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

Condensed Financial Statements as at 30 September 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 November 2015

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

Index

	Page
1. Directors' Report	
A. General Developments in the Group's Business	
- Description of Leumi Group's Business Activities and their General Development	3
- Control of the Bank	7
- Capital Resources, Capital Adequacy and Transactions in the Shares of the Bank	9
B. Other Information	
- Principal Developments in the Economy	14
- General Environment and Effect of External Factors on Activity	18
- Accounting Policy on Critical Matters	37
C. Description of the Group's Business by Segments and Areas of Activity	
- Development of Income, Expenses and Tax Provision	40
- Structure and Development of Assets and Liabilities	54
- Operating Segments in the Group	54
- Activities of Major Investee Companies	103
- Activities of Companies Included on Equity Basis	105
- Risk Exposure and Risk Management	106
- Linkage Status and Liquidity Position	123
- Legal Proceedings	126
D. Additional Matters	
- Leumi for the Community	129
- Internal Auditor	130
- Controls and Procedures	131
- Organizational Structure and Appointments	132
- Board of Directors	134
2. Management Review	
- Rates of Income and Expenses	135
- Exposure to Interest Rate Fluctuations	142
- Total Credit Risk to the Public by Economic Sector	147
- Exposure to Foreign Countries	153
3. Certification of the President and Chief Executive Officer	157
Certification of the Head of the Finance Division	158
Certification of the Chief Accounting Officer	159
4. Condensed Financial Statements	
- Joint Auditors' Review Report	160
- Condensed Consolidated Balance Sheet	161
- Condensed Consolidated Statement of Profit and Loss	162
- Condensed Statement of Comprehensive Income	163
- Condensed Consolidated Statement of Changes in Equity	164
- Condensed Consolidated Statement of Cash Flows	170
- Notes to the Condensed Consolidated Financial Statements	173

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 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 1,195 billion at the end of September 2015, compared with NIS 1,223 billion at the end of 2014, a decrease of 2.3%. 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 overseas offices 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 September 2015	30 September 2014	31 December 2014
	NIS millions		
Total assets (total balance sheet)	**408,524**	380,382 (a)	396,984 (a)
Credit to the public, net	**260,009**	249,481	252,480
Securities	**67,545**	46,058	52,113
Cash and deposits in banks	**52,562**	54,612	60,615
Investment in companies included on equity basis	**948**	2,062	2,216
Deposits of the public	**317,991**	286,632	303,397
Debentures, notes, and subordinated notes	**22,187**	23,932	23,678
Equity attributable to shareholders of the banking corporation	**28,575**	26,709	25,798

(a) Restated as a result of the retroactive implementation of U.S. generally accepted accounting principles regarding employee rights and the instructions of the Banking Supervision Department regarding the discounting of software costs. For further information, see Note 1C to the financial statements.

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

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2015	2014	**2015**	2014	2014
	NIS millions				
Interest income, net	**1,875**	1,899	**5,391**	5,561	7,363
Expenses (income) in respect of credit losses	**73**	56	**166**	(11)	472
Total non-interest income	**1,344**	1,275	**4,752**	3,927	5,141
Of which: commissions	**1,013**	1,033	**3,099**	3,113	4,167
Total operating and other expenses	**2,121**	2,484 (a	**6,518**	7,298 (a)	9,371 (a)
Of which: Salary expenses	**1,360**	1,283 (a)	**4,123**	4,019 (a)	5,151 (a)
Expenses related to the investigation in respect of overseas customers	**-**	480	**25**	1,009	1,026
Profit before taxes	**1,025**	634	**3,459**	2,201	2,661
Provision for taxes	**327**	332	**1,189**	1,034	1,278
Net profit for the period attributed to shareholders of the banking corporation	**704**	636 (a)	**2,404**	1,456 (a)	1,413 (a)
Net profit per share attributed to shareholders of the banking corporation (in NIS)	**0.48**	0.43	**1.63**	0.99	0.96
Total profit for the period attributed to shareholders of the banking corporation	**302**	1,014	**2,754**	1,918	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 to the financial statements.

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

	30 September 2015	30 September 2014 (f)	31 December 2014 (f)
Credit to the public, net, to total balance sheet	**63.6**	65.6	63.6
Securities to total balance sheet	**16.5**	12.1	13.1
Deposits of the public to total balance sheet	**77.8**	75.4	76.4
Deposits of the public to total credit, net	**122.3**	114.9	120.2
Total capital to risk components (a)	**13.63**	14.02	13.90
Tier I capital to risk components	**9.30**	9.22	9.09
Leverage ratio (g)	**6.34**	-	-
Liquidity coverage ratio (g)	**104**	-	-
Capital attributable to shareholders of the Bank to total assets	**7.0**	7.0	6.5
Net profit to average capital to shareholders of the Bank (c)	**11.9**	7.7	5.4
Rate of provision for tax on the profit before taxes	**34.4**	47.0	48.0
Expenses (income) in respect of credit losses to credit to the public, net (c)	**0.09**	-	0.19
Of which: expenses in respect of collective allowance to net credit to the public (c)	**0.19**	0.13	0.22
Expenses (income) in respect of credit losses to total credit risk to the public (c)	**0.06**	-	0.12
Net interest income to total balance sheet (c)	**1.76**	1.95	1.85
Total income to total balance sheet (b) (c)	**3.32**	3.34	3.15
Total income to total assets managed by the Group (b) (c) (d)	**1.13**	1.03	1.02
Total operating and other expenses to total balance sheet (c)	**2.13**	2.57	2.36
Total operating and other expenses to total assets managed by the Group (c) (d)	**0.73**	0.79	0.77
Net profit to average total assets (c) (e)	**0.79**	0.51	0.40
Interest margin	**1.88**	2.01	1.87
Operating and other expenses to total income (b)	**64.3**	76.9	74.9
Non-interest income to operating and other expenses	**72.9**	53.8	54.9
Non-interest income to total income (b)	**46.9**	41.4	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 non-interest 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 September 2015 are an increase in liabilities for employee rights and a corresponding decrease in the Bank's (net) accounting capital of NIS 1,245 million. This decrease in capital, pursuant to the transitional provisions, also impacted the regulatory capital.

For details of the effect of implementing the new 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 nine months of 2015 increased significantly (65.1%), compared with the net profit reported in the corresponding period last year. The reported profit in the first nine months was materially influenced by the exceptional profit on the sale of the shares in the Israel Corporation which was recorded in the first quarter and third quarter of the year amounting to NIS 638 million, net of tax (NIS 811 million before the effect of tax), compared with profits from the sale of investments by the Israel Corporation amounting to NIS 342 million last year, which were recorded in profits from companies included on equity basis. In addition, the reported results last year were influenced by the expenses in respect of the arrangements with overseas authorities. In calculating the proforma, we also adjusted the results of the yield bonus relating to each of these items. The profit for the periods, excluding the abovementioned effects are as follows[1]:

	For the nine months ended 30 September	
	2015	2014
Net profit reported	**2,404**	1,456
Return on capital reported	**11.9%**	7.7%
Profit from the sale of shares of the Israel Corporation	**638**	-
Profits from sale of investments by the Israel Corporation	**-**	342
Expenses in respect of arrangements with overseas authorities	**(25)**	(1,009)
Adjustment of yield bonus to proforma profit	**(116)**	108
Proforma net profit	**1,907**	2,015
Proforma yield	**9.4%**	10.7%
Reported efficiency ratio	**64.3%**	76.9%
Proforma efficiency ratio	**68.3%**	67.4%

As may be seen in the above table, the proforma net profit for the nine months decreased by NIS 108 million (at a rate of 5.4%) between the periods. The main factors responsible for the decrease in this profit were:

1. A decrease in net interest income amounting to NIS 170 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 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 177 million, before the effect of tax, after the first nine months of 2014, in which the Group had income from credit losses amounting to NIS 11 million. The rate of expenses in respect of credit losses out of credit to the public, which was reported in the first nine months of 2015, was 0.09%.

The net profit for the third quarter of 2015 amounted to NIS 704 million compared with NIS 636 million in the corresponding period last year. The increase in profit derives from an increase in noninterest financial income amounting to NIS 101 million, as a result of the sale of shares in the Israel Corporation amounting to NIS 289 million in the third quarter of 2015, compared with the sale of shares in Mobileye last year amounting to NIS 144 million and a decrease in operating and other expenses amounting to NIS 403 million as a result of the recording of expenses in respect of the arrangements with overseas authorities amounting to NIS 480 million last year. The increase was offset from a decrease in the profits of companies included on equity basis amounting to NIS 330 million and an increase in actuarial expenses which are included with salary expenses of NIS 50 million in the third quarter of 2015, compared with the corresponding period last year.

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

[1] a. It should be clarified that there are additional parameters which resulted in the gaps between the reporting periods. In the data below, the data which was analyzed by the Bank and found to be material; was taken into account. There is nothing to indicate that there are no further relevant factors.

b. It should be clarified that the proforma data below are presented for reasons of convenience translation. The Bank is not obliged to continue to present data of this kind or to amend them.

The net profit per share attributable to shareholders in the banking corporation in the first nine months of 2015 was NIS 1.63 compared with NIS 0.99 in the corresponding period last year. The net profit per share attributable to the shareholders in the banking corporation in the third quarter of 2015 was NIS 0.48 compared with NIS 0.43 in the corresponding period last year.

The return on capital in the first nine months of 2015 was 11.9%, compared with 7.7% in the first nine months of last year. The return on capital in the third quarter of 2015 was 10.4%, compared with 10.2% in the third 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 2,754 million in the first nine months of 2015, compared with NIS 1,918 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 544 million after tax, which was offset by a decrease in adjustments in respect of available-for-sale securities amounting to NIS 642 million after tax.

In the third quarter of 2015, total profit amounted to NIS 302 million, compared with NIS 1,014 million in the corresponding period last year. The decrease in total profit for the quarter derives from a decrease in adjustments of available-for-sale securities amounting to NIS 782 million after tax, which was partially offset by an increase in net profit.

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 5 November 2015 (Ref. no.: 2015-01-149688).

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 and the Board of Directors of the Arab Israel Bank approved the execution of a merger of the Bank with the Arab Israel Bank. 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.

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

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.

As a result of the objection of the minority shareholders in the Arab Israel Bank to the merger proposal, a request was submitted 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. On 12 November, the court approved the merger after the parties reached an agreement with regard to the merger conditions.

The merger is expected to take effect on 31 December 2015.

On 27 October 2015, the Arab Israel Bank were informed by the Head of the Bank and Credit Card Companies' Employees Division in the New Histadrut Federation of Employees – the Ma'of Histadrut of a labor dispute and that the employees of the Arab Israel Bank would be able to strike with their approval commencing 12 November 2015. Further to the aforesaid labor dispute, on 17 November 2015, the Arab Israel Bank Employees' Committee declared a strike in the branches.

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

Capital Attributable to the Shareholders of the Banking Corporation (hereinafter: "capital") of the Group as at 30 September 2015 amounted to NIS 28,575 million, compared with NIS 25,798 million at the end of 2014, an increase of 10.8%. 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 7.0% on 30 September 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 Business Regulations 201-211. These regulations came into force on 1 January 2014.

According to these 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 all 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 Business 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 event 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 liability 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 309 billion at the end of September 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 0.13%.
- Profit that will accrue or a change in the capital reserve – The Tier 1 shareholders' equity of Leumi amounted to NIS 28.7 billion at the end of September 2015. The overall capital amounted to NIS 42.1 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 0.32%.
- 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 0.07% 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 September 2015 is 9.30% compared with 9.09% as of 31 December 2014. The overall capital to risk assets ratio is 13.63% compared with 13.90% as of 31 December 2014.

In the Report of the Board of Directors and in the financial statements, 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 111	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 113	
Operational Risk – (Qualitative Disclosure)		Page 124	-
Investment in Shares (Qualitative and Quantitative)		Page 64	-
Investment in Shares of Companies Included on Equity Basis	13(b)	Page 93	-
Interest Risk	14	Page 116	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 Business 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 Business 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 additional 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 of 6%. The leverage ratio at 30 September 2015 was 6.34%.

B. Other Information

Principal Developments in the Economy (*)

In the first nine months of the year, the Gross Domestic Product increased by 2.5% in real terms, compared with the corresponding period last year. The growth resulted from an increase in private consumption, while investments in fixed assets and exports contracted. During the third quarter of the year, the annual growth rate was 2.5% (compared with the second quarter).

The Global Economy

In October 2015, the International Monetary Fund (IMF) revised its forecast of the development of global growth for 2015 and 2016, in comparison to the forecast of July 2015. In some of the advanced economies, there was a decline in the forecast with revisions in the G7 countries being minimal (except for the forecast for Canada in which the revision was more substantial). According to the Fund's revised estimates, growth in the United States and in the euro area in 2015 is expected to total 2.6% and 1.5%, respectively, while in 2016, it is expected to total 2.8% and 1.6%, respectively. The forecast for growth in world GDP in 2015 was revised downwards from 3.3% to 3.1%.

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 September 2015, the Government had a surplus in the budget amounting to NIS 3.8 billion, compared with a deficit of NIS 10.9 billion in the corresponding period last year and compared with a planned annual deficit, according to the budget proposal for 2015 of NIS 32.7 billion.

Foreign trade and capital transactions

Israel's aggregate trade deficit in the first nine months of 2015 amounted to some US$ 6.2 billion, a decrease of some 40.3% 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, *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 nine months of 2015 were higher in volume than capital inflows. Direct investments in Israel, via the banking system, amounted to US$ 6.1 billion, while the financial investments of foreign residents contracted to US$ 0.1 billion. However, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US$ 8.6 billion, most of which consisted of financial investments, some of which are hedged in order to cancel the effect of exposure to changes in the exchange rate.

Exchange rate and foreign currency balances

In the first nine months of the year, the shekel fell in value against the dollar by 0.9%, while, against the euro, there was an appreciation of 6.8%, a reflection of the euro's significant weakness against the dollar worldwide.

Foreign currency balances in the Bank of Israel at the end of September 2015 amounted to US$ 89.3 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 the period from January to September 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$ 2.3 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 0.6% in the first nine months of 2015, while in the 12 months ended September 2015, the index fell by 0.5%, a rate which is situated below the lower limit of the Government's target range of the price stability of 1% to 3%. The principal factor for fall in the index is the decline in energy prices around the world, which directly impacts prices in Israel. Thus, the index excluding energy increased in the January – September period by 0.3%, while in the past 12 months, this index increased by 0.7%.

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 November 2015. 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, given the moderate inflationary environment. In the interest rate notice for the month of November 2015, the committee noted that it estimated the monetary policy will remain expansive for some time, and it believes that risks for achieving the inflationary target remain high, and the risks for growth have also increased.

Capital market in Israel

The shares and convertible securities index rose in the first nine months of the year by 2.2%, following an increase of 11.5% in 2014. The moderate increases adversely affected by sharp falls in rates of 5.9% in the third quarter, mainly due to the effect of decreases in capital market around the world, originating, inter alia, in the fear of the implications of the slowdown in economic activity in China.

Average daily trading volumes of shares and convertible securities rose by 17.5% during the first nine months of 2015, compared with the average for 2014, amounting to NIS 1,425 million. This was against a background of lively activity on the capital market in Israel and abroad.

The Government bond market during the months of January – September 2015 was characterized by price increases. Index-linked government bonds fell slightly by 0.1%, while the unlinked government bond index increased by 2.4% (the fixed-interest bond index increased by 2.8%, while the variable-interest bond (*Gilon*) index increased by 0.1%). This was against the background of the moderate inflationary environment, up to a decrease in the consumer price index since the beginning of the year, which raises demand from index-linked assets to those which are unlinked.

In the index-linked non-government debenture market (corporate bonds), there were moderate price increases of 0.5% over the period from January to September 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 nine months of 2015 by 2.7%, reaching NIS 3,257 billion at the end of September 2015. This increase in the value of the portfolio derived from an increase in nearly all of its components, particularly in the unlinked components. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached 23.7% at the end of September 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 4.4% in the first eight months of 2015. This is the result of an increase of 2.4% in credit extended to the corporate sector and of 6.3% in credit extended to households. The development of components of credit to households indicated an increase of 6.3% in housing credit, with non-housing credit (consumer credit) expanding by 6.3%.

The table below shows credit ratings of the State of Israel and of the Bank as at 16 November 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 30 June 2015, Moody's Credit Rating Agency affirmed the Bank's rating and raised the outlook to "stable".

On 4 August 2015, S&P International Credit Rating Agency assigned Bank Leumi United States, the Bank's subsidiary, a 'BBB+' long-term issuer credit rating. The outlook on the rating is stable.

On 7 August 2015, S&P International Credit Rating Agency affirmed of the rating of the State of Israel.

On 7 October 2015, Moody's Credit Rating Agency affirmed of the rating of the State of Israel.

On 7 October 2015, Fitch Credit Rating Agency affirmed of the rating of the State of Israel.

On 13 October 2015, Midroog Credit Rating Agency affirmed the Bank's rating and outlook.

On 16 October 2015, Fitch Credit Rating Agency affirmed the ratings of the State of Israel.

On 5 November 2015, S&P International Credit Rating Agency and S&P Ma'alot Credit Rating Agency affirmed the Bank's ratings and the outlook.

Development in Leumi share price

From the beginning of the year until 30 September 2015, the price of Leumi shares rose from 1,338 points to 1,464 points, an increase of 9.41%. During this time, the Bank's market value increased from NIS 19.7 billion to NIS 21.6 billion.

On 8 November 2015, Leumi's share price stood at 1,465 points, reflecting a 0.07% increase since 30 September 2015. During this time, the Bank's market value increased to NIS 21.6 billion.

The following table sets out the principal representative exchange rates:

	30 September		31 December	
	2015	2014	2014	2013
	In NIS			
U.S. dollar	**3.923**	3.695	3.889	3.471
Euro	**4.404**	4.649	4.725	4.782
Pound sterling	**5.952**	5.978	6.064	5.742
Swiss franc	**4.029**	3.853	3.929	3.897

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

	First nine months of		
	2015	2014	Year 2014
	(in percentages)		
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**(0.2)**	0.1	(0.1)
Rate of increase of the U.S. dollar exchange rate	**0.9**	6.5	12.0
Rate of decrease of the euro exchange rate	**(6.8)**	(2.8)	(1.2)
Rate of increase (decrease) of the pound sterling exchange rate	**(1.8)**	4.1	5.6
Rate of increase (decrease) of the Swiss franc exchange rate	**2.6**	(1.1)	0.8

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

	2015			2014			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	(in percentages)						
Rate of increase (decrease) in Israeli Consumer Price Index ("known" index)	**0.3**	1.1	(1.6)	(0.2)	0.3	0.5	(0.7)
Rate of increase (decrease) of the U.S. dollar exchange rate	**4.1**	(5.3)	2.3	5.3	7.5	(1.4)	0.5
Rate of increase (decrease) of the euro exchange rate	**4.4**	(1.3)	(9.5)	1.6	(1.0)	(2.5)	0.6
Rate of increase (decrease) of the pound sterling exchange rate	**0.4**	0.8	(3.0)	1.4	2.0	0.9	1.1
Rate of increase (decrease) of the Swiss franc exchange rate	**(0.6)**	(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, economic 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 and the consequences arising from this meaning, see the chapter, "Description of the Banking Corporation's Business and Forward-Looking Information", below.

For further general information regarding regulations applicable to the corporation - see detailed description in the 2014 financial statements (pages 38-51).

Legislation and regulation relating to the banking system

A large number of proposals for changes in regulations and changes in various provisions of the law were made during the period, which could have an impact on 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 risks 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, if any.

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 amendment and the restrictions determined to grant the discharge order.

On 7 September 2015, the regulations for implementing the abovementioned Amendment no. 47 were published.

Securities Law (Amendment no. 53) (Electronic Voting System), 2013

On 17 June 2015, an electronic voting system established by the Israel Securities Authority commenced operating. Using this system, investors can vote in meetings via the Internet, without the need to obtain confirmation of ownership of a security from a stock exchange member, so that the system will take care of this automatically. The system operates with regard to shares, options, and participation units in traded partnerships, On 17 November 2015, Securities Regulations (Voting in Writing, Position Notices and Proof of Ownership of Notes for Voting at the Meetings of Note Holders), 2015, will come into force and from that date, the system will also operate for meetings of note holders.

Proposed and draft legislation

Proposed Electronic Clearing of Cheques Law, 2015

On 6 July 2015, the Plenum of the Knesset approved in a first reading the proposed Electronic Clearing of Cheques Law. 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.

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

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 in their voting at a meeting of 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 obligations, if the corporation has breached these duties), etc.

The Securities Authority recently published a proposal for an amendment to the Securities Regulations (Details of the Prospectus and Draft Prospectus – Structure and Form), 1969 and a proposal to amend the Securities Regulations (Periodic and Immediate Reports), 1970, for the purpose of implementing the decisions of the abovementioned committee. The proposals relate mainly to the duties of disclosure in relation to credit taken to finance the purchase of the means of control in a corporation, regarding previous conduct of a controlling owner in a company in financial difficulties and the extent of the determining credit, as defined in the Advancement of Competition and Reduction of Concentration Law, 2013, received by the corporate group, of which that corporation is a member.

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.

Memorandum of the Insolvency and Economic Rehabilitation Law, 2015

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

The memorandum of the law includes, inter alia the following new provisions:

- The definition of insolvent will be according to a cash flow test, and accordingly, an insolvent is anyone who is unable to pay his debts when due, this, in place of the balance sheet test which is currently used.
- A creditor will be able to submit a request for the grant of an insolvency order only when the debtor has not paid him a debt when due. A future creditor will not be entitled to submit a request to start proceedings, except in circumstances in which the debtor is acting in order to defraud his creditors.
- The court which is qualified in the insolvency proceedings of an individual will be the magistrates' court, while the insolvency proceedings for a corporation will continue to be conducted in a district court.
- A request for the start of proceedings against a corporation will be submitted in a uniform manner. The court will decide 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 court to the Official Receiver. The proceedings will begin in the period of examination in which the economic position of the debtor will be investigated, during which a stay of proceeding will be in force. At the end of the examination, the Official Receiver will submit a report to the court on the basis of which a recovery program for the debtor will be established, on the completion of which the individual will be discharged of his debts. If the individual does not have the ability to pay his creditors, he will be discharged immediately. In addition, it is proposed to provide fast-recovery tracks for debtors without any means and debtors with small debts, some of which will be dealt with by administrative factors without the involvement of the court.
- The preferred status of most of the "debts with preferential right" – will be cancelled.

- A floating lien will apply only on the assets of the debtor at the time of granting the order and on the assets that will be due to the debtor at this date and thereafter as consideration or as an alternate asset which is identifiable and consistent.
- A secured creditor in a floating lien will be entitled to repay his secured debt from the floating lien only up to the amount equivalent to 75% of the value of the assets to which the lien applies. The balance of the assets under the lien will be used as payment to the general creditors.
- In the event that the ordinary creditors are not repaid, at least, at a rate of 25% of the total of all the ordinary debts or NIS 1 million, whichever is lower ("the minimum rate of subordination"), the secured creditor in a fixed lien will be entitled to payment of up to only 75% of the secured debt and the balance of the assets under a fixed lien will be for payment to the ordinary creditors up to the completion of the minimum rate of being a creditor.
- Directors in a corporation in insolvency are required to take reasonable steps to minimize the scope of the insolvency.
- For the first time, a part has been added relating to the management of insolvency proceedings which has international aspects.
- A corporation will be able to execute a debt arrangement at an early stage, even before, insolvency, with the aim of stopping its deterioration, this, in accordance with the recommendations of the Committee to Examine Debt Arrangements in Israel (the Endoren Committee).

Memorandum of the Supervision of Financial Services (Extra-Institutional Financial Services) Law, 2015

On 26 August, 2015, the Ministry of Finance published a memorandum of the Supervision of Financial Services (Extra-Institutional Financial Services) Law, 2015.

The memorandum of the law proposes the establishment of a new designated financial regulatory authority, to be called "the Supervisor of Financial Service-Providers" and, at this stage, will operate within the Ministry of Finance. It is proposed that the new regulatory authority will act in such a way to bring, on the one hand, a development of the market and the creation of an alternative to the banking system in the area of the provision of financial services, and, on the other hand, it will prevent criminal elements from making use of these industries for improper purposes.

Entities which are already currently subject to supervision as regards the provision of financial services (for example, banks and institutional entities) will be excluded from the incidence of this law.

The memorandum proposes to provide rules regulating the threshold requirements for registering and licensing financial service providers. In addition, it is proposed to give the Supervisor appropriate supervisory powers and tools.

Proposed Law for Intensifying the Collection of Taxes and Increasing Enforcement (Means for the Enforcement of the Payment of Taxes and Deterrence of Money Laundering), 2015

On 12 October 2015, the Knesset plenum approved the first reading of the proposed Law for Intensifying the Collection of Taxes and Increasing Enforcement was published.

Pursuant to the proposed law, a special reporting duty will be provided in the Income Tax Ordinance on institutional entities and clearing agents, such that the data on the activity of customers in their business accounts, which are maintained with them, will be reported to the tax authority on a monthly basis, as well as specific demands of the authority.

In addition, the proposed law will provide that, in the future, mechanisms will be established with the aim of ensuring that the information requirements will not significantly impair the right to privacy, as well as mechanisms which will ensure that the requirements by virtue of the law do not significantly overload the financial entities.

Memorandum of Prohibition of Money Laundering (Amendment), 2015

On 29 October 2015, the Ministry of Justice published a memorandum to amend the Prohibition of Money Laundering Law. The memorandum includes various amendments which are intended to help in the battle against money laundering and adapt the existing legislation to international standards in the area, including:

- Expanding the definition of "money" to all means of bearer payment, including: endorsed cheques, bearer shares, prepaid cards, etc.;
- Expanding the definition of a "banking corporation" so that it will also apply to clearing agents that do not come within the definition of an ancillary corporation according to the Banking (Licensing) Law;
- Creating a distinction between an offense of making a transaction in property, with the aim that it will not be reported or in order to cause it to be reported incorrectly, and an offense of furnishing false information, with regard to prohibited property, the aim of which is to blur the connection between the prohibited property and the offense;
- Reducing the threshold of the value of a property in which making a transaction will constitute an offense from NIS 150,000 to NIS 50,000 and canceling a restriction on the type of property for this purpose;
- Applying the "turning a blind eye" principle also to offenses pursuant to the Prohibition of Money Laundering Law.
- Limiting the immunity granted to a person who reports to the police on transactions in prohibited property, to cases in which the report is made as close as possible, in the circumstances, to the date on which the reporting person became aware of a reasonable suspicion that the property in which the transaction was made was prohibited property;
- Amending the definition of "beneficiary", so that in a case where the beneficiary is a corporation, both the corporation and the controlling owner should also be noted as beneficiaries.
- Expanding the powers of the Committee for Imposing a Monetary Sanction such that it will be permitted to also impose sanctions on "business service providers" who have breached their duties pursuant to the law, and to "currency service providers" who are not listed as required by law.
- Exempting the reports to the police from the statutory immunity given to the reports according to the law.
- Expanding the duty of reporting on cash entering Israel by reducing the reporting threshold from NIS 100,000 to NIS 50,000, and applying this to new immigrants, and establishing a duty to report an amount at a rate of NIS 12,000 in all overland transfers.

Proposed amendment to the Banking (Licensing) Law, 1981

Pursuant to the proposed Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), 2015, which passed in a first reading on 2 September 2015, it was proposed to amend the Banking (Licensing) Law in such a way as to enable non-banking entities which are engaged in the procedure of credit to raise capital through the issue of notes to the public, under the following conditions:

- The total nominal value of the notes issued by a corporation to the public must not exceed NIS 2.5 billion ("the ceiling"). In calculating the ceiling, the nominal value of the notes repaid should not be taken into account, and if, partly paid, the proportional part that is paid. The Ministry of Finance will be entitled to determine a higher ceiling which must not exceed NIS 5 billion, this, with regard to all of the notes or with regard to certain types of notes.
- The credit is provided to an individual or to a corporation, and if the recipient is a corporation – the annual revenue of the corporation in the year preceding the grant of the credit, did not exceed NIS 400 million.

- The credit granted is not for housing purposes, the repayment of which is secured by the registration of a mortgage, an undertaking to register a mortgage in respect of which a caution note has been recorded, or a pledge of rights with regard to land pursuant to the Pledge Law.

Proposed Credit Data Service Law, 2015

On 12 October 2015, the proposed Credit Data Services Law was approved in the Knesset in a first reading.

The proposed law provides an overall arrangement for the establishment and the act of a system for sharing credit data of individuals, with the exception of minors. The system proposed in the law includes the establishment of a credit data base in the Bank of Israel, which will collect credit data from information sources, and will convey them to credit bureaus and to customers, in accordance with uses and purposes set forth in the law.

It is proposed that the collection of the data to the database will be accomplished as a default and not according to the customer's consent. Notwithstanding the aforesaid, and in order to minimize the impairment to the privacy of customers, it is proposed to allow customers to request not to have information about them included in the database. Nevertheless, in the event that data regarding a customer are clearly furnished indicating that he does not comply with the repayment of amounts which he has undertaken, the customer will not be entitled to submit a request not to be included in the database.

According to the proposed law, credit data will be gathered from a variety of information sources, including the Official Receiver, the Execution Office, the Bank of Israel, the courts, a public infrastructure corporation, a banking corporation, and an issuer of debit cards. It is further proposed that the extent of the information gathered will be broad. The types of information transferred will be determined by the Ministry of Justice on the basis of the principles of the "Metro-2" public international standard.

A credit provider will be entitled to request a credit report only for the purposes set forth in the proposed law. The transfer of the information is contingent on the fact that the credit provider is the source of the information which transfers credit to the database or has undertaken to transfer credit data to the database (the reciprocity principle), and subject to the fact that the customer has given his consent to the fact that the credit data about him will be furnished.

Memorandum of Law for Enforcement Amendments in the Securities Laws (Legislative Amendments), 2015

On 24 September 2015, the Ministry of Finance published a memorandum of the Law for Enforcement Amendments in the Securities Laws (Legislative Amendments), 2015. The memorandum related to a number of topics, including:

- A prohibition on "front-running" by a financial mediator, his employee, an individual license-holder or others who are likely to receive information from them. Pursuant to the memorandum, the punishment for front-running is five years' imprisonment. In addition, front-running is subject to administrative sanctions of the Securities Authority of up to NIS 1 million for an individual and NIS 5 million for a corporation. The proposed amendment provides a number of cases including circumstances which would not be considered front-running and to which no criminal responsibility would be attributed.

- It is proposed to explicitly provide that anyone who makes use of an opinion which comes into his possession from an insider in a company, is considered to have made use of inside information, if he has reasonable grounds for assuming that inside information is found in the possession of the insider who conveyed the opinion to him.

- It is proposed to establish a consistent arrangement in relation to the restrictions on holding and making transactions in securities, which are currently provided in Section 4 of the Arrangement of the Dealing in Investment Advice, Investment Marketing and Investment Portfolio Management, 1995 (hereinafter "the Advice Law"), and in the provisions pursuant to the Joint Trust Investments Law, 1994 (hereinafter, "the Joint Investments Law"). Pursuant to the proposal, such an arrangement will be provided in secondary legislation by the Ministry of Finance, and this will serve the provisions of the two laws, in accordance with the particular features of each of them.

- It is proposed to provide that information will not be considered inside information if it has been published in Magna, and 30 minutes have elapsed since their publication.

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 Business 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 and as a credit provider. In particular, the 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 Business 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 Business Regulation no. 202.

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

- **Proper Conduct of Banking Business 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 association, 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 association, 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 Business 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 a 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 compliance risk in the banking corporation, the responsibility of the senior management for the 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 Business 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 Business 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 credit portfolio, as of the report period, the Bank's act 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 groups of borrowers. 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 Business Regulation no. 411 – Prevention 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 Business 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 Business 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 Business 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.

The directive will apply to any loan which is not subject to the Banking Order (Early Repayment of a Housing Loan). With regard to a loan granted to private individuals or small businesses, as defined in the directive, the formula stipulated in the directives applies. 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 Business Regulation no. 425 – Annual Reports for Customers of the Banking Corporations

On 21 June 2015 and 5 November 2015, the Banking Supervision Department published amendments to Proper Conduct of Banking Business 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, and the response of the Banking Supervision Department to examples forwarded to the banks as required.

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

Proper Conduct of Banking Business 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 Business 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 with 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 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 – Track Service".

The date of inception of the directive is 1 January 2016, except for the clause which discusses publication of the link on the website, which came 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 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 joining the commission track service. The Bank has contacted its customers as required.

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 Bank has duly forwarded the policy and procedures on this matter to the Banking Supervision Department as required.

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.

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 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 involve information regarding customers.

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

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

On 29 June 2015, Amendment to Proper Conduct of Banking Business 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 entities 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 Business 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 Business 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 Business 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 Business 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 limits 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.

The Bank is prepared for implementing the directives and has begun proceedings to make the revisions required in the remuneration policy in the Bank.

Banking Order (Service to the Customer) (Supervision of Service provided by an Issuer to a Clearer in connection with the Interchange of Immediate Debit Transactions) (Temporary Provision), 2015

On 26 August, 2015, the abovementioned order was published in *Reshumot*. In the order, the Governor of the Bank of Israel announces a service provided by an issuer to a clearing agent in connection with the interchange of immediate debit transactions as a service which is subject to regulation for the purpose of the commission collected for it, and provided that the commission will be 0.3% of the amount of the transaction.

The order will be in effect for one year from 1 April 2016 to 31 March 2017.

Material drafts of the Bank of Israel

Draft Proper Conduct of Banking Business 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 that do not repay their debts when due.

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

On 15 July 2015, the Banking Supervision Department published a draft amendment to Proper Conduct of Banking Business 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, under 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.

Amendment of Proper Conduct of Banking Business Directive nos. 203 and 204

- On 22 October 2015, the Banking Supervision Department published an amendment to Proper Conduct of Banking Business Directives nos. 203 and 204 relating to capital requirements in respect of exposures to central counterparties.
- Pursuant to the amendment, Appendix C to Directive no. 203 is revised to include a detailed framework in relation to capital requirements in respect of exposures of banking corporations to central counterparties, including the Tel Aviv Stock Exchange. The directives differentiate between a central counterparty which is not qualified and a counterparty which is qualified, with reduced capital requirements determined for exposure to the latter.
- It is further provided that the new directives will apply to exposures to central counterparties caused by OTC derivatives, derivative transactions marketable on the stock exchange and securities financing transactions.
- The aforesaid amendment will come into effect on 1 July 2016. Through 30 June 2017, the Tel Aviv Stock Exchange may be considered a qualified central counterparty.

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.

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.

On 17 September 2015, a draft uniform structure circular was published to transfer information and data on the pension and savings market. This draft updates Appendix D to the abovementioned circular – interface of events in the field relating to joining a provident fund or pension fund, update of beneficiaries and update of insurance details in a pension fund. The implementation of these actions in the central pension clearing system is expected to take place in the first quarter of 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.

Supervision of Financial Services (Provident Funds) Law (Amendment no. 13 and Temporary Provision), 2015

On 5 November 2015, the Supervision of Financial Services (Provident Funds) Law (Amendment no. 13 and Temporary Provision), 2015 was published in *Reshumot*, including, *inter alia*: provisions to amend the Supervision of Financial Services (Provident Funds) Law ("the amendment to the law"), and pursuant thereto, *inter alia*, the rules for making pension payments for savers in the various provident funds were revised, and rules regarding the consolidated of existing accounts in a pension fund were provided.

The new amendment also includes provisions for indirectly amending the Supervision of Financial Services (Advice, Marketing and Pension Clearing System) Law, 2005, which provides, *inter alia*, that pension advice or pension marketing will not be required in executing transactions in a pension product by an institutional entity by virtue of a legal obligation.

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 effective date 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, applicable from 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 2015, 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 teller 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 was 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 begin on the date of publication of the circular, and the effective date of other provisions of the circular will be revised.

