 43,297 | 162 | 1.51 |
| Bonds for trading (d) | | | | | | |
| In Israel | **11,293** | **29** | **1.03** | 9,596 | 35 | 1.47 |
| Outside Israel | **247** | **2** | **3.28** | 146 | 1 | 2.77 |
| Total | **11,540** | **31** | **1.08** | 9,742 | 36 | 1.49 |
| **Total interest-bearing assets** | **350,488** | **2,818** | **3.26** | 329,544 | 2,812 | 3.46 |
| Receivables for non-interest bearing credit cards | **7,437** | | | 7,192 | | |
| Other non-interest bearing assets (e) | **30,894** | | | 31,612 | | |
| **Total assets** | **388,819** | **2,818** | | 368,348 | 2,812 | |
| Total income-bearing assets attributable to activity outside Israel | **33,128** | **237** | **2.89** | 35,149 | 244 | 2.81 |

See notes on page 133.

# 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 June | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | | | 2014 (j) | | |
| | **Average balance** | **Interest expense** | **Rate of expense** | Average balance | Interest expense | Rate of expense |
| | **(NIS millions)** | | **%** | (NIS millions) | | % |
| **Interest- bearing liabilities** | | | | | | |
| Deposits of the public | | | | | | |
| In Israel | **219,101** | **(412)** | **(0.75)** | 207,831 | (506) | (0.97) |
| On demand | **59,403** | **(2)** | **(0.01)** | 48,530 | (30) | (0.25) |
| Fixed term | **159,698** | **(410)** | **(1.02)** | 159,301 | (476) | (1.19) |
| Outside Israel | **17,205** | **(30)** | **(0.70)** | 17,113 | (30) | (0.70) |
| On demand | **2,770** | **(1)** | **(0.14)** | 3,027 | (2) | (0.26) |
| Fixed term | **14,435** | **(29)** | **(0.80)** | 14,086 | (28) | (0.79) |
| Total | **236,306** | **(442)** | **(0.75)** | 224,944 | (536) | (0.95) |
| Deposits of the Government | | | | | | |
| In Israel | **138** | **(1)** | **(2.87)** | 153 | (1) | (2.59) |
| Outside Israel | **372** | **-** | **-** | 242 | - | - |
| Total | **510** | **(1)** | **(0.78)** | 395 | (1) | (1.01) |
| Deposits from central banks | | | | | | |
| In Israel | **-** | **-** | **-** | - | - | - |
| Outside Israel | **-** | **-** | **-** | - | - | - |
| Total | **-** | **-** | **-** | - | - | - |
| Deposits from banks | | | | | | |
| In Israel | **5,228** | **(3)** | **(0.23)** | 3,924 | (10) | (1.02) |
| Outside Israel | **51** | **(1)** | **(7.62)** | 164 | (1) | (2.42) |
| Total | **5,279** | **(4)** | **(0.30)** | 4,088 | (11) | (1.07) |
| Securities lent or sold under resale agreements | | | | | | |
| In Israel | **1,210** | **-** | **-** | 563 | (3) | (2.11) |
| Outside Israel | **-** | **-** | **-** | - | - | - |
| Total | **1,210** | **-** | **-** | 563 | (3) | (2.11) |
| Bonds | | | | | | |
| In Israel | **18,536** | **(371)** | **(7.77)** | 23,467 | (356) | (5.93) |
| Outside Israel | **1,092** | **-** | **-** | 1,036 | - | - |
| Total | **19,628** | **(371)** | **(7.35)** | 24,503 | (356) | (5.69) |
| **Total interest-bearing liabilities** | **262,933** | **(818)** | **(1.24)** | 254,493 | (907) | (1.42) |
| Non-interest bearing deposits of the public | **56,303** | | | 54,714 | | |
| Payables for non-interest bearing credit cards | **8,052** | | | 7,855 | | |
| Other non-interest bearing liabilities (f) | **34,208** | | | 25,695 | | |
| **Total liabilities** | **361,496** | **(818)** | | 342,757 | (907) | |
| **Total capital means** | **27,322** | | | 25,592 | | |
| **Total liabilities and capital means** | **388,818** | **(818)** | | 368,348 | (907) | |
| **Interest margin** | | **3,636** | **2.02** | | 1,905 | 2.04 |
| **Net yield** (g) **on income-bearing assets** | | | | | | |
| In Israel | **317,360** | **1,794** | **2.28** | 294,395 | 1,692 | 2.32 |
| Outside Israel | **33,128** | **206** | **2.51** | 35,149 | 213 | 2.45 |
| Total | **350,488** | **2,000** | **2.30** | 329,544 | 1,905 | 2.33 |
| Total income-bearing liabilities attributable to activity outside Israel | **18,720** | **(31)** | **(0.66)** | 18,555 | (31) | (0.67) |

See notes on page 133.

# Rates of Income and Expenses[a] (cont'd)

Exhibit A

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

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 (j) | | |
| | Average balance (b) | Interest income | Rate of income | Average balance (b) | Interest income | Rate of income |
| | (NIS millions) | | % | (NIS millions) | | % |
| **Income-bearing assets** | | | | | | |
| Credit to the public (c) | | | | | | |
| In Israel | **224,959** | **3,569** | **3.20** | 213,914 | 4,030 | 3.80 |
| Outside Israel | **23,243** | **437** | **3.80** | 23,546 | 451 | 3.87 |
| Total (i) | **248,202** | **4,006** | **3.25** | 237,460 | 4,481 | 3.81 |
| Credit to the Government | | | | | | |
| In Israel | **444** | **7** | **3.18** | 466 | 9 | 3.90 |
| Outside Israel | **25** | **-** | **-** | 43 | - | - |
| Total | **469** | **7** | **3.01** | 509 | 9 | 3.57 |
| Deposits in banks | | | | | | |
| In Israel | **10,041** | **36** | **0.72** | 6,229 | 28 | 0.90 |
| Outside Israel | **1,057** | **9** | **1.71** | 1,628 | 6 | 0.74 |
| Total | **11,098** | **45** | **0.81** | 7,857 | 34 | 0.87 |
| Deposits in central banks | | | | | | |
| In Israel | **27,493** | **21** | **0.15** | 20,160 | 82 | 0.82 |
| Outside Israel | **4,870** | **5** | **0.21** | 5,878 | 5 | 0.17 |
| Total | **32,363** | **26** | **0.16** | 26,038 | 87 | 0.67 |
| Securities borrowed or purchased under resale agreements | | | | | | |
| In Israel | **1,986** | **2** | **0.20** | 1,435 | 7 | 0.98 |
| Outside Israel | **-** | **-** | **-** | - | - | - |
| Total | **1,986** | **2** | **0.20** | 1,435 | 7 | 0.98 |
| Bonds available for sale (d) | | | | | | |
| In Israel | **39,996** | **159** | **0.80** | 41,851 | 306 | 1.47 |
| Outside Israel | **4,843** | **34** | **1.41** | 4,220 | 35 | 1.67 |
| Total | **44,839** | **193** | **0.86** | 46,071 | 341 | 1.49 |
| Bonds for trading (d) | | | | | | |
| In Israel | **11,586** | **37** | **0.64** | 9,934 | 52 | 1.05 |
| Outside Israel | **296** | **4** | **2.72** | 101 | 2 | 4.00 |
| Total | **11,882** | **41** | **0.69** | 10,035 | 54 | 1.08 |
| **Total interest-bearing assets** | **350,839** | **4,320** | **2.48** | 329,405 | 5,013 | 3.07 |
| Receivables for non-interest bearing credit cards | **7,119** | | | 7,066 | | |
| Other non-interest bearing assets (e) | **44,448** | | | 32,592 | | |
| **Total assets** | **402,406** | **4,320** | | 369,063 | 5,013 | |
| Total income-bearing assets attributable to activity outside Israel | **34,334** | **489** | **2.87** | 35,416 | 499 | 2.84 |

See notes on page 133.

# Rates of Income and Expenses[a] (cont'd)

Exhibit A

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

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 (j) | | |
| | 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 | 221,320 | (395) | (0.36) | 208,189 | (779) | (0.75) |
| On demand | 59,506 | (7) | (0.02) | 48,275 | (68) | (0.28) |
| Fixed term | 161,814 | (388) | (0.48) | 159,914 | (711) | (0.89) |
| Outside Israel | 17,053 | (61) | (0.71) | 16,610 | (65) | (0.78) |
| On demand | 2,845 | (3) | (0.21) | 2,628 | (4) | (0.30) |
| Fixed term | 14,208 | (58) | (0.81) | 13,982 | (61) | (0.87) |
| Total | 238,373 | (456) | (0.38) | 224,799 | (844) | (0.75) |
| Deposits of the Government | | | | | | |
| In Israel | 141 | (2) | (2.82) | 151 | (3) | (3.93) |
| Outside Israel | 358 | - | - | 241 | - | - |
| Total | 499 | (2) | (0.80) | 392 | (3) | (1.52) |
| Deposits from central banks | | | | | | |
| In Israel | - | - | - | 20 | - | - |
| Outside Israel | - | - | - | - | - | - |
| Total | - | - | - | 20 | - | - |
| Deposits from banks | | | | | | |
| In Israel | 4,754 | (6) | (0.25) | 3,715 | (17) | (0.91) |
| Outside Israel | 50 | (1) | (3.96) | 121 | (1) | (1.65) |
| Total | 4,804 | (7) | (0.29) | 3,836 | (18) | (0.94) |
| Securities lent or sold under resale agreements | | | | | | |
| In Israel | 1,198 | (2) | (0.33) | 679 | (5) | (1.47) |
| Outside Israel | - | - | - | - | - | - |
| Total | 1,198 | (2) | (0.33) | 679 | (5) | (1.47) |
| Bonds | | | | | | |
| In Israel | 20,801 | (337) | (3.21) | 24,957 | (481) | (3.82) |
| Outside Israel | 15 | - | - | 10 | - | - |
| Total | 20,816 | (337) | (3.21) | 24,967 | (481) | (3.82) |
| **Total interest-bearing liabilities** | 265,690 | (804) | (0.60) | 254,693 | (1,351) | (1.06) |
| Non-interest bearing deposits of the public | 69,774 | | | 54,628 | | |
| Payables for non-interest bearing credit cards | 7,908 | | | 7,686 | | |
| Other non-interest bearing liabilities (f) | 32,261 | | | 26,719 | | |
| **Total liabilities** | 375,633 | (804) | | 343,726 | (1,351) | |
| **Total capital means** | 26,773 | | | 25,337 | | |
| **Total liabilities and capital means** | 402,406 | (804) | | 369,063 | (1,351) | |
| **Interest margin** | | 3,516 | 1.87 | | 3,662 | 2.01 |
| **Net yield (g) on income-bearing assets** | | | | | | |
| In Israel | 316,505 | 3,089 | 1.96 | 293,989 | 3,229 | 2.21 |
| Outside Israel | 34,334 | 427 | 2.50 | 35,416 | 433 | 2.46 |
| Total | 350,839 | 3,516 | 2.01 | 329,405 | 3,662 | 2.24 |
| Total income-bearing liabilities attributable to activity outside Israel | 17,476 | (62) | (0.71) | 16,982 | (66) | (0.78) |

See notes on page 133.

# 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 June | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | | | 2014 (j) | | |
| | **Average balance** | **Interest income (expense)** | **Rate of income (expense)** | Average balance | Interest income (expense) | Rate of income (expense) |
| | (NIS millions) | | % | (NIS millions) | | % |
| **Index-linked Israeli currency** | | | | | | |
| Total interest-bearing assets | **53,039** | **1,022** | **7.93** | 56,652 | 758 | 5.46 |
| Total interest-bearing liabilities | **41,625** | **(635)** | **(6.24)** | 48,736 | (588) | (4.91) |
| Interest margin | | | **1.69** | | | 0.55 |
| **Unlinked Israeli currency** | | | | | | |
| Total interest-bearing assets | **216,607** | **1,372** | **2.56** | 199,122 | 1,594 | 3.24 |
| Total interest-bearing liabilities | **169,697** | **(118)** | **(0.28)** | 150,027 | (249) | (0.67) |
| Interest margin | | | **2.28** | | | 2.58 |
| **Foreign currency** | | | | | | |
| Total interest-bearing assets | **47,714** | **187** | **1.58** | 38,621 | 216 | 2.26 |
| Total interest-bearing liabilities | **32,891** | **(34)** | **(0.41)** | 37,175(j) | (39) | (0.42) |
| Interest margin | | | **1.17** | | | 1.84 |
| **Total activity in Israel** | | | | | | |
| Total interest-bearing assets | **317,360** | **2,581** | **3.29** | 294,395 | 2,568 | 3.54 |
| Total interest-bearing liabilities | **244,213** | **(787)** | **(1.30)** | 235,938 | (876) | (1.49) |
| Interest margin | | | **1.99** | | | 2.05 |

| | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2015** | | | 2014 (j) | | |
| | **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 | **53,462** | **644** | **2.42** | 57,032 | 889 | 3.14 |
| Total interest-bearing liabilities | **43,051** | **(416)** | **(1.94)** | 49,086 | (663) | (2.72) |
| Interest margin | | | **0.48** | | | 0.42 |
| **Unlinked Israeli currency** | | | | | | |
| Total interest-bearing assets | **214,605** | **2,761** | **2.59** | 198,679 | 3,210 | 3.26 |
| Total interest-bearing liabilities | **166,488** | **(247)** | **(0.30)** | 149,119 | (543) | (0.73) |
| Interest margin | | | **2.29** | | | 2.53 |
| **Foreign currency** | | | | | | |
| Total interest-bearing assets | **48,438** | **426** | **1.77** | 38,278 | 415 | 2.18 |
| Total interest-bearing liabilities | **38,675** | **(79)** | **(0.41)** | 39,506 | (79) | (0.40) |
| Interest margin | | | **1.36** | | | 1.78 |
| **Total activity in Israel** | | | | | | |
| Total interest-bearing assets | **316,505** | **3,831** | **2.44** | 293,989 | 4,514 | 3.09 |
| Total interest-bearing liabilities | **248,214** | **(742)** | **(0.60)** | 237,711 | (1,285) | (1.08) |
| Interest margin | | | **1.84** | | | 2.01 |

See notes on page 133.

## Rates of Income and Expenses[a] (cont'd)

Exhibit A

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

| | 2015 compared to 2014 | | | 2015 compared to 2014 | | |
|---|---|---|---|---|---|---|
| | For the six months ended 30 June | | | For the three months ended 30 June | | |
| | Increase (decrease) due to change (h) | | Net change | Increase (decrease) due to change (h) | | Net change |
| | Amount | Price | | Amount | Price | |
| | (NIS millions) | | | | | |
| **Interest-bearing assets** | | | | | | |
| Credit to the public | | | | | | |
| In Israel | 175 | (636) | (461) | 87 | 32 | 119 |
| Outside Israel | (6) | (8) | (14) | (2) | (1) | (3) |
| Total | 169 | (644) | (475) | 85 | 31 | 116 |
| Other interest-bearing assets | | | | | | |
| In Israel | 33 | (255) | (222) | 22 | (128) | (106) |
| Outside Israel | (4) | 8 | 4 | (3) | (1) | (4) |
| Total | 29 | (247) | (218) | 19 | (129) | (110) |
| **Total interest income** | 198 | (891) | (693) | 104 | (98) | 6 |
| **Interest-bearing liabilities** | | | | | | |
| **Deposits of the public** | | | | | | |
| In Israel | 23 | (407) | (384) | 21 | (115) | (94) |
| Outside Israel | 2 | (6) | (4) | - | - | - |
| Total | 25 | (413) | (388) | 21 | (115) | (94) |
| Other interest-bearing liabilities | | | | | | |
| In Israel | (34) | (125) | (159) | (45) | 50 | 5 |
| Outside Israel | - | - | - | (2) | 2 | - |
| Total | (34) | (125) | (159) | (47) | 52 | 5 |
| **Total interest expenses** | (9) | (538) | (547) | (26) | (63) | (89) |

See notes on page 133.

## 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 six month period an amount of NIS 571 million (30 June 2014 – NIS 511 million).

(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 six month period in an amount of NIS 249 million has been included in interest income from credit to the public (30 June 2014 – NIS 239 million).

(j) Reclassified.

# Exposure to Interest Rate Fluctuations

Exhibit B

| | 30 June 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 |
| | (NIS millions) | | | | | | |
| **Israeli currency - unlinked** | | | | | | | |
| **Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments** | | | | | | | |
| Financial assets (a) | 164,294 | 5,864 | 31,510 | 12,136 | 6,319 | 5,977 | 3,039 |
| Derivative financial instruments (excluding options) | 61,189 | 89,311 | 61,112 | 43,979 | 23,400 | 25,827 | 602 |
| Options (in terms of basis asset) (d) | 865 | 4,609 | 1,555 | 1,244 | 1,724 | 7 | 28 |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - |
| Total fair value | 226,348 | 99,784 | 94,177 | 57,359 | 31,443 | 31,811 | 3,669 |
| **Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments** | | | | | | | |
| Financial liabilities (a) | 173,120 | 5,268 | 4,221 | 7,941 | 5,113 | 401 | 64 |
| Derivative financial instruments (excluding options) | 63,282 | 97,675 | 66,286 | 44,881 | 25,893 | 25,646 | 603 |
| Options (in terms of basis asset) (d) | 1,651 | 4,142 | 2,059 | 1,175 | - | - | - |
| Off-balance sheet financial instruments | - | - | 34 | - | - | - | - |
| Total fair value | 238,053 | 107,085 | 72,600 | 53,997 | 31,006 | 26,047 | 667 |
| **Financial instruments, net** | | | | | | | |
| Exposure to interest rate fluctuations | (11,705) | (7,301) | 21,577 | 3,362 | 437 | 5,764 | 3,002 |
| Accumulated exposure in the sector | (11,705) | (19,006) | 2,571 | 5,933 | 6,370 | 12,134 | 15,136 |
| **Israeli currency – linked** | | | | | | | |
| **Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments** | | | | | | | |
| Financial assets (a) | 2,065 | 3,368 | 11,095 | 17,774 | 11,707 | 5,858 | 2,101 |
| Derivative financial instruments (excluding options) | 87 | 516 | 849 | 2,260 | 1,743 | 1,595 | 46 |
| Options (in terms of basis asset) (d) | - | - | - | - | - | - | - |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - |
| Total fair value before compound financial assets | 2,152 | 3,884 | 11,944 | 20,034 | 13,450 | 7,453 | 2,147 |
| Compound financial assets | - | - | - | - | - | - | - |
| Total fair value | 2,152 | 3,884 | 11,944 | 20,034 | 13,450 | 7,453 | 2,147 |
| **Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments** | | | | | | | |
| Financial liabilities (a) | 1,069 | 1,672 | 10,392 | 13,904 | 6,752 | 9,506 | 1,044 |
| Derivative financial instruments (excluding options) | 260 | 400 | 2,336 | 2,222 | 1,526 | 1,999 | 139 |
| Options (in terms of basis asset) (d) | - | - | - | - | - | - | - |
| Off-balance sheet financial instruments | - | - | 106 | - | - | - | - |
| Total fair value | 1,329 | 2,072 | 12,834 | 16,126 | 8,278 | 11,505 | 1,183 |
| **Financial instruments, net** | | | | | | | |
| Exposure to interest rate fluctuations | 823 | 1,812 | (890) | 3,908 | 5,172 | (4,052) | 964 |
| Accumulated exposure in the sector | 823 | 2,635 | 1,745 | 5,653 | 10,825 | 6,773 | 7,737 |

See notes on page 138.

| Over twenty years | No repayment date | Total fair value | Internal rate of return | Duration (b) | 30 June 2014 Total fair value | Internal rate of return | Duration (b) | 31 December 2014 Total fair value | Internal rate of return | Duration (b) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | (%) | (Years) | | (%) | (Years) | | (%) | (Years) |
| 372 | 441 | 229,952 | 2.77 | 0.76 | 212,801 | 2.98 | 0.68 | 222,410 | 2.83 | 0.63 |
| - | - | 305,420 | - | 1.41 | 286,006 | - | 1.49 | 310,080 | - | 1.37 |
| - | - | 10,032 | - | - | 6,378 | - | - | 12,175 | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| 372 | 441 | 545,404 | 2.77 | 1.11 | 505,185 | 2.98 | 1.13 | 544,665 | 2.83 | 1.03 |
| - | 10 | 196,138 | 0.75 | 1.08 | 171,194 | 2.98 | 0.28 | 182,348 | 0.54 | 0.26 |
| 39 | - | 324,305 | - | 1.38 | 310,596 | - | 1.42 | 330,356 | - | 1.31 |
| - | - | 9,027 | - | - | 5,102 | - | - | 10,377 | - | - |
| - | - | 34 | - | 0.50 | 27 | - | 0.50 | 29 | - | 0.50 |
| 39 | 10 | 529,504 | 0.75 | 0.95 | 486,919 | 1.34 | 1.00 | 523,110 | 0.54 | 0.92 |
| 333 | | | | | | | | | | |
| 15,469 | | | | | | | | | | |
| 415 | 17 | 54,400 | 2.11 | 3.09 | 59,220 | 1.41 | 3.83 | 55,524 | 2.07 | 2.92 |
| - | - | 7,096 | - | 3.50 | 6,106 | - | 3.48 | 6,776 | - | 3.27 |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - | - | - |
| 415 | 17 | 61,496 | 2.11 | 6.59 | 65,326 | - | 3.80 | 62,300 | - | 2.96 |
| - | - | - | - | - | - | - | - | - | - | - |
| 415 | 17 | 61,496 | 2.11 | 3.14 | 130,652 | 1.41 | 3.80 | 124,600 | 2.07 | 2.96 |
| - | - | 44,339 | 0.46 | 3.10 | 52,422 | 0.55 | 3.38 | 50,496 | 0.85 | 2.96 |
| - | - | 8,882 | - | 3.19 | 8,356 | - | 2.94 | 8,901 | - | 3.30 |
| - | - | - | - | - | - | - | - | - | - | - |
| - | - | 106 | - | - | 116 | - | - | 145 | - | - |
| - | - | 53,327 | 0.46 | 3.11 | 60,894 | 0.55 | 3.31 | 59,542 | 0.85 | 3.00 |
| 415 | | | | | | | | | | |
| 8,152 | | | | | | | | | | |

# Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

| | 30 June 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 |
| | (NIS millions) | | | | | | |
| **Foreign currency and foreign currency linked** | | | | | | | |
| **Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments** | | | | | | | |
| Financial assets (a) | 43,959 | 10,921 | 7,785 | 5,195 | 5,376 | 5,051 | 400 |
| Derivative financial instruments (excluding options) | 85,589 | 63,653 | 68,438 | 20,273 | 11,859 | 10,525 | 315 |
| Options (in terms of basis asset) (d) | (1,075) | 5,862 | 4,864 | 3,823 | 953 | 689 | 536 |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - |
| Total fair value | 128,473 | 80,436 | 81,087 | 29,291 | 18,188 | 16,265 | 1,251 |
| **Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments** | | | | | | | |
| Financial liabilities (a) | 72,673 | 8,645 | 13,863 | 4,472 | 1,019 | 127 | 53 |
| Derivative financial instruments (excluding options) | 74,484 | 59,143 | 59,143 | 20,230 | 13,311 | 13,431 | 397 |
| Options (in terms of basis asset) (d) | (741) | 4,722 | 4,240 | 4,016 | 2,544 | 689 | 536 |
| Off-balance sheet financial instruments | - | - | 14 | - | - | - | - |
| Total fair value | 146,416 | 72,510 | 77,260 | 28,718 | 16,874 | 14,247 | 986 |
| **Financial instruments, net** | | | | | | | |
| Exposure to interest rate fluctuations | (17,943) | 7,926 | 3,827 | 573 | 1,314 | 2,018 | 265 |
| Accumulated exposure in the sector | (17,943) | (10,017) | (6,190) | (5,617) | (4,303) | (2,285) | (2,020) |
| **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) | 210,318 | 20,153 | 50,390 | 35,105 | 23,402 | 16,886 | 5,540 |
| Derivative financial instruments (excluding options) | 146,865 | 153,480 | 130,399 | 66,512 | 37,002 | 37,947 | 963 |
| Options (in terms of basis asset) (d) | (210) | 10,471 | 6,419 | 5,067 | 2,677 | 696 | 564 |
| Off-balance sheet financial instruments | - | - | - | - | - | - | - |
| Total fair value | 356,973 | 184,104 | 187,208 | 106,684 | 63,081 | 55,529 | 7,067 |
| **Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments** | | | | | | | |
| Financial liabilities (a) (c) | 246,862 | 15,585 | 28,476 | 26,317 | 12,884 | 10,034 | 1,161 |
| Derivative financial instruments (excluding options) | 138,026 | 157,218 | 127,765 | 67,333 | 40,730 | 41,076 | 1,139 |
| Options (in terms of basis asset) (d) | 910 | 8,864 | 6,299 | 5,191 | 2,544 | 689 | 536 |
| Off-balance sheet financial instruments | - | - | 154 | - | - | - | - |
| Total fair value | 385,798 | 181,667 | 162,694 | 98,841 | 56,158 | 51,799 | 2,836 |
| **Financial instruments, net** | | | | | | | |
| Exposure to interest rate fluctuations | (28,825) | 2,437 | 24,514 | 7,843 | 6,923 | 3,730 | 4,231 |
| Accumulated exposure in the sector | (28,825) | (26,388) | (1,874) | 5,969 | 12,892 | 16,622 | 20,853 |
| In addition, interest rate exposure in respect of liabilitirs for employee rights, gross | 46 | 91 | 412 | 1,212 | 1,305 | 3,373 | 5,303 |

See notes on page 138.

# Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

| | | | | | 30 June 2014 | | | 31 December 2014 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **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) |
| | | | (%) | (Years) | | (%) | (Years) | | (%) | (Years) |
| **220** | **178** | **79,085** | **1.85** | **1.12** | 72,658 | 2.26 | 1.29 | 87,070 | 2.05 | 1.07 |
| **25** | **-** | **260,677** | **-** | **0.91** | 188,089 | - | 0.91 | 272,332 | - | 0.99 |
| **-** | **-** | **15,652** | **-** | **-** | 8,570 | - | - | 17,496 | - | - |
| **-** | **-** | **-** | **-** | **-** | - | - | - | - | - | - |
| **245** | **178** | **355,414** | **1.85** | **0.92** | 269,317 | 2.26 | 0.98 | 376,898 | 2.05 | 0.96 |
| **1** | **12** | **100,865** | **0.98** | **0.33** | 99,676 | 1.12 | 0.27 | 112,766 | 0.89 | 0.28 |
| **131** | **-** | **240,270** | **-** | **1.08** | 162,012 | - | 1.16 | 247,963 | - | 1.14 |
| **-** | **-** | **16,006** | **-** | **-** | 9,397 | - | - | 18,694 | - | - |
| **-** | **-** | **14** | **-** | **0.50** | 12 | - | 0.50 | 13 | - | 0.50 |
| **132** | **12** | **357,155** | **0.98** | **0.82** | 271,097 | 1.12 | 0.79 | 379,436 | 0.89 | 0.83 |
| **113** | **-** | **-** | **-** | **-** | - | - | - | - | - | - |
| **(1,907)** | **-** | **-** | **-** | **-** | - | - | - | - | - | - |
| **1,007** | **6,028** | **368,829** | **2.33** | **1.19** | 348,601 | 2.10 | 1.35 | 370,103 | 2.34 | 1.08 |
| **25** | **1,316** | **574,509** | **-** | **1.21** | 481,351 | - | 1.29 | 590,806 | - | 1.21 |
| **-** | **3** | **25,687** | **-** | **-** | 14,973 | - | - | 29,764 | - | - |
| **-** | **-** | **-** | **-** | **-** | - | - | - | - | - | - |
| **1,032** | **7,347** | **969,025** | **2.33** | **1.17** | 844,925 | 2.10 | 1.29 | 990,673 | 2.34 | 1.13 |
| **1** | **754** | **342,074** | **0.61** | **0.67** | 323,712 | 0.76 | 0.78 | 346,024 | 0.58 | 0.66 |
| **170** | **1,531** | **574,988** | **-** | **1.28** | 482,012 | - | 1.35 | 590,147 | - | 1.27 |
| **-** | **67** | **25,100** | **-** | **-** | 14,605 | - | - | 29,164 | - | - |
| **-** | **174** | **328** | **-** | **0.09** | 306 | - | 0.07 | 356 | - | 0.06 |
| **171** | **2,526** | **942,490** | **0.61** | **1.03** | 820,635 | 0.76 | 1.10 | 965,691 | 0.58 | 1.01 |
| **861** | | | | | | | | | | |
| **21,714** | | | | | | | | | | |
| **4,972** | **-** | **16,713** | **2.62** | **15.96** | - | - | - | - | - | - |

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 666 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 3.51 years, the duration of total liabilities reaches 3.15 years, and the internal rate of return (hereinafter – IRR) gap amounts to 1.35%. The change in fair value on total assets is NIS 742 million and in total liabilities NIS 5 million.

# Total Credit Risk to the Public by Economic Sector

Exhibit C

| | 30 June 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Overall credit risk (a) | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | |
| | | | | | [1]Of which: | | | Credit losses (d) | | |
| | Total | Credit performance rating | Problematic (e) | Total[1] | Debts (b) | Problematic (e) | Impaired | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | (NIS millions) | | | | | | | | | |
| **In respect of activity of borrowers in Israel** | | | | | | | | | | |
| Agriculture | 2,059 | 1,934 | 125 | 2,055 | 1,741 | 125 | 49 | 20 | (14) | (47) |
| Mining and quarrying | 797 | 797 | - | 701 | 376 | - | - | (2) | - | (1) |
| Industry | 25,261 | 22,659 | 2,602 | 24,646 | 15,452 | 2,591 | 438 | 36 | (36) | (495) |
| Construction and real estate - construction | 47,351 | 45,642 | 1,709 | 47,249 | 16,897 | 1,708 | 651 | 52 | (30) | (358) |
| Construction and real estate - real estate activity | 26,105 | 24,253 | 1,852 | 25,990 | 23,598 | 1,852 | 1,299 | (42) | (10) | (647) |
| Electricity and water | 4,485 | 4,420 | 65 | 3,435 | 2,737 | 65 | - | 2 | - | (33) |
| Commerce | 26,226 | 24,920 | 1,306 | 25,964 | 21,306 | 1,270 | 246 | (43) | (8) | (345) |
| Hotels, catering services and food | 3,012 | 2,823 | 189 | 2,991 | 2,658 | 189 | 151 | 8 | 4 | (33) |
| Transport and storage | 6,691 | 6,244 | 447 | 6,626 | 5,856 | 447 | 294 | 9 | 1 | (54) |
| Information and communications | 6,582 | 6,133 | 449 | 6,176 | 4,413 | 446 | 437 | 18 | 11 | (212) |
| Financial services | 22,792 | 22,754 | 38 | 16,335 | 9,423 | 38 | 13 | (23) | (11) | (316) |
| Business and other services | 7,271 | 7,155 | 116 | 7,234 | 5,072 | 103 | 44 | 12 | 15 | (71) |
| Public and community services | 7,499 | 7,461 | 38 | 7,446 | 6,191 | 38 | 13 | 2 | 1 | (43) |
| **Total commercial** | 186,131 | 177,195 | 8,936 | 176,848 | 115,720 | 8,872 | 3,635 | 49 | (77) | (2,655) |
| Private individuals - housing loans | 80,112 | 79,380 | 732 | 80,112 | 77,330 | 731 | - | 7 | 2 | (500) |
| Private individuals - other | 68,661 | 68,224 | 437 | 68,642 | 35,806 | 437 | 101 | 83 | 113 | (607) |
| **Total public - activity in Israel** | 334,904 | 324,799 | 10,105 | 325,602 | 228,856 | 10,040 | 3,736 | 139 | 38 | (3,762) |
| **Banks in Israel** | 7,360 | 7,360 | - | 3,166 | 2,069 | - | - | 2 | - | - |
| **Government of Israel** | 36,785 | 36,785 | - | 266 | 266 | - | - | - | - | - |
| **Total activity in Israel** | 379,049 | 368,944 | 10,105 | 329,034 | 231,191 | 10,040 | 3,736 | 141 | 38 | (3,762) |

See notes on next page.

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

Exhibit C (cont'd)

| | 30 June 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Overall credit risk (a) | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | |
| | | | | | Of which:[1] | | | Credit losses (d) | | |
| | Total | Credit performance rating | Problematic (e) | Total[1] | Debts (b) | Problematic (e) | Impaired | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | (NIS millions) | | | | | | | | | |
| **In respect of activity of borrowers abroad** | | | | | | | | | | |
| Agriculture | 105 | 102 | 3 | 104 | 42 | 3 | 3 | - | - | (2) |
| Mining and quarrying | 21 | 21 | - | 2 | 2 | - | - | - | - | - |
| Industry | 9,891 | 9,412 | 479 | 9,318 | 6,386 | 479 | 182 | (10) | (6) | (125) |
| Construction and real estate | 13,364 | 12,843 | 521 | 12,843 | 8,579 | 521 | 510 | (9) | 37 | (252) |
| Electricity and water | 364 | 364 | - | 104 | 50 | - | - | - | - | (1) |
| Commerce | 7,368 | 7,233 | 135 | 7,303 | 4,845 | 135 | 60 | (9) | 50 | (111) |
| Hotels, catering services and food | 1,240 | 1,202 | 38 | 1,232 | 1,113 | 38 | 38 | - | - | (12) |
| Transport and storage | 200 | 178 | 22 | 180 | 172 | 22 | 22 | - | - | (12) |
| Information and communications | 1,868 | 1,866 | 2 | 1,720 | 760 | 2 | 2 | 1 | - | (3) |
| Financial services | 15,775 | 15,677 | 98 | 2,888 | 1,578 | 98 | 98 | 6 | 2 | (64) |
| services | 4,973 | 4,923 | 50 | 4,743 | 4,197 | 50 | 22 | (3) | (1) | (14) |
| Public and community services | 759 | 750 | 9 | 701 | 345 | 9 | 1 | (17) | 49 | (16) |
| **Total commercial** | 55,928 | 54,571 | 1,357 | 41,138 | 28,069 | 1,357 | 938 | (41) | 131 | (612) |
| Private individuals - housing loans | 1,164 | 1,100 | 64 | 1,164 | 1,159 | 64 | 44 | (2) | - | (16) |
| Private individuals - other | 518 | 504 | 14 | 481 | 376 | 14 | 9 | (2) | 2 | (10) |
| **Total public - activity abroad** | 57,610 | 56,175 | 1,435 | 42,783 | 29,604 | 1,435 | 991 | (45) | 133 | (638) |
| **Banks abroad** | 27,006 | 27,006 | - | 13,275 | 11,553 | - | - | (3) | - | (3) |
| **Governments abroad** | 8,282 | 8,282 | - | 212 | 169 | - | - | - | - | - |
| **Total activity abroad** | 92,898 | 91,463 | 1,435 | 56,270 | 41,326 | 1,435 | 991 | (48) | 133 | (641) |
| **Total** | 471,947 | 460,407 | 11,540 | 385,304 | 272,517 | 11,475 | 4,727 | 93 | 171 | (4,403) |

(a) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts, 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 272,517, 60,112, 2,177, 14,517, 122,624 million respectively.

(b) Credit to the public, credit to governments, deposits in banks and other debts, except for 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 (cont'd)

| | 30 June 2014 (f) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Overall credit risk (a) | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | |
| | | | | | | | Credit losses (d) | | |
| | | | | Of which:[1] | | | | | |
| | Total | Problematic (e) | Total[1] | Debts (b) | Problematic (e) | Impaired | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | (NIS millions) | | | | | | | | |
| **In respect of activity of borrowers in Israel** | | | | | | | | | |
| Agriculture | 2,113 | 95 | 2,109 | 1,800 | 95 | 47 | (7) | (5) | (42) |
| Mining and quarrying | 282 | - | 281 | 231 | - | - | - | - | - |
| Industry | 27,364 | 2,119 | 26,842 | 18,054 | 2,113 | 565 | (63) | (52) | (499) |
| Construction and real estate - construction | 44,137 | 1,792 | 44,063 | 16,261 | 1,787 | 708 | (74) | (97) | (405) |
| Construction and real estate - real estate activity | 24,424 | 1,566 | 24,324 | 22,109 | 1,564 | 1,420 | (118) | (32) | (580) |
| Electricity and water | 4,318 | 2 | 3,727 | 3,214 | 2 | 2 | (2) | - | (3) |
| Commerce | 25,856 | 1,440 | 25,636 | 21,387 | 1,440 | 429 | 21 | 20 | (392) |
| Hotels, catering services and food | 2,695 | 143 | 2,680 | 2,386 | 143 | 130 | 5 | - | (38) |
| Transport and storage | 6,009 | 507 | 5,986 | 5,151 | 497 | 291 | 18 | 6 | (94) |
| Communications and computer services | 5,815 | 589 | 5,455 | 4,287 | 587 | 299 | (9) | 16 | (238) |
| Financial services | 24,134 | 69 | 19,100 | 10,817 | 56 | 51 | 114 | (34) | (63) |
| Business and other services | 6,213 | 57 | 6,186 | 4,324 | 57 | 31 | 5 | 6 | (57) |
| Public and community services | 6,958 | 43 | 6,910 | 5,835 | 42 | 14 | (2) | (2) | (12) |
| **Total commercial** | 180,318 | 8,422 | 173,299 | 115,856 | 8,383 | 3,987 | (112) | (174) | (2,423) |
| Private individuals - housing loans | 73,354 | 806 | 73,354 | 71,009 | 806 | - | 11 | 4 | (487) |
| Private individuals - other | 64,590 | 424 | 64,570 | 33,459 | 424 | 108 | 11 | 64 | (400) |
| **Total public - activity in Israel** | 318,262 | 9,652 | 311,223 | 220,324 | 9,613 | 4,095 | (90) | (106) | (3,310) |
| **Banks in Israel** | 5,696 | - | 1,701 | 1,572 | - | - | - | - | (1) |
| **Government of Israel** | 29,838 | - | 293 | 293 | - | - | - | - | - |
| **Total activity in Israel** | 353,796 | 9,652 | 313,217 | 222,189 | 9,613 | 4,095 | (90) | (106) | (3,311) |

See notes on next page.