Amendment to the Supervision of Financial Services Law (Advice, Marketing and Pension Clearing System), 2005 ("Advice and Pension Marketing Law")

Pursuant to the proposed Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), 2015, which passed in a first reading on 2 September 2015, it was proposed to amend the Supervision of Financial Services Law (Advice, Marketing and Pension Clearing System), 2005 ("Advice and Pension Marketing Law") in such a way as to enable execution of the following transactions which are not part of pension advice or pension marketing:

a. Executing a transaction with regard to a pension product between a customer and an institutional entity, by the customer directly, as a result of an initiated application of the customer to the institutional entity.

b. The deposit of payment for an employee in a provident fund, by his employer, after the employee has been given an opportunity to choose another provident fund and as long as the employee has not chosen a fund as aforesaid, pursuant to the provisions of Section 20b of the Supervision of Financial Services Law (Provident Funds), 2005.

c. Executing a transaction in a pension product by an institutional entity by virtue of a legal duty. A similar amendment was passed in the context of the Supervision of Financial Services (Provident Funds) Law (Amendment no. 13 and Temporary Provision), 2015.

In addition, pursuant to the abovementioned proposed law, it is proposed to amend the Advice and Pension Marketing Law, so that the duties applicable to an insurer regarding the submission of reports and notices to the Supervisor and the duty imposed on an insurer regarding the insurance stipulation will apply to license holders, such that a license holder will not make the purchase of one pension product conditional on the purchase of another pension product.

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.

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

On 29 July 2015, a draft of Supervision of Financial Services Regulations (Provident Funds) (Purchase, Sale and Holding of Securities) (Amendment), 2015 was published, pursuant to which it is proposed to provide that an institutional investor which is part of a group of investors, one of which has a commitment 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 a related party to or from the institutional investor, a security or foreign currency, and is not entitled to hold securities through that banking corporation.

The draft of the regulations also provides rules regarding competitive proceedings which institutional investors will be required to hold for the purchase and sale of securities and for the holding and clearing of securities.

Implementing the regulations, if they are passed, is likely to compel the Bank to cease the provision of operating services to institutional entities, on the assumption that it will prefer to continue providing brokerage services. The Bank maintains preliminary and non-binding contacts to examine the possibility of selling its subsidiary – Leumi Capital Market Services Ltd. ("Leumi CMS") or its activity – in part or in full, as set forth in the chapter on Principal Investee Companies, below. As long as it is not clear whether the aforesaid provision will become law, the Bank does not intend to sell Leumi CMS.

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 (Strum 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.

It appears that the committee intends to submit preliminary recommendations in the coming weeks. At this stage, 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.

Prevention of money laundering originating in corruption and the bribery of foreign public officials and method of detecting related irregular activity

On 29 October 2015, the Prohibition of Money Laundering and the Financing of Terrorism published a document on the prevention of money laundering originating in corruption and the bribery of foreign public officials. The purpose of the document is to present patterns of money laundering by foreign public officials, as a result of acts of corruption and bribe-taking. The document set forth "red flags" and highlights the procedure for conducting a proper and comprehensive examination for detecting and recognizing foreign public officials, and is intended to assist the entities regulated by virtue of the Prohibition of money laundering Law in identifying irregular transactions to foreign public officials and report them to the authority.

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 15 November 2015, a memorandum of the Income Tax Law Amendment was published, the main points of which are as follows:

a. Amendments in the Income Tax Ordinance:

- Empowering 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 due to 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 acts with the aim of evading the exchange of information for enforcing the tax laws in another country, or with a view to assisting another individual to evade the exchange of 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.
- The Minister of Finance will be granted the power in certain cases to establish regulations regarding the giving of notice by an Israel financial institution to customers regarding the fact that they are due to be included in a report to a foreign tax authority.

b. 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 implementing an international agreement.
- The adjustment of the term "control" in the Prohibition of Money Laundering for the recommendations of the International Organization for the Battle against Money Laundering and Financing of Terrorism (Financial Action Task Force - FATF).
    1. A clarification that there is a need to locate the individual who is a controlling owner in a corporation.
    2. A determination of a presumption according to which a holding of 20% of a particular class of the means of control in a corporation, instead of the 50% currently required, is sufficient to consider the holder a "controlling owner", when no other person holds a higher rate.
    3. A determination that in cases where there is no single controlling owner, the chairman of the board of directors and chief executive officer will be considered controlling owners, and if there are no such office-holders – the officeholder who has effective control in the corporation.

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 in which 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 July 2017.

The Bank is prepared for the law and, *inter alia*, has examined the relevant activity, has 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.

Taxation

Value Added Tax

On 10 September 2015, Value Added Tax Order (Tax Rate on a Transaction and on the Import of Goods) (Amendment), 2015, was published, which reduced the rate of value added tax in respect of a transaction and the import of goods from 18% to 17%, with effect from 1 October 2015.

On 12 November 2015, the Value Added Tax Order on Non-Profit Associations and Financial Institutions (Amendment), 2015, was published, reducing the rate of profit tax levied on financial institutions from 18% to 17%, with effect from 1 October 2015. As a result of the said change, the statutory tax rate which applies to financial institutions fell from 37.71% in 2015 to 37.58% and to 37.18% from 2016 and thereafter. In addition, the rate of payroll tax, which applies to financial institutions, fell from 18% to 17%, with regard to salary payable for work in October 2015 and thereafter.

The change in the rate of profit tax is expected to result in a decrease in the balance of deferred taxes receivable, net, amounting to NIS 55 million in the fourth quarter of 2015.

The effect of the decrease in payroll tax is expected to reduce the balance of liabilities to employees in the fourth quarter of 2015 by NIS 61 million before tax and NIS 38 million after tax.

The change in payroll tax is expected to result in a decrease amounting to NIS 19 million in current salary expenses and operating expenses in 2015, compared with 2014.

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 the Public Reporting Directive of the Banking Supervision Department, provisions for the implementation of International Accounting Standard no. 38 – "Intangible Assets" have been made regarding the cost of software for own use. On 2 June 2015, the Supervisor of Banks sent a letter to the Bank stating that audits which had been conducted in a number of banking corporations revealed defects in internal control of 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 been revised such that it does not exceed five years;

(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 Banking Supervision Department 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 which were 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.

It should be stressed that, in accordance with the question and answer file, when there are changes which significantly affect the assets of the program or the commitment in respect of a defined benefit plan, a banking corporation should remeasure both the liabilities and the assets. A banking corporation is entitled to adopt accounting policy according to which the assets and liabilities in respect of the plan will be reassured for the interim period, providing it will be consistently applied in all interim periods.

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 September 2015, the fund of adjustments in respect of employee benefits amounted to NIS 1,245 million, after the effect of tax.

The balance of the liability for employee benefits as of 30 September 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 608 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.

The actuary's valuation of employee rights can be found on the Magna website of the Securities Authority. Address: www.magna.isa.gov.il

For further information regarding the effect of the standard as of 31 December 2014 and 30 September 2014, see Note 1C.1 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 Business 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 nine months of 2015 was NIS 2,404 million, compared with NIS 1,456 million in the corresponding period in 2014, an increase of 65.1%.

The net profit of the Leumi Group amounted to NIS 704 million in the third quarter of 2015, compared with NIS 636 million in the corresponding period last year, an increase of 10.7%.

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 third quarter of 2015 compared with the corresponding period last year is as follows:

	For the three months ended			
	30 September 2015	30 September 2014	Change	
	NIS millions		NIS millions	%
Net income interest	**1,875**	1,899	(24)	(1.3)
Expenses (income) in respect of credit losses	**73**	56	17	30.4
Noninterest income	**1,344**	1,275	69	5.4
Operating and other expenses	**2,121**	2,484 (a)	(363)	(14.6)
Profit before taxes	**1,025**	634	391	61.7
Provision for tax	**327**	332	(5)	(1.5)
Profit after taxes	**698**	302	396	+
The Bank's share in profits (losses) of companies included on equity basis	**15**	345	(330)	(95.7)
Loss (net profit) attributed to non-controlling interests	**(9)**	(11)	2	18.2
Net profit attributed to shareholders in the banking corporation	**704**	636	68	10.7

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

	For the nine months ended			
	30 September 2015	30 September 2014	Change	
	NIS millions		NIS millions	%
Net income interest	**5,391**	5,561	(170)	(3.1)
Expenses (income) in respect of credit losses	**166**	(11)	177	+
Noninterest income	**4,752**	3,927	825	21.0
Operating and other expenses	**6,518**	7,298 (a)	(780)	(10.7)
Profit before taxes	**3,459**	2,201	1,258	57.2
Provision for tax	**1,189**	1,034	155	15.0
Profit after taxes	**2,270**	1,167	1,103	94.5
The Bank's share in profits (losses) of companies included on equity basis	**161**	294	(133)	(45.2)
Loss (net profit) attributed to non-controlling interests	**(27)**	(5)	(22)	-
Net profit attributed to shareholders in the banking corporation	**2,404**	1,456	948	65.1

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

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

	2015			2014			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Net income interest	**1,875**	2,000	1,516	1,802	1,899	1,905	1,757
Income (expenses) in respect of credit losses	**73**	12	81	483	56	(16)	(51)
Non-interest income	**1,344**	983	2,425	1,214	1,275	1,258	1,394
Other operating expenses	**2,121**	2,162	2,235 (a)	2,073 (a)	2,484 (a)	2,616 (a)	2,198 (a)
Profit before taxes	**1,025**	809	1,625	460	634	563	1,004
Provision for tax	**327**	297	565	244	332	337	365
Profit after taxes	**698**	512	1,060	216	302	226	639
The Bank's share in profits (losses) of companies included on equity basis	**15**	15	131	(252)	345	(14)	(37)
Net loss (profit) attributed to non-controlling interests	**(9)**	(9)	(9)	(7)	(11)	17	(11)
Net profit attributed to shareholders in the banking corporation	**704**	518	1,182	(43)	636	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. For further information, see Note 1C to the financial statements.

Net interest income of Leumi Group amounted in the first nine months of 2015 to NIS 5,391 million, compared with NIS 5,561 million in the corresponding period last year, a decrease of NIS 170 million or 3.1%. The decrease is mainly due to a fall in market interest rates. (The average interest for the first nine months of 2014 was 0.72%, compared with an average for the first nine months of 2015 of 0.13%.) and the impact of the negative index in the reported period 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 third quarter of 2015, net interest income amounted to NIS 1,875 million compared with NIS 1,899 million in the corresponding period last year, a decrease of 1.3%. The decrease arises mainly from a fall in interest rates in the market (The average interest rate for third quarter of 2014 was 0.5% compared with an average interest rate for the third quarter of 2015 of 0.10%.), which was partly offset by a increase in the balance of credit.

The ratio of net interest income to the average balance of income-bearing assets is 2.04% (in annual terms), compared with 2.26% in the corresponding period in 2014.

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

	For the nine months ended		
	30 September 2015	30 September 2014	Change
	NIS millions		%
Households	**1,913**	1,964	(2.6)
Small businesses	**795**	779	2.1
Private banking	**168**	217	(22.6)
Commercial banking	**1,068**	1,043	2.4
Corporate banking	**869**	940	(7.6)
Financial management	**576**	610	(5.6)
Other	**2**	8	(75.0)
Total	**5,391**	5,561	(3.1)

Total interest margin in the first nine months of 2015 was 1.88%, 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 nine months of 2015 amounted to NIS 166 million, 0.09% of credit to the public, compared with income of NIS 11 million (0.0%) in the corresponding period last year.

The increase in expenses in respect of credit losses in the first nine months of the year compared with the corresponding period last year was primarily attributable to an increase in the collective allowance as a result of an increase in credit and from a change in the credit mix. The individual revenues in respect of credit losses derive from collections in Israel and in offices in the United Kingdom and Romania.

Expenses in respect of credit losses for the third quarter of 2015 amounted to NIS 73 million, 0.11% of credit to the public, compared with NIS 56 million, 0.09%, in the corresponding period last year.

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

	2015				2014					
	First nine months	3rd quarter	2nd quarter	1st quarter	Year	4th quarter	First nine months	3rd quarter	2nd quarter	1st quarter
	NIS millions									
Individual expense (income) in respect of credit losses	**(200)**	(14)	(112)	(74)	(94)	157	(251)	(60)	(114)	(77)
Collective expense in respect of credit losses	**366**	87	124	155	566	326	240	116	98	26
Total expense (income) in respect of credit losses	**166**	73	12	81	472	483	(11)	56	(16)	(51)
Percentage ratios (in annual terms):										
Individual expenses (income) in respect of credit losses to total credit to the public, net	**(0.10)**	(0.02)	(0.17)	(0.12)	(0.03)	0.25	(0.13)	(0.10)	(0.19)	(0.12)
Collective expense in respect of credit losses to total credit to the public, net	**0.19**	0.13	0.19	0.25	0.22	0.52	0.13	0.19	0.16	0.04
Total expenses (income) in respect of credit losses to total credit to the public, net	**0.09**	0.11	0.02	0.13	0.19	0.77	-	0.09	(0.03)	(0.08)
Individual expense (income) in respect of credit losses to total credit risk to the public	**(0.06)**	(0.02)	(0.12)	(0.08)	(0.02)	0.16	(0.08)	(0.06)	(0.13)	(0.09)
Credit to total credit risk to the public	**0.12**	0.09	0.13	0.16	0.14	0.33	0.08	0.12	0.11	0.03
Total expenses (income) in respect of credit losses to total credit risk to the public	**0.06**	0.07	0.01	0.08	0.12	0.49	-	0.06	(0.02)	(0.06)

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

	30 September 2015	30 September 2014	31 December 2014
Credit loss allowance on a collective basis (NIS millions)	**3,157**	2,796	3,041
Balance of credit loss allowance on a collective basis to total credit to the public, net (%)	**1.21**	1.12	1.20
Balance of credit loss allowance on a collective basis to total credit risk to the public, net (%)	**0.79**	0.73	0.78

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

	For the nine months ended 30 September 2015		For the nine months ended 30 September 2014	
	NIS millions	% (a)	NIS millions	% (a)
Households	**207**	**0.2**	176	0.2
Small businesses	**91**	**0.5**	79	0.4
Private banking	**3**	**0.1**	2	-
Commercial banking	**(103)**	**(0.3)**	60	0.2
Corporate banking	**(1)**	-	(370)	(0.8)
Financial management and other	**(31)**	**(1.4)**	42	1.6
Total	**166**	**0.09**	(11)	-

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

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

	For the nine months ended 30 September 2015	For the nine months ended 30 September 2014
	NIS millions	
Industry	**24**	(140)
Construction and real estate	**45**	(118)
Trade	**(57)**	71
Hotel, food and catering services	**7**	15
Transportation and storage	**10**	7
Information and communications	**6**	(25)
Financial services	**(100)**	60
Other corporate services	**24**	27
Private individuals - housing loans	**11**	17
Private individuals – other	**197**	69
Others	**-**	4
Total public	**167**	(13)
Total banks	**(1)**	2
Total goverments	**-**	-
Total	**166**	(11)

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

	For the nine months ended		
	30 September 2015	30 September 2014	Change
	NIS millions		%
The Bank	**158**	(181)	+
Leumi Card	**13**	12	8.3
Arab Israel Bank	**13**	14	(7.1)
Leumi – U.S.A.	**12**	57	(78.9)
Leumi – U.K.	**(16)**	85	-
Leumi Romania	**(12)**	2	-
Others	**(2)**	-	-
Total expenses (income) in respect of credit losses	**166**	(11)	+

Problem credit risk

	30 September 2015		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	**4,323**	**312**	**4,635**
Subordinate credit risk	**1,712**	**400**	**2,112**
Credit risk under special supervision (b)	**3,338**	**1,382**	**4,720**
Total problem credit	**9,373**	**2,094**	**11,467**
Of which: Unimpaired debts in arrears 90 days or more (b)	**1,024**	**-**	**-**
2. Non-performing assets:			
Impaired debts	**4,012**	**-**	**-**
Assets received in respect of credit cleared	**7**	**-**	**-**
Total non-performing assets	**4,019**	**-**	**-**

	30 September 2014		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	4,929	288	5,217
Subordinate credit risk	1,926	706	2,632
Credit risk under special supervision (b)	3,087	369	3,456
Total problem credit	9,942	1,363	11,305
Of which: Unimpaired debts in arrears 90 days or more (b)	1,035	-	-
2. Non-performing assets:			
Impaired debts	4,441	-	-
Assets received in respect of credit cleared	23	-	-
Total non-performing assets	4,464	-	-

	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 September 2015	30 September 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	**1.5**	1.8	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	**1.4**	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	**95.1**	83.9	90.5
Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public	**2.5**	2.6	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**	-	0.2
Net write-offs in respect of credit to the public as a percentage of the average balance of credit to the public (in annual terms)	**0.2**	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)	**11.8**	6.7	7.6

Noninterest income of Leumi Group amounted to NIS 4,752 million in the first nine months of 2015, compared with NIS 3,927 million in the corresponding period last year, an increase of NIS 825 million or 21.0%.

Excluding profits from the sale of shares in the Israel Corporation, non-interest income in the first nine months of 2015 amounted to NIS 3,946 million, an increase of NIS 19 million, or 0.5%. Most of this increase stems from the profit on the sale of Mobileye shares (NIS 144 million before tax) from an increase in dividends received amounting to NIS 161 million, before tax and a decrease in expenses in respect of derivative instruments and exchange rates (amounting to NIS 59 million before tax), which was mostly offset by a decrease in profits in respect of activities for trading purposes (amounting to NIS 354 million before tax). In addition, there was a decrease in commissions amounting to NIS 14 million as a result of the completion of a sale of the activity of Leumi Switzerland to Julius Baer, which was offset by an increase in commissions from the Bank.

In the third quarter of 2015, non-interest income amounted to NIS 1,344 million compared with NIS 1,275 million in the corresponding period last year, an increase of NIS 69 million, or 5.4%. The increase is due to profit from the sale of shares of the Israel Corporation in third quarter of 2015 amounting to NIS 289 million, compared with profit from the realization of shares of Mobileye amounting to NIS 144 million in the third quarter of 2014. The increase was partially offset by an increase in expenses in respect of derivative instruments and exchange rate differences this quarter, compared with the quarter last year amounting to NIS 74 million before tax.

Noninterest income includes:

	For the nine months ended			
	30 September 2015	30 September 2014	Change	
	NIS million		NIS million	%
Non-interest financial income	**1,539**	719	820	+
Commissions	**3,099**	3,113	(14)	(0.4)
Other income	**114**	95	19	20.0
Total	**4,752**	3,927	825	21.0

Development of non-interest income by quarter is as follows:

	2015			2014			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
	NIS millions						
Non-interest financial income	**325**	(105)	1,319	76	224	172	323
Commissions	**1,013**	1,035	1,051	1,054	1,033	1,040	1,040
Other income	**6**	53	55	84	18	46	31
Total	**1,344**	983	2,425	1,214	1,275	1,258	1,394

Details of non-interest financial income are as follows:

	For the nine months ended			
	30 September 2015	30 September 2014	Change	
	NIS millions		NIS millions	%
Net income (expenses) in respect of derivative instruments and net exchange rate differences	**(124)**	(183)	59	32.2
Profits from sale of available-for-sale debentures, net	**154**	127	27	21.3
Profits from investments in shares including dividends (a)	**1,468**	363	1,105	+
Net profits in respect of loans sold	**11**	28	(17)	(60.7)
Realized and unrealized profits and losses and adjustments of debentures and shares available for trade to fair value, net	**30**	384	(354)	(92.2)
Total	**1,539**	719	820	+

(a) In the first nine months of 2015, including mainly profit from the sale of shares of the Israel Corporation and Mobileye amounting to NIS 811 million and NIS 288 million, respectively, before the effect of tax, and in the first nine months of 2014 including profit on the sale of shares of Mobileye, Partner and Tower amounting to NIS 144 million, NIS 70 million and NIS 99 million, respectively, before the effect of tax.

The following table shows the development of the principal items in non-interest financial income by quarter:

	2015			2014			
	3rd quarter	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	**(254)**	209	(79)	(163)	(180)	26	(29)
Profits from sale of available-for-sale debentures, net	**35**	15	104	78	10	35	82
Profits from investments in shares including dividends (a)	**403**	40	1,025	89	199	35	129
Net profits in respect of loans sold	**11**	-	-	-	28	-	-
Realized and unrealized profits from adjustments of debentures and shares available for trade to fair value, net	**130**	(369)	269	72	167	76	141
Total	**325**	(105)	1,319	76	224	172	323

(a) In the third quarter of 2015, including mainly profit from the sale of shares of the Israel Corporation amounting to NIS 289 million and in first quarter 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. 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 nine months ended			
	30 September 2015	30 September 2014	Change	
	NIS millions		NIS millions	%
Account management	**579**	614	(35)	(5.7)
Activity in certain securities and derivative instruments	**522**	615	(93)	(15.1)
Credit cards	**719**	705	14	2.0
Treatment of credit	**155**	145	10	6.9
Commissions for distribution of financial products	**231**	210	21	10.0
Conversion differences	**243**	235	8	3.4
Commissions from financing transactions	**408**	362	46	12.7
Other commissions	**242**	227	15	6.6
Total commissions	**3,099**	3,113	(14)	(0.4)

The balance of the income from commissions in the first nine months 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 (amounting to NIS 105 million).

Income from commissions constitutes 47.5% of the operating and other expenses, compared with 42.7% in the corresponding period last year and compared with 44.5% for the whole of 2014.

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

	For the nine months ended			
	30 September 2015	30 September 2014	Change	
	NIS millions		NIS millions	%
Households	**1,371**	1,354	17	1.3
Small businesses	**389**	376	13	3.5
Private banking	**333**	458	(125)	(27.3)
Commercial banking	**391**	376	15	4.0
Corporate banking	**465**	558	(93)	(16.7)
Financial management	**1,741**	767	974	+
Other	**62**	38	24	63.2
Total	**4,752**	3,927	825	21.0

The proportion of non-interest income from all income (i.e. net interest income and noninterest income) was 46.9%, compared with 41.4% 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 nine months of 2015 amounted to NIS 6,518 million, compared with NIS 7,298 million in the corresponding period last year, a decrease of NIS 780 million or 10.7%. Excluding the expenses in respect of arrangements with overseas authorities, operating and other expenses in the first nine months of 2015 amounted to NIS 6,493 million, compared with NIS 6,289 million in the corresponding period last year, an increase of NIS 204 million, or 3.2%.

In the third quarter of 2015, operating and other expenses amounted to NIS 2,121 million, compared with NIS 2,484 million in the corresponding period last year, a decrease of NIS 363 million, or 14.6%. Excluding the expenses in respect of arrangements with overseas authorities, operating and other expenses in the third quarter of 2015 amounted to NIS 2,121 million, compared with NIS 2,004 million in the corresponding period last year, an increase of NIS 117 million, or 5.8%. There was a decrease in current salary expenses compared with a decrease in yield bonus expenses, as detailed below.

Operating and other expenses include:

	For the nine months ended			
	30 September	30 September	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**4,123**	4,019	104	2.6
Maintenance and depreciation of buildings and equipment	**1,282**	1,237	45	3.6
Other expenses and amortization of intangible assets, excluding expenses related to the investigation of overseas customers	**1,088**	1,033	55	5.3
Total operating and other expenses, excluding expenses related to the investigation of overseas customers	**6,493**	6,289	204	3.2
Expenses related to the investigation of overseas customers	**25**	1,009	(984)	(98)
Total operating and other expenses, including expenses related to the investigation of overseas customers	**6,518**	7,298	(780)	(10.7)

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

	2015				2014					
	First nine months	3rd quarter	2nd quarter	1st quarter	Total for year	4th quarter	First nine months	3rd quarter	2nd quarter	1st quarter
	NIS millions									
Salary and related expenses	**2,842**	**1,006**	901	935	4,063	1,081	2,982	974	981	1,027
Yield bonus	**479**	**96**	228	155	100	(159)	259	98	29	132
Defined benefit expenses and other post-employment benefits	**802**	**258**	216	328	988	210	778	211	310	257
Total salary expenses	**4,123**	**1,360**	1,345	1,418	5,151	1,132	4,019	1,283	1,320	1,416

The increase in salary and related expenses in the third quarter of 2015, compared with the second quarter of 2015 arises mainly because of the implementation of the directives of the Supervisor of Banks regarding the capitalization of software costs and actuarial changes deriving from an increase in the rate of capitalization.

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 with 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 nine months	3rd quarter	2nd quarter	1st quarter	4th quarter	First nine months	3rd quarter	2nd quarter	1st quarter
	NIS millions								
Depreciation	**491**	156	173	162	156	446	146	149	151
Maintenance of buildings and equipment	**791**	271	261	259	262	791	274	256	261
Other expenses and amortization of intangible assets, excluding expenses related to the investigation in respect of overseas customers	**1,088**	334	378	376	506	1,033	301	404	328
Total operating and other expenses, excluding expenses related to the investigation of overseas customers	**2,370**	761	812	797	924	2,270	721	809	740
Expenses related to the investigation of overseas customers **	**25**	-	5	20	17	1,009	480	487	42
Total operating and other expenses, including expenses related to the investigation of overseas customers	**2,395**	761	817	817	941	3,279	1,201	1,296	782

* Excluding salary.

** Excluding exchange rate differences.

Operating and other expenses (building and equipment maintenance, depreciation and other expenses) amounted to NIS 2,395 million in the first nine months of 2015, compared with NIS 3,279 million in the corresponding period last year, a decrease of NIS 884 million, or 27.0%.

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

1. Expenses in respect of arrangements with overseas authorities in the first nine months of 2015 amounting to NIS 25 million, compared with NIS 1,009 million in the first nine months of 2014. In the first nine months of 2015, a provision for the 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.
2. A provision for the expected costs of closing the office in Switzerland amounting to NIS 35 million was recorded in the first nine months of 2015.

Operating and other expenses, not including salary expenses, amounted to NIS 761 million in the third quarter of 2015, compared with NIS 1,201 million in the corresponding period last year, a decrease of NIS 440 million, or 36.6%. The decrease is primarily attributable to expenses in respect of arrangements with overseas authorities recorded in the third quarter of last year.

Operating expenses constitute 64.3% of total income, compared with 76.9% in the corresponding period in 2014 and compared with 74.9% for the whole of 2014. The operating expenses, excluding exceptional items in accordance with the proforma report above, constitute 68.3% of total income in the first nine months of 2015, compared with 67.4% in the corresponding period last year and 66.7% in the whole of 2014.

Total operating and other expenses (in annual terms) constitute 2.13% of the total balance sheet, compared with 2.57% 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 nine months of 2015 amounted to NIS 3,459 million, compared with NIS 2,201 million in the corresponding period last year, an increase of 57.2%. Profit before tax of Leumi Group for the third quarter of 2015 amounted to NIS 1,025 million, compared with NIS 634 million in the corresponding period last year, an increase of 61.7%.

The provision for tax on the profit of the Leumi Group in the first nine months of 2015 amounted to NIS 1,189 million, compared with NIS 1,034 million in the corresponding period last year. The rate of the provision in the first nine months of 2015 was some 34.4% of the pre-tax profit, compared with 47.0% in the corresponding period last year, a decrease of some 12.6%. The decrease in the tax rate mainly derives from a fall in disallowed expenses, compared with the corresponding period last year.

Profit after taxes for the first nine months of 2015 amounted to NIS 2,270 million, compared with NIS 1,167 million in the corresponding period last year, an increase of 94.5%. Profit after taxes for the third quarter of 2015 amounted to NIS 698 million, compared with NIS 302 million in the corresponding period last year, an increase of 131.1%.

The Group's share in profit after taxes of companies included on equity basis amounted to a profit of NIS 161 million in the first nine months of 2015, compared with NIS 294 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 nine months of 2015 amounted to NIS 2,431 million, compared with a profit of NIS 1,461 million in the corresponding period last year, an increase of 66.4%. Net profit before attribution to holders of non-controlling interests in the third quarter of 2015 amounted to NIS 713 million, compared with a profit of NIS 647 million in the corresponding period last year, an increase of 10.2%.

Net profit attributable to holders of non-controlling interests in the first nine months of 2015 amounted to a profit of NIS 27 million, compared with a profit of NIS 5 million in the corresponding period last year.

Net profit attributable to shareholders in the banking corporation in the first nine months of 2015 amounted to NIS 2,404 million, compared with a profit of NIS 1,456 million in the corresponding period last year, an increase of 65.1%. Net profit attributable to shareholders in the banking corporation in the third quarter of 2015 amounted to NIS 704 million, compared with NIS 636 million in the corresponding period last year, an increase of 10.7%.

Return on capital in the first nine months of 2015 was 11.9%, compared with 7.7% in the first nine months of 2014, and 5.4% for all of 2014.

	2015				2014					
	First nine months	3rd quarter	2nd quarter	1st quarter	Total 2014	4th quarter	First nine months	3rd quarter	2nd quarter	1st quarter
	% (in annual terms)									
Net profit attributable to the shareholders of the banking corporation	**11.9**	10.4	7.8	19.3	5.4	(0.7)	7.7	10.2	3.6	9.8

Basic net profit per share attributable to the shareholders of the banking corporation was NIS 1.63 for the first nine months of 2015, compared with NIS 0.99 for the corresponding period last year.

The following table is the condensed statement of comprehensive income:

	For the three months ended			
	30 September 2015	30 September 2014	Change	
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation	**704**	636	68	10.7
Other comprehensive profit (loss) after tax:				
Adjustments in respect of presenting available for sale securities at fair value, net	**(685)**	424	(1,109)	-
Adjustments from translation of financial statements net, after hedges	**2**	16	(14)	-
Adjustments of liabilities in respect of employee rights	**46**	(5)	51	+
Share of the banking corporation in other comprehensive loss of companies included on equity basis	**3**	(6)	9	+
Total other comprehensive income	**(634)**	429	(1,063)	-
Tax effect attributed to other comprehensive income	**234**	(51)	285	+
Other comprehensive income (loss) attributable to noncontrolling interests	**2**	-	2	-
Total profit attributable to shareholders in the banking corporation	**302**	1,014	(712)	(70.2)

	For the nine months ended			
	30 September 2015	30 September 2014	Change	
	NIS millions		NIS millions	%
Net profit attributable to shareholders in the banking corporation	**2,404**	1,456	948	65.1
Other comprehensive profit (loss) after tax:				
Adjustments in respect of presenting available for sale securities at fair value, net	**(402)**	479	(881)	-
Adjustments from translation of financial statements net, after hedges	**(4)**	6	(10)	-
Adjustments of liabilities in respect of employee rights	**1,050**	181	869	+
Share of the banking corporation in other comprehensive loss of companies included on equity basis	**15**	(5)	20	+
Total other comprehensive income	**659**	661	(2)	(0.3)
Tax effect attributed to other comprehensive income	**(310)**	(199)	(111)	55.8
Other comprehensive income (loss) attributable to noncontrolling interests	**(1)**	-	(1)	-
Total profit attributable to shareholders in the banking corporation	**2,754**	1,918	836	43.6

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

Total assets of Leumi Group as at 30 September 2015 amounted to NIS 408.5 billion, compared with NIS 396.9 billion at the end of 2014, an increase of 2.9%, and compared with 30 September 2014, an increase of 7.4%.

The value of the assets in the balance sheet denominated in and linked to foreign currency was some NIS 86.5 billion, some 21.2% of total assets. During the first nine months of 2015, the shekel fell against the U.S. dollar by 0.9% and appreciated against the euro by 6.8%.

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 1,195 billion, compared with NIS 1,223 billion at the end of 2014 (about US$ 305 billion and US$ 314 billion, respectively).

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

	30 September 2015	31 December 2014	From December 2014	From September 2014
	NIS millions		Change %	
Total assets	**408,524**	396,984	2.9	7.4
Cash and deposits with banks	**52,562**	60,615	(13.3)	(3.8)
Securities	**67,545**	52,113	29.6	46.7
Credit to the public, net	**260,009**	252,480	3.0	4.2
Buildings and equipment	**2,992**	3,162	(5.4)	(1.9)
Deposits of the public	**317,991**	303,397	4.8	10.9
Deposits from banks	**3,650**	4,556	(19.9)	(23.7)
Debentures, notes and subordinated notes	**22,187**	23,678	(6.3)	(7.3)
Equity attibuted to shareholders of the banking corporation	**28,575**	25,798	10.8	7.0

The following table sets out the development of the main off-balance sheet items, after provision for credit losses:

	30 September 2015	31 December 2014	From December 2014	From June 2014
	NIS millions		Change %	
Documentary credits	**1,635**	1,624	0.7	(21.0)
Guarantees securing credit	**5,711**	5,969	(4.3)	1.3
Guarantess to apartment purchasers	**18,862**	17,523	7.6	15.5
Other guarantees and liabilities	**16,579**	16,863	(1.7)	4.7
Derivative instruments (a)	**679,769**	664,316	2.3	+
Options of all types	**127,508**	149,837	(14.9)	(14.7)

(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 318.0 billion as at 30 September 2015, compared with NIS 303.4 billion as at 31 December 2014, an increase of 4.8%, and compared with 30 September 2014, an increase of 10.9%, this, despite the movement of NIS 4.7 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 nine months of the year contributed to a decrease of 0.1% in total deposits of the public.

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

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

	30 September 2015	31 December 2014	Change %
	NIS millions		
Households	**124,033**	115,480	7.4
Small businesses	**26,454**	26,090	1.4
Private banking	**31,545**	34,830	(9.4)
Commercial banking	**48,546**	44,598	8.9
Corporate banking	**26,222**	27,754	(5.5)
Financial management and other	**61,191**	54,645	12.0
Total	**317,991**	303,397	4.8

Debentures, capital notes and subordinated notes totaled NIS 22.2 billion on 30 September 2015, compared with NIS 23.7 billion as at 31 December 2014, a decrease of 6.3%, and compared with 30 September 2014, a decrease of 7.3%. In the first nine months of 2015, NIS 4.7 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 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 September 2015	31 December 2014	Change	
	NIS millions		NIS millions	%
Securities portfolios (a)	**581,411**	618,728	(37,317)	(6.0)
Assets in respect of which operating services are provided: (a)(b)(c)				
Mutual funds	**63,631**	74,052	(10,421)	(14.1)
Provident and pension funds	**70,412**	67,434	2,978	4.4
Supplementary training funds	**70,865**	65,466	5,399	8.2

(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 260.0 billion as at 30 September 2015, compared with NIS 252.5 billion as at 31 December 2014, an increase of 3.0%, and compared with 30 September 2014, an increase of 4.2%.

In addition to credit to the public, the Group invests in corporate debentures which, as at 30 September 2015, amounted to NIS 12,316 million, compared with NIS 15,005 million as at 31 December 2014, a decrease of 17.9%.

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

	30 September 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	**2,114**	**0.5**	2,212	0.6	(4.4)
Mining and quarrying	**703**	**0.2**	761	0.2	(7.6)
Industry	**34,501**	**8.6**	38,283	9.8	(9.9)
Construction and real estate (b)	**89,043**	**22.2**	83,499	21.3	6.6
Electricity and water	**6,114**	**1.5**	5,650	1.4	8.2
Trade	**34,054**	**8.5**	34,953	8.9	(2.6)
Hotels, catering and food	**4,207**	**1.1**	4,470	1.1	(5.9)
Transportation and storage	**7,035**	**1.8**	6,461	1.6	8.9
Information and communications	**8,353**	**2.1**	7,687	2.0	8.7
Financial services	**40,074**	**10.0**	42,679	10.9	(6.1)
Other business services	**12,651**	**3.2**	12,039	3.1	5.1
Public and community services	**8,553**	**2.1**	7,905	2.0	8.2
Private individuals - housing loans	**83,294**	**20.7**	78,359	20.0	6.3
Private persons – other	**69,993**	**17.5**	67,081	17.1	4.3
Total	**400,689**	**100.0**	392,039	100.0	2.2

(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 1,291 million and off-balance sheet credit risk amounting to NIS 1,788 million, compared with 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 September 2015	31 December 2014	Rate of change
	NIS millions		%
Households	**117,686**	110,696	6.3
Small businesses	**25,799**	24,034	7.3
Private banking	**4,786**	5,882	(18.6)
Corporate banking	**57,227**	58,761	(2.6)
Commercial banking	**51,597**	49,833	3.5
Financial management and other	**2,914**	3,274	(11.0)
Total	**260,009**	252,480	3.0

Additional data on total credit

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

		30 September 2015		
Credit ceiling in NIS thousands		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
-	80	**80.7**	**5.9**	**20.2**
80	600	**15.8**	**21.1**	**10.6**
600	1,200	**2.4**	**14.5**	**4.1**
1,200	2,000	**0.6**	**6.3**	**2.2**
2,000	8,000	**0.4**	**9.0**	**4.5**
8,000	20,000	**0.1**	**6.5**	**3.9**
20,000	40,000	**0.04**	**6.3**	**5.2**
40,000	200,000	**0.04**	**15.0**	**17.3**
200,000	800,000	**0.01** (a)	**11.9**	**22.4**
Above 800,000		**0.001** (b)	**3.5**	**9.6**
Total		**100.0**	**100.0**	**100.0**

		31 December 2014		
Credit ceiling in NIS thousands		Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%		
-	80	80.7	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 September 2015 - 169 borrowers and on 31 December 2014 - 153 borrowers.
(b) On 30 September 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:

Credit ceiling in NIS millions		**30 September 2015**					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit risk	
		Total	Of which: Related parties	Total	Of which: Related parties	Total	Of which: Related parties
From	To			NIS millions			
800	1,200	**12**	**-**	**4,914**	**-**	**6,443**	**-**
1,200	1,600	**1**	**-**	**1**	**-**	**1,220**	**-**
1,600	2,000	**2**	**-**	**1,276**	**-**	**2,200**	**-**
2,000	2,400	**1**	**-**	**1,937**	**-**	**349**	**-**
2,400	2,405	**1**	**-**	**1,336**	**-**	**1,069**	**-**
Total		**17**	**-**	**9,464**	**-**	**11,281**	**-**

Credit ceiling in NIS millions		31 December 2014					
		Number of borrowers		Balance sheet credit		Off-balance sheet credit risk	
		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 September 2015		
	Number of borrowers	Balance sheet credit	Off-balance sheet credit risk
		NIS millions	
Industry and manufacturing	**3**	**54**	**3,808**
Construction and real estate	**6**	**2,494**	**3,250**
Public and community services	**1**	**669**	**262**
Information and communications	**1**	**1,937**	**349**
Financial services	**4**	**2,831**	**1,844**
Hotels, catering and food	**1**	**143**	**699**
Supply of electricity, gas, steam and air-conditioning	**1**	**1,336**	**1,069**
Total	**17**	**9,464**	**11,281**

	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
Supply of electricity, gas, steam and air-conditioning	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 September 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. As of 30 September 2015, the Group has no credit exposure to large borrowers, groups of borrowers and banking groups of borrowers whose debt exceeds 10% of the Bank's capital. The regulatory limit is 120% of the Bank's capital.

Regarding the change in the definition of capital for the purposes of restrictions on the indebtedness of borrower and group of borrowers as a result of an amendment to the Proper Conduct of Banking Business Directive no. 313, see the chapter on Legislation and Regulation relating to the Banking System, above.

Problem debts

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

	30 September 2015			31 December 2014		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions			NIS millions		
Impaired debts	**3,270**	**170**	**3,440**	3,500	212	3,712
Substandard debts	**1,476**	**379**	**1,855**	2,062	619	2,681
Special mention debts	**2,865**	**1,345**	**4,210**	2,645	513	3,158
Total	**7,611**	**1,894**	**9,505**	8,207	1,344	9,551

Problem credit risk:

	30 September 2015	31 December 2014
	Problem credit risk	Problem credit risk
	NIS millions	
Commercial problem credit risk	**10,234**	10,439
Retail problem credit risk	**1,233**	1,309
Total	**11,467**	11,748
Allowance for credit losses	**1,962**	2,197
Problem credit after allowance for credit losses	**9,505**	9,551

Credit to Governments amounted to NIS 474 million as at 30 September 2015, compared with NIS 528 million at 31 December 2014, a decrease of 10.2%, and compared with 30 September 2014, a decrease of 7.1%.

Securities

The Group's investments in securities amounted to NIS 67.5 billion as at 30 September 2015, compared with NIS 52.1 billion as at 31 December 2014, an increase of 29.6%, and compared with 30 September 2014, an increase of 46.7%.

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

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

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

	30 September 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	**51,625**	**350**	**(86)**	**51,889**	**51,889**
For trading	**11,686**	**52** (a)	**(28)** (a)	**11,710**	**11,710**
	63,311	**402**	**(114)**	**63,599**	**63,599**
Shares and mutual funds					
Available-for-sale	**3,292**	**284**	**(205)**	**3,371**	**3,371**
For trading	**687**	**3** (a)	**(115)** (a)	**575**	**575**
	3,979	**287**	**(320)**	**3,946**	**3,946**
Total securities	**67,290**	**689**	**(434)**	**67,545**	**67,545**

(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 September 2015, 81.8% of the Group's *nostro* portfolio was classified as available-for-sale securities and 18.2% was classified as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. Some 5.8% 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 September 2015		31 December 2014	
	Issued in Israel	Issued abroad	Issued in Israel	Issued abroad
	NIS millions		NIS millions	
Agriculture	**-**	**-**	-	4
Mining and quarrying	**93**	**9**	-	-
Industry	**47**	**413**	130	1,032
Construction and real estate	**81**	**348**	74	222
Electricity and water	**944**	**236**	537	260
Trade	**55**	**-**	104	3
Hotels, catering and food	**-**	**7**	-	7
Transportation and storage	**-**	**20**	-	141
Information and communications	**40**	**149**	45	322
Financial services (a)	**205**	**9,378**	439	11,040
Business and other services	**-**	**211**	12	486
Public and community services	**22**	**58**	25	122
Total	**1,487**	**10,829**	1,366	13,639

(a) Including asset-backed debentures.

Available-for-sale portfolio

a. In the first nine months of 2015, there was negative movement in capital reserve of available-for-sale securities amounting to NIS 402 million (before the effect of tax). The movement was attributable to profit from securities which were realized and transferred to profit and loss amounting to NIS 932 million and from a positive movement attributable to an increase in value amounting to NIS 530 million (before the effect of tax). This compared with a positive movement of NIS 479 million last year which was attributable to an increase in value of NIS 962 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 483 million.

b. Net profits from the sale of debentures amounting to NIS 154 million were recorded to the profit and loss statement, compared with profits of NIS 127 million in the corresponding period last year.

The accumulated net balance of adjustments to fair value of securities held in the available-for-sale portfolio, as at 30 September 2015, amounted to a positive amount of NIS 56 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 87 million were recorded in the profit and loss statement in the first nine months of 2015, compared with profits of NIS 358 million in the corresponding period last year. In respect of shares and funds, realized and unrealized profits were recorded amounting to NIS 57 million, compared with profits amounting to NIS 26 million in the corresponding period in 2014.

Investments in securities issued abroad

The Group's securities portfolio includes some NIS 29 billion (US$ 7.4 billion) of securities issued abroad. About 93% of the portfolio is invested in debt instruments, all (except for 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 a third 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 decrease in value (the offset between increases and decreases in value), charged to equity in respect of securities issued abroad, as of 30 September 2015, amounted to NIS 162 million (NIS 101 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 September 2015 to NIS 8.8 billion (US$ 2.2 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$ 2.0 billion) is classified in the available-for-sale portfolio, and the balance in the trading portfolio.

The portfolio of available-for-sale investments in foreign asset-backed securities as at 30 September 2015 includes investments in mortgage-backed debentures in the total amount of NIS 5.8 billion. 93% 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 September 2015, the cumulative net decrease in value which was carried to equity deriving from the mortgage-backed debenture portfolio amounted to NIS 5 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 1,346 million.

The forecast term to maturity for each mortgage-backed debenture portfolio is, on average, 4.6 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 2.1 billion, of which CLO-type debentures account for NIS 2.0 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is 3.8 years on average.

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

The Group's securities portfolio as at 30 September 2015 is NIS 20.1 billion (US$ 5.1 billion), including non-asset-backed securities, include mainly securities of the U.S. government, banks and financial institutions and debentures of investment-grade companies.

Of these securities, NIS 17.5 billion (US$ 4.5 billion) are classified in the available-for-sale portfolio, and some NIS 2.6 billion in the trading portfolio. Of the total securities, 98% 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 September 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 163 million (NIS 102 million after tax). In the first nine months of 2015, there was a decrease in value amounting to NIS 81 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 September 2015 amounted to NIS 2.6 billion (US$ 0.7 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 September 2015 amounted to NIS 36.9 billion, of which NIS 36.0 billion was in debentures issued by the Government of Israel in shekels and in foreign currency, with the balance being debentures issued by companies. 68.6% of the investments in corporate debentures amounting to NIS 0.6 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 0.6 billion, there is capital reserve amounting to NIS 29 million.

Investments in shares and funds

Total investments in shares and funds amounted to some NIS 3,946 million as at 30 September 2015, of which some NIS 2,637 million was in quoted shares and some NIS 1,309 million in unquoted shares. Out of the total investment, NIS 3,371 million is classified as available-for-sale and NIS 575 million is classified in the trading portfolio.

The total fair value of the balance of principal investments in shares and mutual funds as of 30 September 2015 amounts to NIS 3,946 million. The capital required for the purpose of the capital adequacy ratio in respect of these investments as of 30 September 2015 amounted to NIS 493 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 Limited 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 September 2015, other assets (including intangible assets and goodwill) and debit balances in respect of derivative instruments amounted to NIS 22.6 billion, compared with NIS 23.8 billion at the end of 2014, a decrease of 5.2%.

Other liabilities and credit balances in respect of derivative instruments

As of 30 September 2015, other liabilities and credit balances in respect of derivative instruments amounted to NIS 34.6 billion, compared with NIS 37.5 billion at the end of 2014, a decrease of 7.7%.

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 September 2015	31 December 2014	Change	**30 September 2015**	31 December 2014	Change	**30 September 2015**	31 December 2014	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households	**117,686**	110,696	6.3	**124,033**	115,480	7.4	**118,718**	111,377	6.6
Small businesses	**25,799**	24,034	7.3	**26,454**	26,090	1.4	**25,823**	24,063	7.3
Private banking	**4,786**	5,882	(18.6)	**31,545**	34,830	(9.4)	**6,133**	10,346	(40.7)
Commercial banking	**51,597**	49,833	3.5	**48,546**	44,598	8.9	**54,105**	51,923	4.2
Corporate banking	**57,227**	58,761	(2.6)	**26,222**	27,754	(5.5)	**58,802**	60,723	(3.2)
Financial management and other	**2,914**	3,274	(11.0)	**61,191**	54,645	12.0	**144,943**	138,552	4.6
Total	**260,009**	252,480	3.0	**317,991**	303,397	4.8	**408,524**	396,984	2.9

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

	Guarantees and documentary credits			Securities portfolios, including mutual funds		
	30 September 2015	31 December 2014	Change	**30 September 2015**	31 December 2014	Change
	NIS millions		%	NIS millions		%
Households	**359**	369	(2.7)	**118,849**	127,429	(6.7)
Small businesses	**1,500**	1,461	2.7	**12,609**	12,630	(0.2)
Private banking	**243**	336	(27.7)	**77,390**	94,520	(18.1)
Commercial banking	**6,773**	7,050	(3.9)	**24,732**	25,420	(2.7)
Corporate banking	**32,624**	31,468	3.7	**50,955**	52,890	(3.7)
Financial management and other	**1,288**	1,295	(0.5)	**501,784**	512,791	(2.1)
Total	**42,787**	41,979	1.9	**786,319**	825,680	(4.8)

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

	For the three months ended			For the nine months ended		
	30 September 2015	30 September 2014	Change	**30 September 2015**	30 September 2014	Change
	NIS millions		%	NIS millions		%
Households	**7**	47	(85.1)	**51**	171	(70.2)
Small businesses	**80**	91	(12.1)	**243**	263	(7.6)
Private banking	**(19)**	(359)	94.7	**(92)**	(878)	89.5
Commercial	**133**	75	77.3	**424**	370	14.6
Corporate	**184**	315	(41.6)	**517**	859	(39.8)
Financial management:						
Capital markets	**388**	26	+	**412**	85	+
Non-bank investments	**(109)**	498	-	**743**	542	37.1
Other	**40**	(57)	+	**106**	44	+
Total	**704**	636	10.7	**2,404**	1,456	65.1

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			
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter
Households	**7**	15	29	(27)	47	69	55
Small businesses	**80**	73	90	29	91	87	85
Private banking	**(19)**	(37)	(36)	(45)	(359)	(496)	(23)
Commercial	**133**	134	157	104	75	147	148
Corporate	**184**	199	134	310	315	277	267
Financial management:							
Capital markets	**388**	94	(70)	(59)	26	30	29
Non-bank investments	**(109)**	21	831	(245)	498	(11)	55
Other	**40**	19	47	(110)	(57)	126	(25)
Total	**704**	518	1,182	(43)	636	229	591

Return on equity by operating segment

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).

	Allocation of all the capital		
	Return on capital (RORAC)		
	30 September 2015	30 September 2014	31 December 2014
	%		
Households	**0.9**	3.4	2.1
Small businesses	**16.3**	18.8	15.1
Private banking	**(16.8)**	-	(106.5)
Commercial banking	**10.9**	10.5	9.5
Corporate banking	**9.0**	15.8	15.6
Financial management	**53.5**	27.6	10.5
Other	**14.1**	8.2	(8.6)
Total for net profit	**11.9**	7.7	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 September 2015						
	NIS millions						
Net interest income:							
From external sources	**241**	**60**	**2**	**586**	**-**	**2**	**891**
Intersegmental	**169**	**(4)**	**-**	**(407)**	**3**	**-**	**(239)**
Non-interest income:							
From external sources	**124**	**152**	**111**	**17**	**2**	**-**	**406**
Intersegmental	**3**	**45**	**-**	**-**	**-**	**-**	**48**
Total income	**537**	**253**	**113**	**196**	**5**	**2**	**1,106**
Expenses (income) in respect of credit losses	**101**	**6**	**-**	**5**	**(1)**	**2**	**113**
Operating and other expenses:							
To external sources	**661**	**170**	**81**	**64**	**3**	**2**	**981**
Intersegmental	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Profit (loss) before taxes	**(224)**	**77**	**32**	**127**	**3**	**(2)**	**13**
Provision for (benefit from) taxes on profit	**(82)**	**24**	**12**	**47**	**-**	**-**	**1**
Profit (loss) after taxes	**(142)**	**53**	**20**	**80**	**3**	**(2)**	**12**
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)	**(142)**	**48**	**20**	**80**	**3**	**(2)**	**7**

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity Banking and finance	Overseas activity Mortgages	Total
	For the three months ended 30 September 2014						
	NIS millions						
Net interest income:							
From external sources	193	58	2	594	(2)	3	848
Intersegmental	230	(7)	(1)	(419)	4	-	(193)
Non-interest income:							
From external sources	124	139	119	20	2	-	404
Intersegmental	7	41	-	-	-	-	48
Total income	554	231	120	195	4	3	1,107
Expenses (income) in respect of credit losses	45	3	-	8	(1)	-	55
Operating and other expenses:							
To external sources	659	156	98	55	5	1	974
Intersegmental	2	(2)	-	-	-	-	-
Profit (loss) before taxes	(152)	74	22	132	-	2	78
Provision for (benefit from) taxes on profit	(57)	23	8	50	-	-	24
Profit (loss) after taxes	(95)	51	14	82	-	2	54
Group share in profits of companies included on equity basis after effect of tax	-	1	-	-	-	-	1
Net profit attributable to non-controlling interests	-	(8)	-	-	-	-	(8)
Net profit (loss)	(95)	44	14	82	-	2	47

Households (contd.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	For the nine months ended 30 September 2015						
	NIS millions						
Net interest income:							
From external sources	**817**	**176**	**5**	**1,356**	**(2)**	**7**	**2,359**
Intersegmental	**381**	**(11)**	**(1)**	**(824)**	**9**	**-**	**(446)**
Non-interest income:							
From external sources	**395**	**422**	**364**	**57**	**6**	**-**	**1,244**
Intersegmental	**2**	**125**	**-**	**-**	**-**	**-**	**127**
Total income	**1,595**	**712**	**368**	**589**	**13**	**7**	**3,284**
Expenses (income) in respect of credit losses	**180**	**12**	**-**	**13**	**1**	**1**	**207**
Operating and other expenses:							
To external sources	**2,019**	**486**	**278**	**188**	**9**	**6**	**2,986**
Intersegmental	**1**	**(2)**	**-**	**-**	**-**	**-**	**(1)**
Profit (loss) before taxes	**(605)**	**216**	**90**	**388**	**3**	**-**	**92**
Provision for taxes (benefit) on profit	**(227)**	**72**	**34**	**145**	**-**	**-**	**24**
Profit (loss) after taxes	**(378)**	**144**	**56**	**243**	**3**	**-**	**68**
Group share in profits of companies included on equity basis after effect of tax	**-**	**4**	**-**	**-**	**-**	**-**	**4**
Net profit attributable to non-controlling interests	**-**	**(21)**	**-**	**-**	**-**	**-**	**(21)**
Net profit (loss)	**(378)**	**127**	**56**	**243**	**3**	**-**	**51**
Return on equity							**0.9%**
Average balance of assets	**26,666**	**10,868**	**388**	**76,245**	**54**	**208**	**114,429**
Of which: investments in companies included on equity basis	**-**	**3**	**-**	**-**	**-**	**-**	**3**
Average balance of credit to the public, net	**26,413**	**10,629**	**169**	**76,170**	**54**	**208**	**113,643**
Average balance of liabilities	**118,016**	**1,063**	**-**	**196**	**946**	**8**	**120,229**
Average balance of deposits of the public	**117,829**	**70**	**-**	**-**	**945**	**7**	**118,851**
Average balance of risk assets	**27,647**	**11,374**	**469**	**42,508**	**269**	**73**	**82,340**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**80,774**	**-**	**-**	**-**	**80,774**
Average balance of securities	**-**	**-**	**44,154**	**-**	**185**	**-**	**44,339**
Average balance of other assets under management	**2,662**	**-**	**-**	**-**	**-**	**-**	**2,662**
Balance of credit to the public, net	**27,351**	**10,997**	**177**	**78,846**	**106**	**209**	**117,686**
Balance of deposits of the public	**123,037**	**85**	**-**	**-**	**903**	**8**	**124,033**

Households (contd.)

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity Banking and finance	Overseas activity Mortgages	Total
	For the nine months ended 30 September 2014						
	NIS millions						
Net interest income:							
From external sources	618	178	5	1,514	(5)	8	2,318
Intersegmental	649	(17)	(2)	(995)	12	(1)	(354)
Non-interest income:							
From external sources	389	411	353	61	5	-	1,219
Intersegmental	10	125	-	-	-	-	135
Total income	1,666	697	356	580	12	7	3,318
Expenses (income) in respect of credit losses	147	12	-	19	(1)	(1)	176
Operating and other expenses:							
To external sources	1,913	468	298	165	11	5	2,860
Intersegmental	3	(3)	-	-	-	-	-
Profit (loss) before taxes	(397)	220	58	396	2	3	282
Provision for taxes (benefit) on profit	(147)	70	21	148	-	-	92
Profit (loss) after taxes	(250)	150	37	248	2	3	190
Group share in profits of companies included on equity basis after effect of tax	-	4	-	-	-	-	4
Net profit attributable to non-controlling interests	-	(23)	-	-	-	-	(23)
Net profit (loss)	(250)	131	37	248	2	3	171
Return on equity							3.4%
Average balance of assets	23,926	9,982	172	70,259	47	215	104,601
Of which investments in companies included on equity basis	-	2	-	-	-	-	2
Average balance of credit to the public, net	23,485	9,761	172	70,214	47	215	103,894
Average balance of liabilities	114,926	1,342	-	380	922	8	117,578
Average balance of deposits of the public	114,841	52	-	-	921	8	115,822
Average balance of risk assets	25,428	10,406	186	38,226	269	75	74,590
Average balance of mutual funds and supplementary training funds	-	-	78,646	-	-	-	78,646
Average balance of securities	-	-	48,035	-	185	-	48,220
Average balance of other assets under management	3,681	-	-	-	-	-	3,681
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 7.0 billion, or 6.3% compared with the end of 2014. Housing loans increased by 6.5%, while consumer credit increased by 6.0%. Deposits of the public increased by 7.4% to NIS 8.6 billion.

Main Changes in Net Profit

In the first nine months of 2015, the profit in the households segment amounted to NIS 51 million, compared with a profit of NIS 171 million in the corresponding period last year, a decrease of NIS 120 million. The decrease derives mainly from an increase in operating and other expenses amounting to NIS 125 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 non-interest 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 0.9%.

Pension Counseling

The pension assets of customers receiving counseling in the Leumi Group at the end of September 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 23.6 billion, an increase of 3.9% compared with 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 nine months of 2015	First nine months of 2014	Rate of change
	NIS millions		%
From Bank funds	**12,876**	10,863	18.5
From Ministry of Finance funds:			
Loans	**8**	20	(60.0)
Standing loans	**7**	17	(58.8)
Total new loans	**12,891**	10,900	18.3
Refinanced loans	**4,336**	2,837	52.8
Total loans extended	**17,227**	13,737	25.4

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 in the Bank:

	Balance of housing credit	Rate of increase
	NIS millions	%
December 2013	68,152	13.0
December 2014	73,919	8.5
September 2015	**78,777**	**6.6**

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 in the Bank:

	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
September 2015	**42,520**	**54.0**	**34.737**	**44.1**	**1,520**	**1.9**	**78,777**

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

	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
September 2015	**11,496**	**12,365**	**31,024**	**22,372**	**1,520**	**78,777**

Development of new housing loans by type of interest in the Bank:

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						2013
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
	Percentage of loans extended							
	%							
Fixed – linked	**19.9**	19.8	23.1	22.0	22.6	25.2	22.0	14.4
Variable – every 5 years or more – linked	**13.5**	11.6	13.1	14.8	18.1	18.1	17.6	29.1
Variable – up to 5 years – linked	**1.5**	1.0	1.2	2.3	1.5	1.9	2.1	2.5
Fixed-unlinked	**30.5**	35.8	28.8	25.7	20.5	18.7	20.7	13.4
Variable – every 5 years or more – unlinked	**5.4**	5.5	6.6	6.5	6.0	6.3	7.6	9.8
Variable – up to 5 years – unlinked	**28.8**	25.8	26.6	28.2	29.9	27.9	28.6	29.3
Variable – foreign currency	**0.4**	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 nine months of 2015 was 53%, 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 nine months of 2015 was 29%, compared with 32% in 2014.

The balance of the portfolio of housing loans in arrears of more than 90 days in the Bank 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
September 2015	**79,277**	**766**	**1.0**

The allowance for credit losses as at 30 September 2015, which includes the group allowance for housing loans (hereinafter, "the overall allowance") is NIS 499 million, representing 0.63% 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 in the Bank:

During the first nine months of 2015, new housing loans amounting to NIS 12.9 billion from the Bank's funds were extended.

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

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
	3rd quarter	2nd quarter	1st quarter	Annual average	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average
Rate of financing	%								
Between 60% and 70%	**18.6**	18.8	19.2	18.5	20.1	17.6	19.6	16.6	18.3
Between 70% and 80%	**17.1**	18.1	16.5	14.5	15.5	14.1	13.9	14.4	16.3
Above 80%	*** 0.7**	* 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 in the Bank:

The average financing rate of the credit portfolio balance as at 30 September 2015 was 47.6%, compared with 49.5% at 31 December 2014.

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

The rate of credit extended in the first nine months 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 0.37% of the total new credit extended, compared with 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 in the Bank:

The rate of new credit for housing loans in the first nine months of 2015, in which the repayment schedule according to the loan contracts is longer than 25 years, stood at an average of 32% 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 an increase in demand for housing units in recent years, both for residential purposes and for investment, and against a background of an increase in housing prices, in addition to the low interest environment, the extent of housing credit increased.

As a result of these and in the framework of risk management, it was decided to tighten the administrative restrictions, mainly, the following features: the rates of financing, monthly repayment capacity, credit ratings in accordance with the Bank's internal statistical model.

The average loan extended by the Bank in the first nine months 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:

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 30 September 2015							
	NIS millions							
Net interest income:								
From external sources	**202**	**6**	**1**	**1**	**78**	**11**	**3**	**302**
Intersegmental	**(18)**	**(1)**	**-**	**-**	**(8)**	**-**	**(2)**	**(29)**
Non-interest income:								
From external sources	**72**	**31**	**7**	**1**	**18**	**6**	**1**	**136**
Intersegmental	**-**	**(10)**	**-**	**-**	**-**	**-**	**-**	**(10)**
Total income	**256**	**26**	**8**	**2**	**88**	**17**	**2**	**399**
Expenses in respect of credit losses	**28**	**-**	**-**	**-**	**4**	**2**	**-**	**34**
Operating and other expenses:								
To external sources	**172**	**15**	**5**	**-**	**32**	**10**	**2**	**236**
Intersegmental	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**2**
Profit before taxes	**56**	**9**	**3**	**2**	**52**	**5**	**-**	**127**
Provision for taxes on profit	**22**	**2**	**1**	**1**	**20**	**-**	**-**	**46**
Profit after taxes	**34**	**7**	**2**	**1**	**32**	**5**	**-**	**81**
Profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit	**34**	**6**	**2**	**1**	**32**	**5**	**-**	**80**

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 30 September 2014							
	NIS millions							
Net interest income:								
From external sources	203	4	1	1	78	13	2	302
Intersegmental	(23)	(1)	-	-	(11)	(4)	(1)	(40)
Non-interest income:								
From external sources	79	29	7	-	18	6	-	139
Intersegmental	2	(11)	-	-	-	-	-	(9)
Total income	261	21	8	1	85	15	1	392
Expenses (income) in respect of credit losses	24	-	-	-	6	(1)	-	29
Operating and other expenses:								
To external sources	160	14	4	-	32	11	1	222
Intersegmental	-	2	-	-	-	-	-	2
Profit before taxes	77	5	4	1	47	5	-	139
Provision for taxes on the profit	26	2	1	-	18	1	-	48
Profit after taxes	51	3	3	1	29	4	-	91
Net profit (loss) attributable to non-controlling interests	1	(1)	-	-	-	-	-	-
Net profit	52	2	3	1	29	4	-	91

Small businesses (contd.)

						Overseas activity		
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Real estate	Total
	For the nine months ended 30 September 2015							
	NIS millions							
Net interest income:								
From external sources	**586**	**16**	**1**	**2**	**228**	**31**	**6**	**870**
Intersegmental	**(49)**	**(1)**	**-**	**(1)**	**(22)**	**-**	**(2)**	**(75)**
Non-interest income:								
From external sources	**227**	**91**	**25**	**1**	**55**	**17**	**2**	**418**
Intersegmental	**2**	**(31)**	**-**	**-**	**-**	**-**	**-**	**(29)**
Total income	**766**	**75**	**26**	**2**	**261**	**48**	**6**	**1,184**
Expenses (income) in respect of credit losses	**83**	**-**	**-**	**-**	**9**	**(1)**	**-**	**91**
Operating and other expenses:								
To external sources	**508**	**47**	**15**	**-**	**99**	**31**	**5**	**705**
Intersegmental	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**5**
Profit before taxes	**175**	**23**	**11**	**2**	**153**	**18**	**1**	**383**
Provision for taxes on profit	**66**	**7**	**4**	**1**	**58**	**2**	**-**	**138**
Profit after taxes	**109**	**16**	**7**	**1**	**95**	**16**	**1**	**245**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit	**109**	**14**	**7**	**1**	**95**	**16**	**1**	**243**
Return on equity								**16.3%**
Average balance of assets	**15,336**	**1,023**	**18**	**74**	**7,361**	**885**	**240**	**24,937**
Average balance of credit to the public, net	**15,330**	**1,008**	**18**	**72**	**7,360**	**885**	**240**	**24,913**
Average balance of liabilities	**18,976**	**1,541**	**-**	**-**	**5,869**	**1,125**	**173**	**27,684**
Average balance of deposits of the public	**18,976**	**-**	**-**	**-**	**5,728**	**1,124**	**172**	**26,000**
Average balance of risk assets	**12,632**	**912**	**24**	**42**	**7,434**	**1,092**	**240**	**22,376**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,473**	**-**	**-**	**-**	**-**	**4,473**
Average balance of securities	**-**	**-**	**8,301**	**-**	**-**	**6**	**-**	**8,307**
other assets under management	**119**	**-**	**-**	**-**	**-**	**-**	**-**	**119**
Balance of credit to the public, net	**15,937**	**1,029**	**10**	**69**	**7,456**	**987**	**311**	**25,799**
Balance of deposits of the public	**19,253**	**-**	**-**	**-**	**5,863**	**1,226**	**112**	**26,454**

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 nine months ended 30 September 2014							
	NIS millions							
Net interest income:								
From external sources	587	14	1	2	233	41	8	886
Intersegmental	(53)	(2)	-	(1)	(36)	(12)	(3)	(107)
Non-interest income:								
From external sources	229	88	22	-	50	16	1	406
Intersegmental	2	(32)	-	-	-	-	-	(30)
Total income	765	68	23	1	247	45	6	1,155
Expenses (income) in respect of credit losses	61	-	-	-	12	6	-	79
Operating and other expenses:								
To external sources	481	41	12	-	90	29	4	657
Intersegmental	1	4	-	-	-	-	-	5
Profit before taxes	222	23	11	1	145	10	2	414
Provision for taxes on the profit	82	7	4	-	55	1	-	149
Profit after taxes	140	16	7	1	90	9	2	265
Net profit attributable to non-controlling interests	-	(2)	-	-	-	-	-	(2)
Net profit	140	14	7	1	90	9	2	263
Return on equity								18.8%
Average balance of assets	14,677	948	19	77	6,976	1,000	252	23,949
Average balance of credit to the public, net	14,644	934	19	77	6,974	1,000	252	23,900
Average balance of liabilities	16,989	1,591	-	-	4,763	716	141	24,200
Average balance of deposits of the public	16,958	-	-	-	4,643	716	141	22,458
Average balance of risk assets	11,844	846	26	42	6,983	1,102	252	21,095
Average balance of mutual funds and supplementary training funds	-	-	4,094	-	-	-	-	4,094
Average balance of securities	-	-	8,643	-	-	8	-	8,651
Average balance of other assets under	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 1.8 billion, or 7.3%, compared with the end of 2014. Public deposits increased by NIS 0.4 million, or 1.4%.

Main Changes in the Net Profit

In the first nine months of 2015, net profit in the Small Businesses segment totaled NIS 243 million, compared with NIS 263 million in the corresponding period last year, a decrease of 7.6%. The decrease in profit derives mainly from an increase in operating and other expenses amounting to NIS 48 million, which was partly offset by an increase in interest income amounting to NIS 16 million.

The return on equity of the net profit in the segment was 16.3%.

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 September 2015									
	NIS millions									
Net interest income:										
From external sources	**(12)**	**-**	**-**	**-**	**3**	**9**	**-**	**-**	**-**	**-**
Intersegmental	**29**	**-**	**-**	**-**	**-**	**25**	**-**	**-**	**-**	**54**
Non-interest income:										
From external sources	**2**	**-**	**36**	**-**	**3**	**24**	**19**	**-**	**-**	**84**
Intersegmental	**6**	**1**	**-**	**-**	**1**	**5**	**-**	**-**	**-**	**13**
Total income	**25**	**1**	**36**	**-**	**7**	**63**	**19**	**-**	**-**	**151**
Expenses in respect of credit losses	**(2)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**
Operating and other expenses:										
To external sources	**52**	**-**	**17**	**-**	**3**	**79**	**24**	**-**	**-**	**175**
Intersegmental	**(1)**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit (loss) before taxes	**(24)**	**-**	**19**	**-**	**4**	**(16)**	**(5)**	**-**	**-**	**(22)**
Provision for taxes (tax benefit) on profit	**(10)**	**-**	**7**	**-**	**2**	**-**	**(1)**	**-**	**-**	**(2)**
Loss attributable to non-controlling interests	-	-	-	-	-	1	-	-	-	1
Net profit (loss)	**(14)**	**-**	**12**	**-**	**2**	**(15)**	**(4)**	**-**	**-**	**(19)**

	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 September 2014									
	NIS millions									
Net interest income:										
From external sources	(47)	-	(5)	-	3	14	-	10	(1)	(26)
Intersegmental	66	-	5	(1)	-	34	-	(6)	1	99
Non-interest income:	-	-	-	-	-	-	-	-	-	-
From external sources	(1)	1	40	-	5	57	40	1	-	143
Intersegmental	7	1	-	-	-	8	-	-	-	16
Total income	25	2	40	(1)	8	113	40	5	-	232
Expenses in respect of credit losses	1	-	-	-	-	2	-	-	-	3
Operating and other expenses:	-	-	-	-	-	-	-	-	-	-
To external sources	341	-	18	-	4	307	46	3	-	719
Intersegmental	-	-	-	-	-	1	-	-	-	1
Profit (loss) before taxes	(317)	2	22	(1)	4	(197)	(6)	2	-	(491)
Provision for (benefit from) taxes on profit	(118)	-	8	-	1	(24)	-	-	-	(133)
Profit (loss) from ordinary activities after taxes	(199)	2	14	(1)	3	(173)	(6)	2	-	(358)
Profit attributable to non-controlling interests	-	-	-	-	-	(1)	-	-	-	(1)
Net profit (loss)	(199)	2	14	(1)	3	(174)	(6)	2	-	(359)

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 nine months ended 30 September 2015									
	NIS millions									
Net interest income:										
From external sources	**(29)**	**-**	**3**	**1**	**10**	**17**	**-**	**16**	**-**	**18**
Intersegmental	**70**	**-**	**(3)**	**-**	**-**	**92**	**-**	**(10)**	**1**	**150**
Non-interest income:										
From external sources	**19**	**1**	**117**	**-**	**13**	**100**	**75**	**3**	**-**	**328**
Intersegmental	**4**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
Total income	**64**	**2**	**117**	**1**	**23**	**209**	**75**	**9**	**1**	**501**
Expenses (income) in respect of credit losses	**5**	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**3**
Operating and other expenses:										
To external sources	**160**	**1**	**54**	**-**	**10**	**276**	**99**	**6**	**1**	**607**
Intersegmental	**-**	**1**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**2**
Profit (loss) before taxes	**(101)**	**-**	**63**	**1**	**13**	**(66)**	**(24)**	**3**	**-**	**(111)**
Provision for (benefit from) taxes on profit	**(36)**	**-**	**22**	**-**	**5**	**(4)**	**(5)**	**1**	**-**	**(17)**
Profit (loss) after taxes	**(65)**	**-**	**41**	**1**	**8**	**(62)**	**(19)**	**2**	**-**	**(94)**
Net profit attributable to non-controlling	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**-**	**-**	**2**
Net profit (loss)	**(65)**	**-**	**41**	**1**	**8**	**(60)**	**(19)**	**2**	**-**	**(92)**
Return on equity										**(16.8%)**
Average balance of assets	**1,723**	**79**	**3**	**58**	**859**	**3,939**	**-**	**803**	**-**	**7,464**
credit to the public, net	**1,575**	**79**	**3**	**57**	**849**	**1,715**	**-**	**797**	**-**	**5,075**
Average balance of liabilities	**19,612**	**-**	**57**	**-**	**1,676**	**11,533**	**-**	**13**	**93**	**32,984**
Average balance of deposits of the public	**19,475**	**-**	**57**	**-**	**1,667**	**11,097**	**-**	**13**	**91**	**32,400**
Average balance of risk assets	**1,833**	**81**	**31**	**33**	**855**	**3,520**	**-**	**281**	**-**	**6,634**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**10,111**	**-**	**-**	**383**	**1,586**	**-**	**-**	**12,080**
Average balance of securities	**-**	**-**	**50,873**	**-**	**-**	**2,205**	**18,365**	**-**	**-**	**71,443**
Average balance of other assets under management	**34**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**34**
Balance of credit to the public, net	**1,616**	**84**	**2**	**53**	**873**	**1,379**	**-**	**779**	**-**	**4,786**
Balance of deposits of the public	**20,374**	**-**	**13**	**-**	**1,736**	**9,318**	**-**	**13**	**91**	**31,545**

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 nine months ended 30 September 2014									
	NIS millions									
Net interest income:										
From external sources	(82)	-	(8)	1	9	38	-	29	(1)	(14)
Intersegmental	132	-	8	(1)	1	107	-	(18)	2	231
Non-interest income:										
From external sources	8	1	123	-	14	141	142	3	-	432
Intersegmental	16	1	-	-	2	7	-	-	-	26
Total income	74	2	123	-	26	293	142	14	1	675
respect of credit losses	1	-	-	-	(1)	2	-	-	-	2
Operating and other expenses:										
To external sources	375	1	55	-	11	1,067	155	9	1	1,674
Intersegmental	1	-	-	-	-	1	1	-	-	3
Profit (loss) before taxes	(303)	1	68	-	16	(777)	(14)	5	-	(1,004)
Provision for (benefit from) taxes on profit	(113)	-	25	-	6	(18)	(1)	1	-	(100)
ordinary operations	(190)	1	43	-	10	(759)	(13)	4	-	(904)
Loss attributable to non-controlling interest holders	-	-	-	-	-	26	-	-	-	26
Net profit (loss)	(190)	1	43	-	10	(733)	(13)	4	-	(878)
Return on equity										-
Average balance of assets	1,428	69	17	56	738	7,595	-	806	-	10,709
Average balance of credit to the public, net	1,340	69	17	56	728	3,112	-	806	-	6,128
Average balance of liabilities	17,352	-	159	-	1,495	15,910	-	14	118	35,048
Average balance of deposits of the public	17,135	-	159	-	1,488	15,319	-	14	118	34,233
Average balance of risk assets	1,536	71	54	30	745	5,093	-	282	-	7,811
Average balance of mutual funds and supplementary training funds	-	-	9,033	-	-	-	1,680	-	-	10,713
Average balance of securities	-	-	43,569	-	-	-	35,672	-	-	79,241
Average balance of other assets under management	86	-	-	-	-	-	-	-	-	86
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 18.6% compared with the end of 2014. Deposits of the public amounted to NIS 31.5 billion, a decrease or NIS 3.3 billion, or 9.4%. 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 4.7 billion compared with December 2014, and a decrease in the level of off-balance sheet activity amounting to NIS 16.1 billion, compared with December 2014.