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

Exhibit C (cont'd)

| | 30 June 2014 (f) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Overall credit risk (a) | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | |
| | | | | [1]Of which: | | | Credit losses (d) | | |
| | Total | Problematic (e) | Total[1] | Debts (b) | Problematic (e) | Impaired | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | (NIS millions) | | | | | | | | |
| **In respect of activity of borrowers abroad** | | | | | | | | | |
| Agriculture | 56 | 3 | 53 | 29 | 3 | 3 | - | - | (1) |
| Mining and quarrying | 2 | - | 1 | 1 | - | - | - | - | - |
| Industry | 9,729 | 454 | 8,670 | 5,699 | 454 | 315 | 10 | 8 | (218) |
| Construction and real estate - construction | 10,195 | 746 | 9,852 | 7,330 | 746 | 708 | 4 | 26 | (378) |
| Electricity and water | 380 | 1 | 184 | 45 | 1 | 1 | - | - | (1) |
| Commerce | 7,370 | 146 | 7,326 | 4,903 | 146 | 140 | (14) | 49 | (84) |
| Hotels, catering services and food | 1,644 | 52 | 1,633 | 1,608 | 52 | 43 | - | 1 | (14) |
| Transport and storage | 362 | 25 | 253 | 246 | 25 | 25 | 2 | - | (10) |
| Communications and computer services | 1,268 | - | 1,024 | 651 | - | - | - | - | (3) |
| Financial services | 14,528 | 90 | 2,812 | 1,844 | 90 | 91 | 16 | 1 | (52) |
| Business and other services | 3,567 | 85 | 3,340 | 3,061 | 85 | 59 | 1 | 5 | (26) |
| Public and community services | 930 | 68 | 827 | 347 | 68 | 68 | - | - | (86) |
| **Total commercial** | 50,031 | 1,670 | 35,975 | 25,764 | 1,670 | 1,453 | 19 | 90 | (873) |
| Private individuals - housing loans | 1,151 | 51 | 1,151 | 1,151 | 51 | 30 | (1) | 1 | (17) |
| Private individuals - other | 1,111 | 28 | 1,102 | 933 | 28 | 28 | 1 | 29 | (11) |
| **Total public - activity abroad** | 52,293 | 1,749 | 38,228 | 27,848 | 1,749 | 1,511 | 19 | 120 | (901) |
| **Banks abroad** | 24,381 | - | 13,879 | 12,723 | - | - | 4 | - | (5) |
| **Governments abroad** | 2,543 | - | 272 | 190 | - | - | - | - | - |
| **Total activity abroad** | 79,217 | 1,749 | 52,379 | 40,761 | 1,749 | 1,511 | 23 | 120 | (906) |
| **Total** | 433,013 | 11,401 | 365,596 | 262,950 | 11,362 | 5,606 | (67) | 14 | (4,217) |

(a) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts, 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 262,950, 46,157, 1,634, 11,708, 110,564 million respectively.

(b) Credit to the public, credit to governments, deposits in banks and other debts, except for 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.

(f) Comparative figures have been reclassified pursuant a Bank of Israel circular from April 2014, concerning the adoption of the Central Bureau of Statistics directives regarding the uniform classification of economic sectors – 2011, which replaces the classification decided in 1993.

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

Exhibit C (cont'd)

| | 31 December 2014 (f) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Overall credit risk (a) | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | |
| | | | | | [1]Of which: | | | Credit losses (d) | | |
| | Total | Credit performance rating | Problematic (e) | Total[1] | Debts (b) | Problematic (e) | Impaired | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | (NIS millions) | | | | | | | | | |
| **In respect of activity of borrowers in Israel** | | | | | | | | | | |
| Agriculture | 2,141 | 2,019 | 122 | 2,130 | 1,821 | 118 | 46 | (4) | 16 | (17) |
| Mining and quarrying | 757 | 756 | 1 | 754 | 629 | 1 | - | (4) | - | (4) |
| Industry | 29,138 | 26,932 | 2,206 | 28,121 | 18,358 | 2,195 | 495 | (151) | (100) | (442) |
| Construction and real estate - construction | 46,446 | 45,045 | 1,401 | 46,373 | 16,196 | 1,399 | 748 | (303) | (146) | (279) |
| Construction and real estate - real estate activity | 25,341 | 23,413 | 1,928 | 25,253 | 22,422 | 1,920 | 1,375 | 159 | (2) | (684) |
| Electricity and water | 5,265 | 5,201 | 64 | 4,719 | 3,821 | 64 | 3 | 1 | 1 | (12) |
| Commerce | 27,130 | 25,423 | 1,707 | 26,884 | 22,179 | 1,680 | 318 | 75 | 99 | (371) |
| Hotels, catering services and food | 2,938 | 2,738 | 200 | 2,918 | 2,608 | 200 | 165 | (45) | (46) | (32) |
| Transport and storage | 6,113 | 5,603 | 510 | 6,058 | 5,300 | 510 | 314 | (39) | 20 | (34) |
| Communications and computer services | 5,964 | 5,449 | 515 | 5,345 | 4,092 | 512 | 256 | (30) | 27 | (212) |
| Financial services | 24,910 | 24,841 | 69 | 17,480 | 10,031 | 53 | 20 | 245 | (77) | (306) |
| Business and other services | 7,153 | 7,039 | 114 | 7,116 | 4,948 | 114 | 35 | 27 | 17 | (75) |
| Public and community services | 7,220 | 7,181 | 39 | 7,173 | 6,110 | 39 | 11 | 39 | (4) | (56) |
| **Total commercial** | 190,516 | 181,640 | 8,876 | 180,324 | 118,515 | 8,805 | 3,786 | (30) | (195) | (2,524) |
| Private individuals - housing loans | 76,680 | 75,906 | 774 | 76,679 | 74,240 | 774 | - | 22 | 7 | (495) |
| Private individuals - other | 66,027 | 65,587 | 440 | 66,000 | 34,472 | 440 | 102 | 355 | 171 | (638) |
| **Total public - activity in Israel** | 333,223 | 323,133 | 10,090 | 323,003 | 227,227 | 10,019 | 3,888 | 347 | (17) | (3,657) |
| **Banks in Israel** | 6,814 | 6,814 | - | 1,658 | 1,581 | - | - | (1) | - | - |
| **Government of Israel** | 24,497 | 24,497 | - | 294 | 294 | - | - | - | - | - |
| **Total activity in Israel** | 364,534 | 354,444 | 10,090 | 324,955 | 229,102 | 10,019 | 3,888 | 346 | (17) | (3,657) |

See notes on next page.

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

Exhibit C (cont'd)

| | 31 December 2014 (f) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Overall credit risk (a) | | | Debts (b) and off-balance sheets credit risk (except for derivatives) (c) | | | | | | |
| | | | | | [1]Of which: | | | Credit losses (d) | | |
| | Total | Credit performance rating | Problematic (e) | Total[1] | Debts (b) | Problematic (e) | Impaired | Expenses in respect of credit losses | Net accounting write-offs | Balance of allowance for credit losses |
| | (NIS millions) | | | | | | | | | |
| **In respect of activity of borrowers abroad** | | | | | | | | | | |
| Agriculture | 80 | 77 | 3 | 74 | 64 | 3 | 3 | 1 | - | (2) |
| Mining and quarrying | 4 | 4 | - | 4 | 4 | - | - | - | - | - |
| Industry | 9,171 | 8,705 | 466 | 7,908 | 4,828 | 466 | 209 | (18) | 55 | (146) |
| Construction and real estate | 11,903 | 11,293 | 610 | 11,458 | 8,834 | 610 | 563 | 36 | 113 | (319) |
| Electricity and water | 386 | 386 | - | 124 | 38 | - | - | 1 | 1 | (1) |
| Commerce | 7,858 | 7,686 | 172 | 7,812 | 5,109 | 172 | 165 | 61 | 105 | (135) |
| Hotels, catering services and food | 1,544 | 1,501 | 43 | 1,537 | 1,364 | 43 | 43 | 3 | 1 | (13) |
| Transport and storage | 351 | 327 | 24 | 210 | 204 | 24 | 24 | 4 | - | (14) |
| Communications and computer services | 1,736 | 1,734 | 2 | 1,415 | 686 | 2 | 2 | - | - | (2) |
| Financial services | 17,798 | 17,701 | 97 | 2,952 | 1,879 | 97 | 97 | 15 | 1 | (56) |
| Business and other services | 4,962 | 4,896 | 66 | 4,469 | 3,814 | 66 | 37 | 6 | 18 | (12) |
| Public and community services | 710 | 630 | 80 | 587 | 324 | 80 | 70 | 11 | - | (93) |
| **Total commercial** | 56,503 | 54,940 | 1,563 | 38,550 | 27,148 | 1,563 | 1,213 | 120 | 294 | (793) |
| Private individuals - housing loans | 1,259 | 1,205 | 54 | 1,259 | 1,204 | 54 | 34 | 2 | 3 | (18) |
| Private individuals - other | 1,054 | 1,013 | 41 | 1,035 | 889 | 41 | 31 | 1 | 25 | (14) |
| **Total public - activity abroad** | 58,816 | 57,158 | 1,658 | 40,844 | 29,241 | 1,658 | 1,278 | 123 | 322 | (825) |
| **Banks abroad** | 32,527 | 32,527 | - | 19,045 | 17,555 | - | - | 3 | - | (4) |
| **Governments abroad** | 5,648 | 5,648 | - | 429 | 234 | - | - | - | - | - |
| **Total activity abroad** | 96,991 | 95,333 | 1,658 | 60,318 | 47,030 | 1,658 | 1,278 | 126 | 322 | (829) |
| **Total** | 461,525 | 449,777 | 11,748 | 385,273 | 276,132 | 11,677 | 5,166 | 472 | 305 | (4,486) |

(a) Balance sheet and off-balance sheet credit risk, including in respect of derivative instruments, including: debts, 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 276,132, 47,420, 2,000, 16,908, 119,065 million respectively.

(b) Credit to the public, credit to governments, deposits in banks and other debts, except for 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.

(f) Comparative figures have been reclassified pursuant a Bank of Israel circular from April 2014, concerning the adoption of the Central Bureau of Statistics directives regarding the uniform classification of economic sectors – 2011, which replaces the classification decided in 1993.

# 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 June 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Balance sheet exposure (a) | | | | | |
| | 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 | 7,065 | 2,924 | 8,395 | 19,833 | 9,347 | 10,486 |
| United Kingdom | 38 | 4,639 | 3,792 | 6,721 | 2,034 | 4,687 |
| France | - | 726 | 1,390 | - | - | - |
| Switzerland | - | 548 | 1,258 | 762 | 102 | 660 |
| Germany | - | 1,457 | 1,479 | - | - | - |
| Belgium | 38 | 666 | 144 | - | - | - |
| Italy | - | 35 | 65 | - | - | - |
| Netherlands | - | 495 | 1,222 | - | - | - |
| Others | 343 | 3,656 | 4,128 | 1,318 | 614 | 704 |
| Total exposure to foreign countries | 7,484 | 15,146 | 21,873 | 28,634 | 12,097 | 16,537 |
| Total exposure to LDC countries | 188 | 972 | 742 | 1,196 | 590 | 606 |
| Total exposure to GIIPS countries (d) | - | 93 | 376 | - | - | - |

| | Balance sheet exposure | | | Off-balance sheet exposure (a) (b) | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Cross-border balance sheet exposure | |
| | | | | | | Repayment period | |
| | 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 | Up to one year | Over one year |
| Country | (NIS millions) | | | | | | |
| United States | 28,870 | 677 | 313 | 6,117 | - | 9,067 | 9,317 |
| United Kingdom | 13,156 | 272 | 255 | 3,796 | - | 2,177 | 6,292 |
| France | 2,116 | 9 | 6 | 1,227 | - | 504 | 1,612 |
| Switzerland | 2,466 | - | - | 430 | - | 1,081 | 725 |
| Germany | 2,936 | 2 | 2 | 267 | - | 2,188 | 748 |
| Belgium | 848 | - | - | 51 | - | 653 | 195 |
| Italy | 100 | - | - | 15 | - | 97 | 3 |
| Netherlands | 1,717 | 56 | 56 | 213 | - | 366 | 1,351 |
| Others | 8,831 | 362 | 349 | 2,186 | - | 2,702 | 5,425 |
| Total exposure to foreign countries | 61,040 | 1,378 | 981 | 14,302 | - | 18,835 | 25,668 |
| Total exposure to LDC countries | 2,508 | 317 | 305 | 1,395 | - | 543 | 1,359 |
| Total exposure to GIIPS countries (d) | 469 | - | - | 45 | - | 304 | 165 |

See notes on page 125.

# 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 June 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Balance sheet exposure (a) | | | | | |
| | 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 | 816 | 5,446 | 8,717 | 16,094 | 8,507 | 7,587 |
| United Kingdom | 212 | 3,451 | 3,816 | 6,742 | 1,783 | 4,959 |
| France | - | 1,408 | 524 | - | - | - |
| Switzerland | - | 106 | 820 | 2,182 | 931 | 1,251 |
| Germany | - | 1,027 | 1,288 | - | - | - |
| Belgium | 312 | 956 | 138 | - | - | - |
| Italy | - | 191 | 74 | - | - | - |
| Netherlands | - | 657 | 1,542 | - | - | - |
| Others | 325 | 2,323 | 5,101 | 1,456 | 664 | 792 |
| Total exposure to foreign countries | 1,665 | 15,565 | 22,020 | 26,474 | 11,885 | 14,589 |
| Total exposure to LDC countries | 153 | 865 | 1,254 | 1,373 | 629 | 744 |
| Total exposure to GIIPS countries (d) | - | 192 | 674 | - | - | - |

| | Balance sheet exposure | | | Off-balance sheet exposure (a) (b) | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Cross-border balance sheet exposure | |
| | | | | | | Repayment period | |
| | 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 | Up to one year | Over one year |
| Country | (NIS millions) | | | | | | |
| United States | 22,566 | 524 | 379 | 4,997 | - | 5,471 | 9,508 |
| United Kingdom | 12,438 | 495 | 429 | 2,585 | 6 | 3,550 | 3,929 |
| France | 1,932 | 8 | 8 | 910 | - | 662 | 1,270 |
| Switzerland | 2,177 | 1 | 1 | 400 | - | 863 | 63 |
| Germany | 2,315 | 2 | 2 | 355 | - | 1,670 | 645 |
| Belgium | 1,406 | - | - | 82 | - | 1,175 | 231 |
| Italy | 265 | - | - | 43 | - | 85 | 180 |
| Netherlands | 2,199 | 64 | 64 | 179 | - | 952 | 1,247 |
| Others | 8,541 | 475 | 443 | 1,240 | - | 5,084 | 2,665 |
| Total exposure to foreign countries | 53,839 | 1,569 | 1,326 | 10,791 | 6 | 19,512 | 19,738 |
| Total exposure to LDC countries | 3,016 | 416 | 384 | 887 | - | 2,004 | 268 |
| Total exposure to GIIPS countries (d) | 866 | - | - | 78 | - | 494 | 372 |

See notes on page 125.

# 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 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Balance sheet exposure (a) | | | | | |
| | 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 | 3,631 | 6,906 | 10,722 | 18,365 | 9,246 | 9,119 |
| United Kingdom | 240 | 5,028 | 4,759 | 6,961 | 2,081 | 4,880 |
| France | - | 1,645 | 644 | - | - | - |
| Switzerland | - | 749 | 1,090 | 2,343 | 1,035 | 1,308 |
| Germany | - | 2,263 | 2,635 | - | - | - |
| Belgium | 236 | 782 | 136 | - | - | - |
| Italy | - | 223 | 50 | - | - | - |
| Netherlands | - | 78 | 865 | - | - | - |
| Others | 545 | 5,891 | 4,358 | 1,516 | 767 | 749 |
| Total exposure to foreign countries | 4,652 | 23,565 | 25,259 | 29,185 | 13,129 | 16,056 |
| Total exposure to LDC countries | 247 | 1,513 | 1,588 | 1,370 | 714 | 656 |
| Total exposure to GIIPS countries (d) | - | 226 | 360 | - | - | - |

| | Balance sheet exposure | | | Off-balance sheet exposure (a) (b) | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Cross-border balance sheet exposure | |
| | | | | | | Repayment period | |
| | 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 | Up to one year | Over one year |
| Country | (NIS millions) | | | | | | |
| United States | 30,378 | 615 | 349 | 6,279 | - | 6,205 | 15,054 |
| United Kingdom | 14,907 | 424 | 385 | 3,339 | 9 | 3,910 | 6,117 |
| France | 2,289 | 11 | 8 | 1,151 | - | 76 | 2,213 |
| Switzerland | 3,147 | - | - | 398 | - | 1,483 | 356 |
| Germany | 4,898 | 2 | 2 | 292 | - | 3,618 | 1,280 |
| Belgium | 1,154 | - | - | 74 | - | 871 | 283 |
| Italy | 273 | - | - | 27 | - | 210 | 63 |
| Netherlands | 943 | 61 | 61 | 206 | - | 771 | 172 |
| Others | 11,543 | 462 | 425 | 1,495 | - | 6,255 | 4,539 |
| Total exposure to foreign countries | 69,532 | 1,575 | 1,230 | 13,261 | 9 | 23,399 | 30,077 |
| Total exposure to LDC countries | 4,004 | 406 | 371 | 984 | - | 810 | 2,538 |
| Total exposure to GIIPS countries (d) | 586 | - | - | 39 | - | 493 | 93 |

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 June 2015 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 1,454 million and related to 11 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 June 2015 (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.

**18 August 2015**

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 June 2015 (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.

**18 August 2015**

Ron Fainaro
First Executive Vice President
Head of 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 June 2015 (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.

**18 August 2015**

Shlomo Goldfarb
First 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 June 2015 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the three and six month periods ended on that date. The Board of Directors and Management are responsible for the preparation and presentation of financial information for this interim period 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 period based on our review.

We did not review the condensed financial information for the interim period of certain consolidated companies, whose assets included on consolidation constitute approximately 0.5% of total consolidated assets at 30 June 2015 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.3% and 0.1% of the total consolidated net interest income before credit loss expenses for the three and six month periods ended on that date. The condensed financial information for the interim period 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 6C. paragraphs 2 and 4 concerning claims against the Bank and a subsidiary company, including petitions for their approval as class actions.
2. that stated in Note 6D. paragraph 5 concerning an investigation being conducted against the Group by the US Securities and Exchange Commission in connection with the Group's US residents.
   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** | **Kost Forer Gabbay & Kasierer** |
| Certified Public Accountants (Isr.) | Certified Public Accountants (Isr.) |

**18 August 2015**

# Condensed Consolidated Balance Sheet as at 30 June 2015

| | | **30 June 2015** | 30 June 2014 | 31 December 2014 |
|---|---|---|---|---|
| | | Unaudited | | Audited |
| | | NIS millions | | |
| **Assets** | **Note** | | | |
| Cash and deposits with banks | | **46,170** | 49,902 | 60,615 |
| Securities (b) | 2 | **64,810** | 49,713 | 52,113 |
| Securities borrowed or purchased under agreements to resell | | **2,177** | 1,634 | 2,000 |
| Credit to the public | 3 | **258,460** | 248,172 | 256,468 |
| Allowance for credit losses | 3 | **(3,912)** | (3,787) | (3,988) |
| Credit to the public, net | | **254,548** | 244,385 | 252,480 |
| Credit to governments | | **435** | 483 | 528 |
| Investments in companies included on equity basis | | **889** | 1,641 | 2,216 |
| Buildings and equipment | | **3,054** | 3,037 (a) | 3,162 (a) |
| Intangible assets and goodwill | | **17** | 85 | 43 |
| Assets in respect of derivative instruments | 7 | **14,538** | 11,860 | 16,909 |
| Other assets | | **7,113** | 6,301 (a) | 6,856 (a) |
| Total assets | | **393,751** | 369,041 | 396,922 |
| **Liabilities and equity** | | | | |
| Deposits of the public | 3A | **304,043** | 279,861 | 303,397 |
| Deposits from banks | | **4,581** | 5,201 | 4,556 |
| Deposits from governments | | **631** | 359 | 467 |
| Securities lent or sold under agreements to repurchase | | **1,371** | 747 | 1,238 |
| Bonds, debentures and subordinated notes | | **19,720** | 24,509 | 23,678 |
| Liabilities in respect of derivative instruments | 7 | **14,430** | 12,153 | 15,650 |
| Other liabilities | | **20,368** | 20,183 (a) | 21,798 (a) |
| Total liabilities | | **365,144** | 343,013 | 370,784 |
| Non-controlling interests | | **334** | 323 | 340 |
| Equity attributable to shareholders of the banking corporation | | **28,273** | 25,705 (a) | 25,798 (a) |
| Total equity | 4 | **28,607** | 26,028 | 26,138 |
| Total liabilities and equity | | **393,751** | 369,041 | 396,922 |

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.C.1, and retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.C.2.
(b) For details on securities pledged to lenders, see Note 2.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

| | | | |
|---|---|---|---|
| **David Brodet**<br>Chairman of the Board of Directors | **Rakefet Russak-Aminoach**<br>President and Chief Executive Officer | **Ron Fainaro**<br>First Executive Vice President, Head of Finance Division | **Shlomo Goldfarb**<br>First Executive Vice President, Chief Accounting Officer, Head of Accounting Division |

**Date of approval of the financial statements: 18 August 2015**

# Condensed Consolidated Statement of Profit and Loss
## for the period ended 30 June 2015

| | Note | For the three months ended 30 June | | For the six months ended 30 June | | For the year ended 31 December |
|---|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 | 2014 |
| | | Unaudited | | | | Audited |
| | | NIS millions | | | | |
| Interest income | 9 | **2,818** | 2,812 | **4,320** | 5,013 | 10,012 |
| Interest expenses | 9 | **818** | 907 | **804** | 1,351 | 2,649 |
| Net interest income | | **2,000** | 1,905 | **3,516** | 3,662 | 7,363 |
| Expenses (income) in respect of credit losses | 3 | **12** | (16) | **93** | (67) | 472 |
| Net interest income, after expenses in respect of credit losses | | **1,988** | 1,921 | **3,423** | 3,729 | 6,891 |
| **Non-interest income** | | | | | | |
| Non-interest financing income (expenses) | 10 | **(105)** | 172 | **1,214** | 495 | 795 |
| Commissions | | **1,035** | 1,040 | **2,086** | 2,080 | 4,167 |
| Other income | | **53** | 46 (a) | **108** | 77 (a) | 179 (a) |
| Total non-interest income | | **983** | 1,258 | **3,408** | 2,652 | 5,141 |
| **Operating and other expenses** | | | | | | |
| Salaries and related expenses | | **1,345** | 1,320 (a) | **2,763** | 2,736 (a) | 5,151 (a) |
| Maintenance and depreciation of buildings and equipment | | **434** | 405 (a) | **855** | 817 (a) | 1,655 (a) |
| Amortization of intangible assets and goodwill | | **-** | 11 | **-** | 14 | 58 |
| Other expenses | | **383** | 880 | **779** | 1,247 | 2,507 |
| expenses | | **2,162** | 2,616 | **4,397** | 4,814 | 9,371 |
| Profit before taxes | | **809** | 563 | **2,434** | 1,567 | 2,661 |
| Provision for taxes on the profit | | **297** | 337 (a) | **862** | 702 (a) | 1,278 (a) |
| Profit after taxes | | **512** | 226 | **1,572** | 865 | 1,383 |
| Share of the banking corporation in profits (losses) after tax of companies included on equity basis | | **15** | (14) (b) | **146** | (51) (b) | 42 |
| **Net profit:** | | | | | | |
| Before attribution to non-controlling interests | | **527** | 212 | **1,718** | 814 | 1,425 |
| Attributable to non-controlling interests | | **(9)** | 17 | **(18)** | 6 | (12) |
| Attributable to shareholders of the banking corporation | | **518** | 229 | **1,700** | 820 | 1,413 |
| **Basic and diluted earnings per share (NIS)** | | | | | | |
| Net profit attributable to shareholders of the banking corporation | | **0.35** | 0.16 (a) | **1.15** | 0.56 (a) | 0.96 |

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.C.2.

(b) Does not include the effect of the results of the Israel Corporation for the three and six month period ended 3o June 2014. See Note 1.X. to the audited financial statements at 31 December 2014.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## Condensed Statement of Comprehensive Income
## for the period ended 30 June 2015

| | For the three months ended 30 June | | For the six months ended 30 June | | For the year ended 31 December | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 (c) | **2015** | 2014(c) | 2014 (c) | 2013 (c) |
| | Unaudited | | | | Audited | |
| | NIS millions | | | | | |
| Net profit before attribution to non-controlling interests | **527** | 212 | **1,718** | 814 | 1,425 | 2,030 |
| Less net profit (loss) attributed to non-controlling interests | **9** | (17) | **18** | (6) | 12 | 42 |
| Net profit attributed to shareholders of the Bank | **518** | 229 | **1,700** | 820 | 1,413 | 1,988 |
| **Other comprehensive income (loss) before taxes:** | | | | | | |
| Adjustments for showing securities available for sale at fair value, net | **(266)** | 63 | **283** | 55 | 355 | (518) |
| Adjustments for translation of financial statements, net (a), after hedges (b) | **(27)** | (18) | **(6)** | (18) | 192 | (115) |
| Adjustments of liabilities in respect of employee rights (d) | **2,253** | 80 | **1,004** | 185 | (1,384) | (483) |
| Share of the banking corporation in other comprehensive income (loss) of companies included on equity basis (e) | **(8)** | 14 (e) | **12** | 7 (e) | (108) | (6) |
| **Other comprehensive income (loss) before taxes** | **1,955** | 139 | **1,293** | 229 | (945) | (1,122) |
| Relevant tax effect | **(845)** | (76) | **(544)** | (145) | 447 | 335 |
| **Other comprehensive income (loss) before attribution to non-controlling interests, after taxes** | **1,110** | 63 | **749** | 84 | (498) | (787) |
| Less other comprehensive income (loss) attributed to non-controlling interests | **(4)** | (1) | **(3)** | - | - | (3) |
| Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes | **1,114** | 64 | **752** | 84 | (498) | (784) |
| Comprehensive income before attribution to non-controlling interests | **1,637** | 275 | **2,467** | 898 | 927 | 1,243 |
| Less comprehensive income (loss) attributed to non-controlling interests | **5** | (18) | **15** | (6) | 12 | 39 |
| **Comprehensive income attributed to shareholders of the Bank** | **1,632** | 293 | **2,452** | 904 | 915 | 1,204 |

(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) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.C.2.

(d) Reflects mainly adjustments in respect of actuarial adjustments at year end of defined benefit pension plans and amortization of amounts recorded in the past in other comprehensive income.

(e) Does not include the effect of the results of the Israel Corporation for the three and six month period ended 30 June 2014. See Note 1.X to the audited financial statements at 31 December 2014.

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 June 2015

| | **For the three months ended 30 June 2015 (Unaudited)** | | | |
|---|---|---|---|---|
| | | Capital reserves | | |
| | Share capital | Premium | Share-based payment transactions and others (a) | Total share capital and capital reserves |
| | (NIS millions) | | | |
| Balance at 31 March 2015 | **7,059** | **1,129** | **33** | **8,221** |
| Net profit for the period | **-** | **-** | **-** | **-** |
| Adjustments in respect of companies included on equity basis, net | **-** | **-** | **-** | **-** |
| Other comprehensive profit, net, after effect of tax | **-** | **-** | **-** | **-** |
| Loans to employees for purchase of the Bank's shares | **-** | **-** | **-** | **-** |
| Balance at the end of the period | **7,059** | **1,129** | **33** | **8,221** |

| | For the three months ended 30 June 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | | Capital reserves | | |
| | Share capital | Premium | Share-based payment transactions and others (a) | Total share capital and capital reserves |
| | (NIS millions) | | | |
| Balance at 31 March 2014 (b) | 7,059 | 1,129 | 33 | 8,221 |
| Net profit for the period (b) | - | - | - | - |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - |
| Other comprehensive loss, net, after effect of tax | - | - | - | - |
| Loans to employees for purchase of the Bank's shares | - | - | - | - |
| Balance at the end of the period | 7,059 | 1,129 | 33 | 8,221 |

(a) Including NIS 10 million of other capital reserves.

(b) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.C.2.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

| Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
|---|---|---|---|---|---|
| **(1,911)** | **20,344** | **(42)** | **26,612** | **329** | **26,941** |
| **-** | **518** | **-** | **518** | **9** | **527** |
| **-** | **(13)** | **-** | **(13)** | **-** | **(13)** |
| **1,114** | **-** | **-** | **1,114** | **(4)** | **1,110** |
| **-** | **-** | **42** | **42** | **-** | **42** |
| **(797)** | **20,849** | **-** | **28,273** | **334** | **28,607** |

| Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
|---|---|---|---|---|---|
| (1,031) | 18,269 | (43) | 25,416 | 341 | 25,757 |
| - | 229 | - | 229 | (17) | 212 |
| - | (5) | - | (5) | - | (5) |
| 64 | - | - | 64 | (1) | 63 |
| - | - | 1 | 1 | - | 1 |
| (967) | 18,493 | (42) | 25,705 | 323 | 26,028 |

## Condensed Consolidated Statement of Changes in Equity (cont'd)
**for the period ended 30 June 2015**

| | **For the six months ended 30 June 2015 (Unaudited)** | | | |
|---|---|---|---|---|
| | | Capital reserves | | |
| | Share capital | Premium | Share-based payment transactions and others (a) | Total share capital and capital reserves |
| | NIS millions | | | |
| Balance at 31 December 2014 (Audited) (b) | **7,059** | **1,129** | **33** | **8,221** |
| Net profit for the period | **-** | **-** | **-** | **-** |
| Adjustments in respect of companies included on equity basis, net | **-** | **-** | **-** | **-** |
| Other comprehensive loss, net, after effect of taxes | **-** | **-** | **-** | **-** |
| Changes in non-controlling interests | **-** | **-** | **-** | **-** |
| Balance at the end of the period | **7,059** | **1,129** | **33** | **8,221** |

| | For the six months ended 30 June 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | | Capital reserves | | |
| | Share capital | Premium | Share-based payment transactions and others (a) | Total share capital and capital reserves |
| | NIS millions | | | |
| Balance at 31 December 2013 (Audited) (b) | 7,059 | 1,129 | 33 | 8,221 |
| Net profit for the period (b) | - | - | - | - |
| Dividend paid by consolidated companies | - | - | - | - |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - |
| Other comprehensive loss, net, after effect of taxes | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - |
| Balance at the end of the period | 7,059 | 1,129 | 33 | 8,221 |

(a) Including NIS 10 million of other capital reserves.
(b) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.C.2.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

| Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
|---|---|---|---|---|---|
| **(1,549)** | **19,168** | **(42)** | **25,798** | **340** | **26,138** |
| **-** | **1,700** | **-** | **1,700** | **18** | **1,718** |
| **-** | **(18)** | **-** | **(18)** | **-** | **(18)** |
| **752** | **-** | **-** | **752** | **(3)** | **749** |
| **-** | **(1)** | **42** | **41** | **(21)** | **20** |
| **(797)** | **20,849** | **-** | **28,273** | **334** | **28,607** |

| Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
|---|---|---|---|---|---|
| (1,051) | 17,680 | (43) | 24,807 | 340 | 25,147 |
| - | 820 | - | 820 | (6) | 814 |
| - | - | - | - | (10) | (10) |
| - | (7) | - | (7) | - | (7) |
| 84 | - | - | 84 | - | 84 |
| - | - | 1 | 1 | (1) | - |
| (967) | 18,493 | (42) | 25,705 | 323 | 26,028 |

# Condensed Consolidated Statement of Changes in Equity (cont'd)
## for the period ended 30 June 2015

| | For the year ended 31 December 2014 (Audited) | | | |
|---|---|---|---|---|
| | | Capital reserves | | |
| | Share capital | Premium | Share-based payment transactions and others (a) | Total share capital and capital reserves |
| | NIS millions | | | |
| Balance at 1 January 2013 (Audited) | 7,059 | 1,129 | 23 | 8,211 |
| Effect of initial adoption of implementation of rules for capitalization of software costs (b) | - | - | - | - |
| Effect of initial adoption of US GAAP on employee rights (b) | - | - | - | - |
| Balance at 1 January 2013 after initial implementation of the new rules | 7,059 | 1,129 | 23 | 8,211 |
| Net profit (b) | - | - | - | - |
| Dividend paid by consolidated companies | - | - | - | - |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - |
| Benefit to employees in respect of share-based payments | - | - | 10 | 10 |
| Other comprehensive profit, net, after effect of taxes | - | - | - | - |
| Other adjustments in respect of companies included on equity basis | - | - | - | - |
| Loans to employees for purchase of the Bank's shares | - | - | - | - |
| Balance at 31 December 2013 (Audited) | 7,059 | 1,129 | 33 | 8,221 |
| Net profit (b) | - | - | - | - |
| Dividend paid by consolidated companies | - | - | - | - |
| Adjustments in respect of companies included on equity basis, net | - | - | - | - |
| Other comprehensive profit, net, after effect of taxes | - | - | - | - |
| Changes in non-controlling interests | - | - | - | - |
| Loans to employees for purchase of the Bank's shares | - | - | - | - |

(a) Including NIS 10 million of other capital reserves.
(b) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.C.2.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

| Accumulated other comprehensive income (loss) | Retained earnings | Loans to employees for purchase of the Bank's shares | Total | Non-controlling interests | Total capital |
|---|---|---|---|---|---|
| 458 | 15,965 | (44) | 24,590 | 307 | 24,897 |
| - | (346) | - | (346) | - | (346) |
| (725) | 38 | - | (687) | - | (687) |
| (267) | 15,657 | (44) | 23,557 | 307 | 23,864 |
| - | 1,988 | - | 1,988 | 42 | 2,030 |
| - | - | - | - | (6) | (6) |
| - | 24 | - | 24 | - | 24 |
| - | - | - | 10 | - | 10 |
| (784) | - | - | (784) | (3) | (787) |
| - | 11 | - | 11 | - | 11 |
| - | - | 1 | 1 | - | 1 |
| (1,051) | 17,680 | (43) | 24,807 | 340 | 25,147 |
| - | 1,413 | - | 1,413 | 12 | 1,425 |
| - | - | - | - | (10) | (10) |
| - | 75 | - | 75 | - | 75 |
| (498) | - | - | (498) | - | (498) |
| - | - | 1 | 1 | - | 1 |
| - | - | - | - | (2) | (2) |

# Condensed Consolidated Statement of Cash Flows
## for the period ended 30 June 2015

| | For the three months ended 30 June | | For the six months ended 30 June | | For the year ended 31 December |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2014 |
| | (Unaudited) | | | | (Audited) |
| | (NIS millions) | | | | |
| **Cash flows generated by operating activity** | | | | | |
| Net profit for the period | **527** | 212 (b) | **1,718** | 814 (b) | 1,432 (b) |
| **Adjustments:** | | | | | |
| Group share in undistributed losses (profits) of companies included on equity basis (a) | **(17)** | 17 (c) | **686** | 73 | 15 |
| Depreciation of buildings and equipment (including impairment) (b) | **173** | 149 (b) | **335** | 300 (b) | 726 (b) |
| Amortization | **-** | 11 | **35** | 14 | 58 |
| Expenses (income) in respect of credit losses | **12** | (16) | **93** | (67) | 472 |
| Provision for impairment in assets transferred to Group ownership | **-** | (2) | **-** | (6) | (3) |
| Profit from sale of credit portfolio | **-** | - | **-** | - | (28) |
| Net gains on sale of securities available for sale (including impairment) | **(48)** | (66) | **(654)** | (275) | (647) |
| Realized and unrealized gain from adjustment to fair value of securities held for trading | **369** | (76) | **100** | (217) | (456) |
| Gain on realization of investment in companies included on equity basis | **-** | - | **(522)** | - | - |
| Gain on realization of buildings and equipment | **(18)** | (25) | **(22)** | (26) | (83) |
| Deferred taxes , net | **(20)** | (2) (b) | **(137)** | (32) (b) | (122) (b) |
| Change in plan assets, net, in respect of employee rights | **105** | 119 (b) | **289** | 321 (b) | 236 (b) |
| Interest received in excess of accumulated interest (not yet received) for debentures available for sale | **(25)** | (124) | **(70)** (b) | (183) | (67) |
| Interest not yet paid for debentures and subordinated notes | **375** | 355 | **335** | 480 | 1,000 |
| Effect of exchange-rate differences on balances of cash and cash equivalents | **451** | 30 | **367** | 15 | (839) |
| Other, net (b) | **(11)** | 125 (b) | **(83)** | (7) (b) | 29 (b) |
| **Net change in current assets:** | | | | | |
| Deposits in banks | **(243)** | (2,426) | **(3)** | (2,619) | (1,215) |
| Credit to the public | **(5,006)** | (3,524) | **(2,626)** | (3,961) | (11,029) |
| Credit to governments | **(2)** | 4 | **94** | 75 | 35 |
| Securities borrowed or purchased under agreements to resell | **20** | (264) | **(177)** | (274) | (640) |
| Assets in respect of derivative instruments | **4,291** | 454 | **2,375** | 1,197 | (3,845) |
| Securities held for trading | **818** | 4 | **1,929** | 633 | (1,633) |
| Other assets | **(153)** | (33) (b) | **(666)** | (156) (b) | 124 (b) |
| **Net change in current liabilities:** | | | | | |
| Deposits from banks | **(1,519)** | 846 | **92** | 894 | 191 |
| Deposits of the public | **(21)** | (2,519) | **945** | (5,937) | 15,184 |
| Deposits from governments | **132** | (73) | **174** | (36) | 39 |
| Securities lent or sold under agreements to repurchase | **(13)** | 207 | **133** | 123 | 614 |
| Liabilities in respect of derivative instruments | **(3,608)** | (727) | **(1,190)** | (1,372) | 2,086 |
| Other liabilities | **501** | 50 (b) | **(663)** | 491 (b) | 156 (b) |
| **Net cash generated by operating activity (for operating activity)** | **(2,930)** | (7,294) | **3,027** | (9,738) | 1,790 |

(a) Less dividend received.
(b) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.C.2.
(c) Does not include the effect of the Israel Corporation for the three months ended 30 June 2014.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Condensed Consolidated Statement of Cash Flows (cont'd)
## for the period ended 30 June 2015

| | For the three months ended 30 June | | For the six months ended 30 June | | For the year ended 31 December |
|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | 2014 |
| | (Unaudited) | | | | (Audited) |
| | (NIS millions) | | | | |
| **Cash flows generated by investment activity** | | | | | |
| Acquisition of securities available for sale | **(17,405)** | (4,039) | **(43,909)** | (12,115) | (33,427) |
| Proceeds from sale of securities available for sale | **10,341** | 5,001 | **21,552** | 13,816 | 22,673 |
| Proceeds from redemption of securities available for sale | **5,005** | 10,304 | **9,004** | 12,816 | 26,347 |
| Proceeds from sale of credit portfolio | **-** | - | **-** | - | 344 |
| Acquisition of shares in companies included on equity basis | **-** | (49) | **(1)** | (49) | (341) |
| Proceeds from realization of investment in companies included on equity basis | **-** | - | **711** | - | - |
| Acquisition of buildings and equipment | **(123)** | (160) (a) | **(314)** | (325) (a) | (764) (a) |
| Proceeds from realization of buildings and equipment | **28** | 22 | **42** | 22 | 94 |
| Proceeds from realization of assets transferred to Group ownership | **-** | - | **3** | 3 | 3 |
| **Net cash from investment activity (for investment activity)** | **(2,154)** | 11,079 | **(12,912)** | 14,168 | 14,929 |
| **Cash flows generated by financing activity** | | | | | |
| Redemption of debentures and subordinated notes | **(251)** | (330) | **(4,293)** | (1,412) | (2,763) |
| Additional purchase of shares in consolidated companies | **(1)** | - | **(31)** | (1) | (2) |
| Dividend paid to minority shareholders of consolidated companies | **-** | - | **-** | (10) | (10) |
| Loans to employees for purchase of the Bank's shares | **42** | 1 | **42** | 1 | 1 |
| **Net cash for financing activity** | **(210)** | (329) | **(4,282)** | (1,422) | (2,774) |
| **Incresse (decrease) in cash and cash equivalents** | **(5,294)** | 3,456 | **(14,167)** | 3,008 | 13,945 |
| **Balance of cash and cash equivalents at beginning of period** | **48,772** | 42,344 | **57,561** | 42,777 | 42,777 |
| **Effect of movements in exchange rates on cash balances and cash equivalents** | **(451)** | (30) | **(367)** | (15) | 839 |
| **Balance of cash and cash equivalents at end of period** | **43,027** | 45,770 | **43,027** | 45,770 | 57,561 |

### Interest and taxes paid and/or received and dividends received

| | For the three months ended 30 June | | For the six months ended 30 June | | For the year ended 31 December |
|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | 2014 |
| | (Unaudited) | | | | (Audited) |
| | (NIS millions) | | | | |
| Interest received | **2,493** | 2,423 | **5,036** | 5,192 | 9,922 |
| Interest paid | **(567)** | (634) | **(1,850)** | (1,470) | (3,455) |
| Dividends received | **5** | 7 | **840** | 28 | 67 |
| Taxes paid on income | **(336)** | (403) | **(620)** | (818) | (1,604) |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# Condensed Consolidated Statement of Cash Flows (cont'd)
**for the period ended 30 June 2015**

**Appendix A – Investment and financing activities not in cash:**

**For the six months ended 30 June, 2014:**

(1) During the period, assets were transferred from credit to the public to other assets in the amount of NIS 15 million, in respect of loans repaid.

**For the year ended 31 December, 2014:**

(2) During the year, fixed assets were acquired against a liability to suppliers in the amount of NIS 49 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 June 2015 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 2014, except for that stated in paragraph C below. These statements should be read in conjunction with the annual financial statements as at 31 December 2014 and the accompanying notes.
The condensed consolidated interim financial statements were approved for publication by the Board of Directors on 18 August 2015.

**(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 guidelines 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, except for the subject of employee rights - see paragraph C.1 below, on capitalization of in-house software development – see paragraph 1.C.2.

**Restatement**

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.

**(C) First-time Implementation of Accounting Standards, Updates to Accounting Standards, and Directives of the Banking Supervision Department**

**For reporting periods commencing 1 January 2015, the Bank implements the accounting standards and directives set out below:**

**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, including share-based payments, 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, and the Bank, on initial implementation, is to correct with retroactive effect the comparative figures for the period commencing 1 January 2013 and onwards, in order to comply with the requirements of the rules as aforesaid.

On 11 January 2015, the Banking Supervision Department published a supplementary circular to the circular published on 9 April 2014 including a reporting format on the subject of employee rights and the subject of share-based payments. In addition, the circular updates subjects such as: the discount rate, transitional provisions, the disclosure format in the statement of comprehensive income, in the note on accumulated other comprehensive income, and a disclosure requirement in the Directors' Report.

The circular states that the Bank of Israel reached the conclusion that there is no deep market of high-quality corporate debentures in Israel. Accordingly, 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. For practical reasons, it was decided that the calculation of the margin will be based on corporate bond margins in the US. A bank that believes that  that changes in the margin obtained in a specific period derive from exceptional movements in the markets in a way that the margins obtained are not suitable for use in the said discounting above, will apply for a pre-ruling from the Banking Supervision Department. Examples of such situations may include, inter alia, changes in respect of which the margin obtained is higher than the margin on (domestic) corporate bonds rated AA in Israel.

The Bank retroactively amended the comparative figures for the periods beginning on 1 January 2013 and thereafter. As for the accounting treatment of actuarial gains and losses it was decided as follows:

- The actuarial loss as of 1 January 2013 due to the difference between the discount rate for calculating reserves to cover employees rights linked to the Consumer Price Index determined pursuant to the temporary provisions in the Public Reporting Directives (4%) and the discount rates at this date determined under the new rules, as explained above, is included in accumulated other comprehensive income.

- Actuarial gains recorded from 1 January 2013 and thereafter, due to current changes in the discount rate during the reporting year, is recorded in accumulated other comprehensive income and eliminated the net loss recorded as above.

- Actuarial gains arising from current changes in the discount rate during the reporting year after eliminating the balance of the loss recorded as aforesaid and actuarial losses, are amortized by the straight-line method over the average remaining period of service of employees expected to receive benefits under the plan.

- Other actuarial gains and losses (not arising from a change in the discount rate) as of 1 January 2013 and subsequent periods, are included as part of accumulated other comprehensive income and amortized by the straight-line method over the average period of service of employees expected to receive benefits under the plan.

- The effect of the initial application on other benefits to employees whereof all changes therein are charged on an ongoing basis to profit and loss (such as long-service bonuses) are allocated to retained earnings.

In addition, the circular updates the disclosure requirements on employee rights and share-based payments in accordance with generally accepted accounting principles in US banks.

On 12 January 2015, a FAQ was published related to employee benefits, which includes examples of the treatment of benefits prevalent in the banking system in accordance with US GAAP.

**Main points of the new directives on employee benefits**

**Post-retirement benefits - pensions, severance pay and other benefits as part of defined benefit plans**

A defined benefit plan is a pension plan that defines the amount of pension benefit to be paid, usually as a function of one or more factors such as age, years of service or remuneration.

- Calculating the liability for pension plans and other post-retirement plans is based on calculations which include actuarial and other assumptions including discount rates, mortality, long-term expected return on plan assets, an increase in remuneration and turnover.

- The Bank is examining its assumptions in accordance with the directives of the Supervisor of Banks and updating such assumptions as necessary.

- Changes in assumptions in general are recognized, subject to the provisions set forth above, first in accumulated other comprehensive income and amortized to profit and loss in subsequent periods.
- The liability is accrued over the relevant period in accordance with the directives of the Banking Supervision Department.

- The Bank implements the directives of the Banking Supervision Department regarding internal control over the financial reporting process regarding employee rights, including with respect to examining the "intrinsic commitment" to give employees benefits in respect of increased compensation and / or early retirement.

**Post-retirement benefits as part of defined contribution plans**

A defined contribution plan is a plan under which the Bank pays fixed payments to a separate entity without having a legal or constructive obligation to make additional payments.
The Bank's commitment to deposit in a defined contribution plan is charged as an expense to profit and loss in periods during which the employees provided related services.

**Other long-term benefits for active employees – long-service bonuses**

- The liability is accrued over the qualifying period for the benefits.

- For purposes of calculating the liability, discount rates and actuarial assumptions are taken into account.

- All components of the cost of the benefit for the period, including actuarial gains and losses, are recognized immediately in the statement of profit and loss.

**Absences granting entitlement to compensation**

- A liability in respect of vacation days is measured on an ongoing basis, without the use of discount rates and actuarial assumptions.

**Share-based payment transactions**

- The Bank generally recognizes an expense for share-based payments it makes to its employees.

- Capital bonuses are measured at fair value on the date of granting.

- Commitment bonuses are measured at fair value on the date of granting, and the liability is re-measured until the settlement date.

**The main changes with respect to the accounting policy:**

- Until the date of implementing the directive the discount rate on the reserves was 4%, compared with a discount rate based on the yield on government bonds in Israel plus an average margin on corporate bonds with an international rating of AA or higher, in accordance with the new directive

- Until the date of implementing the directive, actuarial gains and losses were recognized immediately in the statement of profit and loss as opposed to charging them to accumulated other comprehensive income in respect of defined benefit plans.

**Disclosure requirements for interim financial reports in 2015:**

In the report to the public for the first quarter of 2015, disclosure was made of the following details, in addition to the disclosure required in the regular quarterly report:

The effect of initial adoption as of 1 January 2013 on a separate line in the Statement of Changes in Equity and the Note on Accumulated Other Comprehensive Income.

Full disclosure in accordance with the disclosure format in the annual report mutatis mutandis as follows:
The disclosure includes a reference to revenue items for the years 2013 and 2014.
The disclosure includes a reference to balance sheet balances and assumptions used as at 31 December 2013 and 31 December 2014.

For purpose of reporting comparative figures for the years 2013 and 2014, a bank may for practical reasons use the actual rates of return in those years as the expected rates of return.

The cumulative effect of initial adoption of the US accounting rules for employee rights as of 1 January 2013 is as follows: a decrease of NIS 687 million after the effect of tax, of which a negative capital reserve of NIS 725 million after the effect of tax recorded in accumulated other comprehensive income as part of "Adjustments in respect of employee benefits". This reserve is in respect of actuarial loss arising from the difference between the discount rate for calculating reserves to cover employees rights linked to the Consumer Price Index determined under the temporary provision in the Public Reporting Directives (4%) and the discount rates at that date of liabilities to employees linked to the index, determined by the Supervisor of Banks.

At 30 June 2015, the balance of the reserve for adjustments in respect of employee rights amounted to NIS 1,273 million after the effect of tax, a reduction of NIS 631 million after the effect of tax compared with 31 December 2014.

The balance of liabilities for employee benefits at 30 June 2015 according to the discount rate based on corporate bonds in Israel ("deep market in the approach of the Israel Securities Authority") is some NIS 134 million higher than the actual balance of liabilities.

**2. Capitalization of costs of in-house software development**

On 2 June 2015, a letter was received from the Supervisor of Banks on capitalization of costs of in-house software development in light of the accounting complexity of the issue and the materiality of the amounts of software costs capitalized. Pursuant to the guidelines of the Supervisor of Banks:

a. A materiality threshold was set of NIS 750 thousand and each software development project for which software costs are capitalized are less than the materiality threshold determined, will be charged as an expense in the statement of profit and loss.

b. The estimate of the useful life of capitalized software costs was so as not to exceed 5 years.

c. A coefficient was set for capitalization of labor hours, which, if less than 1, will lead to taking into account the potential for deviation in recording labor hours and the absence of economic efficiency.

d. The rank of employees whose costs are capitalized to assets is restricted to the rank of software project manager.

The Bank has implemented the guidelines retroactively. Comparative figures were restated.
The effect of initial implementation at 1 January 2013 is NIS 346 million after the effect of tax.

**The effect of the implementation as 30 June 2014 and as at 31 December 2014:**

| | As at 30 June 2014 | | | | As at 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Pursuant to the previous reporting directives (b) | Effect of the new rules on employee rights | Effect of the new rules on capital-ization of software costs | Pursuant to the new rules on employee rights and capital-ization of software costs | Pursuant to the previous reporting directives | Effect of the new rules on employee rights (a) | Effect of the new rules on capital-ization of software costs | Pursuant to the new rules on employee rights and capital-ization of software costs |
| | Unaudited | | | | Audited | | | |
| | NIS millions | | | | | | | |
| Buildings and equipment | 3,625 | - | (588) | 3,037 | 3,729 | - | (567) | 3,162 |
| Other assets | 5,420 | 663 | 218 | 6,301 | 5,501 | 1,145 | 210 | 6,856 |
| Other liabilities | 18,574 | 1,609 | - | 20,183 | 18,715 | 3,083 | - | 21,798 |
| Retained earnings | 18,902 | (39) | (370) | 18,493 | 19,559 | (34) | (357) | 19,168 |
| Accumulated other comprehensive income | (60) | (907) | - | (967) | 355 | (1,904) | - | (1,549) |
| Capital attributed to shareholders of the Bank | 27,021 | (946) | (370) | 25,705 | 28,093 | (1,938) | (357) | 25,798 |

(a) The Bank made non-material adjustments to the comparative figures as at 31 December 2014 as initially reported in the statements as at 31 March 2015 on employee rights.

(b) Restated pursuant to the change in accounting method for accumulating employee rights - see Note 1.R to the audited financial statements as at 31 December 2014.

**The effect of the initial implementation of the new rules for the three and six months ended 30 June 2014 and for the year ended 31 December 2014:**

| | For the three months ended 30 June 2014 | | | | For the six months ended 30 June 2014 | | | | For the year ended 31 December 2014 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Pursuant to the previous reporting directives (b) | Effect of the new rules on employee rights | Effect of the new rules on capital-ization of software costs | Pursuant to the new rules | Pursuant to the previous reporting directives | Effect of the new rules on employee rights | Effect of the new rules on capital-ization of software costs | Pursuant to the new rules | Pursuant to the previous reporting directives | Effect of the new rules on employee rights (a) | Effect of the new rules on capital-ization of software costs (a) | Pursuant to the new rules |
| | Unaudited | | | | | | | | Audited | | | |
| | NIS millions | | | | | | | | | | | |
| **Profit and loss** | | | | | | | | | | | | |
| Other income | 38 | 8 | - | 46 | 49 | 28 | - | 77 | 211 | (32) | - | 179 |
| Salaries and related expenses | 1,177 | 122 | 21 | 1,320 | 2,478 | 219 | 39 | 2,736 | 4,968 | 103 | 80 | 5,151 |
| Maintenance and depreciation of buildings and equipment | 436 | 0 | (31) | 405 | 878 | 0 | (61) | 817 | 1,778 | 0 | (123) | 1,655 |
| Provision for taxes on the profit | 373 | (41) | 5 | 337 | 762 | (69) | 9 | 702 | 1,281 | (20) | 17 | 1,278 |
| Profit attributed to shareholders of the Bank | 297 | (73) | 5 | 229 | 929 | (122) | 13 | 820 | 1,502 | (115) | 26 | 1,413 |
| Basic and diluted profit per share | 0.20 | (0.04) | - | 0.16 | 0.63 | (0.08) | 0.01 | 0.56 | 1.02 | (0.08) | 0.02 | 0.96 |
| **Other comprehensive income** | | | | | | | | | | | | |
| Adjustments of liabilities in respect of employee benefits | - | 80 | - | 80 | - | 185 | - | 185 | - | (1,384) | - | (1,384) |
| Relevant tax effect | - | (33) | - | (33) | - | (71) | - | (71) | - | 500 | - | 500 |
| Comprehensive income (loss) after taxes | - | 47 | - | 47 | - | 114 | - | 114 | - | (884) | - | (884) |

(a) The Bank made non-material adjustments to the comparative figures as at 31 December 2014 as initially reported in the statements as at 31 March 2015 on employee rights.

(b) Restated pursuant to the change in accounting method for accumulating employee rights - see Note 1.R to the audited financial statements as at 31 December 2014.

### 3. Reporting under US GAAP relating to the distinction between liabilities and equity

On 30 September 2014, the Supervisor of Banks published a directive on the subject of under US GAAP relating to the distinction between liabilities and equity. This is further to the policy of the Banking Supervision Department to adopt in material matters the framework of financial reporting applicable to US banks. Pursuant to the directive, the Bank implements US GAAP on the classification as equity or as a liability of financial instruments including compound instruments.

The Bank implements the directive as of 1 January 2015 retroactively. Implementing the directive had no material effect on the Bank.

## (D) New Accounting Standards and Directives of the Supervisor of Banks in the period prior to their implementation

### 1. Reporting on Operating Segments

On 3 November 2014 a circular was published concerning the reporting on operating segments that updates the Public Reporting Directives including changing some definitions and guidelines, according to which banks are required to classify customers in regulatory segments and update their reports.

The amendments to the directives were intended to require reporting on operating segments in accordance with the uniform and comparable format prescribed by the Banking Supervision Department. In addition, the circular states that the disclosure of "operating segments in accordance with the management approach" will be provided in accordance with generally accepted accounting principles in US banks on operating segments (included in ASC 280) if there is a fundamental difference between the management approach and reporting segments according to the guidelines of the Supervisor.

The new rules will apply to the financial statements for 2015 and thereafter in the following manner:

- In the 2015 financial statements, there will be a disclosure requirement applying to balance sheet data in relation to supervisory operating segments as defined in the new directives. Pursuant to the new directives, it is possible not to give disclosure to comparative balance sheet data on supervisory operating segments but to include comparative data in accordance with the Public Reporting Directives that were in effect prior to the circular. In addition, no disclosure is required of the financial management sector.
- As of the financial statements for the first quarter of 2016, full disclosure is required under the new rules, except for the disclosure of the financial management sector. Comparative figures will be retroactively adjusted. It will be possible to report in the 2016 statements comparative figures for one year only with reference to supervisory operating segments. For presentation purposes, reliance can be placed on the classification of customers in supervisory operating segments as at 1 January 2016.
- From the financial statements for the first quarter of 2017, the requirements of the circular are required to be implemented in their entirety.

Implementation of the new directives is not expected to have a material effect except for presentation and disclosure.

### 2. Recognition of income from contracts with customers

On 11 January 2015, a circular was issued on the adoption of updated accounting rules on the subject of income from contracts with customers. The circular updates the Public Reporting Directives in light of ASU 2014-09 that adopts in US GAAP a new standard on the recognition of income. The Standard states that income will be recognized in the amount expected to be received in exchange for the transfer of goods or services to the customer.

Banks are required to implement the amendments to the Public Reporting Directives pursuant to the circular as of 1 January 2018. In accordance with the transitional provisions, upon initial adoption, it is possible to choose between the alternative of retrospective implementation while restating comparative figures and the alternative of prospective application while recording the cumulative effect on equity at the time of initial application.

The new Standard does not apply, inter alia, to financial instruments and rights or contractual obligations within the scope of Accounting Standards Codification 310. Specifically, the provisions of the Standard do not apply to the accounting treatment of interest income and expenses and non-interest financing income.

The Bank has not yet begun to examine the impact of the Standard on its financial statements and has not yet chosen the alternative for implementation of the transitional provisions.

**3. Updating the structure of the annual statement to the public of a banking corporation and a credit card company**

On 28 April 2015, a circular was published on "Updating the Structure of the Annual Statement of a Banking Corporation". The aims of the circular on updating the structure of the annual statements are inter alia: improving the quality of reporting to the public by making the information in the report to the public more useful and accessible; increasing uniformity in the banking system in presenting the annual financial statements; and establishing a format for the published annual report that is based on leading presentation practices of leading banks in the US and Europe. The main points of the circular are:

- Establishment of a uniform structure for the order of contents in the financial report.
- Changing the order of presentation in the financial statements – presenting the statement of profit and loss before the balance sheet. Presenting notes to the profit and loss before notes to the balance sheet. Dividing Note 4 on "Credit Risk, Credit to the Public, and Allowance for Credit Losses" into a summary by total of major types of credit, and more detailed information to be included in the chapter on risks in the financial statements.
- Canceling the Management Review and integrating it in the Directors' Report, and renaming the Directors' Report – "Report of the Board of Directors and Management".
- Inserting the words of the Chairman of the Board of Directors before the Report of the Board of Directors and Management, including a concise reference to the main emphases in the Report, objectives and strategy, and other issues the Chairman of the Board wishes to emphasize.
- Publishing a report on risks on the Bank's website that includes detailed quantitative data and qualitative information on the review of the risks and their management pursuant to the disclosure requirements of Basel, the FSB, and other sources.
- Significantly reducing disclosure requirements in the chapter on the business description of the banking corporation. Transferring the remaining information on corporate governance and a description of the corporation's business to a separate chapter coming after the financial statement.
- Adoption of the disclosure requirements included in the recommendations to improve the disclosure of risks in banking corporations published by the EDTF mainly on the internet in a separate report that will include Third Pillar disclosure requirements and additional information on risks.

The guidelines of the circular are to be implemented in full as of the report to the public for 2015. Implementation of the circular will not have any effect except for an effect on the manner of disclosure and reporting.

**4. The application of generally accepted accounting principles in the United States related to business combinations, consolidation of financial statements and investments in investee companies**

On 10 June 2015, a circular was issued on "Reporting by Banking Corporations and Credit Card Companies in Israel under US GAAP relating to Business Combinations, Consolidation of Financial Statements and Investments in Investee Companies".
Pursuant to the circular, US GAAP are to be implemented on the following issues:

- Rules for the presentation, measurement and disclosure set out in the provisions of Codification Topic 805 on "Business Combinations".

- Provisions of Codification Topic 810 on "Business Combinations".

- Provisions of Topic 350-20 on the subject of "Intangible Assets - Goodwill and Other Assets" in connection with the accounting treatment of impairment of goodwill acquired in a business combination.

- Rules for the presentation, measurement and disclosure and guidelines relating to impairment set out in the provisions of Codification Topic 323, "Investments - Equity Method and Joint Investment."

It is required to implement the provisions of the circular on 1 January 2016, including the retroactive adjustment of comparative figures.
Initial implementation will be in accordance with the transitional provisions set out in the same subjects in US GAAP.

**5. Disclosure on interested parties and related parties**

On 10 June 2015, a circular was issued on "Disclosure of Interested Parties and Related Parties".
The amendments to the Public Reporting Directives adapt the disclosure on interested and related parties in the report to the public to the provisions of Directive 312 and the rules set out in this matter in the generally accepted accounting principles in US banks - Codification Topic 850 on "Related Party Disclosures".
Information of balance sheet and off-balance sheet balances is to include transactions carried out with anyone who has an interest at the time the transaction was made.
The information is to be classified according to the nature of the relationship between the banking corporation and its consolidated companies and interested parties and related parties as follows:

Interested parties – disclosure is to be made in the following groups: shareholders with a controlling interest and their relatives, other holders, office holders of the banking corporation together with their family and relatives.

Related parties held by the banking corporation - subsidiaries, companies included on equity basis or jointly controlled investee companies, and others.

It is required to implement the requirements of the Circular in full as of the report to the public for 2015. It is not required to restate comparative figures retroactively.

**6. Implementation of US GAAP on intangible assets**

On 13 July 2015, a draft was published on "Implementation of US GAAP on intangible assets". Pursuant to the draft, a banking corporation will implement US GAAP on the subject, and inter alia the rules for presentation, measurement and disclosure set out in the directives of Codification Topic 350 on "Intangible assets – goodwill and others".

**7. Implementation of US GAAP on taxes on income**

On 13 July 2015, a draft was published on "Implementation of US GAAP on taxes on income". Pursuant to the draft, a banking corporation will implement US GAAP on the subject, and inter alia the rules for presentation, measurement and disclosure set out in the directives of Codification Topic 742 on "Taxes on income" and Codification Topic 740-830 on "Foreign currency issues - taxes on income".

# Note 2 - Securities

| | As at 30 June 2015 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Balance sheet amount | Amortized cost (in shares - cost) | Accumulated other comprehensive profit (loss) Profits | Losses | Fair value (a) |
| | (NIS millions) | | | | |
| **1. Securities available for sale:** | | | | | |
| **Debentures -** | | | | | |
| Government of Israel | 26,922 | 26,754 | 172 | (4) | 26,922 |
| Foreign governments | 7,109 | 7,105 | 5 | (1) | 7,109 |
| Financial institutions in Israel | 48 | 45 | 3 | - | 48 |
| Financial institutions abroad | 5,709 | 5,687 | 43 | (21) | 5,709 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 7,761 | 7,784 | 38 | (61) | 7,761 |
| Others in Israel | 1,209 | 1,182 | 28 | (1) | 1,209 |
| Others abroad | 1,032 | 1,031 | 9 | (8) | 1,032 |
| | 49,790 | 49,588 | 298 | (96) | 49,790 |
| **Shares and mutual funds (b)** | 4,062 | 3,285 | 820 | (43) | 4,062 |
| **Total securities available for sale** | 53,852 | 52,873 | 1,118 (c) | (139) (c) | 53,852 |

| | As at 30 June 2015 (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 | 7,419 | 7,474 | 11 | (66) | 7,419 |
| Foreign governments | 961 | 989 | - | (28) | 961 |
| Financial institutions in Israel | 156 | 157 | - | (1) | 156 |
| Financial institutions abroad | 237 | 238 | - | (1) | 237 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 876 | 873 | 6 | (3) | 876 |
| Others in Israel | 344 | 346 | 2 | (4) | 344 |
| Others abroad | 330 | 334 | - | (4) | 330 |
| | 10,323 | 10,411 | 19 | (107) | 10,323 |
| **Shares and mutual funds** | 635 | 699 | - | (64) | 635 |
| **Total securities held for trading** | 10,958 | 11,110 | 19 (d) | (171) (d) | 10,958 |
| **Total securities (e) (f)** | 64,810 | 63,983 | 1,137 | (310) | 64,810 |

See notes on page 179.

## Note 2 - Securities (contd.)

| | As at 30 June 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 | 20,518 | 20,274 | 249 | (5) | 20,518 |
| Foreign governments | 1,713 | 1,705 | 10 | (2) | 1,713 |
| Financial institutions in Israel | 101 | 93 | 8 | - | 101 |
| Financial institutions abroad | 4,180 | 4,095 | 97 | (12) | 4,180 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 6,647 | 6,712 | 29 | (94) | 6,647 |
| Others in Israel | 728 | 688 | 42 | (2) | 728 |
| Others abroad | 2,319 | 2,287 | 40 | (8) | 2,319 |
| | 36,206 | 35,854 | 475 | (123) | 36,206 |
| **Shares and mutual funds (b)** | 3,051 | 3,031 | 61 | (41) | 3,051 |
| **Total securities available for sale** | 39,257 | 38,885 | 536 (c) | (164) (c) | 39,257 |

| | As at 30 June 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 | 7,393 | 7,311 | 83 | (1) | 7,393 |
| Foreign governments | 558 | 546 | 12 | - | 558 |
| Financial institutions in Israel | 399 | 397 | 2 | - | 399 |
| Financial institutions abroad | 153 | 148 | 5 | - | 153 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 515 | 512 | 4 | (1) | 515 |
| Others in Israel | 385 | 379 | 7 | (1) | 385 |
| Others abroad | 548 | 537 | 14 | (3) | 548 |
| | 9,951 | 9,830 | 127 | (6) | 9,951 |
| **Shares and mutual funds** | 505 | 433 | 72 | - | 505 |
| **Total securities held for trading** | 10,456 | 10,263 | 199 (d) | (6)(d) | 10,456 |
| **Total securities (e) (f)** | 49,713 | 49,148 | 735 | (170) | 49,713 |

See notes on page 179.

# Note 2 - Securities (contd.)

| | As at 31 December 2014 (Audited) | | | | |
|---|---|---|---|---|---|
| | 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 | 14,290 | 14,033 | 260 | (3) | 14,290 |
| Foreign governments | 4,715 | 4,708 | 10 | (3) | 4,715 |
| Financial institutions in Israel | 65 | 60 | 5 | - | 65 |
| Financial institutions abroad | 5,676 | 5,611 | 80 | (15) | 5,676 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 7,687 | 7,722 | 40 | (75) | 7,687 |
| Others in Israel | 907 | 881 | 30 | (4) | 907 |
| Others abroad | 2,602 | 2,594 | 29 | (21) | 2,602 |
| | 35,942 | 35,609 | 454 | (121) | 35,942 |
| **Shares and mutual funds (b)** | 3,180 | 2,801 | 390 | (11) | 3,180 |
| **Total securities available for sale** | 39,122 | 38,410 | 844(c) | (132)(c) | 39,122 |

| | As at 31 December 2014 (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 | 7,915 | 7,888 | 33 | (6) | 7,915 |
| Foreign governments | 505 | 504 | 1 | - | 505 |
| Financial institutions in Israel | 374 | 374 | 1 | (1) | 374 |
| Financial institutions abroad | 266 | 262 | 5 | (1) | 266 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 1,438 | 1,435 | 8 | (5) | 1,438 |
| Others in Israel | 319 | 318 | 3 | (2) | 319 |
| Others abroad | 660 | 658 | 11 | (9) | 660 |
| | 11,477 | 11,439 | 62 | (24) | 11,477 |
| **Shares and mutual funds** | 1,514 | 1,400 | 141 | (27) | 1,514 |
| **Total securities held for trading** | 12,991 | 12,839 | 203(d) | (51)(d) | 12,991 |
| **Total securities (e) (f)** | 52,113 | 51,249 | 1,047 | (183) | 52,113 |

See notes on next page.

## Note 2 - Securities (contd.)

**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 1,301 million with respect to shares which have no readily available fair value, which are shown at cost (30 June 2014 - NIS 1,445 million, 31 December 2014 - NIS 1,596 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 at 30 June 2014 - NIS 27 million, 31 December 2014 - NIS 10 million), in respect of bonds of companies included on equity basis.

(f) Including non-accrual impaired bonds of NIS 14 million (30 June 2014 - NIS 22 million, 31 December 2014 - NIS 19 million).

**General notes:**

Securities lent in the amount of NIS 94 million (30 June 2014 - NIS 179 million, 31 December 2014 - NIS 196 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 2,193 million (30 June 2014 - NIS 1,508 million, 31 December 2014 - NIS 2,109 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.

For details of the description of securities, see the annual financial statements as at 31 December 2014.

# Note 2 - Securities (contd.)

## Additional information on mortgage-backed and asset-backed securities available for sale

| | As at 30 June 2015 (Unaudited) | | | |
|---|---|---|---|---|
| | | Accumulated other comprehensive income (loss) (a) | | |
| | Amortized cost | Profits | Losses | Fair value |
| | (NIS millions) | | | |
| **3. Debentures available for sale Pass-through securities** | | | | |
| Securities guaranteed by GNMA | 13 | - | - | 13 |
| Securities issued by FNMA and FHLMC | 1,038 | - | (25) | 1,013 |
| Other securities | 728 | 1 | (1) | 728 |
| Total | 1,779 | 1 | (26) | 1,754 |
| **Other mortgage-backed securities (including CMO and STRIPPED MBS)** | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 3,654 | 9 | (29) | 3,634 |
| Other mortgage-backed securities | 388 | 3 | - | 391 |
| Total | 4,042 | 12 | (29) | 4,025 |
| **Asset-backed securities (ABS)** | - | - | - | - |
| Credit card receivables | 91 | - | (1) | 90 |
| Lines of credit for any purpose secured by dwelling | 2 | - | - | 2 |
| Other credit to private persons | 4 | - | - | 4 |
| Credit not to private persons | 1 | - | - | 1 |
| CLO-type debentures | 1,865 | 25 | (5) | 1,885 |
| Total | 1,963 | 25 | (6) | 1,982 |
| **Total mortgage-backed and asset-backed debentures available for sale** | 7,784 | 38 | (61) | 7,761 |

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after effect of taxes.

# Note 2 - Securities (contd.)

## Additional information on mortgage-backed and asset-backed securities held for trading (contd.)

| | As at 30 June 2015 (Unaudited) | | | |
|---|---|---|---|---|
| | 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** | | | | |
| Securities issued by FNMA and FHLMC | 9 | - | - | 9 |
| Total | 9 | - | - | 9 |
| **Other mortgage-backed securities (including CMO and STRIPPED MBS)** | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 455 | 1 | (2) | 454 |
| Other mortgage-backed securities | 125 | 2 | (1) | 126 |
| Total | 580 | 3 | (3) | 580 |
| **Asset-backed securities (ABS)** | | | | |
| Credit card receivables | 19 | - | - | 19 |
| Lines of credit for any purpose secured by dwelling | 1 | - | - | 1 |
| Credit for purchase of vehicle | 73 | 1 | - | 74 |
| Other credit to private persons | 15 | - | - | 15 |
| Credit not to private persons | 48 | - | - | 48 |
| Others | 128 | 2 | - | 130 |
| Total | 284 | 3 | - | 287 |
| **Total mortgage-backed and asset-backed debentures held for trading** | 873 | 6 | (3) | 876 |

(a) These profits (losses) were charged to profit and loss.

# Note 2 - Securities (contd.)

## Additional information on mortgage-backed and asset-backed securities available for sale (contd.)

| | As at 30 June 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | 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 | 245 | 1 | (1) | 245 |
| Securities issued by FNMA and FHLMC | 1,581 | - | (37) | 1,544 |
| Total | 1,826 | 1 | (38) | 1,789 |
| **Other mortgage-backed securities (including CMO and STRIPPED MBS)** | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 2,740 | 3 | (46) | 2,697 |
| Other mortgage-backed securities | 325 | 4 | - | 329 |
| Total | 3,065 | 7 | (46) | 3,026 |
| **Asset-backed securities (ABS)** | | | | |
| Credit card receivables | 83 | - | - | 83 |
| Lines of credit for any purpose secured by | 2 | - | - | 2 |
| Credit for purchase of vehicle | - | - | - | - |
| Credit not to private persons | 1 | - | - | 1 |
| CLO-type debentures | 1,732 | 21 | (10) | 1,743 |
| Total | 1,821 | 21 | (10) | 1,832 |
| **Total mortgage-backed and asset-backed debentures available for sale** | 6,712 | 29 | (94) | 6,647 |

(a) Amounts charged to capital reserve as part of other comprehensive income, net after effect of tax.

## Note 2 - Securities (contd.)

### Additional information on mortgage-backed and asset-backed securities held for trading (contd.)

| | As at 30 June 2014 (Unaudited) | | | |
|---|---|---|---|---|
| | 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 | 251 | - | - | 251 |
| Total | 251 | - | - | 251 |
| **Other mortgage-backed securities (including CMO and STRIPPED MBS)** | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 10 | - | - | 10 |
| Other mortgage-backed securities | 71 | 1 | - | 72 |
| Total | 81 | 1 | - | 82 |
| Total mortgage-backed securities (MBS) | 332 | 1 | - | 333 |
| **Asset-backed securities (ABS)** | | | | |
| Credit for purchase of vehicle | 58 | 1 | (1) | 58 |
| Other credit to private persons | 16 | - | - | 16 |
| Credit not to private persons | 7 | - | - | 7 |
| Others | 98 | 2 | - | 100 |
| Total | 180 | 3 | (1) | 182 |
| **Total mortgage-backed and asset-backed debentures held for trading** | 512 | 4 | (1) | 515 |

(a) These profits (losses) were charged to profit and loss.

# Note 2 - Securities (contd.)

## Additional information on mortgage-backed and asset-backed securities available for sale (contd.)

| | As at 31 December 2014 (Audited) | | | |
|---|---|---|---|---|
| | Amortized cost | Accumulated other comprehensive income (loss) (a) Profits | Losses | Fair value |
| | (NIS millions) | | | |
| **3. Debentures available for sale** | | | | |
| **Pass-through securities** | | | | |
| Securities guaranteed by GNMA | 18 | - | - | 18 |
| Securities issued by FNMA and FHLMC | 1,577 | 1 | (18) | 1,560 |
| Total | 1,595 | 1 | (18) | 1,578 |
| **Other mortgage-backed securities (including CMO and STRIPPED MBS)** | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 3,298 | 6 | (41) | 3,263 |
| Other mortgage-backed securities | 741 | 5 | (2) | 744 |
| Total | 4,039 | 11 | (43) | 4,007 |
| Total mortgage-backed securities (MBS) | 5,634 | 12 | (61) | 5,585 |
| **Asset-backed securities (ABS)** | | | | |
| Credit card receivables | 93 | - | (2) | 91 |
| Lines of credit for any purpose secured by dwelling | 2 | - | - | 2 |
| Other credit to private persons | 4 | - | - | 4 |
| Credit not to private persons | 1 | - | - | 1 |
| CLO-type debentures | 1,988 | 28 | (12) | 2,004 |
| Total | 2,088 | 28 | (14) | 2,102 |
| **Total mortgage-backed and asset-backed debentures available for sale** | 7,722 | 40 | (75) | 7,687 |

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after effect of tax.

# Note 2 - Securities (contd.)

## Additional information on mortgage-backed and asset-backed securities held for trading (contd.)

| | As at 31 December 2014 (Audited) | | | |
|---|---|---|---|---|
| | 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** | | | | |
| Securities issued by FNMA and FHLMC | 248 | - | - | 248 |
| Total | 248 | - | - | 248 |
| **Other mortgage-backed securities (including CMO and STRIPPED MBS)** | | | | |
| Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities | 776 | 3 | (4) | 775 |
| Other mortgage-backed securities | 116 | 2 | (1) | 117 |
| Total | 892 | 5 | (5) | 892 |
| Total mortgage-backed securities (MBS) | 1,140 | 5 | (5) | 1,140 |
| **Asset-backed securities (ABS)** | | | | |
| Credit card receivables | 19 | - | - | 19 |
| Lines of credit for any purpose secured by dwelling | 1 | - | - | 1 |
| Credit for purchase of vehicle | 78 | 1 | - | 79 |
| Other credit to private persons | 16 | - | - | 16 |
| Credit not to private persons | 47 | - | - | 47 |
| Others | 134 | 2 | - | 136 |
| Total | 295 | 3 | - | 298 |
| **Total mortgage-backed and asset-backed debentures held for trading** | 1,435 | 8 | (5) | 1,438 |

(a) These profits (losses) were charged to profit and loss.