As a part of Bank' Group policy to reduce activity outside Israel in the area of Global Private Banking, Bank Leumi UK, wholly-owned subsidiary of the Bank, which is a banking corporation in the United Kingdom, has been making preliminary contacts with the possibility of selling its holdings in its subsidiary, Bank Leumi Jersey, and the holdings of Bank Leumi Jersey in its subsidiary, Leumi Overseas Trust Corporation, which is incorporated in Jersey. The contacts are to sell the holdings in corporations as aforesaid, and/or the activities of the corporations.

For further information in respect of the contacts to sell Bank Leumi Jersey, see the chapter, Major Investee Companies, below.

Main Changes in the Net Profit

In the first nine months of 2015, the loss in the private banking segment totaled NIS 92 million, compared with a loss of NIS 878 million in the corresponding period last year. The loss in the first nine months of 2015 was primarily attributable to a loss in the segment in the offices in the United States and Switzerland as a result of recording a provision for expenses in respect of the closure of the office in Switzerland. The loss in the first nine months 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 September 2015							
	NIS millions							
Net interest income:								
From external sources	**165**	**3**	**-**	**85**	**132**	**-**	**43**	**428**
Intersegmental	**(16)**	**-**	**-**	**(29)**	**(21)**	**-**	**(6)**	**(72)**
Non-interest income:								
From external sources	**70**	**21**	**5**	**16**	**17**	**-**	**5**	**134**
Intersegmental	**4**	**(9)**	**-**	**-**	**-**	**-**	**-**	**(5)**
Total income	**223**	**15**	**5**	**72**	**128**	**-**	**42**	**485**
Expenses (income) in respect of credit losses	**(38)**	**-**	**-**	**(5)**	**2**	**-**	**13**	**(28)**
Operating and other expenses:								
To external sources	**158**	**9**	**4**	**19**	**94**	**-**	**13**	**297**
Intersegmental	**(1)**	**1**	**-**	**-**	**-**	**-**	**-**	**-**
Profit before taxes	**104**	**5**	**1**	**58**	**32**	**-**	**16**	**216**
Provision for taxes	**39**	**1**	**-**	**22**	**11**	**-**	**9**	**82**
Profit after taxes	**65**	**4**	**1**	**36**	**21**	**-**	**7**	**134**
Net profit attributable to holders of non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**-**	**(1)**
Net profit	**65**	**3**	**1**	**36**	**21**	**-**	**7**	**133**

	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 September 2014							
	NIS millions							
Net interest income:								
From external sources	152	3	-	90	131	-	37	413
Intersegmental	14	(1)	-	(34)	(24)	-	(12)	(57)
Non-interest income:								
From external sources	74	18	7	15	19	1	2	136
Intersegmental	(1)	(8)	-	-	-	-	-	(9)
Total income	239	12	7	71	126	1	27	483
Expenses (income) in respect of credit losses	(9)	-	-	(7)	83	-	14	81
Operating and other expenses:								
To external sources	142	12	3	17	96	-	6	276
Intersegmental	-	-	-	-	-	-	-	-
Profit (loss) before taxes	106	-	4	61	(53)	1	7	126
Provision for (benefit from) taxes on profit	40	2	1	23	(16)	-	1	51
Profit (loss) after taxes	66	(2)	3	38	(37)	1	6	75
Net profit attributable to holders of non-controlling interests	-	-	-	-	-	-	-	-
Net profit (loss)	66	(2)	3	38	(37)	1	6	75

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 nine months ended 30 September 2015							
	NIS millions							
Net interest income:								
From external sources	**499**	**7**	**-**	**250**	**388**	**-**	**132**	**1,276**
Intersegmental	**(56)**	**-**	**-**	**(70)**	**(59)**	**-**	**####**	**(208)**
Non-interest income:								
From external sources	**205**	**59**	**19**	**49**	**54**	**-**	**11**	**397**
Intersegmental	**18**	**(25)**	**-**	**1**	**-**	**-**	**-**	**(6)**
Total income	**666**	**41**	**19**	**230**	**383**	**-**	**120**	**1,459**
Expenses (income) in respect of credit losses	**(72)**	**-**	**-**	**(31)**	**4**	**-**	**(4)**	**(103)**
Operating and other expenses:								
To external sources	**470**	**29**	**13**	**62**	**274**	**-**	**34**	**882**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit before taxes	**268**	**12**	**6**	**199**	**105**	**-**	**90**	**680**
Provision for taxes on profit	**102**	**3**	**2**	**75**	**38**	**-**	**34**	**254**
Profit after taxes	**166**	**9**	**4**	**124**	**67**	**-**	**56**	**426**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit	**166**	**7**	**4**	**124**	**67**	**-**	**56**	**424**
Return on equity								**10.9%**
Average balance of assets	**22,912**	**361**	**38**	**10,041**	**15,068**	**-**	**3,732**	**52,152**
Average balance of credit to the public, net	**21,544**	**358**	**37**	**10,015**	**14,791**	**-**	**3,669**	**50,414**
Average balance of liabilities	**30,496**	**1,063**	**86**	**3,788**	**11,706**	**-**	**988**	**48,127**
Average balance of deposits of the public	**29,922**	**-**	**86**	**3,614**	**11,217**	**-**	**958**	**45,797**
Average balance of risk assets	**27,868**	**384**	**254**	**10,373**	**15,309**	**-**	**3,732**	**57,920**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,604**	**-**	**-**	**87**	**-**	**4,691**
Average balance of securities	**-**	**-**	**18,308**	**-**	**1,614**	**1,377**	**-**	**21,299**
Average balance of other assets under	**295**	**-**	**-**	**-**	**-**	**-**	**-**	**295**
Balance of credit to the public, net	**21,770**	**359**	**-**	**10,379**	**15,251**	**-**	**3,838**	**51,597**
Balance of deposits of the public	**31,868**	**-**	**-**	**3,827**	**10,813**	**-**	**2,038**	**48,546**

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 nine months ended 30 September 2014							
	NIS millions							
Net interest income:								
From external sources	455	7	-	246	389	-	106	1,203
Intersegmental	6	(1)	1	(75)	(59)	-	(32)	(160)
Non-interest income:								
From external sources	204	57	21	27	49	4	10	372
Intersegmental	15	(26)	-	15	-	-	-	4
Total income	680	37	22	213	379	4	84	1,419
Expenses (income) in respect of credit losses	(47)	-	-	(17)	105	-	19	60
Operating and other expenses:								
To external sources	393	26	13	47	249	2	28	758
Intersegmental	1	-	-	-	-	-	-	1
Profit before taxes	333	11	9	183	25	2	37	600
Provision for taxes	126	4	3	69	14	-	12	228
Profit after taxes	207	7	6	114	11	2	25	372
Net profit attributable to non-controlling interests	-	(2)	-	-	-	-	-	(2)
Net profit	207	5	6	114	11	2	25	370
Return on equity								10.5%
Average balance of assets	23,473	334	184	8,816	13,889	-	3,038	49,734
Average balance of credit to the public, net	21,014	334	164	8,798	13,707	-	2,980	46,997
Average balance of liabilities	25,405	1,108	16	2,908	10,051	-	1,052	40,540
Average balance of deposits of the public	24,622	-	16	2,819	9,970	-	930	38,357
Average balance of risk assets	28,976	384	401	8,956	11,141	-	3,038	52,896
Average balance of mutual funds and supplementary training funds	-	-	5,856	-	-	114	-	5,970
Average balance of securities	-	-	18,541	-	-	1,413	-	19,954
Average balance of other assets under management	509	-	-	-	-	-	-	509
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	11,588	-	1,147	44,598

Commercial banking (contd.)

Total credit to the public in the commercial segment increased by NIS 1.8 billion, an increase of 3.5%, compared with the end of 2014, and total deposits of the public increased by NIS 3.9 billion, or 8.9%.

Main changes in net profit

In the first nine months of 2015, net profit in the commercial banking segment totaled NIS 424 million, compared with NIS 370 million during the corresponding period last year, an increase of NIS 54 million, or 14.6%. The increase derives from the recording of income in respect of credit losses in first nine months of 2015 amounting to NIS 103 million as a result of collections of the Bank and the branch in the United Kingdom, compared with expenses in respect of credit losses amounting to NIS 60 million in the corresponding period last year, and from an increase in total income in the segment amounting to NIS 40 million. The increase was partially offset by an increase in operating and other expenses amounting to NIS 123 thousand.

The return on equity of the net profit in the segment was 10.9%.

5. Corporate Banking

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

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 30 September 2015						
	NIS millions						
Net interest income:							
From external sources	**249**	**5**	**-**	**185**	**2**	**-**	**441**
Intersegmental	**(92)**	**-**	**-**	**(60)**	**(1)**	**1**	**(152)**
Non-interest income:							
From external sources	**27**	**50**	**2**	**111**	**-**	**1**	**191**
Intersegmental	**(27)**	**(24)**	**-**	**(13)**	**-**	**-**	**(64)**
Total income	**157**	**31**	**2**	**223**	**1**	**2**	**416**
Expenses (income) in respect of credit losses	**(75)**	**-**	**-**	**23**	**-**	**-**	**(52)**
Operating and other expenses:							
To external sources	**105**	**21**	**2**	**40**	**1**	**1**	**170**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit before taxes	**126**	**10**	**-**	**160**	**-**	**1**	**297**
Provision for taxes on profit	**47**	**3**	**-**	**61**	**1**	**-**	**112**
Profit (loss) after taxes	**79**	**7**	**-**	**99**	**(1)**	**1**	**185**
Net profit attributable to non-controlling interests	**-**	**(1)**	**-**	**-**	**-**	**-**	**(1)**
Net profit (loss)	**79**	**6**	**-**	**99**	**(1)**	**1**	**184**

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the three months ended 30 September 2014						
	NIS millions						
Net interest income:							
From external sources	303	5	-	201	1	-	510
Intersegmental	(126)	(1)	-	(76)	2	1	(200)
Non-interest income:							
From external sources	214	49	4	119	-	1	387
Intersegmental	(124)	(24)	-	(43)	-	-	(191)
Total income	267	29	4	201	3	2	506
Income in respect of credit losses	(118)	-	-	(38)	-	-	(156)
Operating and other expenses:							
To external sources	87	22	2	42	2	1	156
Intersegmental	(1)	1	-	-	-	-	-
Profit before taxes	299	6	2	197	1	1	506
Provision for taxes on profit	113	2	1	74	-	-	190
Profit after taxes	186	4	1	123	1	1	316
Net profit attributable to non-controlling interests	-	(1)	-	-	-	-	(1)
Net profit	186	3	1	123	1	1	315

Corporate banking (contd.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity Banking and finance	Overseas activity Real estate	Total
	For the nine months ended 30 September 2015						
	NIS millions						
Net interest income:							
From external sources	**707**	**16**	**-**	**514**	**3**	**(1)**	**1,239**
Intersegmental	**(241)**	**(1)**	**-**	**(132)**	**(1)**	**5**	**(370)**
Non-interest income:							
From external sources	**(181)**	**144**	**8**	**241**	**1**	**2**	**215**
Intersegmental	**289**	**(69)**	**-**	**30**	**-**	**-**	**250**
Total income	**574**	**90**	**8**	**653**	**3**	**6**	**1,334**
Expenses (income) in respect of credit losses	**(27)**	**-**	**-**	**26**	**-**	**-**	**(1)**
Operating and other expenses:							
To external sources	**297**	**68**	**6**	**124**	**2**	**4**	**501**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit before taxes	**303**	**22**	**2**	**503**	**1**	**2**	**833**
Provision for taxes on profit	**115**	**6**	**1**	**190**	**1**	**-**	**313**
Profit after taxes	**188**	**16**	**1**	**313**	**-**	**2**	**520**
Net profit attributable to non-controlling interests	**-**	**(3)**	**-**	**-**	**-**	**-**	**(3)**
Net profit	**188**	**13**	**1**	**313**	**-**	**2**	**517**
Return on equity							**9.0%**
Average balance of assets	**36,684**	**385**	**-**	**21,561**	**101**	**6**	**58,737**
Average balance of credit to the public, net	**35,013**	**358**	**-**	**21,510**	**101**	**6**	**56,988**
Average balance of liabilities	**20,604**	**2,676**	**2**	**6,510**	**148**	**284**	**30,224**
Average balance of deposits of the public	**19,451**	**-**	**2**	**5,886**	**147**	**175**	**25,661**
Average balance of risk assets	**48,209**	**418**	**23**	**38,362**	**103**	**6**	**87,121**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**790**	**-**	**-**	**-**	**790**
Average balance of securities	**-**	**-**	**53,467**	**-**	**-**	**-**	**53,467**
Average balance of other assets under management	**174**	**-**	**-**	**-**	**-**	**-**	**174**
Balance of credit to the public, net	**33,950**	**358**	**-**	**22,661**	**258**	**-**	**57,227**
Balance of deposits of the public	**18,942**	**-**	**6**	**6,824**	**273**	**177**	**26,222**

Corporate banking (contd.)

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	For the nine months ended 30 September 2014						
	NIS millions						
Net interest income:							
From external sources	905	15	1	564	1	1	1,487
Intersegmental	(362)	(2)	1	(192)	6	2	(547)
Non-interest income:							
From external sources	237	143	10	259	2	1	652
Intersegmental	(6)	(70)	-	(18)	-	-	(94)
Total income	774	86	12	613	9	4	1,498
Expenses in respect of credit losses	(181)	-	-	(189)	-	-	(370)
Operating and other expenses:							
To external sources	282	61	7	128	6	2	486
Intersegmental	-	1	-	-	-	-	1
Profit before taxes	673	24	5	674	3	2	1,381
Provision for taxes on profit	254	7	2	254	1	-	518
Profit after taxes	419	17	3	420	2	2	863
Net profit attributable to non-controlling interests	-	(4)	-	-	-	-	(4)
Net profit	419	13	3	420	2	2	859
Return on equity							15.8%
Average balance of assets	39,354	375	83	21,078	102	47	61,039
Average balance of credit to the public, net	37,741	348	83	21,039	102	47	59,360
Average balance of liabilities	18,438	2,867	-	5,413	514	165	27,397
Average balance of deposits of the public	16,912	-	-	4,810	514	165	22,401
Average balance of risk assets	46,942	416	127	36,023	149	47	83,704
Average balance of mutual funds and supplementary training funds	-	-	2,091	-	-	-	2,091
Average balance of securities	-	-	60,428	-	-	-	60,428
Average balance of other assets under management	196	-	-	-	-	-	196
Balance of credit to the public, net, 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

Main Changes in the Scope of Operations

Total credit to the public in the segment decreased by NIS 1.5 billion compared with the end of 2014, a decrease of 2.6%. Total deposits of the public decreased by NIS 1.5 billion, or 5.5%.

Main Changes in Net Profit

In the first nine months of 2015, net profit in the corporate banking segment totaled NIS 517 million, compared with NIS 859 million during the corresponding period in 2014, a decrease of NIS 342 million. The decrease was attributable to a decrease in income in respect of credit losses amounting to NIS 369 million, as a result of collections last year, and to a decrease in total revenues amounting to NIS 93 million, as a result of a profit on the sale of the shares of Tower amounting to NIS 99 million which was recorded last year.

The return on equity of the net profit in the segment was 9.0%.

6. Financial Management – Capital Markets

	For the three months ended 30 September	
	2015	2014
	NIS millions	
Net interest income:		
From external sources	**(187)**	(148)
Intersegmental	**439**	389
Non-interest income:		
From external sources	**361**	149
Intersegmental	**30**	55
Total income	**643**	445
Expenses (income) in respect of credit losses	**8**	44
Operating and other expenses:		
To external sources	**228**	132
Intersegmental	**15**	16
Profit before taxes	**392**	253
Provision for taxes on profit	**126**	72
Profit after taxes	**266**	181
Group share in profits (losses) of companies included on equity basis after effect of tax	**13**	344
Net profit attributed to non-controlling interests	**-**	(1)
Net profit	**279**	524

	For the nine months ended 30 September		
	2015	2014	
	NIS millions		
Net interest income:			
From external sources	**(371)**	(319)	
Intersegmental	**947**	929	
Non-interest income:			
From external sources	**2,053**	879	
Intersegmental	**(312)**	(112)	
Total income	**2,317**	1,377	
Expenses (income) in respect of credit losses	**(31)**	42	
Operating and other expenses:			
To external sources	**789**	856	
Intersegmental	**43**	41	
Profit before taxes	**1,516**	438	
Provision for taxes on profit	**517**	101	
Profit after taxes	**999**	337	
Group share in profits of companies included on equity basis after effect of tax	**157**	290	
Net profit attributed to non-controlling interests	**(1)**	-	
Net profit	**1,155**	627	
Return on equity	**53.5%**	27.6%	
Average balance of assets	**134,278**	114,877	
Average balance of credit to the public, net	**3,293**	3,694	
Average balance of liabilities	**110,901**	100,450	
Average balance of deposits of the public	**58,509**	50,530	
Average balance of risk assets	**34,343**	34,528	
Average balance of mutual funds and supplementary training funds	**138,257**	132,807	
Average balance of securities	**387,357**	376,715	
Balance of credit to the public, net	**2,913**	3,274	(a)
Balance of deposits of the public	**61,184**	54,636	(a)

(a) Balances as of 31 December 2014

The profit in the financial management segment in the first nine months of 2015 amounted to NIS 1,155 million, compared with NIS 627 million in the corresponding period last year. The increase in the profit resulted from an increase in non-interest income amounting to NIS 974 million, mainly due to profits from sales of shares in the Israel Corporation and Mobileye. The increase was partially offset by an increase in the provision for tax and a decrease in the profits of companies included on equity basis as a result of discontinuing the recording of a profit from the Israel Corporation.
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 948 million on 30 September 2015, compared with NIS 2,216 million on 31 December 2014. The decrease in investments in companies included on equity basis derives from the presentation of the investment of the Israel Corporation in the financial statements since the end of the first quarter 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 September 2015	31 December 2014	Change	**30 September 2015**	31 December 2014	**30 September 2015**	31 December 2014
	NIS millions		%	NIS millions			
The Israel Corporation Ltd.	**-**	1,318	(100.0)	**-**	2,566	**-**	165
Others	**948**	898	5.6	* **-**	* -	**119**	112
Total	**948**	2,216	(57.2)	**-**	2,566	**119**	277

* Of which, NIS 210 million at 30 September 2015 and NIS 194 million at 31 December 2014 are quoted.

The profits of companies included on equity basis in the first nine months of 2015 amounted to NIS 161 million, compared with a loss of NIS 294 million in the corresponding period last year.

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

	For the nine months ended		
	30 September 2015	30 September 2014	Change
	NIS millions		%
The Israel Corporation Ltd.	**114**	261	(56.3)
Others	**47**	33	42.4
Total	**161**	294	(45.2)

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 by 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, whose shares were allocated in full, prior to the transfer of the assets, to the shareholders in the Israel Corporation (hereinafter, "the split"). The shares of Kenon were 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 profit of NIS 522 million, before the effect of tax, which is included in the financial statements for the first nine months of 2015.

In accordance with a directive of the Banking Supervision Department, dated 4 March 2015, it was decided 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 approve the cancelation of the shareholders' 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 Board of Directors of the Israel Corporation, with effect from 30 March 2015.

On 31 March 2015, as a result of the decrease in the rates of shareholding and the permanent waiver of 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 31 March 2015. The Bank's share in the profits of the Israel Corporation for the first quarter of 2015 was accounted for on 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 generated 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 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 yielded a profit for the Bank, before the effect of tax, amounting to NIS 289 million, which is 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 activity of companies which are not associated with other segments. In the first nine months of 2015, the profit in the "others" segment amounted to NIS 106 million, compared with a profit of NIS 44 million in the corresponding period last year.

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

	For the nine months ended		Change
	30 September 2015	30 September 2014	NIS in millions
Net profit in the Bank	**80**	32	48
Other companies in Israel	**14**	14	-
Companies abroad	**(36)**	1	(37)
Tax adjustments (a)	**48**	(3)	51
Total	**106**	44	62

(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, brokerage 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 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 September 2015							
	NIS millions							
Net interest income	**2**	**1**	**-**	**-**	**-**	**(2)**	**-**	**1**
Non-interest income	**111**	**7**	**36**	**5**	**2**	**34**	**17**	**212**
Total income	**113**	**8**	**36**	**5**	**2**	**32**	**17**	**213**
Operating and other expenses	**81**	**5**	**17**	**4**	**2**	**48**	**18**	**175**
Profit (loss) before taxes	**32**	**3**	**19**	**1**	**-**	**(16)**	**(1)**	**38**
Net profit (loss)	**20**	**2**	**12**	**1**	**-**	**(10)**	**(2)**	**23**

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Financial management and others	Overseas activities	Total
	For the three months ended 30 September 2014							
	NIS millions							
Net interest income	1	1	-	-	-	2	-	4
Non-interest income	119	7	40	7	4	38	45	260
Total income	120	8	40	7	4	40	45	264
Operating and other expenses	98	4	18	3	2	94	46	265
Profit (loss) before taxes	22	4	22	4	2	(54)	(1)	(1)
Net profit (loss)	14	3	14	3	1	(33)	(2)	-

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2015							
	NIS millions							
Net interest income	**4**	**1**	**-**	**-**	**-**	**-**	**-**	**5**
Non-interest income	**364**	**25**	**117**	**19**	**8**	**111**	**75**	**719**
Total income	**368**	**26**	**117**	**19**	**8**	**111**	**75**	**724**
Operating and other expenses	**278**	**15**	**54**	**13**	**6**	**133**	**100**	**599**
Profit (loss) before taxes	**90**	**11**	**63**	**6**	**2**	**(22)**	**(25)**	**125**
Net profit (loss)	**56**	**7**	**41**	**4**	**1**	**(12)**	**(20)**	**77**

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Financial management and others	Overseas activities	Total
	For the nine months ended 30 September 2014							
	NIS millions							
Net interest income	3	1	-	1	2	4	-	11
Non-interest income	353	22	123	21	10	109	151	789
Total income	356	23	123	22	12	113	151	800
Operating and other expenses	298	12	55	13	7	171	184	740
Profit (loss) before taxes	58	11	68	9	5	(58)	(33)	60
Net profit (loss)	37	7	43	6	3	(34)	(25)	37

In the first nine months of 2015, the net profit from capital market operations amounted to NIS 77 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 includes mainly the issue of credit cards to private customers and voucher clearing services for businesses.

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

Leumi Card ended the first nine months of 2015 with a net profit of NIS 142 million, compared with NIS 155 million in the corresponding period last year.

During the first nine months of 2015, the volume of activity by Leumi Card cardholders increased by 6% compared with the corresponding period last year. The number of valid cards at 30 September 2015 increased by 5% compared with 30 September 2014.

On 4 March 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 the employees' representatives. 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, *inter alia,* to 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.

Currently, there is no proposed law and there is no legislation which requires the sale of credit card companies by the banks. The Strum Committee has yet to publish its recommendations, and it still not possible to know whether the recommendations will be for such a move, and, if so, what the time-table will be and what the transitional provisions will be. Accordingly, at this stage, it is not at all possible to estimate whether an obligation to sell the holdings will be imposed on the Bank in the future and if such a an obligation is imposed, what the content of the obligation will be. As long as there is no legislation which compels a sale, the Bank does not intend to sell Leumi Card.

Furthermore, the conditions for recognizing a tax provision have yet not been fulfilled.

The tax effect expected to arise if and when the Bank sells Leumi Card at its equity value in the books is estimated to be NIS 90 million.

The Bank's holding in credit cards

On 2 November 2015, the companies, Visa Inc. (NYSE: V) and Visa Europe Ltd., announced their engagement in an agreement, according to which Visa Inc. will acquire Visa Europe. The Bank is a member of Visa Europe Ltd., in connection with the activity of its subsidiary, Leumi Card.

Further to the abovementioned reports, the execution of the transaction is subject to the receipt of various regulatory approvals and it is expected that the transaction will be completed in 2016.

At this stage, the Bank has no possibility of estimating what the amount of the proceeds that are expected to be received will be, if the transaction is completed.

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 September 2015					
	NIS millions					
Net interest income	**56**	**5**	**-**	**3**	**5**	**69**
Non-interest income	**197**	**21**	**1**	**12**	**26**	**257**
Total income	**253**	**26**	**1**	**15**	**31**	**326**
Expenses in respect of credit losses	**6**	**-**	**-**	**-**	**-**	**6**
Operating and other expenses	**170**	**17**	**1**	**10**	**21**	**219**
Profit before taxes	**77**	**9**	**-**	**5**	**10**	**101**
Profit attributed to non-controlling interests	**(7)**	**(1)**	**-**	**(1)**	**(1)**	**(10)**
Net profit	**48**	**6**	**-**	**3**	**6**	**63**

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Total
	For the three months ended 30 September 2014					
	NIS millions					
Net interest income	51	3	-	2	4	60
Non-interest income	180	18	2	10	25	235
Total income	231	21	2	12	29	295
Expenses in respect of credit losses	3	-	-	-	-	3
Operating and other expenses	154	16	-	12	23	205
Profit before taxes	74	5	2	-	6	87
Profit attributed to non-controlling interests	(8)	(1)	-	-	(1)	(10)
Net profit	44	2	2	(2)	3	49

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Total
	For the nine months ended 30 September 2015					
	NIS millions					
Net interest income	**165**	**15**	**-**	**7**	**15**	**202**
Non-interest income	**547**	**60**	**2**	**34**	**75**	**718**
Total income	**712**	**75**	**2**	**41**	**90**	**920**
Expenses in respect of credit losses	**12**	**-**	**-**	**-**	**-**	**12**
Operating and other expenses	**484**	**52**	**2**	**29**	**68**	**635**
Profit (loss) before taxes	**216**	**23**	**-**	**12**	**22**	**273**
Profit attributed to non-controlling interests	**(21)**	**(2)**	**-**	**(2)**	**(3)**	**(28)**
Net profit	**127**	**14**	**-**	**7**	**13**	**161**

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Total
	For the nine months ended 30 September 2014					
	NIS millions					
Net interest income	161	12	-	6	13	192
Non-interest income	536	56	2	31	73	698
Total income	697	68	2	37	86	890
Expenses in respect of credit losses	12	-	-	-	-	12
Operating and other expenses	465	45	1	26	62	599
Profit before taxes	220	23	1	11	24	279
Profit attributed to non-controlling interests	(23)	(2)	-	(2)	(4)	(31)
Net profit	131	14	1	5	13	164

Net profit from credit card activity in the first nine months of 2015 amounted to NIS 161 million, compared with NIS 164 million in the corresponding period last year. There was an increase amounting to NIS 30 million in credit card activity, which was offset in full by an increase in operating and other expenses, mainly due to 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 September 2015					
	NIS millions					
Net interest income	**70**	**3**	**56**	**125**	**44**	**298**
Non-interest income	**18**	**4**	**16**	**98**	**7**	**143**
Total income	**88**	**7**	**72**	**223**	**51**	**441**
Expenses (income) in respect of credit losses	**4**	**-**	**(5)**	**23**	**13**	**35**
Operating and other expenses	**32**	**3**	**19**	**40**	**16**	**110**
Profit before taxes	**52**	**4**	**58**	**160**	**22**	**296**
Net profit	**32**	**2**	**36**	**99**	**11**	**180**

	Small businesses	Private banking	Commercial banking	Corporate banking	Overseas activity	Total
	For the three months ended 30 September 2014					
	NIS millions					
Net interest income	67	3	56	125	30	281
Non-interest income	18	5	15	76	3	117
Total income	85	8	71	201	33	398
Expenses (income) in respect of credit losses	6	-	(7)	(38)	14	(25)
Operating and other expenses	32	4	17	42	8	103
Profit before taxes	47	4	61	197	11	320
Net profit	29	3	38	123	9	202

	Small businesses	Private banking	Commercial banking	Corporate banking	Overseas activity	Total
	For the nine months ended 30 September 2015					
	NIS millions					
Net interest income	**206**	**10**	**180**	**382**	**129**	**907**
Noninterest income	**55**	**13**	**50**	**271**	**15**	**404**
Total income	**261**	**23**	**230**	**653**	**144**	**1,311**
Expenses (income) in respect of credit losses	**9**	**-**	**(31)**	**26**	**(4)**	**-**
Operating and other expenses	**99**	**10**	**62**	**124**	**44**	**339**
Profit before taxes	**153**	**13**	**199**	**503**	**104**	**972**
Net profit	**95**	**8**	**124**	**313**	**65**	**605**

	Small businesses	Private banking	Commercial banking	Corporate banking	Overseas activity	Total
	For the nine months ended 30 September 2014					
	NIS millions					
Net interest income	197	10	171	372	91	841
Noninterest income	50	16	42	241	13	362
Total income	247	26	213	613	104	1,203
Expenses (income) in respect of credit losses	12	(1)	(17)	(189)	19	(176)
Operating and other expenses	90	11	47	128	35	311
Profit before taxes	145	16	183	674	50	1,068
Net profit	90	10	114	420	35	669

Net profit from real estate activity in the first nine months of 2015 amounted to NIS 605 million, compared with NIS 669 million in the corresponding period last year. The decrease derives mainly from income in respect of credit losses amounting to NIS 176 million which were recorded in the corresponding period last year, and from an increase in operating and other expenses amounting to NIS 28 million. The decrease in profit was offset by an increase in total income of NIS 108 million.

Profit Centers in the Group

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

	For the nine months ended		
	30 September 2015	30 September 2014	Change
	NIS millions		%
The Bank	**1,756**	1,391	26.2
Consolidated companies in Israel (a)	**529**	482	9.8
Overseas consolidated companies (b)	**(8)**	(686)	+
Companies included on equity basis (a)	**127**	269	(52.8)
Net profit	**2,404**	1,456	65.1
Profit of overseas subsidiaries, in nominal terms (US$ millions) (c)	**11**	(125)	+

(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 offices, 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 increase in the Bank's contribution to the net profit, compared with the corresponding period last year was attributable to the sale of the shares of the Israel Corporation and a decrease in operating expenses as a result of recording a provision in respect of the arrangements with the overseas authorities last year. The increase was partly offset by a decrease in net interest income, as a result of a decrease in the market interest rate and from recording credit loss expenses, compared with credit loss income last year.
  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 the 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 nine months 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. The loss in the first nine months of 2014 derives from expenses amounting to NIS 729 million in respect of the arrangements with overseas authorities.

- The decrease in the contribution of companies included on equity basis derives from profits of Israel Corporation which, were recorded only in respect of the first quarter of 2015, compared with a profit in the first nine months 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 6,147 million on 30 September 2015, compared with NIS 6,020 million on 31 December 2014. The contribution to net profit in the first nine months of 2015 amounted to NIS 528.6 million, compared with NIS 481.5 million in the corresponding period in 2014, an increase of NIS 47.1 million, or 9.8%.

Leumi Capital Market Services Ltd.

In the chapter "Legislation and Regulation relating to the Banking System" in the Report of the Board of Directors, mention is made of the draft of the Supervision of Financial Services Regulations (Provident Funds) (Purchase, Sale and Holding of Securities) (Amendment), 2015, published on 29 July, 2015.

The implementation of the regulations, if passed, is likely to compel the Bank to cease providing operating services to institutional entities, on the assumption that it will prefer to continue the provision of brokerage services The Bank is making preliminary and non-binding contacts to examine the possibility of selling its subsidiary – Leumi Capital Market Services Ltd. ("Leumi CMS") or its activity – in full or in part. As long as it is not clear whether the aforesaid provision will become law, the Bank does not intend selling Leumi CMS.

The total revenues and profits of Leumi CMS are not material in relation to the Bank Group's revenues and profits. Accordingly, the transaction to be carried out, if any, will not have a significant impact on the Bank's financial results.

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 nine months ended				
	30 September 2015	30 September 2014	**30 September 2015**	30 September 2014	Change
	%		NIS millions		%
Arab Israel Bank	**14.5**	16.5	**70.0**	69.7	0.4
Leumi Card	**12.1**	14.7	**113.2**	123.6	(8.4)
Leumi Partners (b)	**39.1**	53.0	**328.3**	254.5	29.0
Leumi Real Holdings	**-**	0.7	**0.1**	4.7	(97.9)
Others	**1.1**	3.6	**17.0**	29.0	(41.4)
Total consolidated companies in Israel	**11.9**	12.1	**528.6**	481.5	9.8

(a) The profit 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 4,187 million on 30 September 2015, compared with NIS 4,123 million on 31 December 2014.

In the first nine months of 2015, the results of operations of the overseas consolidated subsidiaries amounted to a loss of NIS 7.6 million, compared with a loss of NIS 686.0 million in the corresponding period in 2014.

Bank Leumi Jersey

Bank Leumi UK, a wholly-owned subsidiary of the Bank, which is a banking corporation in the United Kingdom, is making preliminary contacts in connection with the possibility of selling its holdings in its subsidiary, Bank Leumi Jersey, and the holdings of Bank Leumi Jersey in its subsidiary, Leumi Overseas Trust Corporation, which is incorporated in Jersey, The contacts are for the sale of the holdings in corporations as aforesaid and/or the activity of the corporations.

The total activity of Bank Leumi Jersey and of Leumi Overseas Trust Corporation is immaterial in relation to the Bank Group's activity. The transaction to be carried out, if any, will not have a significant impact on the financial results of the Bank.

Bank Leumi Romania

Pursuant to strategic work carried out in Bank Leumi Romania, it was decided, inter alia, to close five branches in Romania up to the end of 2015 and two further branches up to the end of the first quarter of 2016. The office currently has 21 branches.