# Note 2 - Securities (contd.)

**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 June 2015 (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 | **9,306** | **4** | **-** | **-** | **4** | **-** | **-** | **-** | **-** | **-** |
| Foreign governments | **4,999** | **1** | **-** | **-** | **1** | **-** | **-** | **-** | **-** | **-** |
| Financial institutions in Israel | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Financial institutions abroad | **1,770** | **16** | **-** | **-** | **16** | **55** | **5** | **-** | **-** | **5** |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | **3,496** | **39** | **-** | **-** | **39** | **808** | **22** | **-** | **-** | **22** |
| Others in Israel | **716** | **1 (a)** | **-** | **-** | **1** | **-** | **-** | **-** | **-** | **-** |
| Others abroad | **332** | **6** | **-** | **-** | **6** | **334** | **2** | **-** | **-** | **2** |
| **Shares** | **619** | **36** | **-** | **7** | **43** | **-** | **-** | **-** | **-** | **-** |
| **Total securities available for sale** | **21,238** | **103** | **-** | **7** | **110** | **1,197** | **29** | **-** | **-** | **29** |

| | 30 June 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 | 870 | - | - | - | - | 122 | 5 | - | - | 5 |
| Foreign governments | 381 | - | - | - | - | 106 | 2 | - | - | 2 |
| Financial institutions in Israel | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 138 | 4 | - | - | 4 | 477 | 8 | - | - | 8 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 1,567 | 13 | - | - | 13 | 3,220 | 81 | - | - | 81 |
| Others in Israel | 29 | 2 | - | - | 2 | - | - | - | - | - |
| Others abroad | 17 | - | - | - | - | 1,324 | 8 | - | - | 8 |
| **Shares** | 1 | 1 | - | - | 1 | 512 | 40 | - | - | 40 |
| **Total securities available for sale** | 3,003 | 20 | - | - | 20 | 5,761 | 144 | - | - | 144 |

(-) Losses less than NIS 1million.

# Note 2 - Securities (contd.)

**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 (contd.)**

| | 31 December 2014 (Audited) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 6,910 | 3 | - | - | 3 | 31 | - | - | - | - |
| Foreign governments | 3,372 | 2 | - | - | 2 | 115 | 1 | - | - | 1 |
| Financial institutions in Israel | 5 | - (a) | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 1,419 | 6 | - | - | 6 | 317 | 9 | - | - | 9 |
| Asset-backed securities (ABS) or mortgage-backed securities (MBS) | 1,604 | 9 | - | - | 9 | 3,541 | 66 | - | - | 66 |
| Others in Israel | 300 | 4 | - | - | 4 | - | - | - | - | - |
| Others abroad | 457 | 3 | - | - | 3 | 773 | 16 | - | 2 | 18 |
| **Shares** | 1 | - (a) | - | - | - | 196 | 11 | - | - | 11 |
| **Total securities available for sale** | 14,068 | 27 | - | - | 27 | 4,973 | 103 | - | 2 | 105 |

(-) Losses less than NIS 1million.

## Note 2 - Securities (contd.)

### Additional information on mortgage-backed and asset-backed securities that are in an unrealized loss position

| | **30 June 2015 (Unaudited)** | | | | | |
|---|---|---|---|---|---|---|
| | Up to 12 months | | Over 12 months | | Total | |
| | Fair value | 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 |
| | (NIS millions) | | | | | |
| Mortgage-backed securities (MBS) | **1,465** | **(25)** | **61** | **(1)** | **1,526** | **(26)** |
| Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS) | **1,182** | **(9)** | **650** | **(20)** | **1,832** | **(29)** |
| Asset-backed securities (ABS) | **849** | **(5)** | **97** | **(1)** | **946** | **(6)** |
| Total | **3,496** | **(39)** | **808** | **(22)** | **4,304** | **(61)** |

| | 30 June 2014 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Up to 12 months | | Over 12 months | | Total | |
| | Fair value | 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 |
| | (NIS millions) | | | | | |
| Mortgage-backed securities (MBS) | 47 | (1) | 1,529 | (37) | 1,576 | (38) |
| Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS) | 703 | (6) | 1,343 | (40) | 2,046 | (46) |
| Asset-backed securities (ABS) | 817 | (6) | 348 | (4) | 1,165 | (10) |
| Total | 1,567 | (13) | 3,220 | (81) | 4,787 | (94) |

| | 31 December 2014 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | Up to 12 months | | Over 12 months | | Total | |
| | Fair value | 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 |
| | (NIS millions) | | | | | |
| **Additional details of asset-backed securities available for sale include unrealized losses from adjustments to fair value** | | | | | | |
| Mortgage-backed securities (MBS) | 57 | - | 1,416 | (18) | 1,473 | (18) |
| Other mortgage-backed securities (including REMIC, CMO and | - | - | - | - | - | - |
| STRIPPED MBS) | 649 | (4) | 1,555 | (39) | 2,204 | (43) |
| Asset-backed securities (ABS) | 898 | (5) | 570 | (9) | 1,468 | (14) |
| Total | 1,604 | (9) | 3,541 | (66) | 5,145 | (75) |

(-) Losses 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 June 2015 (Unaudited)** | | | | | |
|---|---|---|---|---|---|---|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of the reporting period | **3,256** | **508** | **649** | **4,413** | **3** | **4,416** |
| Expenses (income) in respect of credit losses | **(29)** | **8** | **33** | **12** | **-** | **12** |
| Accounting write-offs | **(75)** | **(1)** | **(160)** | **(236)** | **-** | **(236)** |
| Collection of debts written off in previous years | **125** | **-** | **95** | **220** | **-** | **220** |
| Net accounting write-offs | **50** | **(1)** | **(65)** | **(16)** | **-** | **(16)** |
| Adjustments from translation of financial statements | **(10)** | **1** | **-** | **(9)** | **-** | **(9)** |
| Balance of allowance for credit losses at end of the reporting period[1] | **3,267** | **516** | **617** | **4,400** | **3** | **4,403** |
| [1]Of which: in respect of off-balance sheet credit instruments | **451** | **-** | **37** | **488** | **-** | **488** |

| | For the three months ended 30 June 2014 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of reporting period | 3,329 | 495 | 426 | 4,250 | 5 | 4,255 |
| Expenses in respect of credit losses | (74) | 10 | 47 | (17) | 1 | (16) |
| Accounting write-offs (b) | (101) | (1) | (156) | (258) | - | (258) |
| Collection of debts written off in previous years (b) | 145 | - | 93 | 238 | - | 238 |
| Net accounting write-offs | 44 | (1) | (63) | (20) | - | (20) |
| Adjustments from translation of financial statements | (3) | - | 1 | (2) | - | (2) |
| Balance of allowance for credit losses at end of the reporting period[1] | 3,296 | 504 | 411 | 4,211 | 6 | 4,217 |
| [1]Of which: in respect of off-balance sheet credit instruments | 390 | - | 34 | 424 | - | 424 |

(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

## A. Debts[a] and off-balance sheet credit instruments (contd.)
## Allowance for credit losses

### 1. Change in balance of allowance for credit losses (contd.)

| | For the six months ended 30 June 2015 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of the reporting period | **3,317** | **513** | **652** | **4,482** | **4** | **4,486** |
| Expenses (income) in respect of credit losses | **8** | **5** | **81** | **94** | **(1)** | **93** |
| Accounting write-offs | **(260)** | **(2)** | **(308)** | **(570)** | **-** | **(570)** |
| Collection of debts written off in previous years | **206** | **-** | **193** | **399** | **-** | **399** |
| Net accounting write-offs | **(54)** | **(2)** | **(115)** | **(171)** | **-** | **(171)** |
| Adjustments from translation of financial statements | **(4)** | **-** | **(1)** | **(5)** | **-** | **(5)** |
| Balance of allowance for credit losses at end of the reporting period[2] | **3,267** | **516** | **617** | **4,400** | **3** | **4,403** |
| [2]Of which: in respect of off-balance sheet credit instruments | **451** | **-** | **37** | **488** | **-** | **488** |

| | For the six months ended 30 June 2014 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Allowance for credit losses | | | | | |
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| Balance of allowance for credit losses at beginning of reporting period | 3,301 | 498 | 496 | 4,295 | 2 | 4,297 |
| Expenses in respect of credit losses | (93) | 10 | 12 | (71) | 4 | (67) |
| Accounting write-offs (b) | (162) | (5) | (280) | (447) | - | (447) |
| Collection of debts written off in previous years | 246 | - | 187 | 433 | - | 433 |
| Net accounting write-offs | 84 | (5) | (93) | (14) | - | (14) |
| Adjustments from translation of financial statements | 4 | 1 | (4) | 1 | - | 1 |
| Balance of allowance for credit losses at end of the reporting period[2] | 3,296 | 504 | 411 | 4,211 | 6 | 4,217 |
| [2]Of which: in respect of off-balance sheet credit instruments | 390 | - | 34 | 424 | - | 424 |

(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 (contd.)

### A. Debts[a] and off-balance sheet credit instruments (contd.)

### 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 June 2015 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| **Recorded debt balance of debts[a]** | | | | | | |
| Examined on an individual basis | **107,926** | **44** | **991** | **108,961** | **11,329** | **120,290** |
| Examined on a collective basis[3] | **35,863** | **78,445** | **35,191** | **149,499** | **2,728** | **152,227** |
| [3]Of which: the allowance was calculated by extent of arrears | **-** | **77,310** | **-** | **77,310** | **-** | **77,310** |
| Total debts[1] | **143,789** | **78,489** | **36,182** | **258,460** | **14,057** | **272,517** |
| **Allowance for credit losses for debts[a]:** | | | | | | |
| Examined on an individual basis | **2,528** | **13** | **53** | **2,594** | **3** | **2,597** |
| Examined on a collective basis[4] | **288** | **503** | **527** | **1,318** | **-** | **1,318** |
| [4]Of which the allowance was calculated by extent of arrears (b) | **-** | **500** | **-** | **500** | **-** | **500** |
| Total allowance for credit losses | **2,816** | **516** | **580** | **3,912** | **3** | **3,915** |

| | 30 June 2014 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | Credit to the public | | | | Banks and governments | Total |
| | Commercial | Residential | Other private | Total | | |
| | (NIS millions) | | | | | |
| **Recorded debt balance of debts[a]** | | | | | | |
| Examined on an individual basis | 109,879 | 45 | 1,681 | 111,605 | 12,749 | 124,354 |
| Examined on a collective basis[3] | 31,741 | 72,115 | 32,711 | 136,567 | 2,029 | 138,596 |
| [3]Of which: the allowance was calculated by extent of arrears | - | 70,995 | - | 70,995 | - | 70,995 |
| Total debts[1](a) | 141,620 | 72,160 | 34,392 | 248,172 | 14,778 | 262,950 |
| **Allowance for credit losses for debts[a]:** | | | | | | |
| Examined on an individual basis | 2,505 | 13 | 60 | 2,578 | 6 | 2,584 |
| Examined on a collective basis[4] | 401 | 491 | 317 | 1,209 | - | 1,209 |
| [4]Of which the allowance was calculated by extent of arrears (b) | - | 486 | - | 486 | - | 486 |
| Total allowance for credit losses | 2,906 | 504 | 377 | 3,787 | 6 | 3,793 |

(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 303 million (30 June 2014 – NIS 285 million).

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### A. Debts[a] and off-balance sheet credit instruments (contd.)

### 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 (contd.)

| | 31 December 2014 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 110,050 | 52 | 1,553 | 111,655 | 18,300 | 129,955 |
| Examined on a collective basis[3] | 35,613 | 75,392 | 33,808 | 144,813 | 1,364 | 146,177 |
| [3]Of which: the allowance was calculated by extent of arrears | - | 74,239 | - | 74,239 | - | 74,239 |
| Total debts[a] | 145,663 | 75,444 | 35,361 | 256,468 | 19,664 | 276,132 |
| **Allowance for credit losses for debts[a]:** | | | | | | |
| Examined on an individual basis | 2,441 | 16 | 64 | 2,521 | 4 | 2,525 |
| Examined on a collective basis[4] | 430 | 496 | 541 | 1,467 | - | 1,467 |
| [4]Of which the allowance was calculated by extent of arrears (b) | - | 495 | - | 495 | - | 495 |
| Total allowance for credit losses | 2,871 | 512 | 605 | 3,988 | 4 | 3,992 |

(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 291 million.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts [a]

### 1. Credit quality and arrears

| | 30 June 2015 (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) | | | | | |
| Activity of borrowers in Israel | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate - construction | 15,977 | 343 | 577 | 16,897 | 8 | 24 |
| Construction & real estate - real estate activities | 21,856 | 489 | 1,253 | 23,598 | 5 | 25 |
| Financial services | 9,386 | 24 | 13 | 9,423 | 1 | 11 |
| Commercial - other | 61,459 | 2,789 | 1,554 | 65,802 | 43 | 106 |
| **Total commercial** | 108,678 | 3,645 | 3,397 | 115,720 | 57 | 166 |
| Private individuals - housing loans (f) | 76,599 | 731 | - | 77,330 | 722 | 488 |
| Private individuals - other | 35,378 | 330 | 98 | 35,806 | 85 | 162 |
| **Total public - activity in Israel** | 220,655 | 4,706 | 3,495 | 228,856 | 864 | 816 |
| **Israeli banks** | 2,069 | - | - | 2,069 | - | - |
| **Government of Israel** | 266 | - | - | 266 | - | - |
| **Total activity in Israel** | 222,990 | 4,706 | 3,495 | 231,191 | 864 | 816 |
| Activity of borrowers abroad | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate | 8,067 | 7 | 505 | 8,579 | 14 | 92 |
| Commercial - other | 18,685 | 383 | 422 | 19,490 | 29 | 98 |
| **Total commercial** | 26,752 | 390 | 927 | 28,069 | 43 | 190 |
| Private individuals | 1,458 | 24 | 53 | 1,535 | 17 | 7 |
| **Total public - activity abroad** | 28,210 | 414 | 980 | 29,604 | 60 | 197 |
| **Foreign banks** | 11,553 | - | - | 11,553 | - | - |
| **Foreign governments** | 169 | - | - | 169 | - | - |
| **Total activity abroad** | 39,932 | 414 | 980 | 41,326 | 60 | 197 |
| **Total public** | 248,865 | 5,120 | 4,475 | 258,460 | 924 | 1,013 |
| **Total banks** | 13,622 | - | - | 13,622 | - | - |
| **Total governments** | 435 | - | - | 435 | - | - |
| **Total** | 262,922 | 5,120 | 4,475 | 272,517 | 924 | 1,013 |

See notes on page 196.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)
### 1. Credit quality and arrears (contd.)

| | 30 June 2014 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | | Problem debts (b) | | | Unimpaired debts - additional information | |
| | Non problematic | Not impaired | Impaired (c) | Total | In arrears of 90 days or more (d)(g) | In arrears of 30 to 89 days (e)(g) |
| | (NIS millions) | | | | | |
| Activity of borrowers in Israel | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate - construction | 15,034 | 601 | 626 | 16,261 | 6 | 18 |
| Construction & real estate - real estate activities | 20,578 | 118 | 1,413 | 22,109 | 5 | 17 |
| Financial services | 10,763 (g) | 6 | 48 | 10,817 | - | 165 |
| Commercial - other | 62,431 (g) | 2,596 | 1,642 | 66,669 | 32 | 83 |
| **Total commercial** | 108,806 | 3,321 | 3,729 | 115,856 | 43 | 283 |
| Private individuals - housing loans (f) | 70,202 | 807 | - | 71,009 | 799 | 612 |
| Private individuals - other | 33,042 | 313 | 104 | 33,459 | 88 | 186 |
| **Total public - activity in Israel** | 212,050 | 4,441 | 3,833 | 220,324 | 930 | 1,081 |
| **Israeli banks** | 1,572 | - | - | 1,572 | - | - |
| **Government of Israel** | 293 | - | - | 293 | - | - |
| **Total activity in Israel** | 213,915 | 4,441 | 3,833 | 222,189 | 930 | 1,081 |
| Activity of borrowers abroad | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate | 6,648 (g) | 28 | 654 | 7,330 | 5 | 16 |
| Commercial - other | 17,459 (g) | 186 | 789 | 18,434 | 9 | 64 |
| **Total commercial** | 24,107 | 214 | 1,443 | 25,764 | 14 | 80 |
| Private individuals | 2,005 | 21 | 58 | 2,084 | 17 | 4 |
| **Total public - activity abroad** | 26,112 | 235 | 1,501 | 27,848 | 31 | 84 |
| **Foreign banks** | 12,723 | - | - | 12,723 | - | - |
| **Foreign governments** | 190 | - | - | 190 | - | - |
| **Total activity abroad** | 39,025 | 235 | 1,501 | 40,761 | 31 | 84 |
| **Total public** | 238,162 | 4,676 | 5,334 | 248,172 | 961 | 1,165 |
| **Total banks** | 14,295 | - | - | 14,295 | - | - |
| **Total governments** | 483 | - | - | 483 | - | - |
| **Total** | 252,940 | 4,676 | 5,334 | 262,950 | 961 | 1,165 |

See notes on page 196.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)
### 1. Credit quality and arrears (contd.)

| | 31 December 2014 (Audited) | | | | | |
|---|---|---|---|---|---|---|
| | | 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) | | | | | |
| Activity of borrowers in Israel | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate - construction | 15,327 | 290 | 579 | 16,196 | 9 | 31 |
| Construction & real estate - real estate activities | 20,573 | 518 | 1,331 | 22,422 | 5 | 12 |
| Financial services (g) | 9,978 | 33 | 20 | 10,031 | - | 12 |
| Commercial - other (g) | 65,293 | 3,074 | 1,499 | 69,866 | 36 | 81 |
| **Total commercial** | 111,171 | 3,915 | 3,429 | 118,515 | 50 | 136 |
| Private individuals - housing loans (f) | 73,465 | 775 | - | 74,240 | 768 | 499 |
| Private individuals - other | 34,037 | 335 | 100 | 34,472 | 89 | 171 |
| **Total public - activity in Israel** | 218,673 | 5,025 | 3,529 | 227,227 | 907 | 806 |
| **Israeli banks** | 1,581 | - | - | 1,581 | - | - |
| **Government of Israel** | 294 | - | - | 294 | - | - |
| **Total activity in Israel** | 220,548 | 5,025 | 3,529 | 229,102 | 907 | 806 |
| Activity of borrowers abroad | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate | 8,277 | 57 | 500 | 8,834 | 4 | 23 |
| Commercial - other | 17,358 | 259 | 697 | 18,314 | 3 | 36 |
| **Total commercial** | 25,635 | 316 | 1,197 | 27,148 | 7 | 59 |
| Private individuals | 2,008 | 20 | 65 | 2,093 | 27 | 3 |
| **Total public - activity abroad** | 27,643 | 336 | 1,262 | 29,241 | 34 | 62 |
| **Foreign banks** | 17,555 | - | - | 17,555 | - | - |
| **Foreign governments** | 234 | - | - | 234 | - | - |
| **Total activity abroad** | 45,432 | 336 | 1,262 | 47,030 | 34 | 62 |
| **Total public** | 246,316 | 5,361 | 4,791 | 256,468 | 941 | 868 |
| **Total banks** | 19,136 | - | - | 19,136 | - | - |
| **Total governments** | 528 | - | - | 528 | - | - |
| **Total** | 265,980 | 5,361 | 4,791 | 276,132 | 941 | 868 |

See notes on page 196.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)

### 1. Credit quality and arrears (contd.)

(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 513 million were classified as problem debts that are not impaired (30 June 2014 – NIS 671 million, 31 December 2014 – NIS 533 million).
(f) Including balance of housing loans in the amount of NIS 158 million (30 June 2014 – NIS 182 million, 31 December 2014 – NIS 175 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). Debts in arrears of 90 to 150 days are classified as problem debts (unimpaired) and accrue interest income. In most cases 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 (contd.)

## B. Debts[a] (contd.)
## 2. Additional information on impaired debts
### a. Impaired debts and individual allowance

| | 30 June 2015 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Balance (b) of impaired debts in respect of which there is an andividual 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) | | | | |
| Activity of borrowers in Israel | | | | | |
| Public - commercial | | | | | |
| Construction & real estate - construction | 158 | 43 | 419 | 577 | 1,110 |
| Construction & real estate - real estate activities | 705 | 311 | 548 | 1,253 | 2,473 |
| Financial services | 2 | 1 | 11 | 13 | 526 |
| Commercial - other | 1,040 | 372 | 514 | 1,554 | 4,964 |
| **Total commercial** | 1,905 | 727 | 1,492 | 3,397 | 9,073 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 73 | 38 | 25 | 98 | 1,904 |
| **Total public - activity in Israel** | 1,978 | 765 | 1,517 | 3,495 | 10,977 |
| **Israeli banks** | - | - | - | - | - |
| **Government of Israel** | - | - | - | - | - |
| **Total activity in Israel** | 1,978 | 765 | 1,517 | 3,495 | 10,977 |
| Activity of borrowers abroad | | | | | |
| Public - commercial | | | | | |
| Construction & real estate | 283 | 165 | 222 | 505 | 666 |
| Commercial - other | 310 | 161 | 112 | 422 | 695 |
| **Total commercial** | 593 | 326 | 334 | 927 | 1,361 |
| Private individuals | 28 | 20 | 25 | 53 | 89 |
| **Total public - activity abroad** | 621 | 346 | 359 | 980 | 1,450 |
| **Foreign banks** | - | - | - | - | 1 |
| **Foreign governments** | - | - | - | - | - |
| **Total activity abroad** | 621 | 346 | 359 | 980 | 1,451 |
| **Total public** | 2,599 | 1,111 | 1,876 | 4,475 | 12,427 |
| **Total banks** | - | - | - | - | 1 |
| **Total governments** | - | - | - | - | - |
| **Total** | 2,599 | 1,111 | 1,876 | 4,475 | 12,428 |
| **Of which:** | | | | | |
| **Measured by present value of cash flows** | 1,562 | 681 | 1,172 | 2,734 | |
| **Debts under troubled debt restructuring** | 1,254 | 405 | 1,205 | 2,459 | |

(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.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)
### 2. Additional information on impaired debts (contd.)
### a. Impaired debts and individual allowance (contd.)

| | 30 June 2014 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Balance (b) of impaired debts in respect of which there is an andividual 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) | | | | |
| Activity of borrowers in Israel | | | | | |
| Public - commercial | | | | | |
| Construction & real estate - construction | 273 | 31 | 353 | 626 | 1,623 |
| Construction & real estate - real estate activities | 772 | 217 | 641 | 1,413 | 2,502 |
| Financial services | 9 | 2 | 39 | 48 | 575 |
| Commercial - other | 1,149 | 409 | 493 | 1,642 | 5,084 |
| **Total commercial** | 2,203 | 659 | 1,526 | 3,729 | 9,784 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 73 | 46 | 31 | 104 | 1,849 |
| **Total public - activity in Israel** | 2,276 | 705 | 1,557 | 3,833 | 11,633 |
| **Israeli banks** | - | - | - | - | - |
| **Government of Israel** | - | - | - | - | - |
| **Total activity in Israel** | 2,276 | 705 | 1,557 | 3,833 | 11,633 |
| Activity of borrowers abroad | | | | | |
| Public - commercial | | | | | |
| Construction & real estate | 456 | 288 | 198 | 654 | 820 |
| Commercial - other | 612 | 347 | 177 | 789 | 953 |
| **Total commercial** | 1,068 | 635 | 375 | 1,443 | 1,773 |
| Private individuals | 31 | 18 | 27 | 58 | 95 |
| **Total public - activity abroad** | 1,099 | 653 | 402 | 1,501 | 1,868 |
| **Foreign banks** | - | - | - | - | - |
| **Foreign governments** | - | - | - | - | - |
| **Total activity abroad** | 1,099 | 653 | 402 | 1,501 | 1,868 |
| **Total public** | 3,375 | 1,358 | 1,959 | 5,334 | 13,501 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 3,375 | 1,358 | 1,959 | 5,334 | 13,501 |
| **Of which:** | | | | | |
| **Measured by present value of cash flows** | 1,968 | 996 | 1,118 | 3,086 | |
| **Debts under troubled debt restructuring (d)** | 1,492 | 356 | 732 | 2,224 | |

(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.

# Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

## B. Debts[a] (contd.)

## 2. Additional information on impaired debts (contd.)

### a. Impaired debts and individual allowance (contd.)

| | 31 December 2014 (Audited) | | | | |
|---|---|---|---|---|---|
| | Balance (b) of impaired debts in respect of which there is an andividual 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) | | | | |
| Activity of borrowers in Israel | | | | | |
| Public - commercial | | | | | |
| Construction & real estate - construction | 93 | 36 | 486 | 579 | 1,283 |
| Construction & real estate - real estate activities | 733 | 322 | 598 | 1,331 | 2,449 |
| Financial services | 7 | 7 | 13 | 20 | 534 |
| Commercial - other | 888 | 347 | 611 | 1,499 | 4,951 |
| **Total commercial** | 1,721 | 712 | 1,708 | 3,429 | 9,217 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 79 | 44 | 21 | 100 | 1,841 |
| **Total public - activity in Israel** | 1,800 | 756 | 1,729 | 3,529 | 11,058 |
| **Israeli banks** | - | - | - | - | - |
| **Government of Israel** | - | - | - | - | - |
| **Total activity in Israel** | 1,800 | 756 | 1,729 | 3,529 | 11,058 |
| Activity of borrowers abroad | | | | | |
| Public - commercial | | | | | |
| Construction & real estate | 327 | 205 | 173 | 500 | 679 |
| Commercial - other | 536 | 294 | 161 | 697 | 942 |
| **Total commercial** | 863 | 499 | 334 | 1,197 | 1,621 |
| Private individuals | 36 | 24 | 29 | 65 | 90 |
| **Total public - activity abroad** | 899 | 523 | 363 | 1,262 | 1,711 |
| **Foreign banks** | - | - | - | - | 1 |
| **Foreign governments** | - | - | - | - | - |
| **Total public - activity abroad** | 899 | 523 | 363 | 1,262 | 1,712 |
| **Total public** | 2,699 | 1,279 | 2,092 | 4,791 | 12,769 |
| **Total banks** | - | - | - | - | 1 |
| **Total governments** | - | - | - | - | - |
| **Total** | 2,699 | 1,279 | 2,092 | 4,791 | 12,770 |
| **Of which:** | | | | | |
| **Measured by present value of cash flows** | 1,573 | 858 | 1,281 | 2,854 | |
| **Debts under troubled debt restructuring** | 1,434 | 567 | 1,268 | 2,702 | |

(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.

.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)

### 2. Additional information on impaired debts (contd.)

### b. Average balance and interest income

| | For the three months ended 30 June 2015 | | | For the three months ended 30 June 2014 | | |
|---|---|---|---|---|---|---|
| | 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) | | | | | |
| Activity of borrowers in Israel | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate - construction | **595** | **8** | **8** | 482 | - | - |
| Construction & real estate - real estate activities | **1,322** | **-** | **-** | 1,425 | - | - |
| Financial services | **18** | **-** | **-** | 249 | - | - |
| Commercial - other | **1,573** | **18** | **10** | 1,663 | 1 | 1 |
| **Total commercial** | **3,508** | **26** | **18** | 3,819 | 1 | 1 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - other | **101** | **11** | **11** | 106 | 2 | 2 |
| **Total public - activity in Israel** | **3,609** | **37** | **29** | 3,925 | 3 | 3 |
| **Israeli banks** | **-** | **-** | **-** | - | - | - |
| **Government of Israel** | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **3,609** | **37** | **29** | 3,925 | 3 | 3 |
| Activity of borrowers abroad | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate | **536** | **4** | **4** | 720 | 2 | 2 |
| Commercial - other | **533** | **3** | **3** | 849 | 3 | 3 |
| **Total commercial** | **1,069** | **7** | **7** | 1,569 | 5 | 5 |
| Private individuals | **59** | **1** | **1** | 85 | 1 | 1 |
| **Total public - activity abroad** | **1,128** | **8** | **8** | 1,654 | 6 | 6 |
| **Foreign banks** | **-** | **-** | **-** | - | - | - |
| **Foreign governments** | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **1,128** | **8** | **8** | 1,654 | 6 | 6 |
| **Total public** | **4,737** | **45** | **37** | 5,579 | 9 | 9 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **4,737** | **45** | **37** (d) | 5,579 | 9 (d) | 9 |

(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 June 2015 in the amount of NIS 119 million (for the three month period ended 30 June 2014 - NIS 85 million).

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)

### 2. Additional information on impaired debts (contd.)

### b. Average balance and interest income (contd.)

| | For the six months ended 30 June 2015 | | | For the six months ended 30 June 2014 | | |
|---|---|---|---|---|---|---|
| | 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) | | | | | |
| Activity of borrowers in Israel | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate - construction | **591** | **9** | **9** | 510 | 2 | 2 |
| Construction & real estate - real estate activities | **1,308** | **3** | **3** | 1,423 | 2 | 2 |
| Financial services | **17** | **-** | **-** | 232 | - | - |
| Commercial - other | **1,569** | **22** | **13** | 1,603 | 5 | 4 |
| **Total commercial** | **3,485** | **34** | **25** | 3,768 | 9 | 8 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - other | **100** | **11** | **11** | 106 | 3 | 3 |
| **Total public - activity in Israel** | **3,585** | **45** | **36** | 3,874 | 12 | 11 |
| **Israeli banks** | **-** | **-** | **-** | - | - | - |
| **Government of Israel** | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **3,585** | **45** | **36** | 3,874 | 12 | 11 |
| Activity of borrowers abroad | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate | **528** | **6** | **6** | 710 | 4 | 4 |
| Commercial - other | **508** | **5** | **5** | 835 | 6 | 6 |
| **Total commercial** | **1,036** | **11** | **11** | 1,545 | 10 | 10 |
| Private individuals | **57** | **1** | **1** | 79 | 1 | 1 |
| **Total public - activity abroad** | **1,093** | **12** | **12** | 1,624 | 11 | 11 |
| **Foreign banks** | **-** | **-** | **-** | - | - | - |
| **Foreign governments** | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **1,093** | **12** | **12** | 1,624 | 11 | 11 |
| **Total public** | **4,678** | **57** | **48** | 5,498 | 23 | 22 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **4,678** | **57** | **48** | 5,498 | 23 (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 six month period ended 30 June 2015 in the amount of NIS 141 million (for the six month period ended 30 June 2014 - NIS 213 million).

# Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

## B. Debts[a] (contd.)

## 2. Additional information on impaired debts (contd.)

### c. Problem debts under restructuring

| | 30 June 2015 (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) | | | | |
| Activity of borrowers in Israel | | | | | |
| Public - commercial | | | | | |
| Construction & real estate - construction | 451 | - | - | 15 | 466 |
| Construction & real estate - real estate activities | 805 | - | - | 4 | 809 |
| Financial services | 1 | - | - | 10 | 11 |
| Commercial - other | 566 | - | - | 27 | 593 |
| **Total commercial** | 1,823 | - | - | 56 | 1,879 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 69 | - | - | 1 | 70 |
| **Total public - activity in Israel** | 1,892 | - | - | 57 | 1,949 |
| **Israeli banks** | - | - | - | - | - |
| **Government of Israel** | - | - | - | - | - |
| **Total activity in Israel** | 1,892 | - | - | 57 | 1,949 |
| Activity of borrowers abroad | | | | | |
| Public - commercial | - | - | - | - | - |
| Construction & real estate | 156 | - | - | 139 | 295 |
| Commercial - other | 57 | - | - | 126 | 183 |
| **Total commercial** | 213 | - | - | 265 | 478 |
| Private individuals | 8 | - | - | 24 | 32 |
| **Total public - activity abroad** | 221 | - | - | 289 | 510 |
| **Foreign banks** | - | - | - | - | - |
| **Foreign governments** | - | - | - | - | - |
| **Total activity abroad** | 221 | - | - | 289 | 510 |
| **Total public** | 2,113 | - | - | 346 | 2,459 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 2,113 | - | - | 346 | 2,459 |

(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) 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 to NIS 61 million.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)

### 2. Additional information on impaired debts (contd.)

#### c. Problem debts under restructuring (contd.)

| | 30 June 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) | | | | |
| Activity of borrowers in Israel | | | | | |
| Public - commercial | | | | | |
| Construction & real estate - construction | 242 | - | - | - | 242 |
| Construction & real estate - real estate activities | 520 | - | - | 1 | 521 |
| Financial services | 45 | - | - | - | 45 |
| Commercial - other | 444 | - | - | 32 | 476 |
| **Total commercial** | 1,251 | - | - | 33 | 1,284 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 54 | - | - | - | 54 |
| **Total public - activity in Israel** | 1,305 | - | - | 33 | 1,338 |
| **Israeli banks** | - | - | - | - | - |
| **Government of Israel** | - | - | - | - | - |
| **Total activity in Israel** | 1,305 | - | - | 33 | 1,338 |
| Activity of borrowers abroad | | | | | |
| Public - commercial (d) | | | | | |
| Construction & real estate | 223 | - | - | 190 | 413 |
| Commercial - other | 210 | - | - | 227 | 437 |
| **Total commercial** | 433 | - | - | 417 | 850 |
| Private individuals | 25 | - | - | 11 | 36 |
| **Total public - activity abroad** | 458 | - | - | 428 | 886 |
| **Foreign banks** | - | - | - | - | - |
| **Foreign governments** | - | - | - | - | - |
| **Total activity abroad** | 458 | - | - | 428 | 886 |
| **Total public** | 1,763 | - | - | 461 | 2,224 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 1,763 | - | - | 461 | 2,224 |

(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) 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 to NIS 30 million.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)

### 2. Additional information on impaired debts (contd.)

### c. Problem debts under restructuring (contd.)

| | 31 December 2014 (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) | | | | |
| Activity of borrowers in Israel | | | | | |
| Public - commercial | | | | | |
| Construction & real estate - construction | 411 | - | - | 18 | 429 |
| Construction & real estate - real estate activities | 826 | - | - | - | 826 |
| Financial services | 17 | - | - | - | 17 |
| Commercial - other | 564 | - | - | 30 | 594 |
| **Total commercial** | 1,818 | - | - | 48 | 1,866 |
| Private individuals - housing loans | - | - | - | - | - |
| Private individuals - other | 61 | - | - | - | 61 |
| **Total public - activity in Israel** | 1,879 | - | - | 48 | 1,927 |
| **Israeli banks** | - | - | - | - | - |
| **Government of Israel** | - | - | - | - | - |
| **Total activity in Israel** | 1,879 | - | - | 48 | 1,927 |
| Activity of borrowers abroad | | | | | |
| Public - commercial | | | | | |
| Construction & real estate | 200 | - | - | 141 | 341 |
| Commercial - other | 213 | - | - | 185 | 398 |
| **Total commercial** | 413 | - | - | 326 | 739 |
| Private individuals | 25 | - | - | 11 | 36 |
| **Total public - activity abroad** | 438 | - | - | 337 | 775 |
| **Foreign banks** | - | - | - | - | - |
| **Foreign governments** | - | - | - | - | - |
| **Total activity abroad** | 438 | - | - | 337 | 775 |
| **Total public** | 2,317 | - | - | 385 | 2,702 |
| **Total banks** | - | - | - | - | - |
| **Total governments** | - | - | - | - | - |
| **Total** | 2,317 | - | - | 385 | 2,702 |

(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) 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 to NIS 98 million.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)

### 2. Additional information on impaired debts (contd.)

#### c. Problem debts under restructuring (contd.)

#### 1. Restructurings carried out

| | For the three months ended 30 June 2015 | | | For the three months ended 30 June 2014 | | |
|---|---|---|---|---|---|---|
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring |
| | (Unaudited) | | | | | |
| | (NIS millions) | | | | | |
| Activity of borrowers in Israel | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate - construction | **1** | **5** | **2** | 8 | 15 | 15 |
| Construction & real estate - real estate activities | **1** | **8** | **9** | 4 | 52 | 50 |
| Financial services | **-** | **-** | **-** | - | - | - |
| Commercial - other | **43** | **62** | **61** | 10 | 1 | 1 |
| **Total commercial** | **45** | **75** | **72** | 22 | 68 | 66 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - other | **198** | **2** | **2** | 195 | 1 | 1 |
| **Total public - activity in Israel** | **243** | **77** | **74** | 217 | 69 | 67 |
| **Israeli banks** | **-** | **-** | **-** | - | - | - |
| **Government of Israel** | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **243** | **77** | **74** | 217 | 69 | 67 |
| Activity of borrowers abroad | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate | **1** | **9** | **9** | 4 | 22 | 21 |
| Commercial - other | **6** | **3** | **2** | 10 | 34 | 28 |
| **Total commercial** | **7** | **12** | **11** | 14 | 56 | 49 |
| Private individuals | **1** | **-** | **-** | 2 | - | - |
| **Total public - activity abroad** | **8** | **12** | **11** | 16 | 56 | 49 |
| **Foreign banks** | **-** | **-** | **-** | - | - | - |
| **Foreign governments** | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **8** | **12** | **11** | 16 | 56 | 49 |
| **Total public** | **251** | **89** | **85** | 233 | 125 | 116 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **251** | **89** | **85** | 233 | 125 | 116 |

(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 (contd.)

## B. Debts[a] (contd.)

## 2. Additional information on impaired debts (contd.)

### c. Problem debts under restructuring (contd.)

### 1. Restructurings carried out (contd.)

| | **For the six months ended 30 June 2015** | | | For the six months ended 30 June 2014 | | |
|---|---|---|---|---|---|---|
| | Number of contracts | Recorded debt balance before restructuring | Recorded debt balance after restructuring | Number of contracts | debt balance before restructuring | Recorded debt balance after restructuring |
| | (Unaudited) | | | | | |
| | (NIS millions) | | | | | |
| Activity of borrowers in Israel | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate - construction | **16** | **8** | **50** | 12 | 15 | 15 |
| Construction & real estate - real estate activities | **1** | **8** | **9** | 6 | 56 | 54 |
| Financial services | **-** | **-** | **-** | - | - | - |
| Commercial - other | **73** | **67** | **66** | 46 | 32 | 27 |
| **Total commercial** | **90** | **83** | **125** | 64 | 103 | 96 |
| Private individuals - housing loans | **-** | **-** | **-** | - | - | - |
| Private individuals - other | **450** | **5** | **5** | 325 | 3 | 3 |
| **Total public - activity in Israel** | **540** | **88** | **130** | 389 | 106 | 99 |
| **Israeli banks** | **-** | **-** | **-** | - | - | - |
| **Government of Israel** | **-** | **-** | **-** | - | - | - |
| **Total activity in Israel** | **540** | **88** | **130** | 389 | 106 | 99 |
| Activity of borrowers abroad | | | | | | |
| Public - commercial | | | | | | |
| Construction & real estate | **7** | **19** | **18** | 8 | 119 | 118 |
| Commercial - other | **13** | **68** | **67** | 28 | 157 | 151 |
| **Total commercial** | **20** | **87** | **85** | 36 | 276 | 269 |
| Private individuals | **3** | **-** | **-** | 11 | 2 | 2 |
| **Total public - activity abroad** | **23** | **87** | **85** | 47 | 278 | 271 |
| **Foreign banks** | **-** | **-** | **-** | - | - | - |
| **Foreign governments** | **-** | **-** | **-** | - | - | - |
| **Total activity abroad** | **23** | **87** | **85** | 47 | 278 | 271 |
| **Total public** | **563** | **175** | **215** | 436 | 384 | 370 |
| **Total banks** | **-** | **-** | **-** | - | - | - |
| **Total governments** | **-** | **-** | **-** | - | - | - |
| **Total** | **563** | **175** | **215** | 436 | 384 | 370 |

(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 (contd.)

### B. Debts[a] (contd.)

### 2. Additional information on impaired debts (contd.)

#### c. Problem debts under restructuring (contd.)

#### 2. Failed restructurings carried out[(b)]

| | For the three months ended 30 June 2015 | | For the three months ended 30 June 2014 | |
|---|---|---|---|---|
| | Number of contracts | Recorded debt balance (c) | Number of contracts | Recorded debt balance (c) |
| | (Unaudited) | | | |
| | (NIS millions) | | | |
| Activity of borrowers in Israel | | | | |
| Public - commercial | | | | |
| Construction & real estate - construction | 7 | 4 | 8 | 2 |
| Construction & real estate - real estate activities | 1 | - | - | - |
| Financial services | - | - | - | - |
| Commercial - other | 27 | 19 | 34 | 14 |
| **Total commercial** | 35 | 23 | 42 | 16 |
| Private individuals - housing loans | - | - | - | - |
| Private individuals - other | 130 | 2 | 122 | 1 |
| **Total public - activity in Israel** | 165 | 25 | 164 | 17 |
| **Israeli banks** | - | - | - | - |
| **Government of Israel** | - | - | - | - |
| **Total activity in Israel** | 165 | 25 | 164 | 17 |
| Activity of borrowers abroad | | | | |
| Public - commercial | | | | |
| Construction & real estate | - | - | 1 | - |
| Commercial - other | 5 | 3 | 10 | 9 |
| **Total commercial** | 5 | 3 | 11 | 9 |
| Private individuals | - | - | 1 | - |
| **Total public - activity abroad** | 5 | 3 | 12 | 9 |
| **Foreign banks** | - | - | - | - |
| **Foreign governments** | - | - | - | - |
| **Total activity abroad** | 5 | 3 | 12 | 9 |
| **Total public** | 170 | 28 | 176 | 26 |
| **Total banks** | - | - | - | - |
| **Total governments** | - | - | - | - |
| **Total** | 170 | 28 | 176 | 26 |

(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.

# Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

## B. Debts[a] (contd.)

## 2. Additional information on impaired debts (contd.)

### c. Problem debts under restructuring (contd.)

### 2. Failed restructurings carried out[(b)] (contd.)

| | **For the six months ended 30 June 2015** | | For the six months ended 30 June 2014 | |
|---|---|---|---|---|
| | Number of contracts | Recorded debt balance (c) | Number of contracts | Recorded debt balance (c) |
| | (Unaudited) | | | |
| | (NIS millions) | | | |
| Activity of borrowers in Israel | | | | |
| Public - commercial | | | | |
| Construction & real estate - construction | **18** | **12** | 15 | 5 |
| Construction & real estate - real estate activities | **2** | **-** | 2 | 14 |
| Financial services | **-** | **-** | - | - |
| Commercial - other | **44** | **21** | 72 | 24 |
| **Total commercial** | **64** | **33** | 89 | 43 |
| Private individuals - housing loans | **-** | **-** | - | - |
| Private individuals - other | **245** | **3** | 192 | 1 |
| **Total public - activity in Israel** | **309** | **36** | 281 | 44 |
| **Israeli banks** | **-** | **-** | - | - |
| **Government of Israel** | **-** | **-** | - | - |
| **Total activity in Israel** | **309** | **36** | 281 | 44 |
| Activity of borrowers abroad | | | | |
| Public - commercial | **-** | **-** | - | - |
| Construction & real estate | **4** | **1** | 2 | 12 |
| Commercial - other | **6** | **3** | 15 | 16 |
| **Total commercial** | **10** | **4** | 17 | 28 |
| Private individuals | **2** | **-** | 7 | 1 |
| **Total public - activity abroad** | **12** | **4** | 24 | 29 |
| **Foreign banks** | **-** | **-** | - | - |
| **Foreign governments** | **-** | **-** | - | - |
| **Total activity abroad** | **12** | **4** | 24 | 29 |
| **Total public** | **321** | **40** | 305 | 73 |
| **Total banks** | **-** | **-** | - | - |
| **Total governments** | **-** | **-** | - | - |
| **Total** | **321** | **40** | 305 | 73 |

(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.

## Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (contd.)

### B. Debts[a] (contd.)

### 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 June 2015 (Unaudited) | | | |
|---|---|---|---|---|---|
| **Balance of housing loans** | | Total[1] | [1]Of which: bullet and balloon | [1]Of which: variable interest | Off-balance sheet credit risk total |
| | | (NIS millions) | | | |
| First charge: rate of financing | Up to 60% | **47,550** | **3,097** | **33,065** | **1,989** |
| | Above 60% | **28,874** | **1,050** | **21,048** | **734** |
| Second charge or without charge | | **787** | **31** | **600** | **60** |
| Total | | **77,211** | **4,178** | **54,713** | **2,783** |

| | | 30 June 2014 (Unaudited) | | | |
|---|---|---|---|---|---|
| **Balance of housing loans** | | Total[1] | [1]Of which: bullet and balloon | [1]Of which: variable interest | Off-balance sheet credit risk total (c) |
| | | (NIS millions) | | | |
| First charge: rate of financing | Up to 60% | 42,657 | 3,385 | 32,068 | 1,657 |
| | Above 60% | 27,531 | 1,236 | 21,469 | 629 |
| Second charge or without charge | | 747 | 40 | 597 | 58 |
| Total | | 70,935 | 4,661 | 54,134 | 2,344 |

| | | 31 December 2014 (Audited) | | | |
|---|---|---|---|---|---|
| **Balance of housing loans** | | Total[1] | [1]Of which: bullet and balloon | [1]Of which: variable interest | Off-balance sheet credit risk total (c) |
| | | (NIS millions) | | | |
| First charge: rate of financing | Up to 60% | 45,206 | 3,386 | 33,061 | 1,794 |
| | Above 60% | 28,222 | 1,172 | 21,506 | 605 |
| Second charge or without charge | | 745 | 35 | 582 | 40 |
| Total | | 74,173 | 4,593 | 55,149 | 2,439 |

(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 June 2015 | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| | (Unaudited) | | (Audited) |
| | (NIS millions) | | |
| **In Israel** | | | |
| On demand | | | |
| Non-interest bearing | **64,078** | 42,510 (a) | 54,937 |
| Interest bearing | **73,752** | 36,686 (a) | 55,823 |
| Total on demand | **137,830** | 79,196 | 110,760 |
| Fixed term | **141,002** | 172,065 | 161,900 |
| Total deposits in Israel[1] | **278,832** | 251,261 | 272,660 |
| **Outside Israel** | | | |
| On demand | | | |
| Non-interest bearing | **9,840** | 12,793 | 13,945 |
| Interest bearing | **2,472** | 2,601 | 2,919 |
| Total on demand | **12,312** | 15,394 | 16,864 |
| Fixed term | **12,899** | 13,206 | 13,873 |
| Total deposits outside Israel | **25,211** | 28,600 | 30,737 |
| **Total deposits of the public** | **304,043** | 279,861 | 303,397 |
| [1]Of which: | | | |
| Deposits of private persons | **127,589** | 120,520 | 121,943 |
| Deposits of institutional entities | **32,140** | 31,163 | 30,978 |
| Deposits of corporations and others | **119,103** | 99,578 | 119,739 |

## B. Deposits of the public by size

| | 30 June 2015 | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| | (Unaudited) | | (Audited) |
| | (NIS millions) | | |
| Up to 1 | **89,075** | 84,215 | 86,042 |
| From 1 to 10 | **80,614** | 76,175 | 78,995 |
| From 10 to 100 | **51,654** | 46,151 | 52,543 |
| From 100 to 500 | **32,399** | 29,638 | 30,537 |
| Above 500 | **50,301** | 43,682 | 55,280 |
| Total | **304,043** | 279,861 | 303,397 |

(a) Reclassified.

# Note 3B – Employee Rights

## Description of the Benefits

### A. Arrangements for social security, pension and severance pay

1. For employees who commenced their employment with the Bank since 1 January 1999 (hereinafter: "2nd generation employees") and had not yet received permanent employment status as at the date of signing of the special collective bargaining agreement in 2000 regarding a pension arrangement, current deposits are made to a pension plan. The pension plan is a comprehensive contributory pension plan with additional insurance for cases of disability and death. The Bank will not have any pension liability in respect of these employees other than to supplement severance pay in accordance with the agreement.

2. For employees who commenced their employment with the Bank before 1 January 1999 (hereinafter: ("1st generation employees") and received permanent employment status before the date of signing of the aforementioned agreement, and who retire from the Bank at retirement age, except those mentioned above and in (3) below, may choose between the right to receive severance pay and provident funds or the right to receive payments in the framework of a full partial social security arrangement, subject to the provisions of the law. The payment is calculated at a rate of 40% for the first 15 years of employment, i.e. 2.67% per annum, and of 1.5% for each subsequent year, up to a maximum rate of 70%.

   Provisions are based on an actuarial calculation, and the accumulation of liability is on a straight-line basis until the earliest retirement age. After this date, additional benefits attributed to subsequent years are accumulated based on the formula of the benefit plan of 1st generation employees.
   Funds allocated for liabilities are deposited in provident funds.

   Calculation of the Bank's actuarial liability is made using the discount rate based on the yield from government debentures in Israel with the addition of an international margin determined by the difference between rates of return until redemption, by maturity dates, of corporate bonds with an international rating of AA and above in the United States, and rates of return to redemption by maturity dates of US government bonds.

3. Individual contract holders

   Members of Management of the Bank and employees with individual contracts are eligible for payments under the terms of their employment agreement.

   An employee resigning voluntarily shall be entitled to severance pay at the rate of 100% plus provident fund amounts.

### B. Long service bonuses

Bank employees and some employees of consolidated companies are entitled upon reaching 20, 30 and 40 years of employment to financial bonuses of a number of months' salary ("long service bonus ") and special vacations. The liability is calculated on an actuarial basis.

The provision for special vacations is made according to an actuarial calculation and taking into account past experience of the utilization of these vacations.

### C. Vacation reserve

Bank employees and some employees of consolidated companies are entitled to annual leave in accordance with the terms of the agreement. The liability is calculated based on the latest salary plus benefits.

**D. Post-employment benefits**

Bank employees and some employees of consolidated companies are entitled to certain benefits. This liability is calculated on an actuarial basis.

**E. Benefits to “Leumi Alumni”**

“Leumi Alumni” are entitled, in addition to the aforementioned payments, to additional benefits which consist mainly of a holiday gift, a medical check-up (for some of the alumni) and participation in the cost of additional welfare and social activities.

**F. New collective agreement**

On 21 January 2015 a special collective agreement (the "collective agreement") was signed for a period of four years, i.e. until 31 December 2018. The collective agreement applies to employees of the Bank who are employed only in a collective agreement and therefore is not relevant to employees who are subject to the Bank's remuneration plan. Further to the details given in the financial statements of the Bank for 2014 in Note 15a, the main changes set forth in the collective agreement refer to the determining of a mechanism for annual salary adjustments, reduction in long-service payments (bonuses and vacations), redemption of sick leave and vacation days and a one-time bonus payment of one salary.

The accounting treatment of the main changes: the effect of updating the annual salary mechanism on the provisions for social security and severance pay is charged to other comprehensive income and will be spread in subsequent periods to the statement of profit and loss. Other effects are recognized in profit and loss.

**G. Provident and severance pay funds of the Bank's employees**

In March 2015, the Bank entered into an agreement with institutional entities from the Migdal Group to transfer the provident funds which have been accrued or will be accrued since 2008 and onwards and severance pay funds which have been accrued or will be accrued in the provident and severance pay funds of the Bank's employees, on behalf of first-generation employees that have chosen or will choose on retirement a social security arrangement track, to a non-contributory fund under the management of Migdal.

In addition, on 25 March 2015, the Bank received approval from the Tax Authority for the transfer of the severance pay funds accumulated in the Bank's central severance pay fund in favor of the severance pay component in personal provident funds maintained on the employees' behalf, and the conditions and mechanism were set for the withdrawal of surplus monies from the central severance pay fund.

# Note 3B – Employee Rights

## A. Employee benefits

| | As at 30 June | As at 31 December | | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | |
| | NIS millions | | | |
| **Post-retirement benefits - pension and severance pay** | | | | |
| Amount of liability | **15,540** | 14,574 | 16,256 | 14,367 |
| Fair value of plan assets | **7,146** | 7,130 | 7,041 | 7,119 |
| Excess liability over plan assets | **8,394** | 7,444 | 9,215 | 7,248 |
| Excess liabilities included under "Other liabilities" | **8,394** | 7,444 | 9,215 | 7,248 |
| **Long-service (Jubilee) bonus** | | | | |
| Amount of liability | **551** | 895 | 942 | 898 |
| Fair value of plan assets | **-** | - | - | - |
| Excess liability over plan assets | **551** | 895 | 942 | 898 |
| Excess liabilities included under "Other liabilities" | **551** | 895 | 942 | 898 |
| **Other benefits** | **-** | - | - | - |
| Amount of liability | **622** | 419 | 499 | 410 |
| Fair value of plan assets | **-** | - | - | - |
| Excess liability over plan assets | **622** | 419 | 499 | 410 |
| Excess liabilities included under "Other liabilities" | **622** | 419 | 499 | 410 |
| **Total** | | | | |
| Excess liabilities included in "Other liabilities"[1] | **9,567** | 8,758 | 10,656 | 8,556 |
| [1]Of which: in respect of employee benefits overseas | **198** | 120 | 222 | 122 |

(a) Restated.

## Note 3B – Employee Rights (contd.)

## B. Defined benefit pension plan
## 1. Commitment and state of funding

### A. Change in commitment in respect of forecast benefit

| | As at 30 June | | As at 31 December | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | |
| | NIS millions | | | |
| Commitment in respect of forecast benefit at the beginning of the period | **16,256** | 14,367 | 14,367 | 13,380 |
| Service cost | **103** | 114 | 223 | 209 |
| Interest cost | **354** | 414 | 838 | 779 |
| Deposits of plan participants | **24** | 25 | 49 | 53 |
| Actuarial loss (profit) | **(936)** | (150) | 1,410 | 494 |
| Changes in foreign currency exchange rates | **6** | 1 | 42 | 37 |
| Benefits paid | **(267)** | (256) | (721) | (660) |
| Reductions, disposals, special contractual benefits in respect of dismissal | **-** | 59 | 48 | 75 |
| **Commitment in respect of forecast benefit at the end of the period** | **15,540** | 14,574 | 16,256 | 14,367 |
| **Commitment in respect of accumulated benefit at the end of the period** | **14,813** | 13,771 | 15,374 | 13,500 |

### B. Change in fair value of plan assets and state of funding of the plan

| | As at 30 June | | As at 31 December | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | |
| | NIS millions | | | |
| **Fair value of plan assets at the beginning of the period** | **7,041** | 7,119 | 7,119 | 6,897 |
| Actual return on plan assets: | **145** | 222 | 388 | 593 |
| Forecast return on plan assets | **63** | 67 | 156 | 157 |
| Actuarial profits and losses | **24** | 25 | 49 | 53 |
| Changes in foreign currency exchange rates | **32** | 2 | 37 | 43 |
| Benefits paid, net | **(159)** | (305) | (708) | (624) |
| **Fair value of plan assets at the end of the period** | **7,146** | 7,130 | 7,041 | 7,119 |
| **State of funding - net liability recognized at the end of the period (b)** | **8,394** | 7,444 | 9,215 | 7,248 |

(a) Restated.
(b) Included in other liabilities.

## Note 3B – Employee Rights (contd.)

### B. Defined benefit pension plan (contd.)
### 1. Commitment and state of funding (contd.)

### C. Amounts recognized in the consolidated balance sheet

| | As at 30 June | | As at 31 December | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | |
| | NIS millions | | | |
| Amounts recognized under other assets | **-** | - | - | - |
| Amounts recognized under other liabilities | **8,394** | 7,444 | 9,215 | 7,248 |
| **Liability net recognized at the end of the period** | **8,394** | 7,444 | 9,215 | 7,248 |

### D. Amounts recognized in accumulated other comprehensive income (loss) before the effect of tax

| | As at 30 June | | As at 31 December | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | |
| | NIS millions | | | |
| Net actuarial loss | **1,927** | 426 | 1,959 | 607 |
| Net asset (liability) in respect of transition | **-** | 974 | 974 | 974 |
| **Closing balance in accumulated other income** | **1,927** | 1,400 | 2,933 | 1,581 |

(a) Restated.

## Note 3B – Employee Rights (contd.)

## B. Defined benefit pension plan (cont.)
## 2. Expense for the period

### A. Benefit cost components included in profit and loss

| | For the three months ended 30 June | | For the six months ended 30 June | | As at 31 December | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | | | |
| | NIS millions | | | | | |
| Service cost | **38** | 50 | **103** | 114 | 223 | 209 |
| Interest cost | **161** | 207 | **354** | 414 | 838 | 779 |
| Forecast return on plan assets | **(93)** | (64) | **(183)** | (222) | (380) | (570) |
| Amortization of amounts not recognized - net actuarial loss (profit) | **45** | 12 | **111** | 23 | 53 | 16 |
| Reductions, disposals, special contractual benefits in respect of dismissal | **-** | (12) | **-** | 59 | 48 | 75 |
| **Total cost of benefit, net** | **151** | 193 | **385** | 388 | 782 | 509 |

### B. Changes in plan assets and commitment for benefit recognized in other comprehensive income (loss) before the effect of tax

| | For the three months ended 30 June | | For the six months ended 30 June | | As at 31 December | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | | | |
| | NIS millions | | | | | |
| Net actuarial loss (profit) for the period | **(2,174)** | (66) | **(898)** | (150) | 1,402 | 471 |
| Amortization of amounts not recognized - net actuarial loss (profit) | **(45)** | (12) | **(111)** | (23) | (53) | (16) |
| Changes in foreign currency exchange rates | **-** | (1) | **3** | (8) | 3 | 1 |
| Total recognized in other comprehensive income | **(2,219)** | (79) | **(1,006)** | (181) | 1,352 | 456 |
| **Net cost of benefit** | **151** | 193 | **385** | 388 | 782 | 509 |
| **Total recognized in cost of benefit, net, for the period and in other comprehensive income** | **(2,068)** | 114 | **(621)** | 207 | 2,134 | 965 |

(a) Restated.

## Note 3B – Employee Rights

### B. Defined benefit pension plan (cont.)
### 2. Expense for the period (contd.)

### C. Estimate of amounts included in accumulated other comprehensive income that are expected to be amortized from accumulated other comprehensive income to the statement of profit and loss as an expense in 2015 before the effect of tax

| | For the year 2016 |
|---|---|
| | Unaudited |
| | NIS million |
| Net actuarial loss | **(68)** |
| Net asset (liability) in respect of transition | **-** |
| Net cost (credit) in respect of previous service | **-** |
| **Total expected to be amortized from accumulated other comprehensive income** | **(68)** |

### 3. Assumptions

### A. Assumptions based on a weighted average used for determining the commitment in respect of a benefit and for measuring the cost of the benefit net for the periods ended

### 1. Basic assumptions used for determining the commitment in respect of the benefit

| | As at 30 June | | As at 31 December | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 | 2013 |
| | Unaudited | | | |
| | NIS millions | | | |
| Discount rate | **2.75%** | 3.26% | 2.63% | 3.26% |
| CPI discount rate | **2.23%** | 2.74% | 2.20% | 2.74% |
| Employee turnover rate | **0.1%-3.7%** | 0.1%-2% | 0.1% - 2% | 0.1% - 2% |
| Rate of growth of remuneration | **0%-6.3%** | 0.8%-7.2% | 0.8% - 7.2% | 0.8% - 7.2% |

### 2. Basic assumptions used for measuring the cost of the benefit net for the period

| | As at 30 June | | As at 31 December | |
|---|---|---|---|---|
| | **2015** | 2014 | 2014 | 2013 |
| | Unaudited | | | |
| | NIS millions | | | |
| Discount rate | **1.86%** | 3.26% | 3.26% | 3.41% |
| Long term forecast return on plan assets (a) | **5.50%** | 5.32% | 5.32% | 8.25% |
| Rate of growth in remuneration | **0%-6.3%** | 0.8%-7.2% | 0.8% - 7.2% | 0.8% - 7.2% |

(a) For practical reasons the Bank elected to use the actual rates of return for the purpose of determining the expected long-term forecast return during these periods. See also Note 1.C.1.

## Note 3B – Employee Rights

### B. Defined benefit pension plan (cont.)
### 3. Assumptions (cont.)

### B. Effect of a change of one percentage point on the commitment in respect of a forecast benefit before effect of tax

| | Increase of one percentage point | | | | Decrease of one percentage point | | | |
|---|---|---|---|---|---|---|---|---|
| | As at 30 June | | As at 31 December | | As at 30 June | | As at 31 December | |
| | 2015 | 2014 | 2014 | 2013 | 2015 | 2014 | 2014 | 2013 |
| | Unaudited | | | | | | | |
| | NIS millions | | | | | | | |
| Discount rate | **(1,985)** | (1,799) | 3,162 | 2,299 | **2,503** | 2,268 | 2,668 | 2,296 |
| CPI discount rate | **(198)** | (252) | 260 | 260 | **202** | 259 | 247 | 287 |
| Employee turnover rate | **245** | 264 | (282) | (227) | **(246)** | (225) | (240) | (238) |
| Rate of growth in remuneration | **607** | 602 | (654) | (536) | **(544)** | (536) | (662) | (623) |

## Note 3B – Employee Rights

### B. Defined benefit pension plan (cont.)
### 4. Plan assets

### A. Composition of the fair value of plan assets (Bank only)

| | As at 30 June | | As at 31 December |
|---|---|---|---|
| | **2015** | 2014 | 2014 (a) |
| | Unaudited | | |
| | NIS millions | | |
| Cash and deposits in banks | **272** | 246 | 247 |
| Shares | **2,359** | 2,284 | 2,309 |
| Government bonds | **1,781** | 2,180 | 1,887 |
| Corporate bonds | **2,245** | 2,027 | 2,139 |
| Other | **489** | 393 | 459 |
| Total | **7,146** | 7,130 | 7,041 |

### B. The fair value of plan assets by type of assets and target for allocation in 2015

| | Allocation target | Percentage of plan assets | | |
|---|---|---|---|---|
| | | As at 30 June | | As at 31 December |
| | **2015** | **2015** | 2014 | 2014 (b) |
| | | Unaudited | | |
| | Percentage | | | |
| Cash and deposits in banks | 3% | 4% | 3% | 4% |
| Shares | 35% | 33% | 32% | 33% |
| Government bonds | 25% | 25% | 31% | 27% |
| Corporate bonds | 32% | 31% | 28% | 30% |
| Other | 5% | 7% | 6% | 7% |
| Total | 100% | 100% | 100% | 100% |

(a) Restated.
(b) Reclassified.

## Note 3B – Employee Rights

### C. Defined benefit pension plan (cont.)
### 4. Plan assets (cont.)

### D. Cash flows

#### 1. Deposits

| | Forecast | Actual deposits For the three months ended 30 June | | Actual deposits For the six months ended 30 June | | As at 31 December | |
|---|---|---|---|---|---|---|---|
| | **2015 (b)** | **2015** | 2014 | **2015** | 2014 | 2014 (a) | 2013 (a) |
| | Unaudited | | | | | | |
| | NIS millions | | | | | | |
| Deposits | **127** | **56** | 45 | **87** | 92 | 206 | 157 |

(a) Restated.
(b) Estimate of deposits that the Bank expects to pay into a defined benefit pension plan during the remainder of 2015.

#### 2. Benefits that the Bank expects to pay in the future

| Year | Unaudited NIS millions |
|---|---|
| 2015 | 241 |
| 2016 | 501 |
| 2017 | 544 |
| 2018 | 566 |
| 2019 | 587 |
| 2020-2024 | 3,262 |
| 2025 and thereafter | 11,063 |
| **Total (a)** | 16,764 |

(a) In discounted values.

# Note 4 – Capital, Capital Adequacy, Liquidity and Leverage

| | 30 June 2015 | 30 June 2014 (a)(f) | 31 December 2014(a)(f) |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | (NIS millions) | | |
| **A. Data** | | | |
| **Capital for purposes of calculating capital ratio** | | | |
| Tier 1 capital, after regulatory adjustments and deductions | **28,613** | 26,595 | 27,723 |
| Tier 2 capital, after deductions | **13,355** | 14,365 | 14,684 |
| Total capital | **41,968** | 40,960 | 42,407 |
| **Weighted balances of risk assets** | | | |
| Credit risk | **274,341** | 260,032 | 273,881 |
| Market risk | **6,010** | 11,661 | 10,839 |
| Operational risk (b) | **20,103** | 20,328 | 20,317 |
| Total weighted balances of risk assets | **300,454** | 292,021 | 305,037 |
| **Ratio of capital to risk components** | | | |
| Ratio of Tier 1 capital to risk components | **9.52%** | 9.11% | 9.09% |
| Ratio of total capital to risk components | **13.97%** | 14.03% | 13.90% |
| Minimum Tier 1 capital ratio required by the Supervisor of Banks (c) | **9.03%** (e) | 9.00% | 9.00% |
| Minimum total capital ratio required by the Supervisor of Banks (c) | **12.53%** (e) | 12.50% | 12.50% |
| **B. Principal subsidiary companies** | | | |
| **Arab Israel Bank** | | | |
| Ratio of Tier 1 capital to risk components | **11.97%** | 11.69% | 12.15% |
| Ratio of total capital to risk components | **12.99%** | 13.08% | 13.24% |
| Minimum Tier 1 capital ratio required by the Supervisor of Banks (c) | **9.00%** (e) | 9.00% | 9.00% |
| Minimum total capital ratio required by the Supervisor of Banks (c) | **12.50%** (e) | 12.50% | 12.50% |
| **Leumi Card Ltd.** | | | |
| Ratio of Tier 1 capital to risk components | **16.66%** | 16.00% | 16.20% |
| Ratio of total capital to risk components | **17.62%** | 16.90% | 17.20% |
| Minimum Tier 1 capital ratio required by the Supervisor of Banks (c) | **9.00%** | 9.00% | 9.00% |
| Minimum total capital ratio required by the Supervisor of Banks (c) | **12.50%** | 12.50% | 12.50% |
| **Bank Leumi USA (d)** | | | |
| Ratio of Tier 1 capital to risk components | **12.24%** | 12.19% | 11.39% |
| Ratio of total capital to risk components | **15.21%** | 15.08% | 14.23% |
| Minimum total capital ratio required by the local authorities | **10.00%** | 10.00% | 10.00% |

(a) Excluding the effect of adoption of US GAAP on employee rights that came into effect on 1 January 2015.
(b) First Pillar capital allocation in respect of operational risk is in accordance with the Standardized Approach.
(c) As of 1 January 2015.
(d) Until 31 December 2014, the U.S. office was not obliged to calculate the capital adequacy ratio according to Basel III, and so the ratios reported are according to Basel I.
(e) Including capital requirements at a rate expressing 1% of the balance of housing loans at the reporting date. This requirement is being implemented gradually in equal quarterly amounts from 1 April 2015 to 1 January 2017.
Accordingly, the minimum Tier 1 shareholders' equity ratio and the minimum total equity ratio required by the Supervisor of Banks as at 1 January 2017, according to data at the reporting date, are 10.26% and 13.76%, respectively.
(f) Restated pursuant to a change in accounting for accumulating employee rights, and pursuant to the directives of the Supervisor of Banks on capitalization of software costs.

# Note 4 – Capital, Capital Adequacy, Liquidity and Leverage (contd.)

## C. Effect of the transitional provisions on Tier 1 shareholders' equity ratio

| | **30 June 2015** | 30 June 2014 (b) (c) | 31 December 2014 (c) |
|---|---|---|---|
| | (Unaudited) | | (Audited) |
| | (%) | | |
| **Ratio of capital to risk components** | | | |
| Ratio of Tier 1 shareholders' equity to risk components before application of the effect of the transitional provisions (a) | **9.00%** | 8.32% | 7.82% |
| Effect of the transitional provisions | **0.52%** | 0.79% | 1.27% |
| Ratio of Tier 1 shareholders' equity to risk components after application of the effect of the transitional provisions | **9.52%** | 9.11% | 9.09% |

(a) Including the effect of adoption of US GAAP on employee rights that came into effect on 1 January 2015. The comparative figures have been restated to reflect this effect.
(b) Restated pursuant to include changes in accounting for accumulating employee rights.
(c) Restated pursuant to implementation of the directives of the Supervisor of Banks on capitalization of software costs.

# Note 4 – Capital, Capital Adequacy, Liquidity and Leverage (contd.)

## 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.

### (1) Liquidity coverage ratio pursuant to the directive of the Supervisor of Banks

On 28 September 2014, a circular was issued in which was added Proper Conduct of Banking Business Directive No. 221 on the liquidity coverage ratio, which adopts the recommendations of the Basel Committee regarding the liquidity coverage ratio in the banking system in Israel. The liquidity coverage ratio examines a horizon of 30 days in an extreme scenario and is designed to ensure that the banking corporation's inventory of high-quality liquid assets that responds to the liquidity needs of the corporation for this time horizon. As part of the directive, the method is determined for calculating the liquidity coverage ratio, including setting the characteristics and operational requirements for the "inventory of high-quality liquid assets" (the numerator) and safety coefficients in respect of them and the net cash outflow expected in the stress scenario defined in the directive for 30 calendar days (the denominator).

The stress scenario determined in the directive combines a shock specific to the corporation with systemic shock in which standard withdrawal rates for cash outflows and deposit rates for cash inflows have been set out in accordance with the different categories of balances.

The liquidity coverage ratio was introduced as of 1 April 2015.

In accordance with the transitional provisions, with effect from 1 April 2015 the minimum requirement will be set at 60% and will grow to 80% on 1 January 2016 and to 100% in 1 January 2017 and thereafter. However, in a period of financial pressure a banking corporation may fall below these minimum requirements.

In addition, on 28 September 2014, a circular was issued on the subject of a Temporary Directive - Implementation of Disclosure Requirements under the Third Pillar of Basel - Disclosure of the Liquidity Coverage Ratio (hereinafter: the "circular"). In the framework of the circular the Public Reporting Directives have been amended to incorporate the disclosure requirements that the banks are required to include as part of the adoption of the liquidity coverage ratio.

Accordingly, it was determined, inter alia, that as of 1 April 2015, disclosure requirements will be added for the liquidity coverage ratio in consolidated and single entity terms (subject to its application) in the Note to the financial statements, whose name will be changed to "Note on Capital Adequacy and Liquidity Pursuant to the Directives of the Supervisor of Banks".

The liquidity coverage ratio of the banking corporation is calculated based on average daily observations and the consolidated liquidity coverage ratio is calculated based on the average of monthly observations for the period.

| | **For the three months ended 30 June 2015** |
|---|---|
| | Unaudited |
| | Percentage |
| **A. In consolidated terms** | |
| Liquidity cover ratio | **106%** |
| Minimum liquidity cover ratio required by the Supervisor of Banks | **60%** |
| **B. In terms of the banking corporation** | |
| Liquidity cover ratio | **100%** |
| Minimum liquidity cover ratio required by the Supervisor of Banks | **60%** |
| **C. Significant subsidiary companies** | |
| **Arab Israel Bank** | |
| Liquidity cover ratio | **364%** |
| Minimum liquidity cover ratio required by the Supervisor of Banks | **60%** |

### (2) Leverage ratio pursuant to the directive of the Supervisor of Banks

On 28 April 2015, the Supervisor of Banks issued Proper Conduct of Banking Business Directive no. 218 on the subject of the leverage ratio. The directive sets a simple, transparent and non-risk based leverage ratio to act as a supplementary and reliable measure of risk-based capital requirements, and is intended to limit the accumulation of leverage in the banking corporation.

The leverage ratio is expressed as a percentage, and is defines as the ratio between the measurement of equity and the measurement of exposure. Equity for purposes of measuring the leverage ratio is the Tier 1 capital as defined in Proper Conduct of Banking Business Directive No. 202, taking into account the transitional arrangements that were set. The total exposure measurement of the Bank is the amount of balance-sheet exposures, exposures to derivatives and securities financing transactions, and off-balance sheet items. In general, this measurement will be consistent with the accounting values and risk weights are not taken into account. In addition, the Bank is not allowed to use physical or financial collateral, guarantees or other techniques for credit risk mitigation, to reduce the exposure measurement, unless specifically permitted in accordance with the Directive. Balance sheet assets deducted from Tier 1 capital (in accordance with Directive 202) are deducted from the exposure measurement. Pursuant to the Directive, the Bank calculates the exposure to derivatives with Appendix III of Proper Conduct of Banking Business Directive No. 203, and exposures for off-balance sheet items by the conversion of the notional value of the items by credit conversion coefficients as stipulated in Proper Conduct of Banking Business Directive No. 203.

Pursuant to the Directive, banking corporations will have a leverage ratio of not less than 5% on a consolidated basis. A banking corporation whose total balance sheet assets on a consolidated basis is 20% or more of total balance sheet assets in the banking system, will have a leverage ratio of not less than 6%. Pursuant to that stated above, the minimum leverage ratio required from the Bank is 6%.

A banking corporation is required to comply with the minimum leverage ratio from 1 January 2018. A banking corporation meeting the minimum leverage ratio applying to it on the date of publication of the Directive shall not go below the threshold defined.

According to the Directive, a banking corporation that on the date of publication of the Directive does not meet the minimum leverage ratio applying to it, is required to increase the leverage ratio in fixed quarterly installments until 1 January 2018.

Disclosure requirements were added for the leverage ratio in Note 13.B in the annual financial statement and in Note 4 of the quarterly financial statement of a banking corporation, concerning capital, capital adequacy, liquidity and leverage.

| | 30 June 2015 |
|---|---|
| | Unaudited |
| | NIS millions |
| **A. In consolidated terms** | |
| Tier 1 capital | **28,613** |
| Total exposures | **437,826** |

| | |
|---|---|
| **Leverage ratio** | |
| Minimum liquidity cover ratio | **6.54%** |
| Minimum liquidity cover ratio required by the Supervisor of Banks | **6.00%** |
| **C. Significant subsidiary companies** | |
| **Arab Israel Bank** | |
| Liquidity cover ratio | **8.23%** |
| Minimum liquidity cover ratio required by the Supervisor of Banks | **5.00%** |
| **Leumi Card Ltd.** | |
| Liquidity cover ratio | **11.57%** |
| Minimum liquidity cover ratio required by the Supervisor of Banks | **5.00%** |

## E. Changes in the Bank's equity

The cumulative terms set in the remuneration policy were met for the vesting into shares of the first third of the PSU units (that were allocated to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office-holders in the Bank as part of the approval of the performance-based annual bonus to office holders in the Bank, in respect of half of the bonus for 2013), and one third of the PSU units vested into shares. Accordingly, on 31 March 2015, office holders in the Bank were allocated blocked shares according to the number of PSU units that vested on that date.

In addition, the condition was fulfilled for the vesting of the first third of the RSU units (that were allocated in 2013) and one third of the RSU units vested into blocked shares. Accordingly, on 15 April 2015, office holders in the Bank were allocated blocked shares that vested according to the number of RSU units on that date.

Pursuant to the provisions of the remuneration policy, the shares allocated due to the vesting of the aforesaid PSU and RSU were deposited with the Remuneration Policy Trustee, and are blocked for one year. For further details, see Note 15G and 15H to the 2014 Financial Statements.

On 11 June 2015, Dr. Hedva Ber, who serves as the Chief Risk Officer of the Bank, notified the Board of Directors of the Bank of her intention to terminate her service in the Bank, following her appointment to the position of Supervisor of Banks in the Bank of Israel. Dr. Ber ended her service with the Bank with effect from 5 July 2015.

Further to the decision of the Remuneration Committee of the Bank on 1 July 2015, the Board of Directors gave its approval on 7 July 2015 to redeem the blocked PSU units and blocked shares (hereinafter: the "deferred variable bonus component") granted to Dr. Ber in accordance with the Bank's remuneration plan for the year 2013, that are held in trust for Dr. Ber, at the end of her tenure at the Bank. The release of the deferred variable bonus component will be made by a reduction of 21% of the deferred variable bonus component, in accordance with the economic opinion given the to the Bank's Remuneration Committee by an external economic expert. The amount to be released after discounting amounts to about NIS 347 thousand. It should be noted that Dr. Ber will incur all payments of tax resulting from the change that was approved. It should be noted that Dr. Ber notified the Bank that she is waiving the relative portion of the variable bonus share the year 2015. The Remuneration Committee and the Board of Directors determined, inter alia, based on an external legal opinion that the release of the deferred variable bonus component is a non-material change in the conditions established in the remuneration plan with regard to a variable bonus, and it is appropriate to approve the same, given the restriction that applies to Dr. Ber from holding securities of the Bank as of the date of her appointment to a position in the Bank of Israel.

# Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis
## at 30 June 2015 (Unaudited)

| | Israeli currency | | Foreign currency (a) | | | | |
|---|---|---|---|---|---|---|---|
| | Unlinked | Linked to the CPI | In U.S. dollars | In euro | In other currencies | Non-monetary items (b) | Total |
| | (NIS millions) | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits with banks | 33,099 | 249 | 8,505 | 1,205 | 2,963 | 149 | 46,170 |
| Securities | 31,611 | 2,405 | 22,832 | 1,628 | 1,637 | 4,697 | 64,810 |
| Securities borrowed or purchased under agreements to resell | 2,151 | - | - | 26 | - | - | 2,177 |
| Credit to the public, net (c) | 165,168 | 50,224 | 28,365 | 4,869 | 5,757 | 165 | 254,548 |
| Credit to governments | 75 | 191 | 117 | 52 | - | - | 435 |
| Investments in companies included on equity basis | - | - | - | - | - | 889 | 889 |
| Buildings and equipment | - | - | - | - | - | 3,054 | 3,054 |
| Assets in respect of derivative instruments | 9,640 | 222 | 3,414 | 222 | 174 | 866 | 14,538 |
| Other assets, intangible assets and goodwill | 5,255 | 4 | 1,054 | 7 | 70 | 740 | 7,130 |
| Total assets | 246,999 | 53,295 | 64,287 | 8,009 | 10,601 | 10,560 | 393,751 |
| **Liabilities** | | | | | | | |
| Deposits of the public | 181,278 | 25,888 | 73,448 | 14,490 | 8,572 | 367 | 304,043 |
| Deposits from banks | 1,400 | 38 | 2,137 | 952 | 54 | - | 4,581 |
| Deposits from governments | 39 | 1 | 583 | 8 | - | - | 631 |
| Securities lent or sold under agreements to repurchase | 1,371 | - | - | - | - | - | 1,371 |
| Debentures, bonds and subordinated notes | 4,557 | 15,113 | - | - | - | 50 | 19,720 |
| Liabilities in respect of derivative instruments | 9,741 | 306 | 2,972 | 391 | 197 | 823 | 14,430 |
| Other liabilities | 9,617 | 8,713 | 1,072 | 38 | 188 | 740 | 20,368 |
| Total liabilities | 208,003 | 50,059 | 80,212 | 15,879 | 9,011 | 1,980 | 365,144 |
| Difference (d) | 38,996 | 3,236 | (15,925) | (7,870) | 1,590 | 8,580 | 28,607 |
| **Effect of hedging derivative instruments:** | | | | | | | |
| Derivative instruments (excluding options) | - | - | - | - | - | - | - |
| **Effect of non-hedging derivative instruments:** | | | | | | | |
| Derivative instruments (excluding options) | (18,358) | (1,702) | 14,748 | 7,828 | (2,258) | (258) | - |
| Options in the money, net (in terms of underlying asset) | 248 | - | (204) | (77) | 33 | - | - |
| Options out of the money, net (in terms of underlying asset) | 331 | - | (131) | (168) | 32 | (64) | - |
| Total | 21,217 | 1,534 | (1,512) | (287) | (603) | 8,258 | 28,607 |
| **Effect of non-hedging derivative instruments:** | | | | | | | |
| Options in the money, net (discounted par value) | 763 | - | (598) | (208) | 43 | - | - |
| Options out of the money, net (discounted par value) | 403 | - | (404) | (458) | 459 | - | - |

See notes on page 228.

# Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (contd.)
## at 30 June 2014 (Unaudited)

| | Israeli currency | | Foreign currency (a) | | | | |
|---|---|---|---|---|---|---|---|
| | Unlinked | Linked to the CPI | In U.S. dollars | In euro | In other currencies | Non-monetary items (b) | Total |
| | (NIS millions) | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits with banks | 35,687 | 258 | 8,275 | 1,139 | 4,438 | 105 | 49,902 |
| Securities | 25,158 | 2,612 | 13,484 | 2,960 | 1,943 | 3,556 | 49,713 |
| Securities borrowed or purchased under agreements to resell | 1,634 | - | - | - | - | - | 1,634 |
| Credit to the public, net (c) | 151,420 | 53,502 | 27,020 | 5,733 | 6,516 | 194 | 244,385 |
| Credit to governments | 58 | 235 | 136 | 54 | - | - | 483 |
| Investments in companies included on equity basis | - | - | - | - | - | 1,641 | 1,641 |
| Buildings and equipment | - | - | - | - | - | 3,037 (f) | 3,037 |
| Assets in respect of derivative instruments | 8,409 | 321 | 1,767 | 47 | 223 | 1,093 | 11,860 |
| Other assets, intangible assets and goodwill | 4,674 (e) | 175 (e) | 797 | 9 | 172 | 559 | 6,386 |
| Total assets | 227,040 | 57,103 | 51,479 | 9,942 | 13,292 | 10,185 | 369,041 |
| **Liabilities** | | | | | | | |
| Deposits of the public | 155,433 | 28,353 | 69,499 | 16,089 | 10,095 | 392 | 279,861 |
| Deposits from banks | 1,742 | 101 | 2,622 | 563 | 173 | - | 5,201 |
| Deposits from governments | 20 | 2 | 327 | 10 | - | - | 359 |
| Securities lent or sold under agreements to repurchase | 747 | - | - | - | - | - | 747 |
| Debentures, bonds and subordinated notes | 4,611 | 19,888 | - | - | 10 | - | 24,509 |
| Liabilities in respect of derivative instruments | 8,112 | 475 | 1,679 | 547 | 292 | 1,048 | 12,153 |
| Other liabilities | 11,111 (e) | 6,522 (e) | 1,557 | 56 | 283 | 654 | 20,183 |
| Total liabilities | 181,776 | 55,341 | 75,684 | 17,265 | 10,853 | 2,094 | 343,013 |
| Difference (d) | 45,264 | 1,762 | (24,205) | (7,323) | 2,439 | 8,091 | 26,028 |
| **Effect of hedging derivative instruments:** | | | | | | | |
| Derivative instruments (excluding options) | 687 | - | (7) | - | (680) | - | - |
| **Effect of non-hedging derivative instruments:** | | | | | | | |
| Derivative instruments (excluding options) | (25,101) | (2,096) | 23,305 | 6,268 | (2,433) | 57 | - |
| Options in the money, net (in terms of underlying asset) | 248 | - | (678) | 430 | 74 | (74) | - |
| Options out of the money, net (in terms of underlying asset) | 555 | - | (722) | 146 | 28 | (7) | - |
| Grand total | 21,653 | (334) | (2,307) | (479) | (572) | 8,067 | 26,028 |
| **Effect of non-hedging derivative instruments:** | | | | | | | |
| Options in the money, net (discounted par value) | 313 | - | (865) | 560 | 126 | (134) | - |
| Options out of the money, net (discounted par value) | (47) | - | (116) | 315 | (133) | (19) | - |

See notes on page 228.

## Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (contd.) as at 31 December 2014 (Audited)

| | Israeli currency | | Foreign currency (a) | | | | |
|---|---|---|---|---|---|---|---|
| | Unlinked | Linked to the CPI | In U.S. dollars | In euro | In other currencies | Non-monetary items (b) | Total |
| | (NIS millions) | | | | | | |
| **Assets** | | | | | | | |
| Cash and deposits with banks | 41,900 | 263 | 11,764 | 1,325 | 5,277 | 86 | 60,615 |
| Securities | 19,138 | 2,294 | 20,764 | 3,090 | 2,133 | 4,694 | 52,113 |
| Securities borrowed or purchased under agreements to resell | 2,000 | - | - | - | - | - | 2,000 |
| Credit to the public, net (c) | 159,533 | 51,221 | 29,813 | 5,599 | 6,092 | 222 | 252,480 |
| Credit to governments | 53 | 240 | 176 | 59 | - | - | 528 |
| Investments in companies included on equity basis | - | - | - | - | - | 2,216 | 2,216 |
| Buildings and equipment | - | - | - | - | - | 3,162 (f) | 3,162 |
| Assets in respect of derivative instruments | 7,602 | 181 | 7,174 | 104 | 281 | 1,567 | 16,909 |
| Other assets, intangible assets and goodwill | 5,603 (e) | 4 | 886 | 7 | 45 | 354 | 6,899 |
| Total assets | 235,829 | 54,203 | 70,577 | 10,184 | 13,828 | 12,301 | 396,922 |
| **Liabilities** | | | | | | | |
| Deposits of the public | 166,479 | 27,399 | 83,050 | 16,107 | 10,019 | 343 | 303,397 |
| Deposits from banks | 1,807 | 91 | 2,136 | 423 | 99 | - | 4,556 |
| Deposits from governments | 22 | 2 | 435 | 8 | - | - | 467 |
| Securities lent or sold under agreements to repurchase | 1,238 | - | - | - | - | - | 1,238 |
| Debentures, bonds and subordinated notes | 4,547 | 19,121 | - | - | 10 | - | 23,678 |
| Liabilities in respect of derivative instruments | 7,102 | 129 | 6,426 | 313 | 154 | 1,526 | 15,650 |
| Other liabilities | 8,922 (e) | 10,229 (e) | 1,704 | 29 | 168 | 746 | 21,798 |
| Total liabilities | 190,117 | 56,971 | 93,751 | 16,880 | 10,450 | 2,615 | 370,784 |
| Difference (d) | 45,712 | (2,768) | (23,174) | (6,696) | 3,378 | 9,686 | 26,138 |
| **Effect of hedging derivative instruments:** | | | | | | | |
| Derivative instruments (excluding options) | - | - | - | - | - | - | - |
| **Effect of non-hedging derivative instruments:** | | | | | | | |
| Derivative instruments (excluding options) | (20,221) (g) | (2,177) | 22,402 (g) | 5,684 (g) | (4,338) (g) | (1,350) | - |
| Options in the money, net (in terms of underlying asset) | 777 | - | (1,694) | 936 | (19) | - | - |
| Options out of the money, net (in terms of underlying asset) | 517 | - | (360) | (132) | (25) | - | - |
| Total | 26,785 | (4,945) | (2,826) | (208) | (1,004) | 8,336 | 26,138 |
| **Effect of non-hedging derivative instruments:** | | | | | | | |
| Options in the money, net (discounted par value) | 1,580 | - | (2,555) | 978 | (3) | - | - |
| Options out of the money, net (discounted par value) | 266 | - | (6) | (233) | (27) | - | - |

(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 according to the linkage of the credit for which it was created in the amount of NIS 3,912 million (30 June 2014 – NIS 3,787 million, 31 December 2014 – NIS 3,988 million).
(d) Shareholders' equity including minority interests.
(e) Restated pursuant to a change in accounting for accumulating employee rights - see Note 1.C.1.
(f) Restated pursuant to implementation of the directives of the Supervisor on capitalization of software costs – see Note 1.C.2.
(g) Reclassified.

# 6 - Contingent Liabilities and Special Commitments

## A. Off-balance sheet instruments

| | 30 June 2015 | | 30 June 2014 | | 31 December 2014 | |
|---|---|---|---|---|---|---|
| | Balances of contracts (a) | Balance of allowance for credit losses | Balances of contracts (a) | Balance of allowance for credit losses | Balances of contracts (a) | Balance of allowance for credit losses |
| | Unaudited | | | | Audited | |
| | NIS millions | | | | | |
| **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 | **1,715** | **4** | 1,906 | 5 | 1,627 | 3 |
| Credit guarantees | **5,602** | **98** | 5,398 | 92 | 6,071 | 102 |
| Guarantees to apartment purchasers | **18,511** | **19** | 16,218 | 23 | 17,547 | 24 |
| Other guarantees and liabilities (b) | **17,090** | **205** | 15,515 | 175 (c) | 17,079 | 216 |
| Unutilized credit facilities for credit cards | **27,945** | **34** | 25,719 | 23 | 26,506 | 28 |
| Current loan account facilities and other credit facilities on demand not utilized | **13,971** | **45** | 14,456 | 24 | 14,125 | 25 |
| Irrevocable commitments to provide credit which has been approved and not yet granted (1) | **24,495** | **65** | 21,042 | 64 | 22,727 | 73 |
| Commitments to issue guarantees | **14,444** | **18** | 12,041 | 18 | 15,097 | 23 |
| Unutilized facilities for activity in derivative instruments | **5,460** | **-** | 5,646 | - | 5,533 | - |
| Approval in principle to maintain interest rate | **5,392** | **-** | 3,958 | - | 4,565 | - |

(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 226 million (30 June 2014 - NIS 206 million, 31 December 2014 - NIS 233 million).
The above commitments represent a relatively small part of the obligations of those securitizing entities.

(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 226 million (at 30 June 2014 and at 31 December 2014, the amount of NIS 206 million and NIS 233 million, respectively).
(c) Reclassified.

## B. Contingent liabilities and special commitments

| | 30 June 2015 | 30 June 2014 | 31 December 2014 |
|---|---|---|---|
| | Unaudited | | Audited |
| | NIS millions | | |
| **(1) Long-term rental contracts - Rental of buildings, equipment and vehicles and maintenance fees regarding commitments payable in the following years** | | | |
| First year | **263** | 218 | 227 |
| Second year | **208** | 189 | 186 |
| Third year | **190** | 173 | 169 |
| Fourth year | **172** | 158 | 151 |
| Fifth year | **136** | 125 | 118 |
| After five years | **1,187** | 781 | 717 |
| Total | **2,156** | 1,644 | 1,568 |
| **(2) Commitments to purchase securities** | **1,216** | 587 | 724 |
| **(3) Commitments to invest in buildings, equipment and others** | **166** | 191 | 31 |

See notes on next page.

## Note 6 - Contingent Liabilities and Special Commitments (contd.)

There is a general exposure, which cannot be estimated or quantified, resulting from, inter alia, the complexity of the services provided by the Bank and its consolidated companies to their customers. The complexity of these services involves, among other things, a potential for interpretive and other claims, which relate to many commercial and regulatory conditions. It is not possible to anticipate all the kinds of claims raised in this field and the exposure relating to these and other claims in connection with the services of the Bank and its consolidated companies that are raised, inter alia, through the procedural mechanism stipulated in the Class Actions Law.

In addition, there is an exposure due to regulatory changes and guidelines of the Supervisor of Banks. Contracts with customers are, in part, engagements lasting for many years, during which changes may occur in policy, regulations and trends in the law, including court rulings. The Bank and its consolidated companies operate through complex automated systems, which in light of the aforesaid, have to be adjusted regularly. All these create increased operational and legal exposure.

Furthermore, there is a general exposure resulting complaints against the Bank and its consolidated companies submitted from time to time to the Supervisor of Banks, which may in certain circumstance lead to legal action being taken against the Bank. At this time, it is impossible to assess whether there is an exposure for such complaints and it cannot be estimated if the Banking Supervision Department will make an across-the-board decision on complaints as above and / or if class actions or others will be filed as a result of such processes, and it is not possible to estimate the potential exposure as above. Accordingly, no provision is included for this exposure.

**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 128 million.

In Note 18 to the financial statements of the Bank at 31 December 2014, information was included regarding the significant claims at the date of the said statements. In the Note below, information is included regarding material claims submitted in the period of the report and after the reporting period, and changes that occurred regarding material claims submitted in previous reporting periods, and does not include information on claims reported in Note 18 to the Annual Report that were filed before the period of the report and in which there was no change.

**1.** **A.** On 12 September 2006, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, against Bank Hapoalim B.M. and against Israel Discount Bank Ltd. in an amount claimed against all respondents of NIS 7 billion, while in the body of the claim, it is contended that the damage to the group which the claimant wishes to represent amounts to NIS 10 billion. According to the petitioner, the respondent banks charged their customers with interest for unlinked shekel credit, a commission for credit allotment and fixed management fees with regard to debitory current accounts at identical rates and amounts, as a result of a prohibited restrictive arrangement. On 21 January 2008, the Tel Aviv District Court approved the pursuance of the claim as a class action. The Banks submitted an appeal against the ruling in the Supreme Court. On 28 July 2013, the Supreme Court decided to accept the appeal and the decision of the District Court to approve a class action was canceled.

The Supreme Court also decided that in view of the fact that the decision may have significant implications on the approval of the class action, the proceedings were to be returned to the District Court for a further hearing on the petition for approval. As part of the appeal proceedings against the decision of the Anti-Trust Commissioner dated 26 April 2009, under the heading "Restrictive Arrangements between Bank Hapoalim, Bank Leumi, Bank Discount, Bank Mizrahi, and the First International Bank, concerning the Transfer of Information relating to Commissions" ("the decision"). The Anti-Trust Tribunal on 15 June 2014 gave effect to an agreed order for agreement between the banks appealing to the Anti-Trust Commissioner, under which, inter alia, subject to the deposit of an amount of NIS 70 million (the Bank's share – NIS 21.425 million) with a trustee, the decision would be void. This amount was deposited with a trustee ("the Trustee"). It was also decided in the framework of the agreed order that the banks that are party to it can use these funds to make settlement agreements in various claims, including the claims listed in paragraphs A, B, D and E below, subject to terms set forth in the order. On 21 January 2014, the Court decided to transfer the hearing in the proceedings described in paragraph B. below to the Court dealing with the above proceedings. On 11 December 2014, a petition was filed with the Court to approve a settlement agreement under which the respondent banks would pay the members of the group an amount of NIS 35 million, out of the monies deposited with the Trustee. The members of the group were defined as any person (including a corporation) that held a current and/or checking and/or revolving debit account with the banks that are party to the settlement agreement in the determining period (as defined in the settlement agreement). Pursuant to the decision of the Court on 4 January 2015, the agreement was sent to the parties set forth in the decision and notices were published in the press on the settlement agreement. In January 2015, after publication, the plaintiffs filed under the proceedings described in Section B below a petition to cancel the decision or alternatively to postpone it until after a decision in reference between the proceedings here and the proceedings described in Section B below, and subsequently the Court ordered the postponement of its decision until another decision is made. In a hearing that took place on 25 March 2015, the Court canceled its decision regarding publication of the settlement agreement. The Court noted that it had not received a clear answer to the question of whether the settlement arrangement obstructs the procedure described in paragraph B below, and that there is no impediment to the parties reaching a settlement arrangement that does not obstruct the procedure described in paragraph B below, but if it was not possible to reach such a settlement agreement, the Court's proposal is that the petition for approval of the settlement agreement described in this paragraph shall be deleted, and the hearing in this proceeding and in the procedure described in paragraph B below will be joined together. Insofar as the proceedings are joined together, the Court requested that counsel of the petitioners in both procedures would try to reach agreement on the representation of customers who are private customers (households). The partiers were requested to consider the Court's proposal as to the manner of continuing both proceedings and a further hearing set for continuing the proceedings in the claim. The parties in this case are working towards an amended settlement agreement, in due consideration of the comments of the Court.

**B**. On 23 November 2006, a claim and a petition to approve the claim as a class action were filed in the Jerusalem District Court against the Bank, against Bank Hapoalim B.M. and against Israel Discount Bank Ltd. The petitioners allege that in respect of credit to the household sector, the banks collect interest at a rate that is much higher than that collected from the commercial sector and from the corporate sector. The petitioners claim that this is exploitation of monopolistic power and that there is a real concern that the lack of competition between the respondents, regarding all matters concerning the households sector, is the result of a restrictive arrangement between the parties. It is also alleged that this is misleading consumers regarding the normal price for credit service to the household.

The alleged damage is NIS 5.6 billion according to one method, and NIS 5.2 billion according to a second method. The damage claimed attributed to the Bank's customers is at least NIS 1.6 billion. The Bank filed its response to the petition for the approval of the claim as a class action. The District Court granted a stay of these proceedings in this request until the Supreme Court renders a decision regarding the petition for leave to appeal filed by the Bank with respect to the decision to approve as a class action the claim described in Section A above. The plaintiffs submitted a petition, on 29 October 2013, for renewal of proceedings in the claim. On 21 January 2014, the Court decided to transfer the proceedings in the claim to the Tel-Aviv-Jaffa Court that is dealing with the proceedings described in Section A above. See paragraph A above for an update regarding proceedings also in this claim.

**C.** On 1 April 2007, a petition was filed with the Tel Aviv District Court to approve a class action against the Bank, Bank Hapoalim, Israel Discount Bank and the First International Bank and against other respondents that are, allegedly, members of the Stock Exchange. According to the plaintiffs, the respondents charged the managers of mutual funds under their control commissions for buying and purchase of securities (brokerage commissions) and for performing transactions in foreign currency, which were higher than the fees charged to other institutions and that, according to the plaintiffs, is in violation of the provisions of the Joint Investment Trust Law, 1994, as worded then, and a breach of other obligations. The plaintiffs claimed that the collection of the (alleged) excessive fees continued unlawfully even after the sale of control of the mutual funds by the banks to the other respondents. According to the plaintiffs, the total amount of damages caused to all the members of the group by all the respondents amounts to approximately NIS 386 million, of which damages of NIS 130 million is attributed to the Bank. Summaries have been filed pending the Court's decision.

**D**. On 30 June 2008, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, against Israel Discount Bank and against 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. 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 Section E below). On 31 May 2015, the Court approved a compromise agreement in this case, in an additional claim described in paragraph E below and two additional proceedings against Mizrahi-Tefahot Bank 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 belonging to the group a total amount of NIS 35 million out of the funds deposited with the Trustee pursuant to the agreed order mentioned above (see details in paragraph 1.A above).

**E**. 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. As stated in paragraph D above, hearings in the claim described in this paragraph and in paragraph D above were consolidated. On 31 May 2015, the Court approved a settlement agreement in this case and in other cases, as described in paragraph D above.

**F.** On 3 May 2010, a petition was filed in the Central District Court for approval of a class action in an amount claimed of approximately NIS 209 million, as of the date of filing the claim. The petitioner sought to represent bondholders of Hefzibah Hofim Ltd. ("Hefzibah Hofim"). The petitioner claims that during the years 2006 to 2007, near the end of each quarter, the Bank provided a company wholly owned by Mr. Boaz Yonah loans in amounts of tens of millions of shekels. The petitioner's claim is that these funds were transferred briefly to the account of Hefzibah Hofim, and helped it make momentary misrepresentations to the public concerning the actual situation. The petitioner claims that as a result of the cooperation of the Bank and the false representations made to the public the investments of the bondholders of Hefzibah Hofim were eventually wiped out. On 28 May 2015, the court handed down its judgment approving a settlement arrangement in the claim. Pursuant to the arrangement, the Bank will pay bondholders included in the arrangement a total of NIS 11.5 million, in accordance with the payment mechanism set forth in the judgment.

**G.** On 7 September 2011, a petition for approval of a class action was filed against the Bank (in respect of activity of Bank Leumi Mortgages Ltd. that was subsequently merged with the Bank), Mizrahi Tefahot Bank Ltd. and Bank Hapoalim B.M. The amount of the class action claimed against all the respondent banks is approximately NIS 927 million as at 1 January 2010, and the amount of the class action against the Bank is about NIS 327 million. The petitioners claim that the respondent banks charged housing-loan borrowers "compound interest in advance", contrary to the law and to the loan agreements, which stipulate that only the unpaid balance of principal will bear interest. The reliefs claimed are payment of compensation and/or reinstatement of damage caused to borrowers and the amounts charged unlawfully, and the granting of a court order against the respondent banks to change the way they act in all areas related to charging and collecting interest. At the request of the Court, the Supervisor of Banks submitted responses to the Court to the questions raised by the parties concerning the claim. On 16 August 2015, the Central District Court rejected the petition for approval of the class action because it was without grounds. Accordingly, the claim was concluded.

**H.** On 11 October 2012, a claim and petition for approval of a class action was filed in the Tel Aviv District Court against Leumi, First International, Mizrahi-Tefahot and Israel Discount Bank. The plaintiffs claim that the bank accounts of the Bank's customers against whom collection proceedings are being conducted, and who made payments directly to files in the Execution Office, were updated at a date later than the date of payment. Due to the delay in updating payments in the bank account, the plaintiffs were charged excessive interest charges. The remedies requested in the claim and petition are: the refund of excess amounts paid by customers, injunctions and declarative orders for updating payments in the accounts, from now on, with value of the date the amounts were actually made to the Execution Office, and the amendment of accounts still under proceedings, in accordance with the correct value dates. According to the plaintiffs, the amount of the class action cannot be estimated at this time. As part of the proceedings taking place in this claim, the position was submitted of the Attorney General, who disagreed with some of the claims of the Bank. At a later stage, the representative of the Court confirmed that there was a factual mistake in the position. The State is to submit an amended position. In a hearing held after the submission of the original position of the Court, it was proposed to consider the appointment of a CPA to examine if any damage had been caused to customers.

**I.** 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 allegedly 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. The plaintiffs claim that the disclosure made by the banks at the time of the transaction refers only to exchange commission and not to exchange rate differences, and since, as claimed by the petitioners, 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. At the request of the petitioners, the Court approved dismissing the CEO's of the banks from the petition for approval, 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. The Bank has filed its response to the petition (on 20 January 2015, the Court decided on the transfer of the proceedings in the petition for approval of a class action filed in a similar matter, in the amount of NIS 200 million, against the credit card companies (including against Leumi Card) to the Court hearing the petition described in this paragraph). On 23 April 2015, the plaintiffs filed an "abbreviated" petition in the framework of which they attributed to the Bank, in respect of the damages called (according to the plaintiffs) the "primary damages", in an amount of about NIS 2.6 billion (the plaintiffs claim additional damages that were not quantified). One of the plaintiffs (a customer of the Bank) submitted a petition to the Court to withdraw from the claim, and the Court approved the withdrawal.

**J.** On 2 December 2013, a petition was filed in the Central District Court for approval of a class action against the Bank, on the matter of an early repayment fee non-housing loans. According to the petitioner, early repayment fee calculations by the Bank, both in the case of loans for which calculation principles apply that are set out in Proper Conduct of Banking Business Directives, and in the case of loans for which principles apply that were set by the Bank, are not made lawfully. The petitioner claims that she is unable at this stage to assess the overall claim. On 30 April 2015, the petitioner filed an amended petition for approval of the class action.

**K.** On 17 March 2014, a special manager 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 to the Company (the liquidation fund) 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 according to the special manager 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 alleged 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 allegedly fraudulent actions detailed in the petition; and because of the Lenders' Liability doctrine.

It should be noted that as part of the motion, the special manager 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.

On 20 April 2015, the Supreme Court decided that insofar as it will be decided to take further action, a new official would be appointed for the Company, unrelated to the previous special manager or his firm, and he will deal with all future matters, if any. The attorney of the firm of the special manager that filed the petition may continue dealing with the pending proceedings only.

**L.** On 13 April 2014, a petition was filed in the Tel Aviv Central District Court for approval of a class action against the Bank in the amount of NIS 184 million. According to the petitioner, when a customer's account in the Bank goes over the approved credit limit, the Bank refuses to honor standing orders in the account, and even charges a fee, whose amount exceeds the amount of the standing order that was not honored.

**M.** 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), 2008, 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 that the Court, inter alia, 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. In April 2015, the petitioner filed a petition for a "short form" approval in the framework of which the petitioner set, at this stage, the amount of the overall claim (against all the respondents) at NIS 10 million (as nominal damages).

**N.** On 6 January 2015, a petition was filed with the Central District Court, for approval of a class action for an amount claimed of NIS 400 million, based on estimates and valuations of the expert of the petitioner. According to the petitioner, the Bank is violating the provisions of the Interest Rate Law (Determination of the Maximum Interest Rate), 1970, under which interest on arrears is not to be charged on index-linked loans at a rate exceeding 17% per annum, in that it charges interest on arrears on index-linked loans at the rate of 18.3891% per annum that according to the petitioner exceeds the rate allowed. The petitioner attached an expert opinion to the request. On 15 June 2015, the petitioner filed an amended petition according to which, in light of proceedings in the Supreme Court, supporting the position of the Bank, she is reducing the relief requested for a future change in interest collection (but also on the other hand refers to the refund of interest in respect of the inventory of existing loans, which was charged from the date of filing the claim. The applicant did not quantify this amount).

**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 19 January 2015, a petition was filed in the Tel Aviv District Court (Economic Division), to approve a class action against the Bank, and against 19 other respondents, who were or are directors in the Bank. According to the plaintiffs, as part of investigation proceedings by various agencies in the US, the Bank admitted that it and other companies in the Leumi Group acted to help its (US taxpayer) customers to evade reporting and from tax payments. It is argued that the investigation proceedings led to the Bank writing off NIS 1.438 billion from its equity, and that the members of the Board of Directors who held office in 2002-2010 were negligent in not employing supervision and control that allowed this illegal conduct of the Bank and, as a result, caused damage to members of the Group by writing off funds from the Bank's equity, and cutting the potential return on their investment in the shares of the Bank. The amount of the claim amounts to approximately NIS 475 million and it was argued that minimum damage to the shareholders group that sold their shares between 21 March 2013 (which is, according to the plaintiffs, the date of the initial inclusion of a provision in the financial statements for the investigation) and 15 January 2015 ranged from the above amount to NIS 825 million. The Bank has filed a petition for dismissal of the claim. The Court decided to defer proceedings in this case until there is a clear picture as to the petition for approval of a class action submitted on the matter of the arrangement with the US authorities mentioned in paragraph D.1 below.

**B.** On 11 February 2015, a petition was filed in the Tel Aviv District Court to approve a class action against the Bank for an amount claimed of NIS 2.3 billion. According to the petition, the Bank allegedly managed a "black list" of customers according to which it marks customer with an asterisk in the Bank's systems, for an unlimited period, in a manner that harms or it alleges makes it difficult for them to get credit or otherwise conduct business with the Bank. According to the petition, the management of such a "list" with no transparent criteria is a violation of the law and of legal and behavioral norms.

**C.** On 21 April 2015, a petition was filed in the Tel Aviv-Jaffa District Court for approval of a class action against the Bank. The claim pertains to the claim of the plaintiff that the Bank allegedly does not fulfill its duty to make a reasonable effort to locate holders of inactive accounts (which the plaintiff calls in the claim "dormant accounts"), to apprise them of the existence of the account and refund them the "dormant" funds, according to the plaintiff, in these accounts.
The plaintiff also claims that the Bank allegedly charges account management fees during a certain period, at the end of which it closes the account without attempting to locate its owners, and that when the Bank locates the account holder and returns the funds to him, the funds are allegedly returned with value of the date the account was closed, without index linkage and interest from then.
The plaintiff claims personal damages of NIS 320.41, and according to him he is unable at this stage to assess the total damages to all the member of the group he purports to represent.

**D.** On 28 April 2015, a petition was filed in the Tel Aviv District Court for approval of a class action against the Bank and against an insurance company that insured the Bank's borrowers that took a mortgage loan from the Bank.

The action pertains to the plaintiff's claim that the Bank allegedly requires older mortgagees (over age 55) to purchase a life insurance policy while knowing that they are at an age that is not insurable under the policy. In addition, the plaintiff claims that the Bank continues to require mortgagees to pay premiums for existing life insurance policies even after the borrowers reach the age of 65, even though insurance coverage ends at this age, and in some cases charges them insurance premiums even after their death. The plaintiff's claims relate to loans granted by Leumi Mortgage Bank to new immigrants in the 90's.

The plaintiff claims personal damages of NIS 6,500, and the amount of the group claim is estimated by him at NIS 360 million.

**E.** On 29 April 2015, a petition was filed in the Tel Aviv District Court for approval of a class action against the Bank.

The action pertains to the plaintiff's claim that the funds of Holocaust survivors, which were deposited before the Second World War in the Anglo-Palestine Bank and not withdrawn by the customers during the war, were returned to the survivors or their heirs allegedly not revalued in real terms.

The plaintiff claims personal damages of NIS 251,266 and the amount of the group claim is estimated by him at NIS 150 million.

**F.** On 21 June 2015, a petition was filed against the Bank for approval of a class action, in the Tel Aviv – Jaffa District Court.

The petition concerns the petitioner's argument that the Bank charges customers, allegedly, wishing to make a foreign currency transfer from their account to the credit of a foreign currency account in their names in another bank, with exchange commission, even though it is in the same currency and an exchange transaction was not carried out.

In addition, the petitioner claims that the Bank charges customers, allegedly, with a correspondent fee whose amount is denominated in Euros, at a rate higher than the representative, and that the Bank charges its customers, allegedly, when closing the account, fees exceeding the maximum amounts that can be charged by law when closing an account. The petitioner claims personal injury of NIS 34, and estimates that the amount of the group is in NIS millions without specifying an amount or a detailed calculation.

**G.** On 22 July 2015, the Bank received a petition for approval of a class action, filed against the Bank in the Central District Court. The petition concerns the claim of the petitioner that payments made directly to the Bank on account of a debt in respect of which a collection process is being conducted by the Enforcement and Collection Authority, are reported late by the Bank to the Enforcement and Collection Authority, resulting in an the creation of an alleged discrepancy between the actual debt and the debt recorded in the file of the Enforcement and Collection Authority. In addition, the petitioner claims that when the Bank makes a late report of a payment, the debtor receives a credit for interest charged during the period between the payment and the report. The petitioner claims that, up to the end of 2010, the credit received was at an interest rate lower than the banking interest accrued on the debt. Only in 2010, a change was made in the Enforcement and Collection Authority's systems that enabled the crediting of interest at the appropriate rate. The petitioner claims personal injury of NIS 33.46, and estimates the amount of the group claim in NIS millions, without specifying an amount or a detailed calculation.

**3.** Below are details of claims and petitions for approval of class actions in material amounts filed against the Bank's subsidiary companies. In the opinion of the management of the Bank, based on the opinion of the management of the relevant subsidiaries that are based on the opinion of its legal counsel 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:

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. Leumi Card filed a petition for the dismissal out of hand and a response to the petition.

**4.** Below are details of claims and petitions for approval of class actions in material amounts filed against the Bank's subsidiary companies. In the opinion of the management of the Bank, based on the opinion of the management of the relevant subsidiaries that are based on the opinion of its legal counsel with regard to the chances of these legal proceedings. At this stage it is not possible to evaluate their chances and for this reason no provision has been made in their respect.

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. On 24 February, the petitioner submitted a request to the court to remove himself from the petition. Subsequently, an amended petition for withdrawal was submitted, which was approved by the Court in July 2015. In addition, a petition was filed with the Court to replace the plaintiff and his representative.

**D. Contingent liabilities and other special commitments**

1. On 1 September 2013, a petition for approval of a derivative action was filed in the Economic Division of the Tel Aviv District Court against former senior officers of the Bank. The petitioner claimed that, as part of investigations of the U.S. tax authorities, it was found that representatives of the Bank and representatives of Bank Leumi USA assisted customers that are U.S. taxpayers to execute transactions that prevented the U.S. tax authorities from collecting taxes from their citizens. The damage caused to the Bank, as claimed by the petitioner, amounts to hundreds of millions of shekels that the Bank plans to pay to the U.S. authorities. The plaintiff argued that, as at the stage the petition was filed, the Bank mentioned a sum of NIS 340 million, with part of the amount paid to consultants and service providers in connection with the investigations. The petitioner claims that the former officers are responsible for the damage caused to the Bank by encouraging it to take part in the illegal activity or at least by doing nothing to prevent it. On 6 January 2015, the petitioner filed an amended petition to approve the filing of a derivative action against officers in the Bank and other corporations controlled by the bank ("Leumi Group") as well as against the Bank's external auditors. According to that claimed in the amended petition, the damage caused to Leumi Group by the investigations of the US authorities and the arrangements signed with them is about NIS 2.1 billion. On 19 February 2015, the Bank filed a petition with the Court to set up an independent claims committee, as mentioned in Section 3 below (that meanwhile was deleted outright as described in Section 3 below) to review filing claims against officeholders and the auditing firms of the Bank, as well as in relation to the advisable course of legal action to the Bank in light of the totality of events in connection with the affair relating to its customers who are taxpayers in the United States. On 11 March 2015, a decision was handed down under which the Tel-Aviv District Court noted the decision of the Board of Directors of the Bank for the establishment of the independent claims committee and agreed to the Bank's petition to postpone proceedings in the action for four months from the date of the decision. On 2 July 2015, a petition was filed with the Court for an extension in order to complete the work of the Committee until October 2015, which received support in the letter of the Chairman of the Committee, the President of the District Court in Tel-Aviv (retired) Judge Uri Goren, and this in view of the complexity of the issue, the numerous documents examined by it and the various parties summoned to be heard before it. On 8 July 2015, the Court approved an extension of the stay of proceedings in the case, and of the work of the independent committee so that its conclusions will be submitted to the Board of Directors of the Bank, and the Board of Directors shall decide on the matter by 12 October 2015.

2. On 16 November 2014 a claim was submitted to the Economic Department of the District Court in Tel Aviv together with a petition for the granting of various forms of relief in connection with the management of negotiations with the US authorities and in connection with the undertaking of an arrangement with the US authorities, including the denial of the involvement of certain parties in the contacts mentioned, and preventing the inclusion of certain provisions in a future agreement with the US authorities. The Bank has filed a statement of defense whose main point is that most of the reliefs requested are no longer relevant in light of the signing of the arrangements with the US authorities. The Bank also filed a motion to dismiss the lawsuit.

3. On 31 December 2014, a petition was filed with the Economic Department of the District Court in Tel Aviv for approval of a derivative action against present and the past officers in the Bank and against the Bank's auditors. According to the plaintiffs, the Bank conducted business in the United States, both through BLUSA and through the Bank and other companies and its branches, in a manner enabling certain customers of the Bank to hide money that they had not reported to the tax authorities in the United States. According to the plaintiffs, following investigations conducted by the US authorities in relation to this activity, damages were caused to the Bank of NIS 2.37 billion, consisting of a fine and a financial sanction the Bank had to pay as part of the agreements with those authorities, non-recognition of expenses for tax purposes and costs of the investigations themselves. The petitioners allege that the officers are responsible for the alleged damage as they did not act and did nothing to stop the illegal acts and for giving permission and consent to carrying them out. It was also argued that the Bank's auditors could and should have discovered these acts, or at least to raise the appropriate questions. The plaintiffs estimate the amount of claim at NIS 1.56 billion, for considerations of the court fee and the scope of insurance of the officers, with the exception of five former officers that are responding with a petition for approval of a different derivative action in relation to the same case, for which it is requested to submit a derivative claim in the amount of NIS 1.220 billion. This, according to the plaintiffs, is insofar as the later petition is approved. On 14 April 2015, the Court decided that the claim was dismissed out of hand. On 7 May 2015, one of the plaintiffs filed a petition for approval of an appeal against this decision.