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 nine months ended				
	30 September 2015	30 September 2014	**30 September 2015**	30 September 2014	Change
	%		NIS millions		%
Leumi USA (BLC)	**2.7**	-	**51.0**	(205.6)	+
Of which: Leumi USA	**3.1**	-	**49.8**	(208.8)	+
Leumi UK	**9.7**	9.3	**59.0**	51.6	14.3
Leumi Private Bank	**-**	-	**(62.7)**	(518.4)	87.9
Leumi Luxembourg	**-**	-	**(7.1)**	(22.8)	68.9
Leumi Re	**-**	13.7	**(28.9)**	8.3	-
Leumi Romania	**-**	1.6	**(2.8)**	2.9	-
Others	**-**	-	**(16.1)**	(2.0)	-
Total overseas consolidated subsidiaries	**-**	-	**(7.6)**	(686.0)	98.9

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

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

	For the nine months ended		
	30 September 2015	30 September 2014	Change
	In millions		%
Leumi USA (BLC) - US$	**13**	9	44.4
Of which: Leumi USA	**13**	8	62.5
Leumi UK - £	**12**	4	+
Leumi Switzerland - CHF	**(7)**	(132)	94.7
Leumi Luxembourg - €	**1**	(4)	+
Leumi Re - US$	**(12)**	1	-
Leumi Romania – ron *	**7**	5	40.0
Other - US$	**(4)**	-	-
Total translated to the dollar	**11**	(125)	+

* 1 ron at 30 September 2015 = NIS 0.997

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

Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis on 30 September 2015 amounted to NIS 948 million, compared with NIS 2,216 million on 31 December 2014.

During the first nine months of 2015, the contribution to net profit amounted to a profit of NIS 161 million, compared with a loss of NIS 294 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

During the third quarter, volatility in the global and local markets intensified, mainly in light of fears that the sharp decreases in China and fall in oil prices reflect a slowdown in the Chinese economy and constitute more than just a "correction" of the steep increases recorded in the Chinese share index in the preceding quarters. The measures adopted in China for a devaluation of the local currency strengthened these fears and influenced the decision to leave interest rates in the United States at its low level, despite the expectations that it had begun to increase in this quarter. Towards the end of the quarter, the markets began to climb again, but opened a negative gap between the share indices in Israel and those abroad. When, the deterioration in the security situation towards the end of the third quarter and subsequently is liable to lead to an increase in the Bank's local risk environment, particularly, if this deterioration will be prolonged in character.

Globally, the trend of numerous regulatory changes continued, affecting all banking activities, a similar trend apparent in Israel. The various programs for increasing competition in the banking system are liable to raise the level of risk in business activity.

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.

With regard to the capital targets, Leumi routinely continues to be 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 level of risk arising from 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 the 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 September 2015:

	AAA to AA-	A+	A	A-	BBB to BBB-	BB+ to B-	Unrated	Total
Foreign banks	NIS millions							
Euro zone (a)	**1,705**	**-**	**-**	**-**	**-**	**-**	**-**	**1,705**
United Kingdom (b)	**1,851**	**-**	**-**	**-**	**-**	**-**	**-**	**1,851**
United States	**2,048**	**-**	**-**	**-**	**-**	**-**	**-**	**2,048**
Other	**324**	**-**	**-**	**-**	**-**	**-**	**-**	**324**
Total foreign banks	**5,928**	**-**	**-**	**-**	**-**	**-**	**-**	**5,928**
Israeli banks (c)	**-**	**1,966**	**-**	**-**	**-**	**-**	**-**	**1,966**
Corporate customers, by sectors of the economy								
Financial services (d)								**6,470**
Industry (e)								**409**
Construction and real estate								**69**
Transportation and storage								**27**
Trade								**81**
Electricity and water								**3**
Business services								**29**
Private individuals								**13**
Information and communications (f)								**280**
Others								**41**
Total corporate customers								**7,422**
Total exposure								**15,316**

(a) This amount includes transactions with 5 countries.
(b) This amount includes transactions with 11 banks.
(c) This amount includes transactions with 9 banks.
(d) This amount includes transactions with 484 customers, where the highest amount for a single customer is NIS 1,231 million.
(e) This amount includes transactions with 248 customers, where the highest amount for a single customer is NIS 86 million.
(f) This amount includes transactions with 62 customers, where the highest amount for a single customer is NIS 181 million.

3. Credit exposure to foreign financial institutions

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

	As at 30 September 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-	**11,692**	**5,015**	**2,102**	**18,809**
A+ to A-	**1,959**	**13**	**188**	**2,160**
BBB+ to BBB-	**261**	**51**	**132**	**444**
BB+ to B-	**-**	**-**	**3**	**3**
Below B-	**44**	**-**	**-**	**44**
Unrated	**253**	**17**	**19**	**289**
Total current credit exposure to foreign financial institutions	**14,209**	**5,096**	**2,444**	**21,749**
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 626 million at 30 September 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 49%, Europe (Germany, France, Switzerland, Spain and the Benelux countries) 15%, 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 September 2015		
	Balance sheet credit risk	Off-balance sheet credit risk	Total current credit risk
	NIS millions		
United States	**31,331**	**6,623**	**37,954**
United Kingdom	**13,258**	**4,143**	**17,401**
France	**2,534**	**1,228**	**3,762**
Germany	**2,156**	**442**	**2,598**
Switzerland	**2,163**	**367**	**2,530**
Belgium	**375**	**55**	**430**
Italy	**113**	**14**	**127**
The Netherlands	**1,698**	**196**	**1,894**
Denmark	**69**	**2**	**71**
Norway	**19**	**-**	**19**
Austria	**27**	**58**	**85**
Sweden	**17**	**5**	**22**
China	**1,017**	**1,038**	**2,055**
Canada	**739**	**246**	**985**
Brazil	**100**	**9**	**109**
Australia	**304**	**64**	**368**
Others	**6,433**	**807**	**7,240**
Total	**62,353**	**15,297**	**77,650**

	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 September 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	**56,377**	**13,488**	**69,865**	**90.0**	**1,108**
High-income countries	**3,307**	**130**	**3,437**	**4.4**	**3**
Countries with mid-high income	**2,549**	**1,284**	**3,833**	**4.9**	**331**
Countries with mid-low income	**120**	**394**	**514**	**0.7**	**4**
Countries with low income	**-**	**1**	**1**	**-**	**-**
Total	**62,353**	**15,297**	**77,650**	**100.0**	**1,446**

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 1,439 million and relates to 12 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, Germany and South Korea.

b. Countries with high income:

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

c. Countries with mid-high income:

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

d. Countries with mid-low income:

Egypt, India, 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 September 2015				
	Credit to the public	Bonds - banks and others	Bank deposits	Other	Total
	NIS millions				
Ireland	**29**	**269**	**51**	**1**	**350**
Spain	**21**	**176**	**4**	**31**	**232**
Italy	**49**	**43**	**22**	**13**	**127**
Total (a)	**99**	**488**	**77**	**45**	**709**

(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 September 2015	30 September 2014	31 December 2014
	NIS millions		
Capital requirements in respect of :			
Interest risks	**630**	1,175	948
Share price risk	**66**	109	169
Exchange rate risk	**108**	90	200
Options	**78**	29	38
Total capital requirements in respect of market risks	**882**	1,403	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.

Commencing 1 January 2015, the Bank implements the accounting rules regarding employee rights as prescribed by the Bank of Israel, at the center of which is a change in the discounting of the pension obligations. The management of the market risks in respect of the liability to employees is conducted partly within the framework of the banking portfolio and a further part managed separately and independently, against which there are "plan assets", intended to bear a yield over time, with the aim of servicing the value of the obligation. The pension liability is the flow which is affected by changes in the demographic parameters, inflation and the salary which determines the pension. Discounting this liability to employees, of which, by the nature of things, the long duration creates for the Bank a material exposure to changes in interest rates. The accounting effect of these changes on the Bank's capital is material. On the other hand, the investment in the "plan assets" is intended to service some of this liability, and it is performed through an investment in varied and diversified assets, such as shares and debt assets. The investment policy is determined by the funds and receives the Bank's approval. The investment is subject to regulatory restrictions.

As a part of the examination of the overall risk profile, the Bank routinely reviews and monitors the exposures to market risks and the losses which are liable to occur under various scenarios, this, with the aim of reflecting the overall market risks – interest, base, credit margins, shares and funds – holistically.

For further information on the application of the standard and its impact, see the Chapter "Critical Accounting Policy" above and Notes 1 and 14 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 structural interest risks arising from the uncertainty in the market factors that may not be hedged, but are structural in the banking activity. The risk includes inherent behavioral options in loans and deposits that may not be hedged (for example, early repayment options).

The interest risk is actually measured and managed on the basis of various behavioral assumptions with regard to the repayment periods of the assets and liabilities. According to past experience, the Bank considers part 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 to 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 ignores the existence of an interest floor of 0% on deposits. It is probable that when 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 corresponding change of 1% on the yield curve	Potential erosion in economic value			
	Limit	Actual		
		30 September 2015	30 September 2014	31 December 2014
Banking portfolio	**900**	**470**	378	506
Trading portfolio	**450**	**150**	285	220
Total	**1,100**	**578**	492	705
	Potential erosion in annual profit			
	Limit	Actual		
Total	**500**	**163**	31	106

* Within the context of the banking portfolio only some of the interest exposures in respect of the actuarial liability to employees are managed, against which there are no "plan assets". For details of the total of obligations for employee rights, see the table of fair value, below.

In the first nine months of 2015, the potential erosion in economic value ranged from NIS 578 million to NIS 1,008 million, and in annual profit, from NIS 58 million to NIS 228 million. From the third quarter of 2015, the model for early repayment of mortgages was updated, which reduced the exposure to interest risk.

In the first nine months of 2015, the Group complied with all of the interest exposure restrictions prescribed by the Board of Directors.

[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.

Sensitivity of the fair value of assets and liabilities to interest

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

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

	30 September 2015					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**243,583**	**53,083**	**62,555**	**8,816**	**9,314**	**377,351**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**317,886**	**7,550**	**248,057**	**74,384**	**29,386**	**677,263**
Financial liabilities	**204,791**	**45,679**	**82,346**	**14,277**	**8,185**	**355,278**
Amounts payable in respect of derivative financial and off-balance sheet	**337,181**	**9,434**	**229,689**	**69,594**	**30,956**	**676,854**
Net fair value of financial instruments	**19,497**	**5,520**	**(1,423)**	**(671)**	**(441)**	**22,482**
Liabilities in respect of employee rights, gross - pension and compensation *	**-**	**14,860**	**355**	**-**	**206**	**15,421**

* Not including "plan assets" which are managed against some of these liabilities amounting to NIS 7 billion. See Note 14b to the financial statements. For details of the composition of the plan assets, see Note 14c.

	30 September 2014					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	212,153	58,285	58,952	9,274	12,297	350,961
Amounts receivable in respect of derivative financial and off-balance sheet instruments	338,992	6,240	165,166	51,649	29,271	591,318
Financial liabilities	177,129	51,927	76,823	14,555	9,757	330,191
Amounts payable in respect of derivative financial and off-balance sheet	354,583	8,779	148,858	46,814	31,952	590,986
Net fair value of financial instruments	19,433	3,819	(1,563)	(446)	(141)	21,102

	31 December 2014					
	Israeli currency		Foreign currency, including Israeli currency linked to foreign			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	222,410	55,524	64,967	9,373	12,730	365,004
Amounts receivable in respect of derivative financial and off-balance sheet instruments	322,255	6,776	198,239	56,168	35,421	618,859
Financial liabilities	182,348	50,496	87,313	15,721	9,732	345,610
Amounts payable in respect of derivative financial and off-balance sheet	340,762	9,046	177,771	50,011	38,888	616,478
Net fair value of financial instruments	21,555	2,758	(1,878)	(191)	(469)	21,775

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

	30 September 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%	**18,435**	**(7,914)**	**(1,939)**	**(703)**	**(657)**	**161**	**2.28**
Immediate corresponding increase of 0.1%	**19,391**	**(9,187)**	**(1,794)**	**(674)**	**(648)**	**27**	**0.38**
Immediate corresponding decrease of 1%	**20,623**	**(11,217)**	**(1,731)**	**(636)**	**(634)**	**(656)**	**(9.29)**

	30 September 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%	18,711	3,687	(1,701)	(470)	(158)	(1,033)	(4.90)
Immediate corresponding increase of 0.1%	19,361	3,806	(1,577)	(448)	(143)	(103)	(0.49)
Immediate corresponding decrease of 1%	20,232	3,972	(1,442)	(420)	(124)	1,116	5.29

	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 nine months of 2015, the Group complied with all the interest exposure limits set by the Board of Directors. For detailed data on exposure to interest, see Exhibit B below in the Management Review.

	30 September 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**	**3.95**	**0.82**	1.03	2.96	0.96
Average duration of liabilities (a)	**0.97**	**2.94**	**0.79**	0.92	3.00	0.83
Duration gap in years	**0.14**	**1.01**	**0.03**	0.11	(0.04)	0.13
IRR gap (%)	**2.23**	**1.25**	**0.99**	2.29	1.22	1.16

(a) Including forward contracts and options, and based on fair value data of the 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 plans is longer, reaching 3.01 years, with an internal rate of return (hereinafter: IRR) gap of 1.01%.

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 4.10 years, and an IRR gap of about 1.01%.

Pursuant to directives of the Bank of Israel, current account balances are presented in Exhibit B to the Management Review 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 1.09 years in unlinked shekels and 0.84 years in foreign currency, with an IRR gap of 1.55% and 0.74%, 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 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 capital.

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

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 resolutions of the boards of directors, 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 September 2015**	30 September 2014	31 December 2014
Unlinked	(65%)-65%	**(11.1)**	(8.4)	(1.2)
CPI-linked	(50%)-50%	**12.5**	8.4	3.9
Foreign currency	(15%)-15%	**(0.9)**	-	2.7

During the first nine months of 2015, the average rate of equity invested in the linked sector stood at a surplus of about 21.3% 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 nine months 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 September 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	**(8)**	**(4)**	**5**	**-**	**-**
Increase of 10% in exchange rate	**-**	**(5)**	**12**	**1**	**5**
Decrease of 5% in exchange rate	**(7)**	**5**	**(5)**	**-**	**(1)**
Decrease of 10% in exchange rate	**(29)**	**13**	**(10)**	**-**	**(3)**

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 debentures of foreign governments, 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[1] to measure stress loss which may be incurred from market risks. At the beginning of the third quarter of 2015, a transition to measuring the value of the risk based on a historical simulation was approved by Board of Directors, instead of parametric simulation, which was customary until this quarter.

The VaR is computed on the trading activity with a horizon of ten days and at a level of significance of 99%, and activity in the banking portfolio the VaR is computed with a horizon of one month and with an identical level of significance.

As the VaR can rise as a result of the volatility in the markets, and not necessarily as a result of changes in the risk profile, the Bank has determined attention limits at the level of the Board of Directors on the value at risk in relation to the banking portfolio and to the trading portfolio. These limits are intended to be a sort of warning sign for the level of risk and reaching them will require an examination of the risk profile and making decisions on risk mitigation or on a temporary adjustment of the limit.

Below is the estimated VaR at Group level in NIS millions in accordance with the historical simulation:

	VaR banking portfolio	VaR trading portfolio
	30 September 2015	**30 September 2015**
Actual	**159**	**53**
Limit	**700**	**250**

The estimate of the VaR at Group level in NIS millions in accordance with the parametric simulation, before the change in the method of measurement, is as follows:

	VaR at economic value		VaR in revalued portfolios	
	30 September 2014	31 December 2014	30 September 2014	31 December 2014
Actual	129	156	53	42
Limit	500	500	400	400

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

Risks of marketable credit, shares and funds in nostro

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

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 diversification of the portfolio.

[1] The credit risk inherent in the various assets is not included in the calculation of the VaR, which represents an estimate for market risks only.

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 are carried out. These are discussed in the Senior Market Risk Committee and in the Risk Management Committee of the Board of Directors.

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 Business Regulation no. 342 for the management of liquidity risk and requirements of Directive no. 221 "Liquidity Coverage Ratio", which adopts the recommendations of the Basel III Committee for the calculation of a minimum liquidity ratio (LCR), with adaptations to the Israeli economy. Pursuant to this directive, the LCR ratio must not be less than 60% by the end of 2015, 80% in 2016 and to 100% from 2017.

Leumi maintains 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 a fund-raising policy of various stable and diversified long-term sources with an emphasis on raising retail deposits and preparation for the issue 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 challenge for management.

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 market risk and other financial risk policy in 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 a process of Group monitoring had been built up. The subsidiaries establish policy for the management of liquidity risk and manage liquidity independently and appropriately with Group 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 main models for all currencies and for the foreign currency separately:

- An internal model for estimating liquidity risk under a variety of scenarios which refer to various market situations relating to the whole banking system and to Leumi, in particular. The scenarios examine whether the liquid means at the Bank's disposal in all currencies and in each foreign currency separately are sufficient to address the liquidity requirements in liquidity stress scenarios which last longer than a month. The model is based on the assessment of quality and diversification of the asset portfolio and uses suitable safety coefficients which have been examined on an historical basis in accordance with the level of risk, the narrative 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 retail deposits being attributed to low repayment rates, creating a distinction between the sources in the currencies that are significantly sensitive in stress periods compared with 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 credit characteristics. The limits for the internal model were determined at a number of management levels, headed by Board of Directors. 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 third quarter of the year, the average consolidated liquidity coverage ratio stood was 104%. The high coverage ratio is based, as aforesaid, on the maintenance of a portfolio of diversified and high-quality assets ("liquidity 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 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 average daily observations in the third quarter:

	Total weighted value* (average)
Total high-quality liquid assets	77.8
Outgoing cash flows, net	74.7
Of which:	
Retail deposits from individuals and small businesses	11.0
Wholesale financing	74.8
Liquidity coverage ratio	104%

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

The models act as a dynamic management tool and enable control, supervision and review at a routine daily level of the liquidity position and the results reported for all of the relevant management and control parties. In addition, the exposures are reported in the President and CEO's Report and in the quarterly risk document which is discussed by 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 contingency plan for dealing with a liquidity crisis, which includes a system of warning lights 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 need for activating the plan, depending on the level of severity. The plan includes detailed operative measures relating, *inter alia*, to orders of 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 September 2015			As at 31 December 2014		
	Unlinked	CPI-linked	Foreign currency (b)	Unlinked	CPI-linked	Foreign currency (b)
	NIS millions					
Total assets (a)	**261,773**	**51,503**	**111,079**	237,185	54,203	123,611
Total liabilities (a)	**235,411**	**53,466**	**114,202**	210,400	59,148	127,649
Surplus (deficit) of assets in segment	**26,362**	**(1,963)**	**(3,123) (c)**	26,785	(4,945)	(4,038) (c)

(a) Including forward contracts and options.
(b) Including linked to foreign currency.
(c) The excess of liabilities in foreign currency derives mainly from a hedging transaction against the tax exposure in respect of 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 its liquidity position on an ongoing basis, through metrics that are intended to alert it to changes in the liquidity position by using, *inter alia*, a regulatory model and internal models developed in Leumi pursuant to a directive of the Bank of Israel, and in accordance with worldwide generally accepted standards.

The total of Leumi's balances in the Bank of Israel at the end of September 2015 amounted to some NIS 37 billion, compared with NIS 39 billion at the end of December 2014.

The Bank also has a securities portfolio of some NIS 61 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 represents around 27.9% of the financial assets of the Bank, an increase of 2.8% 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 198-200) 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, business continuity and data and cyber security risks.

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, adapted to 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 information 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 increases to data security risks and to system failures, which are liable to expose the Bank to impairment in business activity and to impairment of its reputation. Information 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 forward-looking information) – In recent years, an increase in the degree of cyber threats around the world can be discerned. Attacks are 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 probably 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 a principal asset and invests much effort in implementing supervision and control mechanisms and procedures.

In Leumi, there are centers monitoring unusual cyber activity and attacks. Leumi is constantly improving its defense capabilities from cyber attacks.

From the beginning of 2015, Leumi experienced no serious information security or cyber events.

In Leumi, a senior administrative function has been appointed for the area of cyber and information security which will coordinate all of the subjects in these areas.

Compliance Risks

This chapter is set out in great detail in the 2014 annual report (pages 163-164 and 201-202). Accordingly, the chapter below should be read in conjunction with the contents of the annual report.

In April 2015, a Senior for the Compliance Risk Management Committee 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 paying 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, frequent changes in regulations require constant pro-active monitoring and assessments within a short time-frame, which require the allocation of many 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 and its overseas subsidiaries 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 former customers of the Bank and its foreign subsidiaries, has become significant. In addition to consumer issues and the topics regarding the prohibition of money laundering and the financing of terrorism, there has been an increase in the importance of ensuring 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).

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 levels to reduce these exposures among customers of the Bank who are not resident in Israel. Pursuant thereto, the Bank has made preparations 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 is to determine risk hierarchies for customers on these aspects and will obtain their signatures on declaration forms. These declarations will include the customer's declaration of 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 majority of the Bank's 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, who are not U.S. persons, but residents of other countries, and new monies transferred to the Bank and the Bank's overseas subsidiaries from various countries are declared by the customers as to their countries of origin. Furthermore, under the said policy, a risk-oriented multi-year outline was defined for dealing also with the Bank's existing non-U.S. customers, with the aim of ensuring that their monies are declared or are 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 out by the Bank on the risk level of different customers. This 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 compliance risks is carried out in Leumi by allocating the responsibility among three "lines of defense". 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, bringing together 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 business 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 the integration of the compliance function as a "second line" in the activity of trading rooms was begun.

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.

The U.S. customers affair

A. 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, 31 March 2015, and 30 June 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 period of the report, several working meetings were held with the monitor, who commenced his duties on 15 July 2015.

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 undertakings of the Bank and its offices in accordance with the arrangements, and submits regular reports thereon to the Bank's management and Board of Directors.

B. Bank of Israel Audit Report

On 27 August 2015, the Banking Supervision Department in the Bank of Israel presented an Audit Report on the U.S. customers affair, following the audit conducted in the Bank between October 2014 and April 2015.

The Audit Report relates to the period from January 2007 to April 2011 and therefore does not relate to transactions carried out by the Bank since 2011, when the risk in the activity with U.S. customers became apparent.

The Audit Report was published by the Bank in an Immediate Report dated 27 August 2015 (Ref.: 2015-01-06293) with the wording dictated by the Banking Supervision Department.

For details regarding the report's conclusions and the Bank's response, see Note 6 to the financial statements.

C. Examination of the Attorney-General

On 11 January, 2015, the Ministry of Justice gave notice that the Attorney-General ordered an extensive examination of the Bank's arrangements with the U.S. authorities, and ordered the establishment of an integrated team, comprising enforcement and consultative bodies for a thorough examination. The team will present its conclusions to the Attorney-General to consider the issues.

D. Independent Claims Committee appointed to examine the U.S. customers affair

1. On 15 February 2015, the Board of Directors appointed an Independent Claims Committee (hereinafter: "**the Committee**") to examine the U.S. customers affair, including "to examine and recommend to the Board of Directors of the Bank on the correct legal course of action for the Bank, taking into account all of the circumstances relating to the U.S. customers affair". The Committee was established, *inter alia*, in the context of legal proceedings initiated on the subject of the U.S. customers by various entities, as detailed in Note 6 to the financial statements.

   The Committee was headed by the former Tel Aviv District Court President, Retd. Justice Uri Goren and the other members included Retd. Jerusalem District Court Justice Orit Efal-Gabai, Dr. Leah Paserman-Jozefov, Professor Yedidya Stern (currently serving as director in the Bank) and Dr. Samer Haj-Yehia (currently serving as director in the Bank). To carry out its activity, the Committee appointed for itself a legal advisor to accompany its work, Dr Asaf Eckstein from Tel Aviv University.

2. On 11 March 2015, A ruling was handed down by Justice Khaled Kaboub from the Tel Aviv District Court (Economic Department) approving the Committee's appointment and delaying the hearings in the claims submitted in connection with the U.S. customers affair, so that the Committee could submit its recommendations.

3. On 11 October 2015, the Board of Directors of the Bank discussed the report submitted to it by the Committee, and decided unanimously to adopt its conclusions and recommendations in full.

For details regarding the report of the Committee and consequent developments – see Note 6 to the financial statements.

E. Legal proceedings

As a result of the investigations, a number of demands have been made against the Bank and against serving and former office-holders in the Bank and in companies in the Group.

For details regarding the aforesaid demands – see Note 6 to the financial statements.

F. Examination of the Securities Authority Commission ("SEC")

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 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 and the Board of Directors of the Arab Israel Bank approved the execution of a merger of the Arab Israel Bank and the Bank.

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 a result of an objection from minority shareholders in the Arab Israel Bank to the merger, a request was submitted 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. On 12 November 2015, the court approved the merger after the parties reached an agreement with regard to the merger conditions.

The merger is expected to take effect on 31 December 2015.

On 27 October 2015, the Arab Israel Bank received notice of a labor conflict from the Head of the Banks and Credit Card Companies Employees' Division in the New General Histadrut Employee Federation – Ma'Of Histadrut and that the employees of the Arab Israel Bank would be able to strike with their approval with effect from 12 November 2015. Further to the aforesaid labor dispute, on 17 November 2015, the Arab Israel Bank Employees' Committee declared a strike in the branches.

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 52r of the Securities Law

On 5 August 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 Advisory 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 reoccurrence 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. The association recruits young people from various segments and neighborhoods in distress and supports trainees starting out in civilian life. The association supports thousands of youth and, each year, proves successes in the programs and the effectiveness of the investment. In addition to the monetary donations, Leumi employees volunteer to support young apprentices 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, gaining third place.

Summary of Donations and Sponsorships

In the first nine months of the year, Leumi Group donated funds and provided sponsorships for social welfare and community purposes amounting to some NIS 24.0 million, of which donations totaled some NIS 18.0 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 by 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 by 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 by 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 by the Audit Committee on 3 May 2015.

The Internal Auditor's report for the first half of 2015 was submitted to the Audit Committee on 23 August 2015 and discussed by the Audit Committee on 27 August 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 September 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:

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.

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. Michal Dana joined the Bank on 21 October 2015 and will be appointed to the position of the Head of Human Resources, and a member of Bank management with the rank of First Executive Vice President, with effect from 1 January 2016.

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 ceased to serve in her position as Head of Building Procurement and Logistics Department and retired 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.

Severance pay fund of the employees of Arab Israel Bank

On 22 October 2015, approval was received from the Tax Authority to transfer the proceeds of the accumulated severance pay in the Central Severance Pay Fund of the Arab Israel Bank (hereinafter: "the Central Fund") in favor of a component of severance pay in personal provident funds maintained on behalf of the employees. In addition, it was provided that any surplus which remains in the Central Fund after the transfer will be transferred to the Central Severance Pay Fund of Bank Leumi after the expected merger.

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 nine months 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, one of the items at the Annual General Meeting of the Bank was the termination of office during 2015 of five directors: 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. On 31 October, 2015, Mr. Rami Guzman terminated his term of office as a director in the Bank. Professor Yedidya Stern and Mr. Haim Samet stood 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. 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 were 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 Bank has obtained the approval or absence of objection of the Supervisor of Banks pursuant to Section 11a of the Companies Ordinance with regard to all the elected directors. There are currently 15 directors on the Board of Directors.

During the period of January to September 2015, the Board of Directors held 28 plenary meetings and 68 committee meetings. In addition, to the end of October 2015, 36 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 November 2015, it was resolved to approve and publish the Group's condensed unaudited consolidated financial statements as of 30 September 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	Rakefet Russak-Aminoach
Chairman of the Board of Directors	President and Chief Executive Officer

18 November 2015

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a]

Exhibit A

Part A – Average balances and interest rates - assets

	For the three months ended 30 September					
	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	**231,949**	**2,075**	**3.63**	217,387	2,184	4.08
Outside Israel	**22,105**	**236**	**4.34**	22,043	230	4.24
Total (i)	**254,054**	**2,311**	**3.69**	239,430	2,414	4.09
Credit to the Government						
In Israel	**438**	**5**	**4.64**	448	5	4.54
Outside Israel	**-**	**-**	**-**	38	-	-
Total	**438**	**5**	**4.64**	486	5	4.18
Deposits in banks						
In Israel	**9,613**	**12**	**0.50**	7,877	17	0.87
Outside Israel	**743**	**2**	**1.08**	1,372	16	4.75
Total	**10,356**	**14**	**0.54**	9,249	33	1.43
Deposits in central banks						
In Israel	**26,053**	**7**	**0.11**	27,626	34	0.49
Outside Israel	**4,824**	**(2)**	**(0.17)**	5,251	3	0.23
Total	**30,877**	**5**	**0.06**	32,877	37	0.45
Securities borrowed or purchased under resale agreements						
In Israel	**1,389**	**1**	**0.29**	1,827	3	0.66
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,389**	**1**	**0.29**	1,827	3	0.66
Bonds available for sale (d)						
In Israel	**44,080**	**81**	**0.74**	28,900	120	1.67
Outside Israel	**4,306**	**22**	**2.06**	4,442	20	1.81
Total	**48,386**	**103**	**0.85**	33,342	140	1.69
Bonds for trading (d)						
In Israel	**10,592**	**24**	**0.91**	10,018	34	1.36
Outside Israel	**330**	**-**	**-**	179	(1)	(2.22)
Total	**10,922**	**24**	**0.88**	10,197	33	1.30
Total interest-bearing assets	**356,422**	**2,463**	**2.79**	327,408	2,665	3.30
Receivables for non-interest bearing credit cards	**2,932**	**-**	**-**	7,566	-	-
Other non-interest bearing assets (e)	**27,468**	**-**	**-**	33,684	-	-
Total assets	**386,822**	**2,463**		368,658	2,665	
Total income-bearing assets attributable to activity outside Israel	**32,308**	**258**	**3.23**	33,325	268	3.26

See notes on page 141.

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a] (cont'd)

Exhibit A (cont'd)

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

	For the three months ended 30 September					
	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	**221,799**	**(293)**	**(0.53)**	204,015	(413)	(0.81)
On demand	**59,660**	**(3)**	**(0.02)**	47,663	(19)	(0.16)
Fixed term	**162,139**	**(290)**	**(0.71)**	156,352	(394)	(1.00)
Outside Israel	**15,432**	**(32)**	**(0.83)**	15,931	(32)	(0.80)
On demand	**2,452**	**(2)**	**(0.33)**	2,606	(2)	(0.31)
Fixed term	**12,980**	**(30)**	**(0.92)**	13,325	(30)	(0.90)
Total	**237,231**	**(325)**	**(0.55)**	219,946	(445)	(0.81)
Deposits of the Government						
In Israel	**158**	**(1)**	**(2.51)**	126	(2)	(6.20)
Outside Israel	**487**	**-**	**-**	241	-	-
Total	**645**	**(1)**	**(0.62)**	367	(2)	(2.16)
Deposits from central banks						
In Israel	**-**	**-**	**-**	119	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**-**	**-**	**-**	119	-	-
Deposits from banks						
In Israel	**5,514**	**(4)**	**(0.29)**	5,058	(5)	(0.39)
Outside Israel	**30**	**-**	**-**	65	-	-
Total	**5,544**	**(4)**	**(0.29)**	5,123	(5)	(0.39)
Securities lent or sold under resale agreements						
In Israel	**630**	**(1)**	**(0.63)**	1,012	(2)	(0.79)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**630**	**(1)**	**(0.63)**	1,012	(2)	(0.79)
Bonds						
In Israel	**20,407**	**(257)**	**(4.94)**	23,220	(312)	(5.27)
Outside Israel	**1,072**	**-**	**-**	1,030	-	-
Total	**21,479**	**(257)**	**(4.70)**	24,250	(312)	(5.05)
Total interest-bearing liabilities	**265,529**	**(588)**	**(0.88)**	250,817	(766)	(1.22)
Non-interest bearing deposits of the public	**56,330**	**-**	**-**	58,930	-	-
Payables for non-interest bearing credit cards	**8,631**	**-**	**-**	8,165	-	-
Other non-interest bearing liabilities (f)	**29,010**	**-**	**-**	25,155	-	-
Total liabilities	**359,500**	**(588)**		343,067	(766)	
Total capital means	**27,322**	**-**	**-**	25,591	-	-
Total liabilities and capital means	**386,822**	**(588)**		368,658	(766)	
Interest margin		**1,875**	**1.91**		1,899	2.08
Net yield (g) on income-bearing assets						
In Israel	**324,114**	**1,649**	**2.05**	294,083	1,663	2.28
Outside Israel	**32,308**	**226**	**2.83**	33,325	236	2.86
Total	**356,422**	**1,875**	**2.12**	327,408	1,899	2.34
Total income-bearing liabilities attributable to activity outside Israel	**17,021**	**(32)**	**(0.75)**	17,267	(32)	(0.74)

See notes on page 141.

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a] (cont'd)

Exhibit A (cont'd)

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

	For the nine months ended 30 September					
	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	**227,288**	**5,644**	**3.32**	215,071	6,214	3.87
Outside Israel	**22,864**	**673**	**3.94**	23,045	681	3.96
Total (i)	**250,152**	**6,317**	**3.38**	238,116	6,895	3.88
Credit to the Government						
In Israel	**442**	**12**	**3.64**	460	14	4.08
Outside Israel	**17**	**-**	**-**	41	-	-
Total	**459**	**12**	**3.50**	501	14	3.74
Deposits in banks						
In Israel	**9,891**	**48**	**0.65**	6,782	45	0.89
Outside Israel	**953**	**11**	**1.54**	1,543	22	1.91
Total	**10,844**	**59**	**0.73**	8,325	67	1.07
Deposits in central banks						
In Israel	**27,013**	**28**	**0.14**	22,649	116	0.68
Outside Israel	**4,855**	**3**	**0.08**	5,669	8	0.19
Total	**31,868**	**31**	**0.13**	28,318	124	0.58
Securities borrowed or purchased under resale agreements						
In Israel	**1,787**	**3**	**0.22**	1,566	10	0.85
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,787**	**3**	**0.22**	1,566	10	0.85
Bonds available for sale (d)						
In Israel	**41,365**	**240**	**0.77**	37,537	426	1.52
Outside Israel	**4,672**	**56**	**1.60**	4,303	55	1.71
Total	**46,037**	**296**	**0.86**	41,840	481	1.54
Bonds for trading (d)						
In Israel	**11,260**	**61**	**0.72**	9,966	86	1.15
Outside Israel	**308**	**4**	**1.74**	127	1	1.05
Total	**11,568**	**65**	**0.75**	10,093	87	1.15
Total interest-bearing assets	**352,715**	**6,783**	**2.58**	328,759	7,678	3.12
Receivables for non-interest bearing credit cards	**5,653**	**-**	**-**	7,232	-	-
Other non-interest bearing assets (e)	**45,595**	**-**	**-**	32,855	-	-
Total assets	**403,963**	**6,783**	**-**	368,846	7,678	-
Total income-bearing assets attributable to activity outside Israel	**33,669**	**747**	**2.97**	34,728	767	2.96

See notes on page 141.

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a] (cont'd)

Exhibit A (cont'd)

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

	For the nine months ended 30 September					
	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	**221,478**	**(688)**	**(0.41)**	206,605	(1,192)	(0.77)
On demand	**59,557**	**(10)**	**(0.02)**	47,877	(86)	(0.24)
Fixed term	**161,921**	**(678)**	**(0.56)**	158,728	(1,106)	(0.93)
Outside Israel	**16,513**	**(93)**	**(0.75)**	16,446	(97)	(0.79)
On demand	**2,714**	**(5)**	**(0.25)**	2,683	(6)	(0.30)
Fixed term	**13,799**	**(88)**	**(0.85)**	13,763	(91)	(0.88)
Total	**237,991**	**(781)**	**(0.44)**	223,051	(1,289)	(0.77)
Deposits of the Government						
In Israel	**147**	**(3)**	**(2.71)**	142	(5)	(4.67)
Outside Israel	**401**	**-**	**-**	241	-	-
Total	**548**	**(3)**	**(0.73)**	383	(5)	(1.74)
Deposits from central banks						
In Israel	**-**	**-**	**-**	79	-	-
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**-**	**-**	**-**	79	-	-
Deposits from banks						
In Israel	**5,006**	**(11)**	**(0.29)**	4,162	(22)	(0.70)
Outside Israel	**43**	**-**	**-**	102	(1)	(1.31)
Total	**5,049**	**(11)**	**(0.29)**	4,264	(23)	(0.72)
Securities lent or sold under resale agreements						
In Israel	**1,009**	**(3)**	**(0.40)**	790	(7)	(1.18)
Outside Israel	**-**	**-**	**-**	-	-	-
Total	**1,009**	**(3)**	**(0.40)**	790	(7)	(1.18)
Bonds						
In Israel	**21,785**	**(594)**	**(3.62)**	24,713	(793)	(4.26)
Outside Israel	**3**	**-**	**-**	10	-	-
Total	**21,788**	**(594)**	**(3.62)**	24,723	(793)	(4.25)
Total interest-bearing liabilities	**266,385**	**(1,392)**	**(0.70)**	253,290	(2,117)	(1.11)
Non-interest bearing deposits of the public	**71,020**	**-**	**-**	56,193	-	-
Payables for non-interest bearing credit cards	**8,150**	**-**	**-**	7,845	-	-
Other non-interest bearing liabilities (f)	**31,184**	**-**	**-**	26,181	-	-
Total liabilities	**376,739**	**(1,392)**		343,509	(2,117)	
Total capital means	**27,224**	**-**	**-**	25,337	-	-
Total liabilities and capital means	**403,963**	**(1,392)**		368,846	(2,117)	
Interest margin		**5,391**	**1.88**		5,561	2.01
Net yield (g) **on income-bearing assets**						
In Israel	**319,046**	**4,737**	**1.98**	294,031	4,892	2.22
Outside Israel	**33,669**	**654**	**2.60**	34,728	669	2.58
Total	**352,715**	**5,391**	**2.04**	328,759	5,561	2.26
Total income-bearing liabilities attributable to activity outside Israel	**16,960**	**(93)**	**(0.73)**	16,799	(98)	(0.78)

See notes on page 141.