4. On 3 March 2015, a petition was filed with the Court in the State of New York, USA, by a shareholder in the Bank, who is a resident of Israel, for a derivative action on behalf of the Bank name and on behalf of BLUSA against subsidiaries of the Bank and against 61 directors and officers, who served in the past and some of them still holding office in the Bank and in the subsidiaries of the Bank. The claim pertains to the alleged liability of the respondents for the payment of sums borne by the Bank and its subsidiaries as a result of the arrangements that were signed with the US authorities. The claim was suspended pending completion of the work of the independent claims committee referred to in Section 1 above.

5. As reported in the financial statements as at 31 December 2014, there is an investigation pending by the United States Securities and Exchange Commission (SEC) in connection with the Group's activities in securities and securities counseling vis-à-vis US residents. During the first quarter of 2015, a meeting was held with the SEC in which were discussed the documents that the SEC seeks to receive. The Group provided the SEC during the period of the report with the documents required by the SEC.

   According to the legal advice received by the Group from its attorneys in the US, due to the broad discretion given to the SEC and due to the special facts concerning the Group, the Group is unable at this stage to evaluate the amount that the Group may be required to pay, if at all.
   Since it is not possible to evaluate the total amount of the expense that may be incurred by the Group regarding this investigation, the Group, based on the opinion of the US legal counsel assisting the Group in the SEC investigation, was of the opinion that there is no justification to make any provision in the financial statements in respect of it. Nevertheless, pursuant to the instructions of the Bank of Israel, from 25 May 2015, according to which the Bank is to include a "provision in the amount of the loss expected in respect of the investigation. For reasons of prudence, this provision will not be less than US$ 5 million". The Bank made a provision in the financial statements as at 31 March 2015 of US$ 5 million.

6. On 19 July 2015, a petition was submitted to the Economic Department of the District Court in Tel Aviv against the bank for disclosure and perusal of documents that was submitted according to the petitioner's claim, pursuant to Section 198A of the Securities Law, 1999. The petition was for the disclosure of various documents in connection with the Bank's handling of the debt of Delek Real Estate Ltd. This petition was intended, according to the petitioner's claim, to examine the need to submit a petition for approval of the submission of a derivative action in the name of

the Bank against its office-holders. According to the petitioner's claim, during the years 2012-2013, the Bank made a waiver in the amount of about NIS 120 million of the debts of Delek Real Estate Ltd., according to the petitioner's claim, without justification and notwithstanding of the collateral made it possible, allegedly, to collect the debt in full.

**E. Arrangement with the U.S. authorities**

As set out in detail in Note 18 to the annual financial statements for 2014, on 22 December 2014, the Leumi Group signed a Deferred Prosecution Agreement with the US Department of Justice (the DOJ) and a Consent Order (an agreed order) arrangement with the New York Department of Financial Services (NYDFS).

On 4 January 2015, the Bank, in accordance with these agreements, paid a total of US$ 400 million (US$ 270 million to the DOJ and US$ 130 million to the NYDFS).

The Bank has made provisions for all the amounts stated in previous reporting periods, and therefore the payment of these amounts had no effect on the financial results for the period of the report.

As set forth in the financial statements as at 31 December 2014 and 31 March 2015, as part of the Consent Order signed with the NYDFS, a monitor was appointed by the NYDFS, to examine, among other things, the Group's activities. During the second quarter of 2015, several working meetings were held with the monitor whom the NYDFS notified that it intended to appoint and his team, in preparation for the beginning of work of the monitor. On 15 July 2015, the appointment of the monitor was approved formally and his period of service in accordance with the applicable consent order.

In order to comply with the provisions of the arrangements as aforesaid, the Bank has appointed a special steering committee which supervises the fulfillment of the Bank's and the offices' undertakings according to the arrangements and submits regular reports thereon to the Bank's management and Board of Directors.

As a result of the investigations, a number of actions have been served against the Bank and office-holders who served and who are serving in the Bank.

On 11 January 2015, the Ministry of Justice issued a statement that the Attorney General had ordered an extensive examination of the events that are the subject of the Bank's arrangements with the US authorities and ordered the establishment of an integrated team, comprising law enforcement and consultancy agencies to expand the examination. The team is to submit its conclusions to the Attorney General, for the purpose of considering the matters. In addition, the Banking Supervision Department gave notice that is conducting audit proceedings relating to aspects of Proper Conduct of Banking Business Directive and aspects of personal liability of employees and officers in the case. In May 2015, the Banking Supervision Department issued the Bank with a draft audit report, and the Bank responded to this draft in June 2015. On 3 August 2015, the Bank was issued a second draft of the audit report. The Bank is responding to this draft.

On 15 February 2015, the Board of Directors decided to establish an independent claims committee in order to make recommendations to the Board of Directors of the Bank on the correct legal course of action for the Bank, in view of all of the circumstances and proceedings relating to the events that led to the Bank's undertaking in arrangements with the U.S. authorities, including to examine (a)whether to serve, and in whose name, one or more monetary claims against any office-holder and/or employee, past or present in the Bank Group, in respect of damages caused to the Bank because of the events which are the subject of the arrangements; (b) whether to work towards one or more of the arrangements in the context of legal proceedings which are pending in connection with U.S. customers, and, if so, in whose name and under what conditions; (c) whether to serve, and in whose name, one or more monetary claims against any office-holder and/or employees, past or present, in the Bank Group, for the return of bonuses on the basis of profits which the corporations of the Bank generated over the years from the customers in relation to whom the Bank has arrived at arrangements with the U.S. authorities.

On 11 March 2015, the Tel-Aviv District Court approved the establishment of the independent claims committee and postponed proceedings in the action for four months, in order to enable the committee to complete its work. Shortly after the decision of the Court, the committee began its work. (See update on this issue in paragraph D.1 above). Shortly after the decision by the Court, the committee began its work. On 2 July 2015, a petition was filed with the Court for an extension to complete the work of the Committee, in view of the complexity of the issue, the numerous documents examined by it and the various parties summoned to be heard before it. On 8 July 2015, the Court approved an extension of the stay of proceedings in the case described in paragraph D.1 above, and of the work of the independent committee so that its conclusions will be submitted to the Board of Directors of the Bank, and the Board of Directors shall decide on the matter by 12 October 2015.

# Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates

## A. Scope of activity

| | 30 June 2015 (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 | - | - | - | - | - | - |
| Swaps | - | 2,420 | - | - | - | 2,420 |
| Total | - | 2,420 | - | - | - | 2,420 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 2,420 | - | - | - | 2,420 |
| b) ALM derivatives (a)(b) | | | | | | |
| Futures contracts | - | 6,359 | 17 | 60,082 | 400 | 66,858 |
| Forward contracts | 12,398 | 14,200 | 202,606 | 525 | 9 | 229,738 |
| Exchange-traded options | | | | | | |
| Options written | - | 852 | 19,952 | 13,503 | - | 34,307 |
| Options purchased | - | 852 | 19,864 | 13,503 | - | 34,219 |
| Other options | | | | | | |
| Options written | - | 13,663 | 23,282 | 4,381 | 111 | 41,437 |
| Options purchased | - | 10,874 | 22,622 | 4,617 | 147 | 38,260 |
| Swaps | 691 | 289,084 | 29,136 | 22,632 | 314 | 341,857 |
| Total | 13,089 | 335,884 | 317,479 | 119,243 | 981 | 786,676 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 147,252 | - | - | - | 147,252 |
| c) Other derivatives (a) | - | - | - | - | - | - |
| d) Credit derivatives and foreign exchange spot contracts | | | | | | |
| Credit derivatives in which the banking institution is a beneficiary | - | - | - | - | - | - |
| Spot foreign exchange contracts | - | - | 12,176 | - | - | 12,176 |
| Total | - | - | 12,176 | - | - | 12,176 |
| Grand total | 13,089 | 338,304 | 329,655 | 119,243 | 981 | 801,272 |

(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 (contd.)

## A. Scope of activity (contd.)

| | 30 June 2015 (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 | - | - | - | 6 |
| Gross negative fair value | - | 116 | - | - | - | 116 |
| b) ALM derivatives (a)(b) | | | | | | |
| Gross positive fair value | 241 | 7,504 | 5,438 | 1,319 | 33 | 14,535 |
| Gross negative fair value | 252 | 7,111 | 5,648 | 1,309 | 32 | 14,352 |
| 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) | 241 | 7,510 | 5,438 | 1,319 | 33 | 14,541 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of assets in respect of derivative instruments | 241 | 7,510 | 5,438 | 1,319 | 33 | 14,541 |
| Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | 9 | 23 | 254 | 3 | 2 | 291 |
| Gross negative fair value (c) | 252 | 7,227 | 5,648 | 1,309 | 32 | 14,468 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of liabilities in respect of derivative instruments | 252 | 7,227 | 5,648 | 1,309 | 32 | 14,468 |
| Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | - | 6 | 753 | 1 | 1 | 761 |

(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 3 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 38 million.

# Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

## A. Scope of activity (contd.)

| | 30 June 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 | - | - | 1,396 | - | - | 1,396 |
| Swaps | - | 2,263 | - | - | - | 2,263 |
| Total | - | 2,263 | 1,396 | - | - | 3,659 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 2,263 (c) | - | - | - | 2,263 |
| b) ALM derivatives (a)(b) | | | | | | |
| Futures contracts | - | 10,193 | 331 | 41,181 | 8,236 | 59,941 |
| Forward contracts | 10,097 | 24,797 | 140,131 | 68 | 65 | 175,158 |
| Exchange-traded options | | | | | | |
| Options written | - | 8,576 | 11,580 | 10,441 | 762 | 31,359 |
| Options purchased | - | 8,576 | 11,473 | 10,321 | 762 | 31,132 |
| Other options | | | | | | |
| Options written | - | 8,566 | 22,199 | 1,021 | 198 | 31,984 |
| Options purchased | - | 5,848 | 20,512 | 971 | 199 | 27,530 |
| Swaps | 666 | 250,525 | 26,877 | 13,455 | 303 | 291,826 |
| Total | 10,763 | 317,081 | 233,103 | 77,458 | 10,525 | 648,930 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 120,109 (c) | - | - | - | 120,109 |
| 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 | - | - | 10,630 | - | - | 10,630 |
| Total | - | - | 10,630 | - | - | 10,630 |
| Grand total | 10,763 | 319,344 | 245,129 | 77,458 | 10,525 | 663,219 |

(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.
(c) Reclassified.

# Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

## A. Scope of activity (contd.)

| | 30 June 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 | - | 4 | 21 | - | - | 25 |
| Gross negative fair value | - | 140 | - | - | - | 140 |
| b) ALM derivatives (a)(b) | | | | | | |
| Gross positive fair value | 168 | 7,562 | 2,770 | 1,224 | 115 | 11,839 |
| Gross negative fair value | 288 | 7,093 | 3,311 | 1,241 | 107 | 12,040 |
| 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) | 168 | 7,566 | 2,791 | 1,224 | 115 | 11,864 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of assets in respect of derivative instruments | 168 | 7,566 | 2,791 | 1,224 | 115 | 11,864 |
| Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | 7 | 39 | 304 | 37 | 2 | 389 |
| Gross negative fair value (c) | 288 | 7,233 | 3,311 | 1,241 | 107 | 12,180 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of liabilities in respect of derivative instruments | 288 | 7,233 | 3,311 | 1,241 | 107 | 12,180 |
| Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | 45 | 18 | 659 | 196 | 1 | 919 |

(a) Except credit derivatives.
(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.
(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 4 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 27 million.

# Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

## A. Scope of activity (contd.)

| | 31 December 2014 (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 | - | - | - | - | - | - |
| Swaps | - | 2,468 | - | - | - | 2,468 |
| Total | - | 2,468 | - | - | - | 2,468 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 2,468 | - | - | - | 2,468 |
| b) ALM derivatives (a)(b) | | | | | | |
| Futures contracts | - | 12,153 | 372 | 55,940 | 460 | 68,925 |
| Forward contracts | 12,108 | 25,847 | 206,923 | 304 | 39 | 245,221 |
| Exchange-traded options | | | | | | |
| Options written | - | 498 | 17,647 | 12,678 | 56 | 30,879 |
| Options purchased | - | 498 | 17,842 | 12,678 | 56 | 31,074 |
| Other options | | | | | | |
| Options written | - | 12,962 | 30,441 | 2,545 | 242 | 46,190 |
| Options purchased | - | 10,494 | 28,756 | 2,174 | 270 | 41,694 |
| Swaps | 463 | 273,857 | 30,182 | 24,408 | 395 | 329,305 |
| Total | 12,571 | 336,309 | 332,163 | 110,727 | 1,518 | 793,288 |
| Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest | - | 130,205 | - | - | - | 130,205 |
| 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 | - | - | 18,397 | - | - | 18,397 |
| Total | - | - | 18,397 | - | - | 18,397 |
| Overall total | 12,571 | 338,777 | 350,560 | 110,727 | 1,518 | 814,153 |

(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 (contd.)

### A. Scope of activity (contd.)

| | 31 December 2014 (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 | - | 1 | - | - | - | 1 |
| Gross negative fair value | - | 166 | - | - | - | 166 |
| b) ALM derivatives (a)(b) | | | | | | |
| Gross positive fair value | 241 | 7,864 | 6,927 | 1,804 | 77 | 16,913 |
| Gross negative fair value | 254 | 7,462 | 5,926 | 1,800 | 76 | 15,518 |
| 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) | 241 | 7,865 | 6,927 | 1,804 | 77 | 16,914 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of assets in respect of derivative instruments | 241 | 7,865 | 6,927 | 1,804 | 77 | 16,914 |
| Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | 5 | 32 | 595 | 46 | 11 | 689 |
| Gross negative fair value (c) | 254 | 7,628 | 5,926 | 1,800 | 76 | 15,684 |
| Fair value amounts offset in the balance sheet | - | - | - | - | - | - |
| Book value of liabilities in respect of derivative financial instruments | 254 | 7,628 | 5,926 | 1,800 | 76 | 15,684 |
| Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements | - | 9 | 574 | 296 | 12 | 891 |

(a) Except credit derivatives.
(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.
(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 5 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 34 million.

## Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

### B. Credit risk in respect of derivative instruments by counterparty to the contract

| | 30 June 2015 (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) | 242 | 8,619 | 2,264 | 24 | 3,392 | 14,541 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Mitigation of credit risk in respect of financial instruments | - | 3,449 | 1,097 | 18 | 739 | 5,303 |
| Mitigation of credit risk in respect of cash collateral received | - | 1,566 | 90 | - | - | 1,656 |
| Net amount of assets in respect of derivative instruments | 242 | 3,604 | 1,077 | 6 | 2,653 | 7,582 |
| Off-balance sheet credit risk in respect of derivative instruments (d) | - | 3,976 | 1,173 | 95 | 5,177 | 10,421 |
| Mitigation of off-balance sheet credit risk | - | 315 | 75 | 53 | 875 | 1,318 |
| Net off-balance sheet credit risk in respect of derivative instruments | - | 3,661 | 1,098 | 42 | 4,302 | 9,103 |
| Total credit risk in respect of derivative instruments | 242 | 7,265 | 2,175 | 48 | 6,955 | 16,685 |
| Book balance of liabilities in respect of derivative instruments (a) (c) | 321 | 7,645 | 2,252 | 32 | 4,218 | 14,468 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Derivative financial instruments | - | 3,449 | 1,097 | 18 | 739 | 5,303 |
| Cash collateral pledged | - | 110 | 33 | - | 52 | 195 |
| Net amount of liabilities in respect of derivative instruments | 321 | 4,086 | 1,122 | 14 | 3,427 | 8,970 |

See notes on page 250.

## Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

### B. Credit risk in respect of derivative instruments by counterparty to the contract (contd.)

| | 30 June 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) | 160 | 7,818 | 1,872 | 156 | 1,858 | 11,864 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Mitigation of credit risk in respect of financial instruments | - | 2,851 | 769 | - | 362 | 3,982 |
| Mitigation of credit risk in respect of cash collateral received | - | 1,140 | 251 | 116 | 3 | 1,510 |
| Net amount of assets in respect of derivative instruments | 160 | 3,827 | 852 | 40 | 1,493 | 6,372 |
| Off-balance sheet credit risk in respect of derivative instruments (d) | - | 3,158 | 797 | 97 | 4,469 | 8,521 |
| Mitigation of off-balance sheet credit risk | - | 99 | 18 | - | 986 | 1,103 |
| Net off-balance sheet credit risk in respect of derivative instruments | - | 3,059 | 779 | 97 | 3,483 | 7,418 |
| Total credit risk in respect of derivative instruments | 160 | 6,886 | 1,631 | 137 | 4,976 | 13,790 |
| Book balance of liabilities in respect of derivative instruments (a) | 343 | 6,840 | 1,653 | 1 | 3,343 | 12,180 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Derivative financial instruments | - | 2,851 | 769 | - | 362 | 3,982 |
| Cash collateral pledged | - | 420 | 35 | - | - | 455 |
| Net amount of liabilities in respect of derivative instruments | 343 | 3,569 | 849 | 1 | 2,981 | 7,743 |

See notes on next page.

## Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

### B. Credit risk in respect of derivative instruments by counterparty to the contract (contd.)

| | 31 December 2014 (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) | 304 | 9,533 | 2,560 | 6 | 4,511 | 16,914 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Mitigation of credit risk in respect of financial instruments | - | 3,504 | 1,140 | 6 | 888 | 5,538 |
| Mitigation of credit risk in respect of cash collateral received | - | 1,015 | 409 | - | - | 1,424 |
| Net amount of assets in respect of derivative instruments | 304 | 5,014 | 1,011 | - | 3,623 | 9,952 |
| Off-balance sheet credit risk in respect of derivative instruments (d) | - | 4,118 (e) | 1,196 | 87 | 5,321 (e) | 10,722 |
| Mitigation of off-balance sheet credit risk | - | 253 | 71 | 52 | 1,011 | 1,387 |
| Net off-balance sheet credit risk in respect of derivative instruments | - | 3,865 (e) | 1,125 | 35 | 4,310 (e) | 9,335 |
| Total credit risk in respect of derivative instruments | 304 | 8,879 (e) | 2,136 | 35 | 7,933 (e) | 19,287 |
| Book balance of liabilities in respect of derivative instruments (a) (c) | 328 | 8,642 | 2,292 | 114 | 4,308 | 15,684 |
| Gross amounts not offset in the balance sheet: | | | | | | |
| Derivative financial instruments | - | 3,504 | 1,140 | 6 | 888 | 5,538 |
| Cash collateral pledged | - | 695 | 58 | 97 | 101 | 951 |
| Net amount of liabilities in respect of derivative instruments | 328 | 4,443 | 1,094 | 11 | 3,319 | 9,195 |

(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 14,538 million (at 30 June 2014 - NIS 11,860 million, at 31 December 2014 – NIS 16,909 million).
(c) Of which a book balance of standalone derivative instruments in the amount of NIS 14,430 million (at 30 June 2014 - NIS 12,153 million, at 31 December 2014 – NIS 15,650 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.
(e) Reclassified.

# Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (contd.)

## C. Repayment Dates – Nominal Amounts: Balances

| | 30 June 2015 (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 | **1,182** | **2,577** | **6,245** | **3,085** | **13,089** |
| Other | **25,659** | **62,739** | **164,193** | **85,713** | **338,304** |
| Foreign currency contracts | **191,016** | **101,376** | **27,652** | **9,611** | **329,655** |
| Contracts in respect of shares | **101,509** | **17,091** | **639** | **4** | **119,243** |
| Commodities and other contracts | **526** | **412** | **43** | **-** | **981** |
| Total | **319,892** | **184,195** | **198,772** | **98,413** | **801,272** |
| Total for 30 June 2014 (Unaudited) | 262,643 | 153,685 | 151,395 | 95,496 | 663,219 |
| Total for 31 December 2014 (Audited) | 333,697 | 187,922 | 185,343 | 107,191 | 814,153 |

## Note 8 – Balances and fair value assessments of financial instruments

| | 30 June 2015 (Unaudited) | | | | |
|---|---|---|---|---|---|
| | Book | Fair value | | | |
| | value | Level 1 (a) | Level 2 (a) | Level 3 (a) | Total |
| | (NIS millions) | | | | |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 46,170 | 42,687 | 2,471 | 1,028 | 46,186 |
| Securities (b) | 64,810 | 45,755 | 15,864 | 3,191 | 64,810 |
| Securities borrowed or purchased under agreements to resell | 2,177 | 2,177 | - | - | 2,177 |
| Credit to the public, net | 254,548 | 1,534 | 66,262 | 186,045 | 253,841 |
| Credit to governments | 435 | - | 28 | 426 | 454 |
| Assets in respect of derivative instruments | 14,538 | 1,052 | 11,056 | 2,430 | 14,538 |
| Other financial assets | 1,361 | 615 | 519 | 227 | 1,361 |
| Total financial assets | 384,039 (c) | 93,820 | 96,200 | 193,347 | 383,367 |
| **Financial liabilities** | | | | | |
| Deposits of the public | 304,043 | 2,054 | 181,905 | 121,758 | 305,717 |
| Deposits from banks | 4,581 | - | 4,557 | - | 4,557 |
| Deposits from governments | 631 | - | 562 | 92 | 654 |
| Securities lent or sold under agreements to repurchase | 1,371 | 1,371 | - | - | 1,371 |
| Debentures, notes and subordinated notes | 19,720 | 15,647 | 353 | 5,784 | 21,784 |
| Liabilities in respect of derivative instruments | 14,430 | 1,067 | 13,032 | 331 | 14,430 |
| Other financial liabilities | 8,004 | 613 | 99 | 7,279 | 7,991 |
| Total financial liabilitiies | 352,780 (c) | 20,752 | 200,508 | 135,244 | 356,504 |
| **Off-balance sheet financial instruments** | | | | | |
| Transactions whose balance represents credit risk | 328 | - | - | 328 | 328 |

For details of fair value measurement, see Note 18.C in the annual financial statements as at 31 December 2014.

(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 117,149 million and NIS 149,893 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 (contd.)

| | 30 June 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 | 49,902 | 13,717 | 35,249 | 961 | 49,927 |
| Securities (b) | 49,713 | 32,580 | 13,927 | 3,206 | 49,713 |
| Securities borrowed or purchased under agreements to resell | 1,634 | 1,634 | - | - | 1,634 |
| Credit to the public, net | 244,385 | 2,688 | 63,950 | 179,251 | 245,889 |
| Credit to governments | 483 | - | 38 | 461 | 499 |
| Assets in respect of derivative instruments | 11,860 | 1,064 | 9,256 | 1,540 | 11,860 |
| Other financial assets | 939 | 151 | - | 788 | 939 |
| Total financial assets | 358,916 (c) | 51,834 | 122,420 | 186,207 | 360,461 |
| **Financial liabilities** | | | | | |
| Deposits of the public | 279,861 | 3,089 | 144,336 | 134,751 | 282,176 |
| Deposits from banks | 5,201 | - | 3,884 | 1,317 | 5,201 |
| Deposits from governments | 359 | - | 279 | 78 | 357 |
| Securities lent or sold under agreements to repurchase | 747 | 747 | - | - | 747 |
| Debentures, notes and subordinated notes | 24,509 | 22,467 | 386 | 4,352 | 27,205 |
| Liabilities in respect of derivative instruments | 12,153 | 1,019 | 10,787 | 347 | 12,153 |
| Other financial liabilities | 8,028 | 141 | - | 7,885 | 8,026 |
| Total financial liabilitiies | 330,858 (c) | 27,463 | 159,672 | 148,730 | 335,865 |
| **Off-balance sheet financial instruments** | | | | | |
| Transactions whose balance represents credit risk | 306 | - | - | 306 | 306 |

(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 109,196 million and NIS 88,981 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 (contd.)

| | 31 December 2014 (Audited) | | | | |
|---|---|---|---|---|---|
| | Book value | Fair value | | | |
| | | Level 1 (a) | Level 2 (a) | Level 3 (a) | Total |
| | (NIS millions) | | | | |
| **Financial assets** | | | | | |
| Cash and deposits with banks | 60,615 | 43,671 | 15,617 | 1,367 | 60,655 |
| Securities (b) | 52,113 | 30,526 | 17,982 | 3,605 | 52,113 |
| Securities borrowed or purchased under agreements to resell | 2,000 | 2,000 | - | - | 2,000 |
| Credit to the public, net | 252,480 | 2,109 | 58,238 | 193,571 | 253,918 |
| Credit to governments | 528 | - | 51 | 491 | 542 |
| Assets in respect of derivative instruments | 16,909 | 1,360 | 12,546 | 3,003 | 16,909 |
| Other financial assets | 875 | 188 | - | 687 | 875 |
| Total financial assets | 385,520 (c) | 79,854 | 104,434 | 202,724 | 387,012 |
| **Financial liabilities** | | | | | |
| Deposits of the public | 303,397 | 2,682 | 169,062 | 134,079 | 305,823 |
| Deposits from banks | 4,556 | - | 4,313 | 218 | 4,531 |
| Deposits from governments | 467 | - | 400 | 95 | 495 |
| Securities lent or sold under agreements to repurchase | 1,238 | 1,238 | - | - | 1,238 |
| Debentures, notes and subordinated notes | 23,678 | 18,960 | 382 | 6,604 | 25,946 |
| Liabilities in respect of derivative instruments | 15,650 | 1,306 | 14,193 | 151 | 15,650 |
| Other financial liabilities | 7,990 | 176 | - | 7,815 | 7,991 |
| Total financial liabilitiies | 356,976 (c) | 24,362 | 188,350 | 148,962 | 361,674 |
| **Off-balance sheet financial instruments** | | | | | |
| Transactions whose balance represents credit risk | 356 | - | - | 356 | 356 |

(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 105,782 million and NIS 132,246 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 June 2015 (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 | 25,414 | 1,508 | - | 26,922 |
| Foreign government bonds | 6,859 | 250 | - | 7,109 |
| Bonds of Israeli financial institutions | - | 48 | - | 48 |
| Bonds of overseas financial institutions | 104 | 5,605 | - | 5,709 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 5,871 | 1,890 | 7,761 |
| Other bonds in Israel | 1,067 | 142 | - | 1,209 |
| Other bonds abroad | 194 | 838 | - | 1,032 |
| Shares and mutual funds available for sale | 2,761 | - | - | 2,761 |
| Total securities available for sale | 36,399 | 14,262 | 1,890 | 52,551 |
| **Securities held for trading:** | | | | |
| Government of Israel bonds | 7,239 | 180 | - | 7,419 |
| Foreign government bonds | 953 | 8 | - | 961 |
| Bonds of financial institutions in Israel | 156 | - | - | 156 |
| Bonds of financial institutions abroad | - | 237 | - | 237 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 876 | - | 876 |
| Other bonds in Israel | 344 | - | - | 344 |
| Other bonds abroad | 29 | 301 | - | 330 |
| Shares and mutual funds held for trading | 635 | - | - | 635 |
| Total securities held for trading | 9,356 | 1,602 | - | 10,958 |
| **Assets in respect of derivative instruments:** | | | | |
| Shekel-index contracts | - | 92 | 149 | 241 |
| Interest contracts | 5 | 7,142 | 360 | 7,507 |
| Foreign currency contracts | - | 3,358 | 1,750 | 5,108 |
| Share contracts | 494 | 464 | 145 | 1,103 |
| Commodities and other contracts | 7 | - | 26 | 33 |
| Activity in Maof market | 546 | - | - | 546 |
| Total assets in respect of derivative instruments: | 1,052 | 11,056 | 2,430 | 14,538 |
| **Others:** | | | | |
| Credit and deposits in respect of lending of securites | 1,534 | 4 | - | 1,538 |
| Securities borrowed or purchased under agreements to resell | 2,177 | - | - | 2,177 |
| Other | 615 | 10 | - | 625 |
| Total others | 4,326 | 14 | - | 4,340 |
| **Total assets** | 51,133 | 26,934 | 4,320 | 82,387 |

## Note 8A – Items measured at fair value (contd.)
### A. Items measured at fair value on a recurring basis (contd.)

| | As at 30 June 2015 (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 | - | 214 | 38 | 252 |
| Interest contracts | 5 | 7,222 | - | 7,227 |
| Foreign currency contracts | - | 4,987 | 293 | 5,280 |
| Share contracts | 494 | 584 | - | 1,078 |
| Commodities and other contracts | 7 | 25 | - | 32 |
| Activity in Maof market | 561 | - | - | 561 |
| Total liabilities in respect of derivative instruments | 1,067 | 13,032 | 331 | 14,430 |
| **Others:** | | | | |
| Deposits in respect of lending of securites | 2,054 | 21 | 16 | 2,091 |
| Securities lent or sold under agreements to repurchase | 1,371 | - | - | 1,371 |
| Others | 613 | - | - | 613 |
| Total others | 4,038 | 21 | 16 | 4,075 |
| **Total liabilities** | 5,105 | 13,053 | 347 | 18,505 |

# Note 8A – Items measured for fair value (contd.)
## A. Items measured for fair value on a recurring basis (contd.)

| | As at 30 June 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 | 19,058 | 1,460 | - | 20,518 |
| Foreign government bonds | 1,061 | 648 | 4 | 1,713 |
| Bonds of Israeli financial institutions | 39 | 62 | - | 101 |
| Bonds of overseas financial institutions | 431 | 3,749 | - | 4,180 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 4,899 | 1,748 | 6,647 |
| Other bonds in Israel | 414 | 305 | 9 | 728 |
| Other bonds abroad | 951 | 1,368 | - | 2,319 |
| Shares and mutual funds available for sale | 1,606 | - | - | 1,606 |
| Total securities available for sale | 23,560 | 12,491 | 1,761 | 37,812 |
| **Securities held for trading:** | | | | |
| Government of Israel bonds | 7,202 | 191 | - | 7,393 |
| Foreign government bonds | 529 | 29 | - | 558 |
| Bonds of financial institutions in Israel | 399 | - | - | 399 |
| Bonds of financial institutions abroad | - | 153 | - | 153 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 515 | - | 515 |
| Other bonds in Israel | 385 | - | - | 385 |
| Other bonds abroad | - | 548 | - | 548 |
| Shares and mutual funds held for trading | 505 | - | - | 505 |
| Total securities held for trading | 9,020 | 1,436 | - | 10,456 |
| **Assets in respect of derivative instruments:** | | | | |
| Shekel-index contracts | - | 58 | 110 | 168 |
| Interest contracts | 20 | 7,064 | 482 | 7,566 |
| Foreign currency contracts | 52 | 1,572 | 916 | 2,540 |
| Share contracts | 464 | 528 | 32 | 1,024 |
| Commodities and other contracts | 81 | 34 | - | 115 |
| Activity in Maof market | 447 | - | - | 447 |
| Total assets in respect of derivative instruments | 1,064 | 9,256 | 1,540 | 11,860 |
| **Others:** | | | | |
| Credit and deposits in respect of lending of securites | 2,688 | 4 | - | 2,692 |
| Securities borrowed or purchased under agreements to resell | 1,634 | - | - | 1,634 |
| Other | 170 | - | - | 170 |
| Total others | 4,492 | 4 | - | 4,496 |
| **Total assets** | 38,136 | 23,187 | 3,301 | 64,624 |

## Note 8A – Items measured for fair value (contd.)
### A. Items measured for fair value on a recurring basis (contd.)

| | As at 30 June 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 | - | 218 | 70 | 288 |
| Interest contracts | 20 | 7,210 | 3 | 7,233 |
| Foreign currency contracts | 7 | 2,756 | 274 | 3,037 |
| Share contracts | 464 | 577 | - | 1,041 |
| Commodities and other contracts | 81 | 26 | - | 107 |
| Activity in Maof market | 447 | - | - | 447 |
| Total liabilities in respect of derivative instruments | 1,019 | 10,787 | 347 | 12,153 |
| **Others:** | | | | |
| Deposits in respect of lending of securites | 3,089 | 27 | 7 | 3,123 |
| Securities lent or sold under agreements to repurchase | 747 | - | - | 747 |
| Others | 141 | - | - | 141 |
| Total others | 3,977 | 27 | 7 | 4,011 |
| **Total liabilities** | 4,996 | 10,814 | 354 | 16,164 |

## Note 8A – Items measured for fair value (contd.)

### A. Items measured for fair value on a recurring basis (contd.)

| | As at 31 December 2014 (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 | 12,678 | 1,612 | - | 14,290 |
| Foreign government bonds | 3,944 | 771 | - | 4,715 |
| Bonds of Israeli financial institutions | 18 | 47 | - | 65 |
| Bonds of overseas financial institutions | 409 | 5,267 | - | 5,676 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 5,678 | 2,009 | 7,687 |
| Other bonds in Israel | 641 | 266 | - | 907 |
| Other bonds abroad | 1,026 | 1,576 | - | 2,602 |
| Shares and mutual funds available for sale | 1,584 | - | - | 1,584 |
| Total securities available for sale | 20,300 | 15,217 | 2,009 | 37,526 |
| **Securities held for trading:** | | | | |
| Government of Israel bonds | 7,523 | 392 | - | 7,915 |
| Foreign government bonds | 496 | 9 | - | 505 |
| Bonds of financial institutions in Israel | 374 | - | - | 374 |
| Bonds of financial institutions abroad | - | 266 | - | 266 |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | - | 1,438 | - | 1,438 |
| Other bonds in Israel | 319 | - | - | 319 |
| Other bonds abroad | - | 660 | - | 660 |
| Shares and mutual funds held for trading | 1,514 | - | - | 1,514 |
| Total securities held for trading | 10,226 | 2,765 | - | 12,991 |
| **Assets in respect of derivative instruments:** | | | | |
| Shekel-index contracts | - | 96 | 145 | 241 |
| Interest contracts | 9 | 7,428 | 423 | 7,860 |
| Foreign currency contracts | 5 | 4,366 | 2,307 | 6,678 |
| Share contracts | 707 | 656 | 64 | 1,427 |
| Commodities and other contracts | 13 | - | 64 | 77 |
| Activity in Maof market | 626 | - | - | 626 |
| Total assets in respect of derivative instruments | 1,360 | 12,546 | 3,003 | 16,909 |
| **Others:** | | | | |
| Credit and deposits in respect of lending of securites | 2,109 | 5 | - | 2,114 |
| Securities borrowed or purchased under agreements to resell | 2,000 | - | - | 2,000 |
| Other | 181 | - | - | 181 |
| Total others | 4,290 | 5 | - | 4,295 |
| **Total assets** | 36,176 | 30,533 | 5,012 | 71,721 |

## Note 8A – Items measured for fair value (contd.)
### A. Items measured for fair value on a recurring basis (contd.)

| | As at 31 December 2014 (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 | - | 213 | 41 | 254 |
| Interest contracts | 9 | 7,619 | - | 7,628 |
| Foreign currency contracts | 5 | 5,582 | 110 | 5,697 |
| Share contracts | 707 | 715 | - | 1,422 |
| Commodities and other contracts | 12 | 64 | - | 76 |
| Activity in Maof market | 573 | - | - | 573 |
| Total liabilities in respect of derivative instruments: | 1,306 | 14,193 | 151 | 15,650 |
| **Others:** | | | | |
| Deposits in respect of lending of securites | 2,680 | 23 | 11 | 2,714 |
| Securities lent or sold under agreements to repurchase | 1,238 | - | - | 1,238 |
| Others | 176 | - | - | 176 |
| Total others | 4,094 | 23 | 11 | 4,128 |
| **Total liabilities** | 5,400 | 14,216 | 162 | 19,778 |

# Note 8A – Items measured for fair value (contd.)
## B. Items measured for fair value on a non-recurring basis

| | **As at 30 June 2015 (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 | **-** | **-** | **1,312** | **1,312** | **40** |
| Other assets | **-** | **-** | **-** | **-** | **-** |
| **Total** | **-** | **-** | **1,312** | **1,312** | **40** |

| | As at 30 June 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 | - | - | 1,733 | 1,733 | (45) |
| Other assets | - | - | - | - | - |
| **Total** | - | - | 1,733 | 1,733 | (45) |

| | As at 31 December 2014 (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 | - | - | 1,518 | 1,518 | (274) |
| Other assets | - | - | - | - | - |
| **Total** | - | - | 1,518 | 1,518 | (274) |

## Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3

| | For the three months ended 30 June 2015 (Unaudited) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Realized and unrealized profits (losses), net, included | | | | | | | | | |
| | Fair value at beginning of the year | In profit and loss statement | In other comprehensive income in equity | Acqui-sitions and issues | Sales | Extinguish-ments | Adjustments from translation of financial statements | Transfers to Level 3 | Transfers from Level 3 | Fair value at 30 June 2015 | Unrealized profits (losses) in respect of instruments held at 30 June 2015 |
| | (NIS millions) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| **Securities available for sale:** | | | | | | | | | | | |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,968 | (85) | 2 | 127 | - | (122) | - | - | - | 1,890 | 4 |
| Total bonds available for sale | 1,968 | (85) | 2 | 127 | - | (122) | - | - | - | 1,890 | 4 |
| Total shares available for sale | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds for trading | - | - | - | - | - | - | - | - | - | - | - |
| Total shares for trading | - | - | - | - | - | - | - | - | - | - | - |
| **Assets in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 229 | (76) | - | - | - | - | - | (4) | - | 149 | (46) |
| Interest contracts | 489 | (92) | - | - | - | (37) | - | - | - | 360 | (217) |
| Foreign currency contracts | 1,999 | (816) | - | 567 | - | - | - | - | - | 1,750 | 235 |
| Share contracts | 153 | (8) | - | - | - | - | - | - | - | 145 | (15) |
| Commodities and other contracts | 47 | (21) | - | - | - | - | - | - | - | 26 | (4) |
| Activity in the Maof market | - | - | - | - | - | - | - | - | - | - | - |
| Total assets in respect of derivative instruments | 2,917 | (1,013) | - | 567 | - | (37) | - | (4) | - | 2,430 | (47) |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| **Total assets** | 4,885 | (1,098) | 2 | 694 | - | (159) | - | (4) | - | 4,320 | (43) |
| **Liabilities** | | | | | | | | | | | |
| **Liabilities in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 49 | (22) | - | - | - | - | - | 11 | - | 38 | 12 |
| Interest contracts | 1 | (1) | - | - | - | - | - | - | - | - | - |
| Foreign currency contracts | 246 | 47 | - | - | - | - | - | - | - | 293 | 27 |
| Total liabilities in respect of derivative instruments | 296 | 24 | - | - | - | - | - | 11 | - | 331 | 39 |
| Total others | 15 | 1 | - | - | - | - | - | - | - | 16 | 1 |
| **Total liabilities** | 311 | 25 | - | - | - | - | - | 11 | - | 347 | 40 |

## Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (contd.)

| | For the three months ended 30 June 2014 (Unaudited) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Realized and unrealized profits (losses), net, included | | | | | | | | | |
| | Fair value at beginning of the year | In profit and loss statement | In other comprehensive income in equity | Acqui-sitions and issues | Sales | Extinguish-ments | Adjustments from translation of financial statements | Transfers to Level 3 (a) | Transfers from Level 3 (a) | Fair value at 30 June 2014 | Unrealized profits (losses) in respect of instruments held at 30 June 2014 |
| | (NIS millions) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| **Securities available for sale:** | | | | | | | | | | | |
| Foreign government bonds | 6 | (2) | - | - | - | - | - | - | - | 4 | - |
| Bonds of financial institutions in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 121 | (2) | - | - | - | (119) | - | - | - | - | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,513 | (7) | (8) | 313 | - | (63) | - | - | - | 1,748 | - |
| Others in Israel | 9 | 1 | - | - | - | (1) | - | - | - | 9 | - |
| Total bonds available for sale | 1,649 | (10) | (8) | 313 | - | (183) | - | - | - | 1,761 | - |
| Shares available for sale | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds for trading | - | - | - | - | - | - | - | - | - | - | - |
| Shares for trading | - | - | - | - | - | - | - | - | - | - | - |
| **Assets in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts (a) | 117 | (13) | - | - | - | - | - | 6 | - | 110 | 28 |
| Interest contracts (a) | 425 | 79 | - | - | - | (22) | - | - | - | 482 | 68 |
| Foreign currency contracts | 724 | (128) | - | 320 | - | - | - | - | - | 916 | 127 (a) |
| Share contracts | 5 | 27 | - | - | - | - | - | - | - | 32 | 28 |
| Total assets in respect of derivative instruments | 1,271 | (35) | - | 320 | - | (22) | - | 6 | - | 1,540 | 251 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| **Total assets** | 2,920 | (45) | (8) | 633 | - | (205) | - | 6 | - | 3,301 | 251 |
| **Liabilities** | | | | | | | | | | | |
| **Liabilities in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts (a) | 84 | (21) | - | - | - | - | - | 7 | - | 70 | 7 |
| Interest contracts (a) | - | 3 | - | - | - | - | - | - | - | 3 | - |
| Foreign currency contracts | 253 | 21 | - | - | - | - | - | - | - | 274 | 35 |
| Total liabilities in respect of derivative instruments | 337 | 3 | - | - | - | - | - | 7 | - | 347 | 42 |
| Total others | - | 7 | - | - | - | - | - | - | - | 7 | - |
| **Total liabilities** | 337 | 10 | - | - | - | - | - | 7 | - | 354 | 42 |

## Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (contd.)

| | For the six months ended 30 June 2015 (Unaudited) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Realized and unrealized profits (losses), net, included | | | | | | | | | |
| | Fair value at beginning of the year | In profit and loss statement | In other comprehensive income in equity | Acqui-sitions and issues | Sales | Extinguish-ments | Adjustments from translation of financial statements | Transfers to Level 3 (1) | Transfers from Level 3 | Fair value at 30 June 2015 | Unrealized profits (losses) in respect of instruments held at 30 June 2015 |
| | (NIS millions) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| **Securities available for sale:** | | | | | | | | | | | |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 2,009 | (66) | 6 | 222 | (100) | (181) | - | - | - | 1,890 | 9 |
| Total bonds available for sale | 2,009 | (66) | 6 | 222 | (100) | (181) | - | - | - | 1,890 | 9 |
| **Assets in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 145 | (1) | - | - | - | - | - | 5 | - | 149 | 6 |
| Interest contracts | 423 | - | - | - | - | (63) | - | - | - | 360 | (38) |
| Foreign currency contracts | 2,307 | (1,637) | - | 1,080 | - | - | - | - | - | 1,750 | 736 |
| Share contracts | 64 | 81 | - | - | - | - | - | - | - | 145 | 109 |
| Commodities and other contracts | 64 | (38) | - | - | - | - | - | - | - | 26 | 2 |
| Total assets in respect of derivative instruments | 3,003 | (1,595) | - | 1,080 | - | (63) | - | 5 | - | 2,430 | 815 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| **Total assets** | 5,012 | (1,661) | 6 | 1,302 | (100) | (244) | - | 5 | - | 4,320 | 824 |
| **Liabilities** | | | | | | | | | | | |
| **Liabilities in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 41 | (16) | - | - | - | - | - | 13 | - | 38 | 19 |
| Interest contracts | - | - | - | - | - | - | - | - | - | - | - |
| Foreign currency contracts | 110 | 183 | - | - | - | - | - | - | - | 293 | 179 |
| Total liabilities in respect of derivative instruments | 151 | 167 | - | - | - | - | - | 13 | - | 331 | 198 |
| Total others | 11 | 5 | - | - | - | - | - | - | - | 16 | 16 |
| **Total liabilities** | 162 | 172 | - | - | - | - | - | 13 | - | 347 | 214 |

(a) Restated

## Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (contd.)

| | For the six months ended 30 June 2014 (Unaudited) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Realized and unrealized profits (losses), net, included | | | | | | | | | Unrealized profits (losses) in respect of instruments held at 30 June 2014 |
| | Fair value at beginning of the year | In profit and loss statement | In other comprehensive income in equity | Acqui-sitions and issues | Sales | Extinguish-ments | Adjustments from translation of financial statements | Transfers to Level 3 (a) | Transfers from Level 3 (a) | Fair value at 30 June 2014 | |
| | (NIS millions) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| **Securities available for sale:** | | | | | | | | | | | |
| Foreign government bonds | 7 | (2) | - | - | (1) | - | - | - | - | 4 | - |
| Financial institutions in Israel | - | - | - | - | - | - | - | - | - | - | - |
| Financial institutions abroad | 120 | (1) | - | - | - | (119) | - | - | - | - | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,733 | (129) | (9) | 382 | (160) | (69) | - | - | - | 1,748 | 2 |
| Others in Israel | 9 | 1 | - | - | - | (1) | - | - | - | 9 | - |
| Total bonds available for sale | 1,869 | (131) | (9) | 382 | (161) | (189) | - | - | - | 1,761 | 2 |
| **Assets in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 86 | 15 | - | - | - | - | - | 9 | - | 110 | 46 |
| Interest contracts | 391 | 135 | - | - | - | (44) | - | - | - | 482 | 112 |
| Foreign currency contracts | 1,334 | (823) | - | 405 | - | - | - | - | - | 916 | 161 |
| Share contracts | - | 32 | - | - | - | - | - | - | - | 32 | 33 |
| Total assets in respect of derivative instruments | 1,811 | (641) | - | 405 | - | (44) | - | 9 | - | 1,540 | 352 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| **Total assets** | 3,680 | (772) | (9) | 787 | (161) | (233) | - | 9 | - | 3,301 | 354 |
| **Liabilities** | | | | | | | | | | | |
| **Liabilities in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 75 | (15) | - | - | - | - | - | 10 | - | 70 | 13 |
| Interest contracts | - | 3 | - | - | - | - | - | - | - | 3 | 3 |
| Foreign currency contracts | 304 | (30) | - | - | - | - | - | - | - | 274 | (3) |
| Total liabilities in respect of derivative instruments | 379 | (42) | - | - | - | - | - | 10 | - | 347 | 13 |
| Total others | - | 7 | - | - | - | - | - | - | - | 7 | 7 |
| **Total liabilities** | 379 | (35) | - | - | - | - | - | 10 | - | 354 | 20 |

(a) Restated

## Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (contd.)

| | For the year ended 31 December 2014 (Audited) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Realized and unrealized profits (losses), net, included | | | | | | | | | |
| | Fair value at beginning of the year | In profit and loss statement | In other comprehensive income in equity | Acqui-sitions and issues | Sales | Extinguish-ments | Adjustments from translation of financial statements | Transfers to Level 3 | Transfers from Level 3 | Fair value at 31 December 2014 | Unrealized profits (losses) in respect of instruments held at 31 December 2014 |
| | (NIS millions) | | | | | | | | | | |
| **Assets** | | | | | | | | | | | |
| **Securities available for sale:** | | | | | | | | | | | |
| Foreign government bonds | 7 | - | - | - | (7) | - | - | - | - | - | - |
| Financial institutions abroad | 120 | (1) | - | - | - | (119) | - | - | - | - | - |
| Asset-backed (ABS) or mortgage-backed (MBS) bonds | 1,733 | 77 | (5) | 557 | (160) | (192) | (1) | - | - | 2,009 | 289 |
| Others in Israel | 9 | - | - | - | - | (9) | - | - | - | - | - |
| Total bonds available for sale | 1,869 | 76 | (5) | 557 | (167) | (320) | (1) | - | - | 2,009 | 289 |
| Shares available for sale | - | - | - | - | - | - | - | - | - | - | - |
| Total bonds for trading | - | - | - | - | - | - | - | - | - | - | - |
| Shares for trading | - | - | - | - | - | - | - | - | - | - | - |
| **Assets in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 86 | 18 | - | - | - | - | - | 41 | - | 145 | 88 |
| Interest contracts | 391 | 137 | - | - | - | (105) | - | - | - | 423 | 73 |
| Foreign currency contracts | 1,334 | (622) | - | 1,595 (b) | - | - | - | - | - | 2,307 | 1,273 (a) |
| Share contracts | - | 64 | - | - | - | - | - | - | - | 64 | 64 |
| Commodities and other contracts | - | 64 | - | - | - | - | - | - | - | 64 | 64 |
| Total assets in respect of derivative instruments | 1,811 | (339) | - | 1,595 | - | (105) | - | 41 | - | 3,003 | 1,562 |
| Total others | - | - | - | - | - | - | - | - | - | - | - |
| **Total assets** | 3,680 | (263) | (5) | 2,152 | (167) | (425) | (1) | 41 | - | 5,012 | 1,851 |
| **Liabilities** | | | | | | | | | | | |
| **Liabilities in respect of derivative instruments:** | | | | | | | | | | | |
| Shekel-index contracts | 75 | (71) | - | - | - | - | - | 37 | - | 41 | 38 |
| Foreign currency contracts | 304 | (194) | - | - | - | - | - | - | - | 110 | (181) |
| Total liabilities in respect of derivative instruments | 379 | (265) | - | - | - | - | - | 37 | - | 151 | (143) |
| Total others | - | 11 | - | - | - | - | - | - | - | 11 | 11 |
| **Total liabilities** | 379 | (254) | - | - | - | - | - | 37 | - | 162 | (132) |

# 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 June 2015

## A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

| | 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) | 1,890 | Discounting cash flows | Margin | 70-160 bp | 115 bp |
| | | | Probability of default | 2.5%-6% | 4.25% |
| | | | Rate of early repayment | 20% | 20% |
| | | | Loss rate | 30% | 30% |
| **Assets in respect of derivative instruments (2)** | | | | | |
| Shekel-index interest contracts | 80 | Discounting cash flows | Inflationary expectations | 0.2%-0.9% | 0.55% |
| | 69 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.00% |
| Interest contracts | 360 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.00% |
| Foreign currency contracts | 161 | Discounting cash flows | Inflationary expectations | 0.2%-0.9% | 0.55% |
| | 1,589 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.00% |
| Share contracts | 145 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.00% |
| Commodities contracts | 26 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 2.00% |
| **Liabilities** | | | | | |
| **Liabilities in respect of derivative instruments (2)** | | | | | |
| Interest contracts | 38 | Discounting cash flows | Inflationary expectations | 0.2%-0.9% | 0.55% |
| Foreign currency contracts | 293 | Discounting cash flows | Inflationary expectations | 0.2%-0.9% | 0.55% |
| **B. Items measured for fair value on a non-recurring basis** | | | | | |
| Collateral-contingent impaired debt | 1,312 | Fair value of collateral | | | |

* In respect of a failed counterparty.

## B. Qualitative information regarding Level 3 fair value measurement

1. 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.
2. 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).
3. 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 (contd.)

### As at 30 June 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) | 1,748 | Discounting cash flows | Margin<br>Probability of default<br>Rate of early repayment<br>Loss rate | 70-230 bp<br>2.5%-6%<br>20%<br>30%-40% | 162 bp<br>4.25%<br>20%<br>35% |
| **Assets in respect of derivative instruments (2)** | | | | | |
| Shekel-index interest contracts | 83 | Discounting cash flows | Inflationary expectations | 0.1%-1.08% | 0.59% |
| | 27 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.96% |
| Interest contracts | 482 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.96% |
| Foreign currency contracts | 255 | Discounting cash flows | Inflationary expectations | 0.1%-1.08% | 0.59% |
| | 661 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.96% |
| Share contracts | 32 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.96% |
| **Liabilities** | | | | | |
| **Liabilities in respect of derivative instruments (2)** | | | | | |
| Interest contracts | 70 | Discounting cash flows | Inflationary expectations | 0.1%-1.08% | 0.59% |
| Foreign currency contracts | 274 | Discounting cash flows | Inflationary expectations | 0.1%-1.08% | 0.59% |
| **B. Items measured for fair value on a non-recurring basis** | | | | | |
| Collateral-contingent impaired debt | 1,733 | Fair value of collateral | | | |

* In respect of a failed counterparty.

### B. Qualitative information regarding Level 3 fair value measurement

1. 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.
2. 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).
3. 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 (contd.)

### As at 31 December 2014

### 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) | 2,009 | Discounting cash flows | Margin<br>Probability of default<br>Rate of early repayment<br>Loss rate | 70-160 bp<br>2.5%-6%<br>20%<br>30% | 115 bp<br>4.25%<br>20%<br>30% |
| **Assets in respect of derivative instruments (2)** | | | | | |
| Shekel-index interest contracts | 89 | Discounting cash flows | Inflation forecasts | 0.1%-0.39% | 0.25% |
| | 56 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.69% |
| Interest contracts | 423 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.69% |
| Foreign currency contracts | 178 | Discounting cash flows | Inflation forecasts | 0.1%-0.39% | 0.25% |
| | 2,129 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.69% |
| Share contracts | 64 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.69% |
| Commodities contracts | 64 | Discounting cash flows | Transaction counterparty risk | 0.03%-100%(*) | 1.69% |
| **Liabilities** | | | | | |
| **Liabilities in respect of derivative instruments (2)** | | | | | |
| Shekel-index interest contracts | 41 | Discounting cash flows | Inflation forecasts | 0.1%-0.39% | 0.25% |
| Foreign currency contracts | 110 | Discounting cash flows | Inflation forecasts | 0.1%-0.39% | 0.25% |
| **B. Items measured for fair value on a non-recurring basis** | | | | | |
| Collateral-contingent impaired debt | 1,518 | Fair value of collateral | | | |

* In respect of a failed counterparty.

### B. Qualitative information regarding fair value measurement in Level 3

1. 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.
2. 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).
3. 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 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | (Unaudited) | | | |
| | (NIS millions) | | | |
| **A. Interest income (a)** | | | | |
| From credit to the public | **2,659** | 2,543 | **4,006** | 4,481 |
| From credit to governments | **6** | 6 | **7** | 9 |
| From deposits with Bank of Israel and cash | **9** | 41 | **26** | 87 |
| From deposits with banks | **25** | 21 | **45** | 34 |
| From securities borrowed or purchased under agreement to resell | **-** | 3 | **2** | 7 |
| From debentures (b) | **119** | 198 | **234** | 395 |
| Total interest income | **2,818** | 2,812 | **4,320** | 5,013 |
| **B. Interest expenses (a)** | | | | |
| On deposits of the public | **(442)** | (536) | **(456)** | (844) |
| On deposits from governments | **(1)** | (1) | **(2)** | (3) |
| On deposits from banks | **(4)** | (11) | **(7)** | (18) |
| On securities lent or sold under agreement to repurchase | **-** | (3) | **(2)** | (5) |
| On debentures, bonds and subordinated notes | **(371)** | (356) | **(337)** | (481) |
| Total interest expenses | **(818)** | (907) | **(804)** | (1,351) |
| Total interest income, net | **2,000** | 1,905 | **3,516** | 3,662 |
| **C. Details of the net effect of hedging derivative instruments interest income and expenses** | | | | |
| Interest income | **(13)** | (10) (c) | **(21)** | (21) (c) |
| Interest expenses | **-** | - | **-** | - |
| **D. Details of accumulated interest income from bonds** | | | | |
| Available for sale | **88** | 162 | **193** | 341 |
| For trading | **31** | 36 | **41** | 54 |
| Total included in interest income | **119** | 198 | **234** | 395 |

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 66 million and NIS 97 million for the three month and six month period ended on 30 June 2015, respectively, NIS (39) million and NIS 57 million for the three month and six month period ended on 30 June 2014 , respectively.

(c) Restated.

## Note 10 – Non-interest financing income

| | For the three months ended 30 June | | For the six months ended 30 June | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| | (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) | **-** | 2 | **-** | 3 |
| Net income (expense) from ALM derivative instruments (b) | **(643)** | (429) | **(974)** | (314) |
| Total from activity in derivative instruments | **(643)** | (427) | **(974)** | (311) |
| **A.2. From investment in bonds** | | | | |
| Profits from sale of bonds available for sale (f) | **16** | 35 | **127** | 117 |
| Losses from sale of bonds available for sale (f) | **(1)** | - | **(8)** | - |
| Total from investment in bonds | **15** | 35 | **119** | 117 |
| **A.3. Exchange rate differentials, net** | **852** | 436 | **1,104** | 304 |
| **A.4. Profits (losses) from investment in shares** | | | | |
| Profits from sale of shares available for sale (c) (f) | **38** | 36 | **567** | 174 |
| Losses from sale of shares available for sale (f) | **(5)** | (5) | **(32)** | (16) |
| Profit from sale of shares in companies included on equity basis | **-** | - | **522** | - |
| Dividend from shares available for sale | **7** | 4 | **8** | 6 |
| Losses from sale of shares in companies included on equity basis | **-** | - | **-** | - |
| Total from investment in shares | **40** | 35 | **1,065** | 164 |
| **A.5. Profits in respect of loans sold** | **-** | - | **-** | - |
| **Total non-interest financing income in respect of activities not for trading purposes** | **264** | 79 | **1,314** | 274 |
| **B. Non-interest financing income in respect of activities not for trading purposes** | | | | |
| Income (expenses) net in respect of other derivative instruments | **-** | 17 | **-** | 4 |
| Realized and unrealized profits (losses) from fair value adjustments of bonds held for trading, net (d) | **(310)** | 73 | **(103)** | 230 |
| Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net (e) | **(59)** | 3 | **3** | (13) |
| **Total from trading activities (g)** | **(369)** | 93 | **(100)** | 221 |
| **Total non-interest financing income in respect of activities not for trading purposes** | **(105)** | 172 | **1,214** | 495 |

See notes on next page.

## Note 10 – Non-interest financing income (contd.)

**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) 30 June 2015: Including mainly profit from the sale of Mobileye and Safra Fund in the amount of NIS 288 million and NIS 52 million, respectively, in the first quarter of 2015. There were no material sales in the second quarter of 2015.
30 June 2014: Including mainly profit from the sale of Partner and Tower in the amount of NIS 70 million and NIS 39 million, respectively, in the first quarter of 2014. Including mainly profit from the sale of Tower and Electra in the amount of NIS 22 million and NIS 17 million, respectively, in the second quarter of 2014.

(d) Of which for the six month period, part of the profits (losses) in the amount of NIS 94 million (30 June 2014 – NIS 69 million) related to bonds held for trading still held at the balance sheet date.
Of which for the three month period, part of the profits (losses) in the amount of NIS 120 million (30 June 2014 – NIS 48 million) related to bonds held for trading still held at the balance sheet date.

(e) Of which for the six month period, part of the profits (losses) in the amount of NIS 41 million (30 June 2014 – NIS 20 million) related to shares held for trading still held at the balance sheet date.
Of which for the three month period, part of the profits (losses) in the amount of NIS 86 million (30 June 2014 – NIS 8 million) related to shares held for trading still held at the balance sheet date.

(f) Reclassified from accumulated other comprehensive income.

(g) For interest income from the investment in bonds for trading, see Note 8.

# Note 11 - Operating Segments

| | For the three months ended 30 June 2015 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Household segment | Small business segment | Private banking segment | Commercial segment | Corporate segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income, net - from outside entities | **1,069** | **304** | **(13)** | **455** | **525** | **(340)** | **-** | **2,000** |
| Non-interest income - from outside entities | **422** | **140** | **105** | **133** | **68** | **71** | **44** | **983** |
| Intersegmental income (expenses) | **(398)** | **(53)** | **58** | **(108)** | **(127)** | **636** | **(8)** | **-** |
| Total income | **1,093** | **391** | **150** | **480** | **466** | **367** | **36** | **2,983** |
| Expenses (income) in respect of credit losses | **51** | **40** | **(11)** | **(22)** | **(32)** | **(14)** | **-** | **12** |
| Net profit (loss) attributable to shareholders of the banking corporation | **15** | **73** | **(37)** | **134** | **199** | **115** | **19** | **518** |

| | For the three months ended 30 June 2014 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Household segment | Small business segment | Private banking segment | Commercial segment | Corporate segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income (expenses), net - from outside entities | 874 | 302 | (1) | 411 (a) | 550 | (231) (a) | - | 1,905 |
| Non-interest income (expenses) - from outside entities | 408 | 134 | 152 | 74 (b) | 105 | 352 (b) | 33 | 1,258 |
| Intersegmental income (expenses) | (175) | (54) | 82 | (18) | (162) | 334 | (7) | - |
| Total income | 1,107 | 382 | 233 | 467 | 493 | 455 | 26 | 3,163 |
| Expenses (income) in respect of credit losses | 83 | 31 | - | 7 | (127) | (10) | - | (16) |
| Net profit (loss) attributable to shareholders of the banking corporation | 69 | 87 | (496) | 147 | 277 | 19 | 126 | 229 |

(a) Reclassified.
(b) Restated pursuant to retroactive implementation of generally accepted accounting principles in US banks regarding employee rights – see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks regarding the capitalization of in-house software development costs – see Note 1.C.2.

## Note 11 - Operating Segments (contd.)

| | **For the six months ended 30 June 2015 (Unaudited)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Household segment | Small business segment | Private banking segment | Commercial segment | Corporate segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income, net - from outside entities | **1,468** | **568** | **18** | **848** | **798** | **(184)** | **-** | **3,516** |
| Non-interest income (expenses) - from outside entities | **838** | **282** | **244** | **263** | **24** | **1,692** | **65** | **3,408** |
| Intersegmental income (expenses) | **(128)** | **(65)** | **88** | **(137)** | **96** | **166** | **(20)** | **-** |
| Total income | **2,178** | **785** | **350** | **974** | **918** | **1,674** | **45** | **6,924** |
| Expenses (income) in respect of credit losses | **94** | **57** | **5** | **(75)** | **51** | **(39)** | **-** | **93** |
| Net profit (loss) attributable to shareholders of the banking corporation | **44** | **163** | **(73)** | **291** | **333** | **876** | **66** | **1,700** |

| | For the six months ended 30 June 2014 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Household segment | Small business segment | Private banking segment | Commercial segment | Corporate segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income (expenses), net - from outside entities | 1,470 | 584 | 12 | 790 (a) | 977 | (171) (a) | - | 3,662 |
| Non-interest income (expenses) - from outside entities | 815 | 267 | 289 | 236 (b) | 265 | 730 (b) | 50 | 2,652 |
| Intersegmental income (expenses) | (74) | (88) | 142 | (90) | (250) | 373 | (13) | - |
| Total income | 2,211 | 763 | 443 | 936 | 992 | 932 | 37 | 6,314 |
| Expenses (income) in respect of credit losses | 121 | 50 | (1) | (21) | (214) | (2) | - | (67) |
| Net profit (loss) attributable to shareholders of the banking corporation | 124 | 172 | (519) | 295 | 544 | 103 | 101 | 820 |

(a) Reclassified.

(b) Restated pursuant to retroactive implementation of generally accepted accounting principles in US banks regarding employee rights – see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks regarding the capitalization of in-house software development costs – see Note 1.C.2.

# Note 11 - Operating Segments (contd.)

| | For the year ended 31 December 2014 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Household segment | Small business segment | Private banking segment | Commercial segment | Corporate segment | Financial management segment | Other segment | Total consolidated |
| | (NIS millions) | | | | | | | |
| Interest income (expenses), net - from outside entities | 3,057 | 1,170 | (8) | 1,630 (a) | 1,936 | (422) (a) | - | 7,363 |
| Non-interest income - from outside entities | 1,639 | 548 | 567 | 463 (b) | 1,137 | 720 (b) | 67 | 5,141 |
| Intersegmental income (expenses) | (249) | (170) | 320 | (144) | (1,048) | 1,254 | 37 | - |
| Total income | 4,447 | 1,548 | 879 | 1,949 | 2,025 | 1,552 | 104 | 12,504 |
| Expenses (income) in respect of credit losses | 407 | 182 | 14 | 153 | (489) | 205 | - | 472 |
| Net profit (loss) attributable to shareholders of the banking corporation | 144 | 292 | (923) | 474 | 1,169 | 323 | (66) | 1,413 |

(a) Reclassified.

(b) Restated pursuant to retroactive implementation of generally accepted accounting principles in US banks regarding employee rights – see Note 1.C.1, and retroactive implementation of the letter of the Supervisor of Banks regarding the capitalization of in-house software development costs – see Note 1.C.2.

# Note 12 – Accumulated Other Comprehensive Income (Loss)

## A. Changes in accumulated other comprehensive income (loss), after effect of tax

### 1.A Changes in accumulated other comprehensive income (loss) for the three month period ended 30 June 2015 and 2014

| | 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 | Adjustments in respect of employee benefits (c) | Total | Other comprehensive income attributed to non-controlling interests | Other comprehensive income attributed to shareholders of the Bank |
| | (NIS millions) | | | | | | |
| Balance at 31 March 2014 | 133 | (299) | 85 | (953) | (1,034) | (3) | (1,031) |
| Net change in the period | 38 | (35) | 13 | 47 | 63 | (1) | 64 |
| Balance at 30 June 2014 | 171 | (334) | 98 | (906) | (971) | (4) | (967) |
| **Balance at 31 March 2015** | 749 | (25) | 47 | (2,685) | (1,914) | (3) | (1,911) |
| Net change in the period | **(223)** | **(71)** | **(8)** | **1,412** | **1,110** | **(4)** | **1,114** |
| **Balance at 30 June 2015** | **526** | **(96)** | **39** | **(1,273)** | **(804)** | **(7)** | **(797)** |

(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.

(c) As of 1 January 2015 the Bank implements US GAAP in the accounting treatment of employee rights. The new rules were implemented retroactively from 1 January 2013. Comparative figures for previous periods have been restated. See Note 1.C.1.

## Note 12 – Accumulated Other Comprehensive Income (Loss) (contd.)

### A. Changes in accumulated other comprehensive income (loss), after effect of tax (contd.)

### 1.B Changes in accumulated other comprehensive income (loss) for the six month period ended 30 June 2015 and 2014

| | 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 | Adjustments in respect of employee benefits (c) | 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 | (314) | 100 | (1,020) | (1,055) | (4) | (1,051) |
| Net change in the period | (8) | (20) | (2) | 114 | 84 | - | 84 |
| Balance at 30 June 2014 | 171 | (334) | 98 | (906) | (971) | (4) | (967) |
| **Balance at 31 December 2014** | 394 | (65) | 22 | (1,904) | (1,553) | (4) | (1,549) |
| Net change in the period | **132** | **(31)** | **17** | **631** | **749** | **(3)** | **752** |
| **Balance at 30 June 2015** | **526** | **(96)** | **39** | **(1,273)** | **(804)** | **(7)** | **(797)** |

(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.

(c) As of 1 January 2015 the Bank implements US GAAP in the accounting treatment of employee rights. The new rules were implemented retroactively from 1 January 2013. Comparative figures for previous periods have been restated. See Note 1.C.1.

# Note 12 – Accumulated Other Comprehensive Income (Loss) (contd.)

## A. Changes in accumulated other comprehensive income (loss), after effect of tax (contd.)

### 1.C Changes in accumulated other comprehensive income (loss) for the years 2013 and 2014

| | 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 | Adjustments in respect of employee benefits (c) | Total | Other comprehensive income attributed to non-controlling interests | Other comprehensive income attributed to shareholders of the Bank |
| | (NIS millions) | | | | | | |
| Balance at 1 January 2013 | 494 | (149) | 112 | - | 457 | (1) | 458 |
| Effect of first-time implementation of US GAAP on employee rights | - | - | - | (725) | (725) | - | (725) |
| Balance at 1 January 2013 after first-time implementation of US GAAP on employee rights | 494 | (149) | 112 | (725) | (268) | (1) | (267) |
| Net change in the period | (315) | (165) | (12) | (295) | (787) | (3) | (784) |
| Balance at 31 December 2013 | 179 | (314) | 100 | (1,020) | (1,055) | (4) | (1,051) |
| Net change in the period | 215 | 249 | (78) | (884) | (498) | - | (498) |
| Balance at 31 December 2014 | 394 | (65) | 22 | (1,904) | (1,553) | (4) | (1,549) |

(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.

(c) As of 1 January 2015 the Bank implements US GAAP in the accounting treatment of employee rights. The new rules were implemented retroactively from 1 January 2013. Comparative figures for previous periods have been restated. See Note 1.C.1.

# Note 12 – Accumulated Other Comprehensive Income (Loss) (contd.)

## B. Changes in accumulated other comprehensive income (loss), before and after effect of tax (c)

| | For the three months ended 30 June | | | | | | For the six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | | | 2014 | | | **2014** | | | 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 |
| | (Unaudited) | | | | | | | | | | | |
| | (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** | | | | | | | | | | | | |
| Unrealized profits (losses) from adjustments to fair value | (218) | 27 | (191) | 129 | (46) | 83 | 937 | (353) | 584 | 330 | (124) (a) | 206 |
| (Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss | (48) | 16 | (32) | (66) | 21 | (45) | (654) | 202 | (452) | (275) | 61 (a) | (214) |
| **Net change in the period** | (266) | 43 | (223) | 63 | (25) | 38 | 283 | (151) | 132 | 55 | (63) | (8) |
| **Translation adjustments (a)** | | | | | | | | | | | | |
| Adjustments for translation of financial statements | (144) | - | (144) | (63) (d) | - (d) | (63) | (73) | - | (73) | (42) | 10 (d) | (32) |
| Hedges (b) | 117 | (44) | 73 | 45 | (17) | 28 | 67 | (25) | 42 | 24 | (12) | 12 |
| **Net change in the period** | (27) | (44) | (71) | (18) | (17) | (35) | (6) | (25) | (31) | (18) | (2) | (20) |
| **Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method** | (8) | - | (8) | 14 (d) | (1) (d) | 13 | 12 | 5 | 17 | 7 (d) | (9) (d) | (2) |
| **Net change in the period** | (8) | - | (8) | 14 | (1) | 13 | 12 | 5 | 17 | 7 | (9) | (2) |
| **Employee benefits (c)** | | | | | | | | | | | | |
| Actuarial loss (profit) in the period | 2,209 | (826) | 1,383 | 67 | (28) | 39 | 896 | (332) | 564 | 161 | (62) | 99 |
| Amortization of actuarial profit (loss) | 47 | (18) | 29 | 13 | (5) | 8 | 108 | (41) | 67 | 24 | (9) | 15 |
| **Net change in the period** | 2,256 | (844) | 1,412 | 80 | (33) | 47 | 1,004 | (373) | 631 | 185 | (71) | 114 |
| **Total net change in the period** | 1,955 | (845) | 1,110 | 139 | (76) | 63 | 1,293 | (544) | 749 | 229 | (145) | 84 |
| **Changes in components of other comprehensive income (loss) attributed to non-controlling interests:** | | | | | | | | | | | | |
| **Total net change in the period** | (4) | - | (4) | (1) | - | (1) | (3) | - | (3) | - | - | - |
| **Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:** | | | | | | | | | | | | |
| **Total net change in the period** | 1,959 | (845) | 1,114 | 140 | (76) | 64 | 1,296 | (544) | 752 | 229 | (145) | 84 |

(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.

(c) As of 1 January 2015 the Bank implements US GAAP in the accounting treatment of employee rights. The new rules were implemented retroactively from 1 January 2013. Comparative figures for previous periods have been restated. See Note 1.C.1.

(d) Reclassified.

# Note 12 – Accumulated Other Comprehensive Income (Loss) (contd.)

## B. Changes in accumulated other comprehensive income (loss), before and after effect of tax (c) (contd.)

| | For the year ended 31 December 2014 | | | For the year ended 31 December 2013 | | |
|---|---|---|---|---|---|---|
| | Before tax | Tax effect | After tax | Before tax | Tax effect | After tax |
| | (Unaudited) (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** | | | | | | |
| Unrealized profits (losses) from adjustments to fair value | 1,002 | (273) | 729 | 229 | 2 | 231 |
| (Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss | (647) | 133 | (514) | (747) | 201 | (546) |
| **Net change in the period** | 355 | (140) | 215 | (518) | 203 | (315) |
| **Translation adjustments (a)** | | | | | | |
| Adjustments for translation of financial statements | 459 | (41) | 418 | (318) | 23 | (295) |
| Hedges (b) | (267) | 98 | (169) | 203 | (73) | 130 |
| **Net change in the period** | 192 | 57 | 249 | (115) | (50) | (165) |
| **Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method** | (108) | 30 | (78) | (6) | (6) | (12) |
| **Net change in the period** | (108) | 30 | (78) | (6) | (6) | (12) |
| **Employee benefits (c)** | | | | | | |
| Actuarial loss (profit) in the period | (1,439) | 521 | (918) | (499) | 194 | (305) |
| Amortization of actuarial profit (loss) | 55 | (21) | 34 | 16 | (6) | 10 |
| **Net change in the period** | (1,384) | 500 | (884) | (483) | 188 | (295) |
| **Total net change in the period** | (945) | 447 | (498) | (1,122) | 335 | (787) |
| **Changes in components of other comprehensive income (loss) attributed to non-controlling interests:** | | | | | | |
| **Total net change in the period** | - | - | - | (3) | - | (3) |
| **Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:** | | | | | | |
| **Total net change in the period** | (945) | 447 | (498) | (1,119) | 335 | (784) |

(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.

(c) As of 1 January 2015 the Bank implements US GAAP in the accounting treatment of employee rights. The new rules were implemented retroactively from 1 January 2013. Comparative figures for previous periods have been restated. See Note 1.C.1.

## Note 13 – Events after the balance sheet date

**The Israel Corporation Ltd.**

On 3 August 2015, the Bank sold 400,000 shares of the Israel Corporation Ltd. to several entities at the price of NIS 1,250 per share, for a total consideration of about NIS 500 million. The shares sold represent 5.2% of the issued and paid-up share capital of the Israel Corporation. The sale is expected to give the Bank a profit, before the effect of tax, of about NIS 290 million, which is expected to be included in the financial statements for the third quarter of 2015.

**Bond issue**

On 28 May 2015, The Bank published a shelf prospectus pursuant to the permit received from the Israel Securities Authority.

On 19 July 2015, the Bank, pursuant to the shelf prospectus published on 28 May 2015, issued the amount of NIS 2.85 billion of Series 177 and 178 bonds as detailed below:

Series 177 bonds in the amount of NIS 1,700,000,000 par value repayable in one payment on 30 June 2020, principal and interest linked to the Consumer Price Index, bearing annual interest of 0.59% per annum, which will be paid twice a year on 30 June in the years 2016 to 2020 (inclusive) and on 31 December in the years 2016 to 2019 (inclusive).

Series 178 bonds in the amount of NIS 1,150,000,000 par value repayable in one payment on 31 March 2024, unlinked (principal and interest) to any index, bearing annual interest of 3.01% per annum, which will be paid twice a year on 31 March in the years 2016 to 2024 (inclusive) and on 30 September in the years 2016 to 2023 (inclusive).

The bonds are not recognized for purposes of regulatory capital.

**Merger between the Bank and Arab Israel Bank Ltd. ("the Arab Israel Bank")**

On 4 May 2015, the Board of Directors of the Bank approved the execution of the Bank's merger with Arab Israel Bank. On 4 May 2015, the Board of Directors of Arab Israel Bank approved the execution of the aforesaid merger. The merger is expected to be effected on 31 December 2015.

Pursuant to the merger agreement, Arab Israel Bank, which is an almost wholly-owned subsidiary of the Bank, will be merged within the Bank.

Aims of the merger:

The merger is intended for business and economy purposes, and it will enable Leumi Group to strengthen the group synergy between retail and commercial activity, and to bring about, *inter alia*, a saving in expenses and streamlining of the allocation of resources in Leumi Group, a saving in administrative time and operating costs, and an improvement in response times, as well as the control and ability to review the activity of the merged company. The expected synergy has the potential to create value in all operating, strategic, organizational and financial aspects.

The process will create an advantage for customers of the Arab Israel Bank, who are among Leumi Group customers, and will enable the abovementioned customers to be granted a value proposal in accordance with all of their needs, *inter alia*, in light of the improvement in the level of products offered to the customer, placing an emphasis on providing the customer with a varied and broad basket of services. In addition, the merger will significantly increase the customers' accessibility to the Bank's branches in view of the wide dispersal of Bank Leumi branches throughout Israel and will improve the level of service which Leumi Group can provide for these customers, while minimizing expenses.

In the context of the merger, the employees of the Arab Israel Bank will be absorbed as employees of the Bank, and all of the assets and liabilities of the Arab Israel Bank will be transferred to the Bank.

On 14 May 2015, the merger agreement was signed, in which it was provided, *inter alia*, that all minority shareholders in the Arab Israel Bank will have a right to receive from Bank Leumi cash payment in new Israeli shekels in an amount no exceeding NIS 1609.36 per share, less taxes, as required by law. On 26 May 2015, a general meeting of the shareholders of the Arab Israel Bank was held. The general meeting approved the merger with a majority of 99.72% of the share capital and voting rights. The minority shareholders holding 0.28% of the share capital and voting rights in the Arab Israel Bank opposed the merger. As a result, the Bank submitted a request to the District Court in Tel Aviv – Economy Department to approve the merger in accordance with the provisions of Section 321 of the Companies Law. The execution of the merger is subject to the decision of the court to approve the merger, despite the objection of minority shareholders.