Rates of Income and Expenses of the Bank and its Consolidated Companies and an Analysis of the Changes in Income and Expenses[a] (cont'd)

Exhibit A (cont'd)

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

	For the three months ended 30 September					
	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	**227,027**	**1,426**	**2.54**	199,043	1,525	3.10
Total interest-bearing liabilities	**173,479**	**(126)**	**(0.29)**	149,727	(209)	(0.56)
Interest margin			**2.25**			2.54
Unlinked Israeli currency						
Total interest-bearing assets	**52,285**	**577**	**4.49**	56,300	642	4.64
Total interest-bearing liabilities	**41,869**	**(384)**	**(3.72)**	47,360	(485)	(4.16)
Interest margin			**0.77**			0.48
Foreign currency						
Total interest-bearing assets	**44,802**	**202**	**1.82**	38,740	230	2.40
Total interest-bearing liabilities	**33,160**	**(46)**	**(0.56)**	36,463	(40)	(0.44)
Interest margin			**1.26**			1.96
Total activity in Israel						
Total interest-bearing assets	**324,114**	**2,205**	**2.75**	294,083	2,397	3.30
Total interest-bearing liabilities	**248,508**	**(556)**	**(0.90)**	233,550	(734)	(1.26)
Interest margin			**1.85**			2.04

	For the nine months ended 30 September					
	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	**218,760**	**4,189**	**2.56**	198,801	4,735	3.19
Total interest-bearing liabilities	**168,807**	**(373)**	**(0.29)**	149,317	(749)	(0.67)
Interest margin			**2.27**			2.52
Unlinked Israeli currency						
Total interest-bearing assets	**53,080**	**1,220**	**3.08**	56,792	1,531	3.61
Total interest-bearing liabilities	**43,440**	**(800)**	**(2.46)**	48,509	(1,150)	(3.17)
Interest margin			**0.62**			0.44
Foreign currency						
Total interest-bearing assets	**47,206**	**627**	**1.77**	38,438	645	2.24
Total interest-bearing liabilities	**37,178**	**(126)**	**(0.45)**	38,665	(120)	(0.41)
Interest margin			**1.32**			1.83
Total activity in Israel						
Total interest-bearing assets	**319,046**	**6,036**	**2.53**	294,031	6,911	3.15
Total interest-bearing liabilities	**249,425**	**(1,299)**	**(0.69)**	236,491	(2,019)	(1.14)
Interest margin			**1.84**			2.01

See notes on page 141.

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

Exhibit A (cont'd)

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

	2015 compared to 2014			2015 compared to 2014		
	For the three months ended 30 September			For the nine months ended 30 September		
	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	130	(239)	(109)	303	(873)	(570)
Outside Israel	1	5	6	(5)	(3)	(8)
Total	131	(234)	(103)	298	(876)	(578)
Other interest-bearing assets						
In Israel	22	(105)	(83)	55	(360)	(305)
Outside Israel	(2)	(14)	(16)	(6)	(6)	(12)
Total	20	(119)	(99)	49	(366)	(317)
Total interest income	151	(353)	(202)	347	(1,242)	(895)
Interest-bearing liabilities						
Deposits of the public						
In Israel	23	(143)	(120)	46	(550)	(504)
Outside Israel	(1)	1	-	-	(4)	(4)
Total	22	(142)	(120)	46	(554)	(508)
Other interest-bearing liabilities						
In Israel	(28)	(30)	(58)	(42)	(174)	(216)
Outside Israel	-	-	-	-	(1)	(1)
Total	(28)	(30)	(58)	(42)	(175)	(217)
Total interest expenses	(6)	(172)	(178)	4	(729)	(725)

See notes on page 141.

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

Exhibit A (cont'd)

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 bonds held for trading and bonds available for sale there has been deducted/added the average balance of unrealized gains/losses from fair value adjustments of bonds for trading and also gains/losses in respect of bonds available for trading that are included in shareholder's equity in the framework of accumulated other comprehensive income under "Adjustments in respect of presentation of available for sale securities at fair value" in respect of bonds transferred from the available for sale portfolio, in the amount of NIS 485 million respectively (30 September 2014 – NIS 440 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 change attributed to the change in amount was calculated by multiplying the new price by the change in amount. The change attributed to the change in price was calculated by multiplying the old amount by the change in price.

(i) Commissions for the three and nine period in an amount of NIS 117 million and NIS 366 million have been included in interest income from credit to the public (30 September 2014 – NIS 50 million and NIS 289 million respectively.).

(j) Reclassified.

Exposure to Interest Rate Fluctuations

Exhibit B

	30 September 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)	174,565	8,968	29,464	12,559	7,323	6,835	2,903
Derivative financial instruments (excluding options)	60,984	99,278	57,433	41,811	24,179	26,208	798
Options (in terms of basis asset) (d)	2,884	830	1,412	222	1,757	8	36
Total fair value	238,433	109,076	88,309	54,592	33,259	33,051	3,737
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	179,107	3,959	4,667	8,888	6,265	1,825	70
Derivative financial instruments (excluding options)	72,502	101,071	61,110	43,874	25,599	26,774	602
Options (in terms of basis asset) (d)	2,237	1,100	2,022	253	-	-	-
Off-balance sheet financial instruments	-	-	13	-	-	-	-
Total fair value	253,846	106,130	67,812	53,015	31,864	28,599	672
Financial instruments, net							
Exposure to interest rate fluctuations	(15,413)	2,946	20,497	1,577	1,395	4,452	3,065
Accumulated exposure in the sector	(15,413)	(12,467)	8,030	9,607	11,002	15,454	18,519
Israeli currency – linked							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a)	1,048	2,349	10,127	16,969	11,703	7,089	3,244
Derivative financial instruments (excluding options)	6	207	1,880	1,948	1,739	1,723	47
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	-	-	-	-	-
Total fair value	1,054	2,556	12,007	18,917	13,442	8,812	3,291
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	1,836	2,934	8,489	14,107	8,885	8,370	1,058
Derivative financial instruments (excluding options)	225	646	2,288	2,560	1,551	1,879	144
Options (in terms of basis asset) (d)	-	-	-	-	-	-	-
Off-balance sheet financial instruments	-	-	141	-	-	-	-
Total fair value	2,061	3,580	10,918	16,667	10,436	10,249	1,202
Financial instruments, net							
Exposure to interest rate fluctuations	(1,007)	(1,024)	1,089	2,250	3,006	(1,437)	2,089
Accumulated exposure in the sector	(1,007)	(2,031)	(942)	1,308	4,314	2,877	4,966

See notes on page 146.

					30 September 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)
540	**426**	**243,583**	**2.75**	**0.76**	212,153	2.28	0.57	222,410	2.83	0.63
46	**-**	**310,737**	**-**	**1.41**	328,674	-	1.38	310,080	-	1.37
-	**-**	**7,149**	**-**	**-**	10,318	-	-	12,175	-	-
586	**426**	**561,469**	**2.75**	**1.11**	551,145	2.28	1.04	544,665	2.83	1.03
-	**10**	**204,791**	**0.52**	**0.34**	177,129	0.71	0.27	182,348	0.54	0.26
24	**-**	**331,556**	**-**	**1.38**	345,171	-	1.33	330,356	-	1.31
-	**-**	**5,612**	**-**	**-**	9,391	-	-	10,377	-	-
-	**-**	**13**	**-**	**0.50**	21	-	0.50	29	-	0.50
24	**10**	**541,972**	**0.52**	**0.97**	531,712	0.71	0.95	523,110	0.54	0.92
562	**-**	**-**	**-**	**-**	-	-	-	-	-	-
19,081	**-**	**-**	**-**	**-**	-	-	-	-	-	-
496	**58**	**53,083**	**1.88**	**4.06**	58,285	1.94	2.88	55,524	2.07	2.92
-	**-**	**7,550**	**-**	**3.24**	6,240	-	3.37	6,776	-	3.27
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
496	**58**	**60,633**	**1.88**	**3.95**	64,525	1.94	2.93	62,300	2.07	2.96
-	**-**	**45,679**	**0.63**	**2.93**	51,927	0.88	3.08	50,496	0.85	2.96
-	**-**	**9,293**	**-**	**3.02**	8,660	-	2.74	8,901	-	3.30
-	**-**	**-**	**-**	**-**	-	-	-	-	-	-
-	**-**	**141**	**-**	**-**	119	-	-	145	-	-
-	**-**	**55,113**	**0.63**	**2.94**	60,706	0.88	3.03	59,542	0.85	3.00
496										
5,462										

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

	30 September 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 (e)							
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments							
Financial assets (a)	46,731	12,134	3,994	5,531	5,454	5,859	532
Derivative financial instruments (excluding options)	104,399	118,577	72,311	20,976	12,490	10,894	607
Options (in terms of basis asset) (d)	(1,380)	4,011	3,567	3,731	803	782	55
Total fair value	149,750	134,722	79,872	30,238	18,747	17,535	1,194
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a)	75,184	9,618	14,972	3,818	1,056	96	53
Derivative financial instruments (excluding options)	87,627	115,417	64,293	20,824	14,346	14,409	699
Options (in terms of basis asset) (d)	(41)	2,553	2,669	3,904	2,489	789	119
Off-balance sheet financial instruments	-	-	14	-	-	-	-
Total fair value	162,770	127,588	81,948	28,546	17,891	15,294	871
Financial instruments, net							
Exposure to interest rate fluctuations	(13,020)	7,134	(2,076)	1,692	856	2,241	323
Accumulated exposure in the sector	(13,020)	(5,886)	(7,962)	(6,270)	(5,414)	(3,173)	(2,850)
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)	222,344	23,451	43,585	35,059	24,480	19,783	6,679
Derivative financial instruments (excluding options)	165,389	218,062	131,624	64,735	38,408	38,825	1,452
Options (in terms of basis asset) (d)	1,504	4,841	4,979	3,953	2,560	790	91
Total fair value	389,237	246,354	180,188	103,747	65,448	59,398	8,222
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments							
Financial liabilities (a) (c)	256,127	16,511	28,128	26,813	16,206	10,291	1,181
Derivative financial instruments (excluding options)	160,354	217,134	127,691	67,258	41,496	43,062	1,445
Options (in terms of basis asset) (d)	2,196	3,653	4,691	4,157	2,489	789	119
Off-balance sheet financial instruments	-	-	168	-	-	-	-
Total fair value	418,677	237,298	160,678	98,228	60,191	54,142	2,745
Financial instruments, net							
Exposure to interest rate fluctuations	(29,440)	9,056	19,510	5,519	5,257	5,256	5,477
Accumulated exposure in the sector	(29,440)	(20,384)	(874)	4,645	9,902	15,158	20,635
In addition, interest rate exposure in respect of liabilitirs for employee rights, gross	46	92	413	1,164	1,239	3,248	4,989

See notes on page 146.

Exposure to Interest Rate Fluctuations (cont'd)

Exhibit B

					30 September 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)
250	**200**	**80,685**	**1.77**	**1.19**	80,523	2.32	0.97	87,070	2.05	1.07
4	**-**	**340,258**	**-**	**0.76**	227,576	-	0.92	272,332	-	0.99
-	**-**	**11,569**	**-**	**-**	18,510	-	-	17,496	-	-
254	**200**	**432,512**	**1.77**	**0.82**	326,609	2.32	0.88	376,898	2.05	0.96
1	**10**	**104,808**	**0.78**	**0.49**	101,135	1.44	0.28	112,766	0.89	0.28
128	**-**	**317,743**	**-**	**0.91**	209,033	-	1.09	247,963	-	1.14
-	**-**	**12,482**	**-**	**-**	18,578	-	-	18,694	-	-
-	**-**	**14**	**-**	**0.50**	13	-	0.50	13	-	0.50
129	**10**	**435,047**	**0.78**	**0.79**	328,759	1.44	0.78	379,436	0.89	0.83
125	**-**	**-**	**-**	**-**	-	-	-	-	-	-
(2,725)	**-**	**-**	**-**	**-**	-	-	-	-	-	-
1,286	**5,307**	**381,974**	**2.22**	**1.32**	355,241	2.17	1.04	370,103	2.34	1.08
50	**1,331**	**659,876**	**-**	**1.09**	563,301	-	1.22	590,806	-	1.21
-	**84**	**18,802**	**-**	**-**	28,828	-	-	29,764	-	-
1,336	**6,722**	**1,060,652**	**2.22**	**1.16**	947,370	2.17	1.12	990,673	2.34	1.13
1	**734**	**355,992**	**0.54**	**0.89**	330,466	0.91	0.72	346,024	0.58	0.66
152	**1,374**	**659,966**	**-**	**1.18**	563,635	-	1.26	590,147	-	1.27
-	**70**	**18,164**	**-**	**-**	27,969	-	-	29,164	-	-
-	**173**	**341**	**-**	**-**	307	-	0.05	356	-	0.06
153	**2,351**	**1,034,463**	**0.54**	**1.06**	922,377	0.91	1.03	965,691	0.58	1.01
1,183										
21,818										
4,230	**-**	**15,421**	**2.82**	**15.50**						

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 673 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.

(e) Including Israeli currency linked to foreign currency.

General comments:

(a) Further details of the effect of the changes in the interest rates in each segment of financial assets and financial liabilities, under the various balance sheet items, will be supplied on request.

(b) In this table, the data by periods shows the present value of future cash flows of each financial instrument, discounted at the internal rate of return used for discounting them to the fair value included in respect of the financial instrument Note 18D in the financial statement, consistent 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 financial statement.

(c) 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.

(d) 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.

(e) The effect of hedging transactions is included in total assets or total liabilities, as applicable.

(f) 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 3.96 years, the duration of total liabilities reaches 2.94 years, and the internal rate of return (hereinafter – IRR) gap amounts to 1.01%. The change in fair value in total assets is NIS 742 million and in total liabilities NIS 9 million.

Total Credit Risk to the Public by Economic Sector

Exhibit C

	30 September 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					[1]Of which:					
	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	2,001	1,914	87	1,996	1,702	86	43	19	(13)	(43)
Mining and quarrying	693	684	9	595	272	9	-	(3)	-	(1)
Industry	25,515	22,826	2,689	24,881	15,864	2,682	413	32	(38)	(506)
Construction and real estate - construction	48,357	46,698	1,659	48,262	16,973	1,659	679	54	(19)	(338)
Construction and real estate - real estate activity	26,919	25,007	1,912	26,856	24,182	1,912	1,241	(18)	4	(630)
Electricity and water	5,740	5,677	63	4,735	3,173	63	-	-	-	(34)
Commerce	26,559	25,348	1,211	26,375	21,472	1,179	221	(49)	5	(328)
Hotels, catering services and food	2,968	2,772	196	2,941	2,590	196	150	9	5	(36)
Transport and storage	6,776	6,363	413	6,692	5,919	413	287	12	10	(50)
Information and communications	6,473	6,125	348	6,048	4,264	346	333	7	(9)	(148)
Financial services	23,353	23,276	77	15,447	9,239	77	65	(126)	17	(270)
Business and other services	7,401	7,285	116	7,358	5,173	104	36	27	22	(78)
Public and community services	7,647	7,617	30	7,600	6,363	30	12	-	2	(42)
Total commercial	190,402	181,592	8,810	179,786	117,186	8,756	3,480	(36)	(14)	(2,504)
Private individuals - housing loans	82,072	81,318	754	82,072	79,496	754	-	11	4	(501)
Private individuals - other	69,503	69,099	404	69,490	36,542	404	74	199	183	(654)
Total public - activity in Israel	341,977	332,009	9,968	331,348	233,224	9,914	3,554	174	173	(3,659)
Banks in Israel	7,170	7,170	-	3,284	2,288	-	-	2	-	(2)
Government of Israel	39,240	39,240	-	283	283	-	-	-	-	-
Total activity in Israel	388,387	378,419	9,968	334,915	235,795	9,914	3,554	176	173	(3,661)

(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 235,793, 39,024, 1,420, 7,361, 104,789 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) Credit risk whose credit rating at the reporting date agrees with the credit rating for executing new credit in accordance with the Bank's policy.

(g) Including housing loans granted to certain purchasing groups that are in process of construction.

(h) The balance of commercial loans includes a balance of housing loans in the amount of NIS 1,214 million granted to certain purchasing groups that are in process of construction.

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

Exhibit C (cont'd)

	30 September 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
								Credit losses (d)		
					[1]Of which:					
	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	113	109	4	113	50	4	4	1	-	(2)
Mining and quarrying	10	10	-	1	1	-	-	-	-	-
Industry	8,986	8,521	465	8,359	5,305	465	129	(8)	4	(123)
Construction and real estate (g)	13,767	13,216	551	13,205	9,092	551	521	9	36	(269)
Electricity and water	374	374	-	137	83	-	-	-	-	(1)
Commerce	7,495	7,401	94	7,461	5,021	94	93	(8)	50	(97)
Hotels, catering services and food	1,239	1,201	38	1,233	1,141	38	38	(2)	-	(10)
Transport and storage	259	165	94	239	132	94	94	(2)	5	(25)
Information and communications	1,880	1,878	2	1,731	806	2	2	(1)	-	(1)
Financial services	16,721	16,623	98	3,490	2,379	98	98	26	10	(74)
services	5,250	5,173	77	5,037	4,547	77	34	(3)	(1)	(15)
Public and community services	906	905	1	848	444	1	1	(17)	49	(18)
Total commercial	57,000	55,576	1,424	41,854	29,001	1,424	1,014	(5)	153	(635)
Private individuals - housing loans	1,222	1,171	51	1,222	1,216	51	30	-	2	(16)
Private individuals - other	490	466	24	481	381	24	23	(2)	4	(8)
Total public - activity abroad	58,712	57,213	1,499	43,557	30,598	1,499	1,067	(7)	159	(659)
Banks abroad	24,067	24,067	-	12,032	10,167	-	-	(3)	-	(1)
Governments abroad	10,140	10,140	-	494	191	-	-	-	-	-
Total activity abroad	92,919	91,420	1,499	56,083	40,956	1,499	1,067	(10)	159	(660)
Total	481,306	469,839	11,467	390,998	276,751	11,413	4,621	166	332	(4,321)

(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 40,958, 24,574, 0, 7,951, 19,436 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) Credit risk whose credit rating at the reporting date agrees with the credit rating for executing new credit in accordance with the Bank's policy.

(g) Including housing loans granted to certain purchasing groups that are in process of construction.

.

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

Exhibit C (cont'd)

	30 September 2014								
	Overall credit risk (a)		Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
							Credit losses (d)		
				[1]Of which:					
	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	2,082	134	2,075	1,767	132	83	6	(3)	(54)
Mining and quarrying	751	1	747	684	1	-	-	-	(1)
Industry	28,186	2,200	27,432	18,038	2,170	585	(82)	(75)	(551)
Construction and real estate - construction (g)	44,927	1,288	44,853	16,108	1,287	473	(84)	(130)	(418)
Construction and real estate - real estate activity	24,540	1,622	24,452	22,185	1,622	1,440	(44)	(31)	(566)
Electricity and water	4,590	1	4,027	3,323	1	1	(7)	(19)	(3)
Commerce (h)	25,948	1,774	25,722	21,317	1,759	358	46	37	(378)
Hotels, catering services and food	3,264	144	3,239	2,903	144	125	12	-	(27)
Transport and storage	6,065	496	6,033	5,228	496	298	8	20	(95)
Communications and computer services	5,726	570	5,273	4,091	558	288	(26)	11	(225)
Financial services	25,941	57	18,557	10,961	54	28	44	(42)	(63)
Business and other services	6,560	104	6,513	4,460	104	22	24	12	(66)
Public and community services	7,059	37	7,016	5,930	37	10	(4)	17	(12)
Total commercial	185,639	8,428	175,939	116,995	8,365	3,711	(107)	(203)	(2,459)
Private individuals - housing loans	75,448	833	75,448	73,115	832	-	18	6	(492)
Private individuals - other	65,513	433	65,483	34,188	433	110	68	113	(407)
Total public - activity in Israel	326,600	9,694	316,870	224,298	9,630	3,821	(21)	(84)	(3,358)
Banks in Israel	5,813	-	1,550	1,489	-	-	(1)	-	-
Government of Israel	23,143	-	294	294	-	-	-	-	-
Total activity in Israel	355,556	9,694	318,714	226,081	9,630	3,821	(22)	(84)	(3,358)

(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 226,082, 22,513, 2,019, 7,332, 97,610 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 to 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.

(g) Including housing loans granted to certain purchasing groups that are in process of construction.

(h) The balance of commercial loans includes a balance of housing loans in the amount of NIS 1,137 million granted to certain purchasing groups that are in process of construction.

.

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

Exhibit C (cont'd)

	30 September 2014								
	Overall credit risk (a)		Debts (b) and off-balance sheets credit risk (except for derivatives) (c)						
				Of which:[1]			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	59	3	55	42	3	3	-	-	(1)
Mining and quarrying	13	-	13	13	-	-	-	-	-
Industry	10,368	292	9,166	5,916	292	165	(58)	46	(116)
Construction and real estate - construction (g)	10,672	714	10,292	7,818	714	649	10	50	(342)
Electricity and water	387	1	142	47	1	1	-	-	(1)
Commerce	7,943	193	7,887	5,188	193	185	25	74	(127)
Hotels, catering services and food	1,459	43	1,458	1,405	43	42	3	1	(14)
Transport and storage	356	24	216	211	24	24	(1)	-	(10)
Communications and computer services	1,283	-	1,022	638	-	-	1	-	(3)
Financial services	16,075	100	2,848	1,845	100	100	16	1	(53)
Business and other services	4,454	149	4,097	3,367	149	126	3	6	(96)
Public and community services	619	1	490	206	1	1	9	-	(20)
Total commercial	53,688	1,520	37,686	26,696	1,520	1,296	8	178	(783)
Private individuals - housing loans	1,259	53	1,259	1,234	53	33	(1)	2	(16)
Private individuals - other	1,151	38	1,136	978	38	31	1	26	(13)
Total public - activity abroad	56,098	1,611	40,081	28,908	1,611	1,360	8	206	(812)
Banks abroad	29,422	-	17,227	15,928	-	-	3	-	(4)
Governments abroad	4,017	-	288	216	-	-	-	-	-
Total activity abroad	89,537	1,611	57,596	45,052	1,611	1,360	11	206	(816)
Total	445,093	11,305	376,310	271,133	11,241	5,181	(11)	122	(4,174)

(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 45,051, 19,534, 0, 8,840, 16,112 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 to 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.

(g) Including housing loans granted to certain purchasing groups that are in process of construction.

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)						
								Credit losses (d)		
					[1]Of which:					
	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	2,132	2,010	122	2,121	1,812	118	46	(4)	16	(17)
Mining and quarrying	757	756	1	754	629	1	-	(4)	-	(4)
Industry	29,114	26,908	2,206	28,096	18,333	2,195	495	(151)	(100)	(442)
Construction and real estate - construction (g)	46,411	45,010	1,401	46,338	16,161	1,399	748	(303)	(146)	(279)
Construction and real estate - real estate activity	25,187	23,259	1,928	25,099	22,269	1,920	1,375	159	(2)	(684)
Electricity and water	5,264	5,200	64	4,719	3,821	64	3	1	1	(12)
Commerce (f)	27,095	25,388	1,707	26,849	22,144	1,680	318	75	99	(371)
Hotels, catering services and food	2,926	2,726	200	2,907	2,597	200	165	(45)	(46)	(32)
Transport and storage	6,110	5,600	510	6,054	5,296	510	314	(39)	20	(34)
Communications and computer services	5,951	5,436	515	5,332	4,079	512	256	(30)	27	(212)
Financial services	24,884	24,815	69	17,455	10,006	53	20	245	(77)	(306)
Business and other services	7,077	6,963	114	7,039	4,871	114	35	27	17	(75)
Public and community services	7,197	7,158	39	7,150	6,087	39	11	39	(4)	(56)
Total commercial	190,105	181,229	8,876	179,913	118,105	8,805	3,786	(30)	(195)	(2,524)
Private individuals - housing loans	77,091	76,317	774	77,091	74,651	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	323,004	227,228	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	324,956	229,103	10,019	3,888	346	(17)	(3,657)

(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 229,102, 23,569, 2,000, 8,283, 101,580 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) Credit risk whose credit rating at the reporting date agrees with the credit rating for executing new credit in accordance with the Bank's policy.

(g) Including housing loans granted to certain purchasing groups that are in process of construction.

(h) The balance of commercial loans includes a balance of housing loans in the amount of NIS 1,216 million granted to certain purchasing groups that are in process of construction.

(i) Comparative figures have been reclassified pursuant to 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 abroad										
Agriculture	80	77	3	74	64	3	3	1	-	(2)
Mining and quarrying	4	4	-	4	4	-	-	-	-	-
Industry	9,169	8,703	466	7,906	4,826	466	209	(18)	55	(146)
Construction and real estate (g)	11,901	11,291	610	11,456	8,832	610	563	36	113	(319)
Electricity and water	386	386	-	124	38	-	-	1	1	(1)
Commerce	7,858	7,686	172	7,811	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	17,795	17,698	97	2,949	1,876	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	708	628	80	585	322	80	70	11	-	(93)
Total commercial	56,494	54,931	1,563	38,540	27,139	1,563	1,213	120	294	(793)
Private individuals - housing loans	1,268	1,214	54	1,268	1,212	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	40,843	29,240	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	60,317	47,029	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 47,030, 23,851, 0, 8,625, 17,485 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) Credit risk whose credit rating at the reporting date agrees with the credit rating for executing new credit in accordance with the Bank's policy.

(g) Including housing loans granted to certain purchasing groups that are in process of construction.

(h) Comparative figures have been reclassified pursuant to 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 September 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	**7,764**	**3,731**	**8,954**	**21,102**	**10,220**	**10,882**
United Kingdom	**39**	**4,772**	**3,941**	**6,606**	**2,100**	**4,506**
France	**571**	**694**	**1,269**	**-**	**-**	**-**
Switzerland	**-**	**291**	**1,228**	**648**	**4**	**644**
Germany	**-**	**711**	**1,445**	**-**	**-**	**-**
Belgium	**-**	**111**	**264**	**-**	**-**	**-**
Italy	**-**	**64**	**49**	**-**	**-**	**-**
Netherlands	**-**	**583**	**1,115**	**-**	**-**	**-**
Others	**625**	**3,318**	**4,058**	**1,402**	**678**	**724**
Total exposure to foreign countries	**8,999**	**14,275**	**22,323**	**29,758**	**13,002**	**16,756**
Total exposure to LDC countries	**211**	**1,003**	**818**	**1,308**	**671**	**637**
Total exposure to GIIPS countries (d)	**176**	**119**	**369**	**-**	**-**	**-**

	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	**31,331**	**692**	**343**	**6,623**	**-**	**8,254**	**12,195**
United Kingdom	**13,258**	**310**	**293**	**4,143**	**-**	**1,776**	**6,976**
France	**2,534**	**10**	**7**	**1,228**	**-**	**916**	**1,618**
Switzerland	**2,163**	**-**	**-**	**367**	**-**	**827**	**692**
Germany	**2,156**	**-**	**-**	**442**	**-**	**1,362**	**794**
Belgium	**375**	**-**	**-**	**55**	**-**	**40**	**335**
Italy	**113**	**-**	**-**	**14**	**-**	**108**	**5**
Netherlands	**1,698**	**56**	**56**	**196**	**-**	**329**	**1,369**
Others	**8,725**	**378**	**364**	**2,229**	**-**	**2,273**	**5,728**
Total exposure to foreign countries	**62,353**	**1,446**	**1,063**	**15,297**	**-**	**15,885**	**29,712**
Total exposure to LDC countries	**2,669**	**335**	**322**	**1,679**	**-**	**606**	**1,426**
Total exposure to GIIPS countries (d)	**664**	**-**	**-**	**45**	**-**	**298**	**366**

See notes on page 156.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Part A – Information on total foreign country exposure and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of equity for purposes of calculating capital ratios, whichever the lower (cont'd).

	30 September 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	2,269	5,994	9,747	17,155	8,701	8,454
United Kingdom	228	5,229	3,678	7,283	1,953	5,330
France	-	1,630	498	-	-	-
Switzerland	-	793	979	1,778	1,031	747
Germany	-	840	1,506	-	-	-
Belgium	230	1,051	133	-	-	-
Italy	-	228	75	-	-	-
Netherlands	-	677	1,549	-	-	-
Others	390	3,620	4,929	1,438	639	799
Total exposure to foreign countries	3,117	20,062	23,094	27,654	12,324	15,330
Total exposure to LDC countries	212	903	1,043	1,312	594	718
Total exposure to GIIPS countries (d)	-	229	648	-	-	-

	Balance sheet exposure			Off-balance sheet exposure (a) (b)			
						Cross-border balance sheet exposure	
						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	26,464	599	382	5,682	-	6,493	11,517
United Kingdom	14,465	475	445	2,981	5	4,783	4,352
France	2,128	8	8	983	-	754	1,374
Switzerland	2,519	-	-	522	-	1,739	33
Germany	2,346	2	2	290	-	1,880	466
Belgium	1,414	-	-	73	-	1,191	223
Italy	303	-	-	27	-	276	27
Netherlands	2,226	60	60	156	-	1,067	1,159
Others	9,738	446	413	1,107	-	5,921	3,018
Total exposure to foreign countries	61,603	1,590	1,310	11,821	5	24,104	22,169
Total exposure to LDC countries	2,876	399	366	769	-	1,817	341
Total exposure to GIIPS countries (d)	877	-	-	55	-	670	207

See notes on page 156.

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 page 156.

Exposures to Foreign Countries (cont'd)

Exhibit D (cont'd)

Notes:

(a) Balance sheet and off-balance sheet credit risk, problematic credit risk, and impaired debts appear before the effect of the allowance for credit losses, and before the effect of collateral eligible for deduction for purposes of the single borrower and group borrower debt limitations. This does not include elements of off-balance sheet risk.

(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.

(c) Includes governments, official institutions and central banks.

(d) Exposure to GIIPS countries includes the following countries: Portugal, Ireland, Italy, Greece, and Spain.

General comments:

Pursuant to the directives of the Supervisor of Banks, exposure to foreign countries is shown on an end-risk basis, as follows:

- The accounting balance of a debt is to be dealt with as the amount of exposure to the legal country of residence of the debtor who bears the end risk after the effect of guarantees, liquid collateral and credit derivatives.
- The accounting balance of an investment in shares is to be dealt with as the amount of exposure to the country of residence of the issuer of the security.
- Off-balance sheet credit risk is shown as an off-balance sheet exposure to the country of residence of the counterparty to the transaction as it was calculated for the purposes of single borrower debt limitations.

From the aspect of determining end-risk, collateral is to be considered as follows:

- Third party guarantees according to the country of residence of the guarantor.
- Securities - The country of residence is that of the issuer of the security.
- The directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.
- For purposes of determining end-risk, only specific collaterals were considered.

Part B – On 30 September 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 1,439 million and related to 12 countries.

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Quarterly Report of Bank Leumi le-Israel B.M. (the "Bank") for the quarter ended on 30 September 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 November 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 September 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 November 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 September 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 November 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 September 2015 and the related condensed consolidated interim statements of profit and loss, comprehensive income, changes in equity and cash flows for the three and nine 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 0.37% of total consolidated assets at 30 September 2015 and whose net interest income before credit loss expenses included in the consolidated statements of profit and loss constitute some 0.16% and 0.04% of the total consolidated net interest income before credit loss expenses for the three and nine 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 and that stated in Note 6D. paragraph 1E(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 1F. 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 November 2015

Condensed Consolidated Balance Sheet as at 30 September 2015

		30 September 2015	30 September 2014	31 December 2014
		Unaudited		Audited
		NIS millions		
Assets	**Note**			
Cash and deposits with banks		**52,562**	54,612	60,615
Securities (b) (c)	2	**67,545**	46,058	52,113
Securities borrowed or purchased under agreements to resell		**1,420**	2,019	2,000
Credit to the public	3	**263,822**	253,206	256,468
Allowance for credit losses	3	**(3,813)**	(3,725)	(3,988)
Credit to the public, net		**260,009**	249,481	252,480
Credit to governments		**474**	510	528
Investments in companies included on equity basis		**948**	2,062	2,216
Buildings and equipment		**2,992**	3,051 (a)	3,162 (a)
Intangible assets and goodwill		**18**	42	43
Assets in respect of derivative instruments	7	**15,314**	16,227	16,909
Other assets (b)		**7,242**	6,320 (a)	6,918 (a) (e)
Total assets		**408,524**	380,382	396,984
Liabilities and equity				
Deposits of the public	13	**317,991**	286,632	303,397
Deposits from banks		**3,650**	4,781	4,556
Deposits from governments		**644**	391	467
Securities lent or sold under agreements to repurchase		**503**	1,172	1,238
Bonds, debentures and subordinated notes		**22,187**	23,932	23,678
Liabilities in respect of derivative instruments	7	**14,766**	15,702	15,650
Other liabilities (b) (d)		**19,873**	20,729 (a)	21,860 (a) (e)
Total liabilities		**379,614**	353,339	370,846
Non-controlling interests		**335**	334	340
Equity attributable to shareholders of the banking corporation		**28,575**	26,709 (a)	25,798 (a)
Total equity	4	**28,910**	27,043	26,138
Total liabilities and equity		**408,524**	380,382	396,984

(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 amounts measured at fair value, see Note 8A.
(c) For details on securities pledged to lenders, see Note 2.
(d) Of which: allowance for credit losses in off-balance sheet credit instruments, NIS 505 million (30 September 2014 – NIS 445 million, 31 December 2014 – NIS 494 million).
(e) Reclassified.

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

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

Date of approval of the financial statements: 18 November 2015

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

	Note	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
		2015	2014	**2015**	2014	2014
		Unaudited				Audited
		NIS millions				
Interest income	9	**2,463**	2,665	**6,783**	7,678	10,012
Interest expenses	9	**588**	766	**1,392**	2,117	2,649
Net interest income		**1,875**	1,899	**5,391**	5,561	7,363
Expenses (income) in respect of credit losses	3	**73**	56	**166**	(11)	472
Net interest income, after expenses in respect of credit losses		**1,802**	1,843	**5,225**	5,572	6,891
Non-interest income						
Non-interest financing income	10	**325**	224	**1,539**	719	795
Commissions		**1,013**	1,033	**3,099**	3,113	4,167
Other income		**6**	18 (a)	**114**	95 (a)	179 (a)
Total non-interest income		**1,344**	1,275	**4,752**	3,927	5,141
Operating and other expenses						
Salaries and related expenses		**1,360**	1,283 (a)	**4,123**	4,019 (a)	5,151 (a)
Maintenance and depreciation of buildings and equipment		**427**	420 (a)	**1,282**	1,237 (a)	1,655 (a)
Amortization of intangible assets and goodwill		**-**	44	**-**	58	58
Other expenses		**334**	737	**1,113**	1,984	2,507
expenses		**2,121**	2,484	**6,518**	7,298	9,371
Profit before taxes		**1,025**	634	**3,459**	2,201	2,661
Provision for taxes on the profit		**327**	332 (a)	**1,189**	1,034 (a)	1,278 (a)
Profit after taxes		**698**	302	**2,270**	1,167	1,383
Share of the banking corporation in profits after tax of companies included on equity basis		**15**	345 (b)	**161**	294 (b)	42
Net profit:						
Before attribution to non-controlling interests		**713**	647	**2,431**	1,461	1,425
Attributable to non-controlling interests		**(9)**	(11)	**(27)**	(5)	(12)
Attributable to shareholders of the banking corporation		**704**	636	**2,404**	1,456	1,413
Basic and diluted earnings per share (NIS)						
Net profit attributable to shareholders of the banking corporation		**0.48**	0.43 (a)	**1.63**	0.99 (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 nine month period ended 30 September 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 September 2015

	For the three months ended 30 September		For the nine months ended 30 September		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	**713**	647	**2,431**	1,461	1,425	2,030
Less net profit attributed to non-controlling interests	**9**	11	**27**	5	12	42
Net profit attributed to shareholders of the Bank	**704**	636	**2,404**	1,456	1,413	1,988
Other comprehensive income (loss) before taxes:						
Adjustments for showing securities available for sale at fair value, net	**(685)**	424	**(402)**	479	355	(518)
Adjustments for translation of financial statements, net (a), after hedges (b)	**2**	16	**(4)**	6	192	(115)
Adjustments of liabilities in respect of employee rights (d)	**46**	(5)	**1,050**	181	(1,384)	(483)
Share of the banking corporation in other comprehensive income (loss) of companies included on equity basis	**3**	(6) (e)	**15**	(5) (e)	(108)	(6)
Other comprehensive income (loss) before taxes	**(634)**	429	**659**	661	(945)	(1,122)
Relevant tax effect	**234**	(51)	**(310)**	(199)	447	335
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**(400)**	378	**349**	462	(498)	(787)
Less other comprehensive income (loss) attributed to non-controlling interests	**2**	-	**(1)**	-	-	(3)
Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes	**(402)**	378	**350**	462	(498)	(784)
Comprehensive income before attribution to non-controlling interests	**313**	1,025	**2,780**	1,923	927	1,243
Less comprehensive income attributed to non-controlling interests	**11**	11	**26**	5	12	39
Comprehensive income attributed to shareholders of the Bank	**302**	1,014	**2,754**	1,918	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 nine month period ended 30 September 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 September 2015

	For the three months ended 30 September 2015 (Unaudited)			
		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves
	(NIS millions)			
Balance at 30 June 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	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance at the end of the period	**7,059**	**1,129**	**33**	**8,221**

	For the three months ended 30 September 2014 (Unaudited)			
		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves
	(NIS millions)			
Balance at 30 June 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
(797)	**20,849**	**-**	**28,273**	**334**	**28,607**
-	**704**	**-**	**704**	**9**	**713**
-	**-**	**-**	**-**	**-**	**-**
(402)	**-**	**-**	**(402)**	**2**	**(400)**
-	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**(10)**	**(10)**
(1,199)	**21,553**	**-**	**28,575**	**335**	**28,910**

Accumulated other comprehensive income (loss)	Retained earnings	Loans to employees for purchase of the Bank's shares	Total	Non-controlling interests	Total capital
(967)	18,493	(42)	25,705	323	26,028
-	636	-	636	11	647
-	(10)	-	(10)	-	(10)
378	-	-	378	-	378
-	-	-	-	-	-
(589)	19,119	(42)	26,709	334	27,043

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

	For the nine months ended 30 September 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	**-**	**-**	**-**	**-**
Loans to employees for purchase of the Bank's shares	**-**	**-**	**-**	**-**
Dividend paid by consolidated companies	**-**	**-**	**-**	**-**
Balance at the end of the period	**7,059**	**1,129**	**33**	**8,221**

	For the nine months ended 30 September 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)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Other comprehensive loss, net, after effect of taxes	-	-	-	-
Loans to employees for purchase of the Bank's shares	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
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**
-	**2,404**	**-**	**2,404**	**27**	**2,431**
-	**(18)**	**-**	**(18)**	**-**	**(18)**
350	**-**	**-**	**350**	**(1)**	**349**
-	**(1)**	**42**	**41**	**(21)**	**20**
-	**-**	**-**	**-**	**(10)**	**(10)**
(1,199)	**21,553**	**-**	**28,575**	**335**	**28,910**

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
-	1,456	-	1,456	5	1,461
-	(17)	-	(17)	-	(17)
462	-	-	462	-	462
-	-	1	1	(1)	-
-	-	-	-	(10)	(10)
(589)	19,119	(42)	26,709	334	27,043

Condensed Consolidated Statement of Changes in Equity (cont'd)
for the period ended 30 September 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)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Benefit to employees in respect of share-based payments	-	-	10	10
Other comprehensive loss, 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	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance at 31 December 2013 (Audited)	7,059	1,129	33	8,221
Net profit (b)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Other comprehensive profit, net, after effect of taxes	-	-	-	-
Changes in non-controlling interests	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance at 31 December 2014 (Audited)	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
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
-	24	-	24	-	24
-	-	-	10	-	10
(784)	-	-	(784)	(3)	(787)
-	11	-	11	-	11
-	-	1	1	-	1
-	-	-	-	(6)	(6)
(1,051)	17,680	(43)	24,807	340	25,147
-	1,413	-	1,413	12	1,425
-	75	-	75	-	75
(498)	-	-	(498)	-	(498)
-	-	1	1	(2)	(1)
-	-	-	-	(10)	(10)
(1,549)	19,168	(42)	25,798	340	26,138

Condensed Consolidated Statement of Cash Flows
for the period ended 30 September 2015

	For the three months ended 30 September		For the nine months ended 30 September		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	**713**	647 (b)	**2,431**	1,461 (b)	1,425 (b)
Adjustments:					
Group share in undistributed losses (profits) of companies included on equity basis (a)	**(12)**	(337) (c)	**674**	(264) (c)	15
Depreciation of buildings and equipment (including impairment) (b)	**156**	146 (b)	**491**	446 (b)	602 (b)
Amortization	**-**	44	**36**	58	58
Expenses (income) in respect of credit losses	**73**	56	**166**	(11)	472
Provision for impairment in assets transferred to Group ownership	**-**	2	**-**	(4)	(3)
Profit from sale of credit portfolio	**(11)**	(28)	**(11)**	(28)	(28)
Net gains on sale of securities available for sale (including impairment)	**(278)**	(208)	**(932)**	(483)	(647)
Realized and unrealized gain from adjustment to fair value of securities held for trading	**(130)**	(167)	**(30)**	(384)	(456)
Gain on realization of investment in companies included on equity basis	**-**	-	**(522)**	-	-
Gain on realization of buildings and equipment	**(21)**	-	**(43)**	(26)	(83)
Deferred taxes , net	**(153)**	(162) (b)	**(290)**	(194) (b)	(118) (b)
Change in plan assets, net, in respect of employee rights	**67**	(66) (b)	**356**	255 (b)	418 (b)
Interest received in excess of accumulated interest (not yet received) for debentures available for sale	**19**	33	**89**	(150)	(67)
Interest not yet paid for debentures and subordinated notes	**(338)**	312	**(3)**	792	1,000
Effect of exchange-rate differences on balances of cash and cash equivalents	**(465)**	(389)	**(98)**	(374)	(839)
Other, net	**(12)**	82 (b)	**13**	75 (b)	(84) (b)
Net change in current assets:					
Deposits in banks	**(391)**	2,668	**(394)**	49	(1,215)
Credit to the public	**(5,017)**	(4,514)	**(7,643)**	(8,475)	(11,029)
Credit to governments	**(39)**	(24)	**55**	51	35
Securities borrowed or purchased under agreements to resell	**757**	(385)	**580**	(659)	(640)
Assets in respect of derivative instruments	**(775)**	(4,365)	**1,600**	(3,168)	(3,845)
Securities held for trading	**(1,185)**	(461)	**744**	172	(1,633)
Other assets	**223**	- (b)	**(490)**	(156) (b)	154 (b)
Net change in current liabilities:					
Deposits from banks	**(1,027)**	(449)	**(935)**	445	191
Deposits of the public	**13,173**	5,440	**14,118**	(497)	15,184
Deposits from governments	**(7)**	13	**167**	(23)	39
Securities lent or sold under agreements to repurchase	**(868)**	425	**(735)**	548	614
Liabilities in respect of derivative instruments	**283**	3,545	**(907)**	2,173	2,086
Other liabilities	**(547)**	470 (b)	**(1,272)**	961 (b)	103 (b)
Net cash generated by operating activity (for operating activity)	**4,188**	2,328	**7,215**	(7,410)	1,709

(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 September 2014, except for the effect of material events for which Immediate Reports have been published.

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 September 2015

	For the three months ended 30 September		For the nine months ended 30 September		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	**(17,876)**	(7,209)	**(61,785)**	(19,324)	(33,427)
Proceeds from sale of securities available for sale	**6,480**	4,968	**28,032**	18,784	22,673
Proceeds from redemption of securities available for sale	**9,775**	7,377	**18,779**	20,193	26,347
Proceeds from sale of credit portfolio	**98**	372	**98**	372	344
Acquisition of shares in companies included on equity basis	**(35)**	-	**(36)**	(49)	(341)
Proceeds from realization of investment in companies included on equity basis	**-**	-	**711**	-	-
Acquisition of buildings and equipment	**(23)**	(167) (b)	**(337)**	(492) (b)	(683) (b)
Proceeds from realization of buildings and equipment	**29**	-	**71**	22	94
Proceeds from realization of assets transferred to Group ownership	**-**	-	**3**	3	3
Net cash from investment activity (for investment activity)	**(1,552)**	5,341	**(14,464)**	19,509	15,010
Cash flows generated by financing activity					
Issue of debentures and subordinated notes	**3,201**	-	**3,201**	-	-
Redemption of debentures and subordinated notes	**(396)**	(889)	**(4,689)**	(2,301)	(2,763)
Additional purchase of shares in consolidated companies	**(1)**	-	**(32)**	(1)	(2)
Dividend paid to minority shareholders of consolidated companies	**(10)**	-	**(10)**	(10)	(10)
Loans to employees for purchase of the Bank's shares	**-**	39	**42**	40	1
Net cash for financing activity (from financing activity)	**2,794**	(850)	**(1,488)**	(2,272)	(2,774)
Increase (decrease) in cash and cash equivalents	**5,430**	6,819	**(8,737)**	9,827	13,945
Balance of cash and cash equivalents at beginning of period	**43,027**	45,770	**57,561**	42,777	42,777
Effect of movements in exchange rates on cash balances and cash equivalents	**465**	389	**98**	374	839
Balance of cash and cash equivalents at end of period	**48,922**	52,978	**48,922**	52,978	57,561

Interest and taxes paid and/or received and dividends received

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December
	2015	2014	**2015**	2014	2014
	(Unaudited)				(Audited)
	(NIS millions)				
Interest received	**2,212**	2,392	**7,249**	7,584	9,922
Interest paid	**(719)**	(1,040)	**(2,569)**	(2,510)	(3,455)
Dividends received	**163**	9	**1,003**	37	67
Taxes paid on income	**(491)**	679	**(1,111)**	(139)	(1,604)

See notes on previous page.

Condensed Consolidated Statement of Cash Flows (cont'd)
for the period ended 30 September 2015

Appendix A – Investment and financing activities not in cash:

For the three months ended 30 September, 2014:

(1) During the period, fixed assets were acquired against a liability to suppliers in the amount of NIS 9 million.

For the nine months ended 30 September, 2014:

(1) During the period, fixed assets were acquired against a liability to suppliers in the amount of NIS 9 million.

For the year ended 31 December, 2014:

(1) 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 September 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 November 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 as 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 (GAAP) 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. Regarding 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 US.

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, are recorded in accumulated other comprehensive income and eliminate 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, an 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.

It should be emphasized that, in accordance with the FAQ, when changes have occurred that have a significant effect on the plan assets or on the liability in respect of the defined benefit plan, a banking corporation is to re-measure both the liabilities and the assets.
A banking corporation may adopt an accounting policy under which the assets and the liabilities will be re-measured for every interim period provided that it is implemented consistently for all the interim periods.

The Bank has elected to adopt an accounting policy of re-measurement for every reporting period.

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 plan provides an individual account for each participant and provides benefits based as a general rule on the contributions and return on investments.
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.

- For purposes of calculating the liability in respect of long-service (Jubilee) vacation, the discount rate and actuarial assumptions are taken into account. Changes in the liability are charged immediately to the statement of profit and loss.

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.

- Until the date of implementing the directive, actual gains/losses from plan assets were charged immediately to the statement of profit and loss. Pursuant to the directive, a mechanism is to be decided for calculating the expected return on plan assets to be charged immediately to profit and loss, with the gap between the expected and actual return being charged to accumulated other comprehensive income in respect of defined benefit plans.

Disclosure requirements for interim financial reports in 2015:

In the reports for the first and second 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 September 2015, accumulated other comprehensive income in respect of employee rights amounted to NIS 1,245 million after the effect of tax, a reduction of NIS 659 million after the effect of tax compared with 31 December 2014.

The negative capital reserve created at the time of adoption was canceled out in the second quarter of 2015.

The balance of liabilities for employee benefits at 30 September 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 608 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. Each software development project, whose total software costs that can be 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 September 2014 and as at 31 December 2014:

	As at 30 September 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	3,627	-	(576)	3,051	3,729	-	(567)	3,162
Other assets	5,482	624	214	6,320	5,501	1,207	210	6,918
Other liabilities	19,103	1,626	-	20,729	18,715	3,145	-	21,860
Retained earnings	19,578	(97)	(362)	19,119	19,559	(34)	(357)	19,168
Accumulated other comprehensive income	316	(905)	-	(589)	355	(1,904)	-	(1,549)
Capital attributed to shareholders of the Bank	28,073	(1,002)	(362)	26,709	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 nine months ended 30 September 2014 and for the year ended 31 December 2014:

	For the three months ended 30 September 2014				For the nine months ended 30 September 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	71	(53)	-	18	120	(25)	-	95	211	(32)	-	179
Salaries and related expenses	1,227	27	29	1,283	3,705	254	60	4,019	4,968	103	80	5,151
Maintenance and depreciation of buildings and equipment	451	-	(31)	420	1,329	-	(92)	1,237	1,778	-	(123)	1,655
Provision for taxes on the profit	362	(34)	4	332	1,124	(103)	13	1,034	1,281	(20)	17	1,278
Profit attributed to shareholders of the Bank	684	(46)	(2)	636	1,613	(176)	19	1,456	1,502	(115)	26	1,413
Basic and diluted profit per share	0.46	-	-	0.43	1.09	(0.12)	0.01	0.99	1.02	(0.08)	0.02	0.96
Other comprehensive income												
Adjustments of liabilities in respect of employee benefits	-	(5)	-	(5)	-	181	-	181	-	(1,384)	-	(1,384)
Relevant tax effect	-	6	-	6	-	(66)	-	(66)	-	500	-	500
Comprehensive income (loss) after taxes	-	1	-	1	-	115	-	115	-	(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 circular on the subject of "Reporting 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.

4. Credit Risk by Economic Sector

On 9 April 2014, the Supervisor of Banks published a circular on "Credit Risk by Economic Sector". The circular adopts the uniform classification of economic sectors published by the Central Bureau of Statistics. The Bank implements the directive retroactively as of 1 January 2015.

5. FAQ on the subject of impaired debts

On 10 September 2015, the Supervisor published an updated FAQ on the subject of implementation of the Public Reporting Directives on impaired debts, credit risk, and the allowance for credit losses. The FAQ clarified the requirements for determining the threshold for purposes of an individual examination of impairment, and also clarified that it is not possible to change the manner of examining the allowance for credit losses in respect of a specific debt (i.e. to change from an examination on a collective basis to an examination on an individual basis), except in a situation of a troubled debt restructuring. In addition, rules were made for performing an accounting write-off in respect of a troubled debt in a restructuring that failed. The effect of initial implementation of these instructions is NIS 14 million.

(D) New Accounting Standards and Directives of the Supervisor of Banks in the period prior to their implementation

1. Regulatory Operating Segments

On 3 November 2014 a circular was published concerning the reporting on operating segments and an FAQ for implementation. On 10 September 2014, an update was published of the FAQ.

The circular 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 the manner of 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 2017.

On 9 July 2015, the FASB published an amendment to the Standard pursuant to which adoption of the Standard will be postponed until 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 statements.

- 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 reporting and disclosure.

4. The application of generally accepted accounting principles in the US 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.

- US GAAP on the subject of investee companies, including 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, and a person who was an interested party at the time the transaction was made.

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 22 October 2015, a circular was published on "Implementation of US GAAP on intangible assets". Pursuant to the circular, 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".

The instructions of the circular are to be implemented as of 1 January 2016, including a retroactive amendment of comparative figures.

The Bank is examining the effect on the financial statements of adopting the above rules.

7. Implementation of US GAAP on taxes on income

On 22 October 2015, a circular was published on "Implementation of US GAAP on taxes on income". Pursuant to the circular, 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 740 on "Taxes on income" and Codification Topic 740-830 on "Foreign Currency Issues - Taxes on Income".

The instructions of the circular are to be implemented as of 1 January 2017.
The Bank is examining the effect of adopting the above rules on the financial statements.

Note 2 - Securities

	As at 30 September 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	28,887	28,672	216	(1)	28,887
Foreign governments	8,215	8,209	8	(2)	8,215
Financial institutions in Israel	48	46	2	-	48
Financial institutions abroad	4,968	4,947	41	(20)	4,968
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	7,918	7,919	42	(43)	7,918
Others in Israel	596	569	27	-	596
Others abroad	1,257	1,263	14	(20)	1,257
	51,889	51,625	350	(86)	51,889
Shares and mutual funds (b)	3,371	3,292	284	(205)	3,371
Total securities available for sale	55,260	54,917	634 (c)	(291) (c)	55,260

	As at 30 September 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	8,649	8,629	32	(12)	8,649
Foreign governments	1,432	1,431	9	(8)	1,432
Financial institutions in Israel	156	156	1	(1)	156
Financial institutions abroad	128	129	-	(1)	128
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	852	844	9	(1)	852
Others in Israel	139	140	-	(1)	139
Others abroad	354	357	1	(4)	354
	11,710	11,686	52	(28)	11,710
Shares and mutual funds	575	687	3	(115)	575
Total securities held for trading	12,285	12,373	55 (d)	(143) (d)	12,285
Total securities (e) (f)	67,545	67,290	689	(434)	67,545

See notes on page 187.

Note 2 - Securities (cont'd)

	As at 30 September 2014 (Unaudited)				
		Amortized	Accumulated other comprehensive profit (loss)		
	Balance sheet amount	cost (in shares - cost)	Profits	Losses	Fair value (a)
	(NIS millions)				
1. Securities available for sale:					
Debentures -					
Government of Israel	12,706	12,403	303	-	12,706
Foreign governments	3,526	3,517	11	(2)	3,526
Financial institutions in Israel	101	94	7	-	101
Financial institutions abroad	4,421	4,352	83	(14)	4,421
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	7,250	7,324	37	(111)	7,250
Others in Israel	725	692	33	-	725
Others abroad	2,636	2,619	35	(18)	2,636
	31,365	31,001	509	(145)	31,365
Shares and mutual funds (b)	3,595	3,160	456	(21)	3,595
Total securities available for sale	34,960	34,161	965 (c)	(166) (c)	34,960

	As at 30 September 2014 (Unaudited)				
	Balance sheet amount	Amortized cost (in shares - cost)	Unrealized profits from adjustments to fair value	Unrealized losses from adjustments to fair value	Fair value (a)
	(NIS millions)				
2. Securities held for trading:					
Debentures -					
Government of Israel	8,124	8,049	76	(1)	8,124
Foreign governments	203	197	6	-	203
Financial institutions in Israel	530	528	3	(1)	530
Financial institutions abroad	239	237	4	(2)	239
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	559	557	4	(2)	559
Others in Israel	394	390	5	(1)	394
Others abroad	632	626	10	(4)	632
	10,681	10,584	108	(11)	10,681
Shares and mutual funds	417	316	101	-	417
Total securities held for trading	11,098	10,900	209 (d)	(11) (d)	11,098
Total securities (e) (f)	46,058	45,061	1,174	(177)	46,058

See notes on page 187.

Note 2 - Securities (cont'd)

	As at 31 December 2014 (Audited)				
	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	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 page 187.

Note 2 - Securities (cont'd)

Notes:

(a) Fair value amounts are generally based on Stock Exchange prices, which do not necessarily reflect the price which would be received for the sale of a large volume of securities.

(b) Includes shares which have no readily available fair value, which are shown at cost, in the amount of NIS 1,309 million (30 September 2014 - NIS 1,570 million, 31 December 2014 - NIS 1,596 million).

(c) Included in equity under "Adjustments in respect of presentation of available for sale securities at fair value" in other comprehensive income except for securities intended to be hedged under fair value hedging.

(d) Charged to the profit and loss statement, but not yet realized.

(e) Of which a balance sheet value in the amount of NIS 0 million (30 September 2014 – NIS 10 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 12 million (30 September 2014 - NIS 32 million, 31 December 2014 - NIS 19 million).

General notes:

Securities lent in the amount of NIS 21 million (30 September 2014 - NIS 147 million, 31 December 2014 - NIS 196 million) are shown under credit to the public.

Securities pledged to lenders amounted to NIS 3,423 million (30 September 2014 - NIS 1,672 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 (cont'd)

Additional information on mortgage-backed and asset-backed securities available for sale

	As at 30 September 2015 (Unaudited)			
	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	13	-	-	13
Securities issued by FNMA and FHLMC	1,042	1	(7)	1,036
Other securities	737	1	(3)	735
Total	1,792	2	(10)	1,784
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	3,535	19	(17)	3,537
Other mortgage-backed securities	479	2	(1)	480
Total	4,014	21	(18)	4,017
Asset-backed securities (ABS)				
Credit card receivables	95	-	(1)	94
Other credit to private persons	4	-	-	4
Credit not to private persons	1	-	-	1
CLO-type debentures	2,013	19	(14)	2,018
Total	2,113	19	(15)	2,117
Total mortgage-backed and asset-backed debentures available for sale	7,919	42	(43)	7,918

(a) Amounts charged to capital reserve as part of other comprehensive income, net, after effect of taxes.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)

	As at 30 September 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	8	-	-	8
Total	8	-	-	8
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	441	3	-	444
Other mortgage-backed securities	130	2	(1)	131
Total	571	5	(1)	575
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	58	1	-	59
Other credit to private persons	14	-	-	14
Credit not to private persons	47	-	-	47
Others	126	3	-	129
Total	265	4	-	269
Total mortgage-backed and asset-backed debentures held for trading	844	9	(1)	852

(a) These profits (losses) were charged to profit and loss.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)

	As at 30 September 2014 (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	183	1	(1)	183
Securities issued by FNMA and FHLMC	1,587	-	(39)	1,548
Total	1,770	1	(40)	1,731
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	3,101	2	(60)	3,043
Other mortgage-backed securities	492	5	(4)	493
Total	3,593	7	(64)	3,536
Asset-backed securities (ABS)				
Credit card receivables	90	-	(2)	88
Lines of credit for any purpose secured by dwelling	2	-	-	2
Other credit to private persons	3	-	-	3
Credit not to private persons	1	-	-	1
CLO-type debentures	1,865	29	(5)	1,889
Total	1,961	29	(7)	1,983
Total mortgage-backed and asset-backed debentures available for sale	7,324	37	(111)	7,250

(a) Amounts charged to capital reserve as part of other comprehensive income, net after effect of tax.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)

	As at 30 September 2014 (Unaudited)			
	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	10	-	-	10
Total	10	-	-	10
Other mortgage-backed securities (including CMO and STRIPPED MBS)				
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	252	-	(1)	251
Other mortgage-backed securities	85	1	(1)	85
Total	337	1	(2)	336
Total mortgage-backed securities (MBS)	347	1	(2)	346
Asset-backed securities (ABS)				
Credit card receivables	15	-	-	15
Lines of credit for any purpose secured by dwelling	1	-	-	1
Credit for purchase of vehicle	67	2	-	69
Other credit to private persons	16	-	-	16
Credit not to private persons	32	-	-	32
Others	79	1	-	80
Total	210	3	-	213
Total mortgage-backed and asset-backed debentures held for trading	557	4	(2)	559

(a) These profits (losses) were charged to profit and loss.

Note 2 - Securities (cont'd)

Additional information on mortgage-backed and asset-backed securities available for sale (cont'd)

	As at 31 December 2014 (Audited)			
	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	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 (cont'd)

Additional information on mortgage-backed and asset-backed securities held for trading (cont'd)

	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 (cont'd)

Additional information in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position

	30 September 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	4,004	1	-	-	1	-	-	-	-	-
Foreign governments	5,771	2	-	-	2	-	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	2,137	19	-	-	19	58	1	-	-	1
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	3,867	29	-	-	29	762	14	-	-	14
Others in Israel	100	-	-	-	-	-	-	-	-	-
Others abroad	298	9	11	-	20	79	-	-	-	-
Shares	366	205	-	-	205	-	-	-	-	-
Total securities available for sale	16,543	265	11	-	276	899	15	-	-	15

	30 September 2014 (Unaudited)									
	Less than 12 months					12 months and above				
		Unrealized losses					Unrealized losses			
	Fair value	0-20%	20%-35%	More than 35%	Total	Fair value	0-20%	20%-35%	More than 35%	Total
	(NIS millions)									
Bonds										
Government of Israel	88	-	-	-	-	29	-	-	-	-
Foreign governments	597	1	-	-	1	109	1	-	-	1
Financial institutions in Israel	5	-	-	-	-	-	-	-	-	-
Financial institutions abroad	559	6	-	-	6	276	8	-	-	8
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	1,398	10	-	-	10	3,882	101	-	-	101
Others in Israel	72	-	-	-	-	-	-	-	-	-
Others abroad	158	1	-	-	1	837	17	-	-	17
Shares	1	-	-	-	-	614	21	-	-	21
Total securities available for sale	2,878	18	-	-	18	5,747	148	-	-	148

(-) Losses less than NIS 1million.

Note 2 - Securities (cont'd)

Additional information in respect of fair value and unrealized losses, by period and rate of impairment, of securities available for sale in an unrealized loss position (cont'd)

	31 December 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	-	-	-	-	-	-	-	-	-
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	-	-	-	-	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 (cont'd)

Additional information on mortgage-backed and asset-backed securities that are in an unrealized loss position (cont'd)

	30 September 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)	**1,443**	**(10)**	**59**	**-**	**1,502**	**(10)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**785**	**(5)**	**604**	**(13)**	**1,389**	**(18)**
Asset-backed securities (ABS)	**1,639**	**(14)**	**99**	**(1)**	**1,738**	**(15)**
Total	**3,867**	**(29)**	**762**	**(14)**	**4,629**	**(43)**

	30 September 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)	24	-	1,563	(40)	1,587	(40)
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	901	(9)	1,775	(55)	2,676	(64)
Asset-backed securities (ABS)	473	(1)	544	(6)	1,017	(7)
Total	1,398	(10)	3,882	(101)	5,280	(111)

	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 September 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	**3,267**	**516**	**617**	**4,400**	**3**	**4,403**
Expenses (income) in respect of credit losses	**(49)**	**6**	**116**	**73**	**-**	**73**
Accounting write-offs	**(130)**	**(4)**	**(153)**	**(287)**	**-**	**(287)**
Collection of debts written off in previous years	**45**	**-**	**81**	**126**	**-**	**126**
Net accounting write-offs	**(85)**	**(4)**	**(72)**	**(161)**	**-**	**(161)**
Adjustments from translation of financial statements	**6**	**(1)**	**1**	**6**	**-**	**6**
Balance of allowance for credit losses at end of the reporting period[1]	**3,139**	**517**	**662**	**4,318**	**3**	**4,321**
[1]Of which: in respect of off-balance sheet credit instruments	**467**	**-**	**38**	**505**	**-**	**505**

	For the three months ended 30 September 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	3,296	504	411	4,211	6	4,217
Expenses in respect of credit losses	(6)	7	57	58	(2)	56
Accounting write-offs	(136) (b)	(3)	(133)	(272)	-	(272)
Collection of debts written off in previous years	77 (b)	-	87	164	-	164
Net accounting write-offs	(59)	(3)	(46)	(108)	-	(108)
Adjustments from translation of financial statements	11	-	(2)	9	-	9
Balance of allowance for credit losses at end of the reporting period[1]	3,242	508	420	4,170	4	4,174
[1]Of which: in respect of off-balance sheet credit instruments	412	-	33	445	-	445

(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 (cont'd)
Allowance for credit losses

1. Change in balance of allowance for credit losses (cont'd)

	For the nine months ended 30 September 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	**(41)**	**11**	**197**	**167**	**(1)**	**166**
Accounting write-offs	**(392)**	**(6)**	**(462)**	**(860)**	**-**	**(860)**
Collection of debts written off in previous years	**253**	**-**	**275**	**528**	**-**	**528**
Net accounting write-offs	**(139)**	**(6)**	**(187)**	**(332)**	**-**	**(332)**
Adjustments from translation of financial statements	**2**	**(1)**	**-**	**1**	**-**	**1**
Balance of allowance for credit losses at end of the reporting period[2]	**3,139**	**517**	**662**	**4,318**	**3**	**4,321**
[2]Of which: in respect of off-balance sheet credit instruments	**467**	**-**	**38**	**505**	**-**	**505**

	For the nine months ended 30 September 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	(99)	17	69	(13)	2	(11)
Accounting write-offs	(298) (b)	(8)	(413)	(719)	-	(719)
Collection of debts written off in previous years	323 (b)	-	274	597	-	597
Net accounting write-offs	25	(8)	(139)	(122)	-	(122)
Adjustments from translation of financial statements	15	1	(6)	10	-	10
Balance of allowance for credit losses at end of the reporting period[2]	3,242	508	420	4,170	4	4,174
[2]Of which: in respect of off-balance sheet credit instruments	412	-	33	445	-	445

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

A. Debts[a] and off-balance sheet credit instruments (cont'd)

2. Additional information on the method of calculating the credit loss allowance in respect of debts[a] and on debts[a] on which it was calculated

	30 September 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	**108,639**	**46**	**912**	**109,597**	**10,278**	**119,875**
Examined on a collective basis[3]	**37,548**	**80,666**	**36,011**	**154,225**	**2,651**	**156,876**
[3]Of which: the allowance was calculated by extent of arrears	**1,214** (c)	**79,482**	**-**	**80,696**	**-**	**80,696**
Total debts[1]	**146,187**	**80,712**	**36,923**	**263,822**	**12,929**	**276,751**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**2,409**	**14**	**69**	**2,492**	**3**	**2,495**
Examined on a collective basis[4]	**263**	**503**	**555**	**1,321**	**-**	**1,321**
[4]Of which the allowance was calculated by extent of arrears (b)	**1**	**501**	**-**	**502**	**-**	**502**
Total allowance for credit losses	**2,672**	**517**	**624**	**3,813**	**3**	**3,816**

	30 September 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	110,364	49	1,653	112,066	16,535	128,601
Examined on a collective basis[3]	33,327 (d)	74,300 (d)	33,513	141,140	1,392	142,532
[3]Of which: the allowance was calculated by extent of arrears	1,137 (c) (d)	71,565 (d)	-	72,702	-	72,702
Total debts[a]	143,691	74,349	35,166	253,206	17,927	271,133
Allowance for credit losses for debts[a]:						
Examined on an individual basis	2,380	13	61	2,454	4	2,458
Examined on a collective basis[4]	450	495	326	1,271	-	1,271
[4]Of which the allowance was calculated by extent of arrears (b)	-	492	-	492	-	492
Total allowance for credit losses	2,830	508	387	3,725	4	3,729

(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 309 million (30 September 2014 – NIS 288 million).
(c) Including the balance of housing loans granted to purchasing groups in process of construction.
(d) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

A. Debts[a] and off-balance sheet credit instruments (cont'd)

2. Additional information on the method of calculating the credit loss allowance in respect of debts[a] and on debts[a] on which it was calculated (cont'd)

	31 December 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]	35,194 (d)	75,811 (d)	33,808	144,813	1,364	146,177
[3]Of which: the allowance was calculated by extent of arrears	1,216 (d)	73,023 (d)	-	74,239	-	74,239
Total debts[a]	145,244	75,863	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.
(c) Including the balance of housing loans granted to purchasing groups in process of construction.
(d) Reclassified.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts [a]
1. Credit quality and arrears

	30 September 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	16,071	330	572	16,973	12	64
Construction & real estate - real estate activities	22,529	458	1,195	24,182	9	18
Financial services	9,162	12	65	9,239	1	6
Commercial - other	62,671	2,773	1,348	66,792	37	101
Total commercial	110,433	3,573	3,180	117,186	59	189
Private individuals - housing loans (f)	78,742	754	-	79,496	748	529
Private individuals - other	36,149	323	70	36,542	87	190
Total public - activity in Israel	225,324	4,650	3,250	233,224	894	908
Israeli banks	2,288	-	-	2,288	-	-
Government of Israel	283	-	-	283	-	-
Total activity in Israel	227,895	4,650	3,250	235,795	894	908
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	8,569	8	515	9,092	5	39
Commercial - other	19,063	357	489	19,909	107	441
Total commercial	27,632	365	1,004	29,001	112	480
Private individuals	1,524	19	54	1,597	18	5
Total public - activity abroad	29,156	384	1,058	30,598	130	485
Foreign banks	10,167	-	-	10,167	-	-
Foreign governments	191	-	-	191	-	-
Total activity abroad	39,514	384	1,058	40,956	130	485
Total public	254,480	5,034	4,308	263,822	1,024	1,393
Total banks	12,455	-	-	12,455	-	-
Total governments	474	-	-	474	-	-
Total	267,409	5,034	4,308	276,751	1,024	1,393

See notes on page 204.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

1. Credit quality and arrears (cont'd)

	30 September 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	15,271 (g)	441	396	16,108	6	20
Construction & real estate - real estate activities	20,609 (g)	156	1,420	22,185	6	10
Financial services	10,907 (g)	27	27	10,961	-	40
Commercial - other	63,173 (g)	2,971	1,597	67,741	35	90
Total commercial	109,960	3,595	3,440	116,995	47	160
Private individuals - housing loans (f)	72,281 (g)	834	-	73,115	813	524
Private individuals - other	33,761 (g)	320	107	34,188	88	173
Total public - activity in Israel	216,002	4,749	3,547	224,298	948	857
Israeli banks	1,489	-	-	1,489	-	-
Government of Israel	294	-	-	294	-	-
Total activity in Israel	217,785	4,749	3,547	226,081	948	857
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	7,156 (g)	63	599	7,818	43	26
Commercial - other	18,026 (g)	168	684	18,878	26	28
Total commercial	25,182	231	1,283	26,696	69	54
Private individuals	2,128	21	63	2,212	18	11
Total public - activity abroad	27,310	252	1,346	28,908	87	65
Foreign banks (g)	15,928	-	-	15,928	-	-
Foreign governments	216	-	-	216	-	-
Total activity abroad	43,454	252	1,346	45,052	87	65
Total public	243,312	5,001	4,893	253,206	1,035	922
Total banks	17,417	-	-	17,417	-	-
Total governments	510	-	-	510	-	-
Total	261,239	5,001	4,893	271,133	1,035	922

See notes on page 204.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

1. Credit quality and arrears (cont'd)

	31 December 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	15,292 (g)	290	579	16,161	9	31
Construction & real estate - real estate activities	20,420 (g)	518	1,331	22,269	5	12
Financial services	9,953 (g)	33	20	10,006	-	12
Commercial - other	65,096 (g)	3,074	1,499	69,669	36	81
Total commercial	110,761	3,915	3,429	118,105	50	136
Private individuals - housing loans (f)	73,876 (g)	775	-	74,651	768	499
Private individuals - other	34,037 (g)	335	100	34,472	89	171
Total public - activity in Israel	218,674	5,025	3,529	227,228	907	806
Israeli banks	1,581	-	-	1,581	-	-
Government of Israel	294	-	-	294	-	-
Total activity in Israel	220,549	5,025	3,529	229,103	907	806
Activity of borrowers abroad Public - commercial						
Construction & real estate	8,275 (g)	57	500	8,832	4	23
Commercial - other	17,351 (g)	259	697	18,307	3	36
Total commercial	25,626	316	1,197	27,139	7	59
Private individuals	2,016	20	65	2,101	27	3
Total public - activity abroad	27,642	336	1,262	29,240	34	62
Foreign banks	17,555	-	-	17,555	-	-
Foreign governments	234	-	-	234	-	-
Total activity abroad	45,431	336	1,262	47,029	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 204.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

1. Credit quality and arrears (cont'd)

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Impaired, substandard or special mention credit risk, including in respect of housing loans for which there is a provision by extent of arrears, and housing loans for which there is no provision that are in arrears of 90 days or more.
(c) As a rule, impaired debts do not accrue interest income. For information on certain impaired debts under troubled debt restructuring, see Note 3(B)(2)C.
(d) Classified as problem debts that are not impaired, accruing interest income.
(e) Accruing interest income. Debts in arrears of 30 to 89 days in the amount of NIS 575 million were classified as problem debts that are not impaired (30 September 2014 – NIS 559 million, 31 December 2014 – NIS 533 million).
(f) Including balance of housing loans in the amount of NIS 149 million (30 September 2014 – NIS 175 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.
(h) For information on the sale of loans, see Note 10.

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 (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts

a. Impaired debts and individual allowance

	30 September 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	150	32	422	572	1,107
Construction & real estate - real estate activities	690	292	505	1,195	2,437
Financial services	1	1	64	65	594
Commercial - other	646	271	702	1,348	4,764
Total commercial	1,487	596	1,693	3,180	8,902
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	64	55	6	70	1,935
Total public - activity in Israel	1,551	651	1,699	3,250	10,837
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,551	651	1,699	3,250	10,837
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	357	184	158	515	671
Commercial - other	395	165	94	489	813
Total commercial	752	349	252	1,004	1,484
Private individuals	28	19	26	54	91
Total public - activity abroad	780	368	278	1,058	1,575
Foreign banks	-	-	-	-	1
Foreign governments	-	-	-	-	-
Total activity abroad	780	368	278	1,058	1,576
Total public	2,331	1,019	1,977	4,308	12,412
Total banks	-	-	-	-	1
Total governments	-	-	-	-	-
Total	2,331	1,019	1,977	4,308	12,413
Of which:					
Measured by present value of cash flows	1,500	44	1,084	2,584	
Debts under troubled debt restructuring	1,034	25	1,351	2,385	

(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 (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

a. Impaired debts and individual allowance (cont'd)

	30 September 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	127	39	269	396	1,149
Construction & real estate - real estate activities	795	219	625	1,420	2,497
Financial services	2	2	25	27	556
Commercial - other	735	381	862	1,597	5,003
Total commercial	1,659	641	1,781	3,440	9,205
Private individuals - housing loans	-	-	-	-	-
Private individuals - other	79	53	28	107	1,817
Total public - activity in Israel	1,738	694	1,809	3,547	11,022
Israeli banks	-	-	-	-	-
Government of Israel	-	-	-	-	-
Total activity in Israel	1,738	694	1,809	3,547	11,022
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	390	246	209	599	789
Commercial - other	477	281	207	684	876
Total commercial	867	527	416	1,283	1,665
Private individuals	34	20	29	63	95
Total public - activity abroad	901	547	445	1,346	1,760
Foreign banks	-	-	-	-	-
Foreign governments	-	-	-	-	-
Total activity abroad	901	547	445	1,346	1,760
Total public	2,639	1,241	2,254	4,893	12,782
Total banks	-	-	-	-	-
Total governments	-	-	-	-	-
Total	2,639	1,241	2,254	4,893	12,782
Of which:					
Measured by present value of cash flows	1,666	884	1,395	3,061	
Debts under troubled debt restructuring (d)	1,208	404	1,367	2,575	

(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 (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

a. Impaired debts and individual allowance (cont'd)

	31 December 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 (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

b. Average balance and interest income

	For the three months ended 30 September 2015			For the three months ended 30 September 2014		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis	Average balance of impaired debts (b) (e)	Interest income recorded (c)	Of which: recorded on cash basis
	(Unaudited)					
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**589**	**2**	**2**	496	-	-
Construction & real estate - real estate activities	**1,294**	**2**	**2**	1,423	-	-
Financial services	**23**	**4**	**4**	208	-	-
Commercial - other	**1,542**	**14**	**7**	1,622	44	44
Total commercial	**3,448**	**22**	**15**	3,749	44	44
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**97**	**5**	**5**	107	-	-
Total public - activity in Israel	**3,545**	**27**	**20**	3,856	44	44
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**3,545**	**27**	**20**	3,856	44	44
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**534**	**3**	**3**	708	2	2
Commercial - other	**513**	**2**	**2**	830	4	4
Total commercial	**1,047**	**5**	**5**	1,538	6	6
Private individuals	**58**	**1**	**1**	76	-	-
Total public - activity abroad	**1,105**	**6**	**6**	1,614	6	6
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**1,105**	**6**	**6**	1,614	6	6
Total public	**4,650**	**33**	**26**	5,470	50	50
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**4,650**	**33** (d)	**26**	5,470	50 (d)	50

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Average recorded balance of debt of impaired debts during the reporting period.

(c) Interest income recorded in the reporting period, in respect of the average balance of impaired debts, at the time the debts were classified as impaired.

(d) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded for the three month period ended 30 September 2015 in the amount of NIS 163 million (for the three month period ended 30 September 2014 – NIS 111 million).

(e) Restated.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

b. Average balance and interest income (cont'd)

	For the nine months ended 30 September 2015			For the nine months ended 30 September 2014		
	Average balance of impaired debts (b)	Interest income recorded (c)	Of which: recorded on cash basis	Average balance of impaired debts (b) (e)	Interest income recorded (c)	Of which: recorded on cash basis
	(Unaudited)					
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**587**	**11**	**11**	385	2	2
Construction & real estate - real estate activities	**1,280**	**5**	**5**	1,422	2	2
Financial services	**29**	**4**	**4**	183	-	-
Commercial - other	**1,514**	**36**	**20**	1,640	49	48
Total commercial	**3,410**	**56**	**40**	3,727	53	52
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**93**	**16**	**16**	107	3	3
Total public - activity in Israel	**3,503**	**72**	**56**	3,737	56	55
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**3,503**	**72**	**56**	3,834	56	55
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**539**	**9**	**9**	705	6	6
Commercial - other	**518**	**7**	**7**	825	10	10
Total commercial	**1,057**	**16**	**16**	1,530	16	16
Private individuals	**58**	**2**	**2**	73	1	1
Total public - activity abroad	**1,115**	**18**	**18**	1,603	17	17
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**1,115**	**18**	**18**	1,603	17	17
Total public	**4,618**	**90**	**74**	5,340	73	72
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**4,618**	**90** (d)	**74**	5,437	73 (d)	72

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

(b) Average recorded balance of debt of impaired debts during the reporting period.

(c) Interest income recorded in the reporting period, in respect of the average balance of impaired debts, at the time the debts were classified as impaired.

(d) If the impaired debts had accumulated interest according to the original terms, interest income would have been recorded for the nine month period ended 30 September 2015 in the amount of NIS 267 million (for the nine month period ended 30 September 2014 - NIS 324 million).

(e) Restated.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring[d]

	30 September 2015			30 September 2014		
	Not accruing interest income	Accruing (b) not in arrears	Total (c)	Not accruing interest income	Accruing (b) not in arrears	Total (c)
	Unaudited					
	(NIS millions)					
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**457**	**13**	**470**	232	-	232
Construction & real estate - real estate activities	**784**	**4**	**788**	842	-	842
Financial services	**-**	**10**	**10**	19	-	19
Commercial - other	**556**	**17**	**573**	558	30	588
Total commercial	**1,797**	**44**	**1,841**	1,651	30	1,681
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**58**	**-**	**58**	57	-	57
Total public - activity in Israel	**1,855**	**44**	**1,899**	1,708	30	1,738
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**1,855**	**44**	**1,899**	1,708	30	1,738
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**165**	**141**	**306**	220	183	403
Commercial - other	**58**	**89**	**147**	167	231	398
Total commercial	**223**	**230**	**453**	387	414	801
Private individuals	**8**	**25**	**33**	25	11	36
Total public - activity abroad	**231**	**255**	**486**	412	425	837
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**231**	**255**	**486**	412	425	837
Total public	**2,086**	**299**	**2,385**	2,120	455	2,575
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**2,086**	**299**	**2,385**	2,120	455	2,575

(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 87 million (30 September 2014 – NIS 119 million).

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring[d] (cont'd)

	31 December 2014 (Audited)		
	Not accruing interest income	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 (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

1. Restructurings carried out

	For the three months ended 30 September 2015			For the three months ended 30 September 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	9	62	18	9	1	1
Construction & real estate - real estate activities	2	16	14	3	329	325
Financial services	-	-	-	-	-	-
Commercial - other	13	27	24	27	98	98
Total commercial	24	105	56	39	428	424
Private individuals - housing loans	-	-	-	-	-	-
Private individuals - other	224	2	2	244	3	3
Total public - activity in Israel	248	107	58	283	431	427
Israeli banks	-	-	-	-	-	-
Government of Israel	-	-	-	-	-	-
Total activity in Israel	248	107	58	283	431	427
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	6	2	2	1	11	11
Commercial - other	6	5	5	3	20	20
Total commercial	12	7	7	4	31	31
Private individuals	1	1	1	-	-	-
Total public - activity abroad	13	8	8	4	31	31
Foreign banks	-	-	-	-	-	-
Foreign governments	-	-	-	-	-	-
Total activity abroad	13	8	8	4	31	31
Total public	261	115	66	287	462	458
Total banks	-	-	-	-	-	-
Total governments	-	-	-	-	-	-
Total	261	115	66	287	462	458

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

1. Restructurings carried out (cont'd)

	For the nine months ended 30 September 2015			For the nine months ended 30 September 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	**25**	**70**	**68**	21	16	16
Construction & real estate - real estate activities	**3**	**24**	**23**	9	385	379
Financial services	**-**	**-**	**-**	-	-	-
Commercial - other	**86**	**94**	**90**	73	130	125
Total commercial	**114**	**188**	**181**	103	531	520
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**674**	**7**	**7**	569	6	6
Total public - activity in Israel	**788**	**195**	**188**	672	537	526
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**788**	**195**	**188**	672	537	526
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**13**	**21**	**21**	9	130	129
Commercial - other	**19**	**73**	**72**	31	177	171
Total commercial	**32**	**94**	**93**	40	307	300
Private individuals	**4**	**1**	**1**	11	2	2
Total public - activity abroad	**36**	**95**	**94**	51	309	302
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**36**	**95**	**94**	51	309	302
Total public	**824**	**290**	**282**	723	846	828
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**824**	**290**	**282**	723	846	828

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.

Note 3 – Credit Risk, Credit to the Public and Allowance for Credit Losses (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

2. Failed restructurings carried out[(b)]

	For the three months ended 30 September 2015		For the three months ended 30 September 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	**4**	**1**	5	-
Construction & real estate - real estate activities	**4**	**7**	3	81
Financial services	**-**	**-**	1	-
Commercial - other	**33**	**8**	21	9
Total commercial	**41**	**16**	30	90
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**148**	**3**	216	1
Total public - activity in Israel	**189**	**19**	246	91
Israeli banks	**-**	**-**	-	-
Government of Israel	**-**	**-**	-	-
Total activity in Israel	**189**	**19**	246	91
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	**2**	**-**	-	-
Commercial - other	**-**	**-**	5	22
Total commercial	**2**	**-**	5	22
Private individuals	**1**	**1**	-	-
Total public - activity abroad	**3**	**1**	5	22
Foreign banks	**-**	**-**	-	-
Foreign governments	**-**	**-**	-	-
Total activity abroad	**3**	**1**	5	22
Total public	**192**	**20**	251	113
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**192**	**20**	251	113

(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 (cont'd)

B. Debts[a] (cont'd)

2. Additional information on impaired debts (cont'd)

c. Problem debts under restructuring (cont'd)

2. Failed restructurings carried out[(b)] (cont'd)

	For the nine months ended 30 September 2015		For the nine months ended 30 September 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	**22**	**13**	20	5
Construction & real estate - real estate activities	**6**	**7**	5	95
Financial services	**-**	**-**	1	-
Commercial - other	**77**	**29**	93	33
Total commercial	**105**	**49**	119	133
Private individuals - housing loans	**-**	**-**	-	-
Private individuals - other	**393**	**6**	408	3
Total public - activity in Israel	**498**	**55**	527	136
Israeli banks	**-**	**-**	-	-
Government of Israel	**-**	**-**	-	-
Total activity in Israel	**498**	**55**	527	136
Activity of borrowers abroad				
Public - commercial				
Construction & real estate	**6**	**1**	2	12
Commercial - other	**6**	**3**	20	38
Total commercial	**12**	**4**	22	50
Private individuals	**3**	**1**	7	1
Total public - activity abroad	**15**	**5**	29	51
Foreign banks	**-**	**-**	-	-
Foreign governments	**-**	**-**	-	-
Total activity abroad	**15**	**5**	29	51
Total public	**513**	**60**	556	187
Total banks	**-**	**-**	-	-
Total governments	**-**	**-**	-	-
Total	**513**	**60**	556	187

(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 (cont'd)

B. Debts[a] (cont'd)

3. Additional information on housing loans
Balances at the end of the period by loan to value ratio (LTV)[(b)], type of repayment and type of interest

Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total
		30 September 2015 (Unaudited)			
		(NIS millions)			
First charge: rate of financing	Up to 60%	**49,761**	**3,873**	**35,253**	**3,130**
	Above 60%	**30,117**	**1,212**	**21,840**	**977**
Second charge or without charge		**834**	**28**	**611**	**101**
Total		**80,712**	**5,113**	**57,704**	**4,208**

Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total (c)
		30 September 2014 (Unaudited) (c)			
		(NIS millions)			
First charge: rate of financing	Up to 60%	45,348	3,919	33,788	2,961
	Above 60%	28,225	1,426	22,318	1,009
Second charge or without charge		776	38	592	74
Total		74,349	5,383	56,698	4,044

Balance of housing loans		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Off-balance sheet credit risk total (c)
		31 December 2014 (Audited) (c)			
		(NIS millions)			
First charge: rate of financing	Up to 60%	46,518	3,918	34,128	3,000
	Above 60%	28,569	1,382	22,229	1,011
Second charge or without charge		776	35	586	67
Total		75,863	5,335	56,943	4,078

(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) Restated.

Note 4 – Capital, Capital Adequacy, Liquidity and Leverage

	30 September 2015		30 September 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	**28,708**		27,725	27,723
Tier 2 capital, after deductions	**13,354**		14,440	14,684
Total capital	**42,062**		42,165	42,407
Weighted balances of risk assets				
Credit risk	**281,275**		268,913	273,881
Market risk	**7,045**		11,223	10,839
Operational risk (b)	**20,227**		20,568	20,317
Total weighted balances of risk assets	**308,547**		300,704	305,037
Ratio of capital to risk components				
Ratio of Tier 1 capital to risk components	**9.30%**		9.22%	9.09%
Ratio of total capital to risk components	**13.63%**		14.02%	13.90%
Minimum Tier 1 capital ratio required by the Supervisor of Banks (c)	**9.06%**	(e)	9.00%	9.00%
Minimum total capital ratio required by the Supervisor of Banks (c)	**12.56%**	(e)	12.50%	12.50%
B. Principal subsidiary companies				
Arab Israel Bank				
Ratio of Tier 1 capital to risk components	**12.00%**		11.81%	12.15%
Ratio of total capital to risk components	**13.07%**		12.89%	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	**16.03%**		15.70%	16.20%
Ratio of total capital to risk components	**16.98%**		16.60%	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	**11.04%**		11.62%	11.02%
Ratio of total capital to risk components	**13.88%**		14.12%	13.45%
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) Capital requirements are according to local regulations. 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 (cont'd)

C. Effect of the transitional provisions on Tier 1 shareholders' equity ratio

	30 September 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)	**8.74%**	8.49%	7.82%
Effect of the transitional provisions	**0.56%**	0.73%	1.27%
Ratio of Tier 1 shareholders' equity to risk components after application of the effect of the transitional provisions	**9.30%**	9.22%	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 (cont'd)

D. General

In May 2013, the Supervisor of Banks amended Proper Conduct of Banking Business Directives No. 201-211 on *Measurement and Capital Adequacy*, so as to adapt them to the Basel III directives.

It should be emphasized that the Basel III directives set forth significant changes in the calculation of regulatory capital requirements, *inter alia*, relating to:

- Regulatory capital components
- Deductions from capital and regulatory adjustments
- Treatment of exposures to financial corporations
- Treatment of exposures to credit risk in respect of impaired debts
- Allocation of capital in respect of CVA risk.

The amendments to the above directives came into effect on 1 January 2014, and implementation is gradual pursuant to the transitional provisions set forth in Proper Conduct of Banking Business Directive No. 299 on *Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions*.

In addition, on 29 August 2013, a circular of the Banking Supervision Department was published on *Basel Disclosure Requirements relating to the Composition of Capital*, which set forth updated disclosure requirements that banks will be required to include as part of the adoption of the Basel III directives.

On 22 October 2015, the Banking Supervision Department published a final circular on "Capital Requirements in respect of Exposures to Central Counterparties ((hereinafter: "the circular"). The circular amends Proper Conduct of Banking Business Directives 203 and 204 with the aim of adapting them to the Basel Committee recommendation relating capital requirements of banking corporations to central counterparties. The circular sets out the new instructions that will apply to exposures to central counterparties caused by OTC derivatives, derivative transactions quoted on the Tel Aviv Stock Exchange and securities financing transactions.

The directives define what is a qualified central counterparty and what is not a qualified central counterparty, with reduced capital requirements determined for the former. The main changes relate to calculating the following exposures:

- As a rule, exposures of a banking corporation that is a member of a clearing house to a central counterparty will be given a risk weighting of 2% compared with a zero exposure value prior to the amendment.
- Exposures of a banking corporation to a customer active in the Stock Exchange that were calculated according to Stock Exchange rules will be canceled. Pursuant to the amendment, the capital requirement for these exposures is to be calculated as if it were a two-sided transaction, including the allocation of capital in respect of CVA risk.
- In addition, provisions were set out regarding calculating exposures of a banking corporation to a customer active by means of a member of the clearing house as well as the treatment of collateral deposited by a banking corporation with a member of the clearing house or with a central counterparty.
- Exposures to a central counterparty that is not qualified will be weighted in accordance with the relevant risk weighting for the counterparty whereas transfers to a risk fund will be weighted at 1250.

The aforesaid in this circular will come into effect on 1 July 2016. Through 30 June 2017, the Tel Aviv Stock Exchange may be considered a qualified central counterparty. The Bank is taking steps to update the manner of calculating the capital ratios and the leverage ratio in accordance with the update of the said directive. In addition, the bank is examining the effect of the update of the said directive on its capital planning, capital targets and leverage targets. At this stage, the Bank is preparing for implementation of the directive and examining the effect of its implementation.

(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 was 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 were 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 September 2015
	Unaudited
	Percentage
A. In consolidated terms	
Liquidity cover ratio	**104%**
Minimum liquidity cover ratio required by the Supervisor of Banks	**60%**
B. In terms of the banking corporation	
Liquidity cover ratio	**102%**
Minimum liquidity cover ratio required by the Supervisor of Banks	**60%**
C. Significant subsidiary companies	
Arab Israel Bank	
Liquidity cover ratio	**328%**
Minimum liquidity cover ratio required by the Supervisor of Banks	**60%**

(*) Leumi Card and Bank Leumi USA have no requirements for a liquidity cover ratio.

(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 13B 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 September 2015
	Unaudited
	NIS millions
A. In consolidated terms	
Tier 1 capital	28,708
Total exposures	453,101
Leverage ratio	
Leverage ratio	6.34%
Minimum leverage ratio required by the Supervisor of Banks	6.00%
C. Significant subsidiary companies	
Arab Israel Bank	
Leverage ratio	8.25%
Minimum leverage ratio required by the Supervisor of Banks	5.00%
Leumi Card Ltd.	
Leverage ratio	11.18%
Minimum leverage ratio required by the Supervisor of Banks	5.00%
Bank Leumi USA (a)	
Leverage ratio	9.24%

(a) Implemented in accordance with local regulations, under which there are no requirements for a minimum leverage ratio.

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 was made with 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 released after discounting amounts to about NIS 347 thousand. It should be noted that Dr. Ber bore 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 September 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	40,309	252	8,151	1,473	2,327	50	52,562
Securities	34,896	1,490	23,187	2,363	1,663	3,946	67,545
Securities borrowed or purchased under agreements to resell	1,420	-	-	-	-	-	1,420
Credit to the public, net (c)	169,954	49,413	29,464	5,033	5,848	297	260,009
Credit to governments	89	193	129	63	-	-	474
Investments in companies included on equity basis	-	-	-	-	-	948	948
Buildings and equipment	-	-	-	-	-	2,992	2,992
Assets in respect of derivative instruments	8,358	151	5,198	511	124	972	15,314
Intangible assets and goodwill	-	-	-	-	-	18	18
Other assets	5,638	4	930	8	22	640	7,242
Total assets	260,664	51,503	67,059	9,451	9,984	9,863	408,524
Liabilities							
Deposits of the public	189,886	25,757	79,327	14,335	8,288	398	317,991
Deposits from banks	1,800	32	1,422	286	110	-	3,650
Deposits from governments	39	1	596	8	-	-	644
Securities lent or sold under agreements to repurchase	503	-	-	-	-	-	503
Debentures, bonds and subordinated notes	5,667	16,520	-	-	-	-	22,187
Liabilities in respect of derivative instruments	8,129	213	5,062	452	88	822	14,766
Other liabilities	8,767	9,262	793	38	183	830	19,873
Total liabilities	214,791	51,785	87,200	15,119	8,669	2,050	379,614
Surplus assets (liabilities) (d)	45,873	(282)	(20,141)	(5,668)	1,315	7,813	28,910
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	-	-	-	-	-	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(20,620)	(1,681)	19,160	5,308	(1,975)	(192)	-
Options in the money, net (in terms of underlying asset)	921	-	(763)	(225)	67	-	-
Options out of the money, net (in terms of underlying asset)	188	-	(10)	(241)	50	13	-
Total	26,362	(1,963)	(1,754)	(826)	(543)	7,634	28,910
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	1,638	-	(1,466)	(258)	86	-	-
Options out of the money, net (discounted par value)	(36)	-	145	(676)	567	-	-

See notes on page 226.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd)
at 30 September 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	37,453	265	10,796	1,376	4,643	79	54,612
Securities	17,454	3,040	16,393	3,041	2,118	4,012	46,058
Securities borrowed or purchased under agreements to resell	2,019	-	-	-	-	-	2,019
Credit to the public, net (c)	155,557	52,763	29,283	5,549	6,164	165	249,481
Credit to governments	57	238	162	53	-	-	510
Investments in companies included on equity basis	-	-	-	-	-	2,062	2,062
Buildings and equipment	-	-	-	-	-	3,051 (f)	3,051
Assets in respect of derivative instruments	8,161	265	6,645	75	302	779	16,227
Intangible assets and goodwill	-	-	-	-	-	42	42
Other assets	4,690 (e)	171 (e)	923	6	165	365	6,320
Total assets	225,391	56,742	64,202	10,100	13,392	10,555	380,382
Liabilities							
Deposits of the public	160,559	28,494	72,214	15,009	10,084	272	286,632
Deposits from banks	1,991	96	2,253	339	102	-	4,781
Deposits from governments	22	2	360	7	-	-	391
Securities lent or sold under agreements to repurchase	1,172	-	-	-	-	-	1,172
Debentures, bonds and subordinated notes	4,521	19,401	-	-	10	-	23,932
Liabilities in respect of derivative instruments	8,020	434	5,963	335	179	771	15,702
Other liabilities	10,847 (e)	6,933 (e)	2,158	26	160	605	20,729
Total liabilities	187,132	55,360	82,948	15,716	10,535	1,648	353,339
Difference (d)	38,259	1,382	(18,746)	(5,616)	2,857	8,907	27,043
Effect of hedging derivative instruments:							
Derivative instruments (excluding options)	343	-	6	-	(349)	-	-
Effect of non-hedging derivative instruments:							
Derivative instruments (excluding options)	(16,377)	(2,251)	17,663	4,072	(3,139)	32	-
Options in the money, net (in terms of underlying asset)	(410)	-	(901)	1,235	76	-	-
Options out of the money, net (in terms of underlying asset)	733	-	(366)	(361)	(6)	-	-
Grand total	22,548	(869)	(2,344)	(670)	(561)	8,939	27,043
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	19	-	(1,639)	1,503	117	-	-
Options out of the money, net (discounted par value)	974	-	(406)	(474)	(94)	-	-

See notes on page 226.

Note 5 – Consolidated Statement on Assets and Liabilities by Linkage Basis (cont'd) 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
Intangible assets and goodwill	-	-	-	-	-	43	43
Other assets	5,665 (e)	4	886	7	45	311	6,918
Total assets	235,891	54,203	70,577	10,184	13,828	12,301	396,984
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	8,984 (e)	10,229 (e)	1,704	29	168	746	21,860
Total liabilities	190,179	56,971	93,751	16,880	10,450	2,615	370,846
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 3,813 million (30 September 2014 – NIS 3,725 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 September 2015		30 September 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	**1,640**	**5**	2,073	4	1,627	3
Credit guarantees	**5,809**	**98**	5,732	95	6,071	102
Guarantees to apartment purchasers	**18,883**	**21**	16,351	22	17,547	24
Other guarantees and liabilities (b)	**16,784**	**205**	16,021	191	17,079	216
Unutilized credit facilities for credit cards	**28,209**	**34**	26,083	23	26,506	28
Current loan account facilities and other credit facilities on demand not utilized	**14,061**	**44**	14,570	24	14,125	25
Irrevocable commitments to provide credit which has been approved and not yet granted (1)	**26,112**	**79**	21,128	66	22,727	73
Commitments to issue guarantees	**14,969**	**19**	14,017	20	15,097	23
Unutilized facilities for activity in derivative instruments	**4,434**	**-**	5,097	-	5,533	-
Approval in principle to maintain interest rate	**2,768**	**-**	3,485	-	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 235 million (30 September 2014 - NIS 222 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 209 million (at 30 September 2014 and at 31 December 2014, the amounts of NIS 248 million and NIS 233 million, respectively).

B. Contingent liabilities and special commitments

	30 September 2015	30 September 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	**313**	211	227
Second year	**205**	183	186
Third year	**187**	166	169
Fourth year	**171**	146	151
Fifth year	**135**	115	118
After five years	**1,161**	727	717
Total	**2,172**	1,548	1,568
(2) Commitments to purchase securities	**770**	858	724
(3) Commitments to invest in buildings, equipment and others	**146**	162	31

Note 6 - Contingent Liabilities and Special Commitments (cont'd)

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 from 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 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.

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 124 million.

1. 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.

1.1 Claims filed during the period of the report (and subsequent to the period of the report, if filed)

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, which 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 which support the position of the Bank, it reduces the relief requested for a future change in the manner of interest collection. On 16 September 2015, the Bank filed a petition for dismissal of the petition for approval, inter alia on the grounds that in the situation where the Bank is acting lawfully and according to the ruling of the Supreme Court, there are no grounds for the claim against it and it is not possible to approve a class action.

1.2 Claims that were concluded during the period of the report (and subsequently if applicable)

A. 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 B.M. and against Bank Hapoalim B.M., (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 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 B below, and in 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 3.1.A above).

B. On 27 April 2009, a petition to approve a class action was filed in the Tel Aviv-Jaffa District Court against the Bank, Bank Hapoalim, Israel Discount Bank, Mizrahi Tefahot Bank and the First International Bank. The petition is based on the Antitrust Commissioner’s determination of 26 April 2009. The petitioners allege that in accordance with the determination, the banks made restrictive arrangements for the exchange of information on commissions, to the detriment of competition between them, and which caused damage to the members of the group whose representation is sought in the petition, and that such was reflected in overpayments of commissions. The petitioners estimate the amount of the class action against all the respondents at NIS 1 billion. The petition does not make any clear attribution of a specific claimed amount to each of the respondents. As stated in paragraph A above, hearings in the claim described in this paragraph and in paragraph A above were consolidated. On 31 May 2015, the Court approved a settlement agreement in this case and in other cases, as described in paragraph A above.

C. On 29 October 2009, a claim for declaratory judgments was filed in the Central District Court to the effect, inter alia, that the seven respondent banks (the Bank, Bank Hapoalim, Israel Discount Bank, the First International Bank of Israel, Mizrahi Bank, Mercantile Discount Bank and Union Bank) are not entitled to charge the petitioner companies (hereinafter: "the Companies") with “default” interest differentials, as defined in the claim, and that the amount of the default interest differentials must be reduced from an amount of NIS 841 million to an amount of NIS 37 million. The companies' claim is, *inter alia,* that the “default interest” is nothing other than “agreed compensation” as defined in Section 15(A) of the Contracts Law (Remedies), 1970, which a court may reduce “if it finds that the compensation was determined without any reasonable relation to the damage that had been foreseeable as being the reasonable result of a breach at the time the contract was made”; on 11 February 2010, a monetary claim of NIS 829 million was submitted, to replace the claim for declaratory judgments that was dismissed. On 21 July 2013, a verdict was handed down accepting the claim on a partial basis only. The parties have filed an appeal to the Supreme Court.

On 23 August 2015, the Supreme Court handed down a verdict in the appeal that approved in part the appeal of the companies. The Supreme Court decided that the banks were to reimburse to the companies a total amount of about NIS 215 million (later amended to about NIS 240 million), plus linkage differentials and interest from 1 November 2009. The Bank's share in the abovementioned amount is about NIS 69 million. The banks made a petition for a further hearing in the case, and on 12 October 2015, the Supreme Court dismissed the petition.

D. 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. 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.

E. 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.

F. 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 petitioner 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, for different groups of amounts, 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 petitioner requests that the Court, inter alia, grants 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). On 25 August 2015, the Court decided to dismiss the petition for approval as a class action due to the failure to deposit a bond by the applicants. Accordingly, the claim was concluded.

1.3 Claims pending that were filed in previous reporting periods in which there were developments in the period of the report.

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 and against Israel Discount Bank 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 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 paragraph B below, and in paragraphs 1.2 A and B 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. 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. 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. The parties 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 the claim described in Section A above as a class action. On 29 October 2013, the petitioners submitted a petition 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 in this claim as well.

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 petitioners, 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 petitioners, is in violation of the provisions of the Joint Investment Trust Law, 1994, as worded then, and a breach of other obligations. The petitioners 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 petitioners, 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 11 October 2012, a claim and petition for approval of a class action was filed in the Tel Aviv District Court against Bank Leumi, First International Bank, Mizrahi-Tefahot Bank and Israel Discount Bank. The petitioners 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 petitioners, 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 was assigned with submitting an amended position, which was filed on 8 October 2015. 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.

E. 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 (subsequently, the CEO's were removed from the claim, at the request of the petitioners). 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. 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. 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 23 April 2015, the petitioners filed an "abbreviated" petition in the framework of which they attributed to the Bank, in respect of the damages called (according to the petitioners) the "primary damages", in an amount of about NIS 2.6 billion (the petitioners claim additional damages that were not quantified). The Bank's response was filed to the abbreviated petition. One of the petitioners (a customer of the Bank) submitted a petition to the Court to withdraw from the claim, and the Court approved the withdrawal.

On 20 January 2015, the Court decided to transfer discussion of the petition for approval of a class action that was filed concerning a similar matter in the amount of NIS 200 million, also against the credit card companies (including against Leumi Card) to the court hearing the petition described in this paragraph. On 23 April 2015, an abbreviated petition was also filed regarding the petition for approval that was filed against the credit card companies (including Leumi Card, as mentioned above) referred to above in this paragraph.

Leumi Card's response was filed to the abbreviated petition.
On 25 October 2015, the Court ordered to join the hearing of the petition filed against the credit card companies with the petitions for approval filed against the banks as above, while retaining segregation on certain subjects.

F. 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 amount of the overall claim. On 30 April 2015, the petitioner filed an amended petition for approval of the class action. The Bank submitted its response to this petition.

G. 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) in 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 the Company 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 doctrine of lender liability.

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. On 17 September 2015, the Official Receiver filed a petition to appoint another lawyer to a role in the case, who would be authorized to carry out further investigations in this proceeding. The Bank has filed its response to the petition.

H. 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, the amount of which exceeds the amount of the standing order that was not honored. The Bank's response was filed to the petition.

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 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 allegedly 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. The Bank's response was filed to the petition.

B. 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 petitioner that the Bank allegedly does not fulfill its duty to make a reasonable effort to locate holders of inactive accounts (which the petitioner calls in the claim "dormant accounts"), to apprise them of the existence of the account and refund them the "dormant" funds, according to the petitioner, in these accounts.
The petitioner 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 that date.

The petitioner 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 members of the group he purports to represent. The Bank's response was filed to the petition.

C. 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 borrowers of the Bank that took a mortgage loan from the Bank. The action pertains to the petitioner'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 petitioner 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 petitioner's claims relate to loans granted by Leumi Mortgage Bank to new immigrants in the 1990's.

The petitioner claims personal damages of NIS 6,500, and the amount of the group claim is estimated by him at NIS 360 million. The Bank's response was filed to the petition.

D. 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 petitioner'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 and allegedly were not revalued in real terms. The petitioner claims personal damages of NIS 251,266 and the amount of the group claim is estimated by him at NIS 150 million. On 5 August 2015, the Bank filed a petition for dismissal of the petition for approval and the personal claim of the petitioner.

E. 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.

F. 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 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:

A. On 8 July 2014, a petition was submitted to the Tel Aviv District Court for approval of a class action against several credit card companies, including Leumi Card. For details on this petition, see paragraph 1.3 E above.

B. On 17 November 2014, a petition for approval of a class action was filed with the Tel Aviv District Court, against Leumi Card for the amount of NIS 952 million. The petitioner claims that Leumi Card is acting illegally in its conduct concerning identification of customers in the IVR system (call forwarding in service centers) which discloses personal details of customers, in contravention, allegedly, 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. The petitioner has submitted a request to amend the petition for approval of the claim as a class action and the Court has allowed the request. The amended petition for approval was filed.

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. It is not possible at this stage 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 number of petitions were filed with the Court to replace the petitioner and his representative. On 20 October 2015, the Court ordered that each of the groups requesting to serve as representatives of the group is required to file a document with the Court explaining, inter alia, how it intends to conduct the action, and the Court will give its decision with reference to the identity of the petitioners (and their representatives) that will be chosen to stand behind the petition for approval as a class action. It was further decided that the group that is chosen will be required to file an amended petition for approval, the date of whose filing will be decided after a decision is given regarding the identity of the petitioners.

D. Contingent liabilities and other special commitments

1. The US customers affair:

A. 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, 31 March 2015, and 30 June 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 period of the report, several working meetings were held with the monitor, who commenced his duties on 15 July 2015.

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 undertakings of the Bank and its offices in accordance with the arrangements, and submits regular reports thereon to the Bank's management and Board of Directors.

B. Bank of Israel Audit Report on the matter of management of the risk exposure in cross-border activity of the US customers

On 27 August 2015, the Banking Supervision Department at the Bank of Israel submitted an Audit Report to the Bank on the subject of the US customers affair, following an audit performed at the Bank between October 2014 to April 2015.

The Audit Report refers to the period between January 2007 and April 2011, and therefore does not relate to activities carried out by the Bank since 2011, when the risk in activity with US customers became apparent.

Below is a summary of the Audit Report:

Background

Bank Leumi Le-Israel B.M. (hereinafter: "Bank Leumi" or "the Bank") conducted private banking activity through three banking centers in the International Private Banking Division and through offices in Switzerland and Luxembourg specializing which specialized in the provision of private banking services. The private banking business model is based, inter alia, on the provision of services to customers, including foreign residents with large financial wealth. Inter alia, these services are provided to customers defined by US law as US taxpayers (hereinafter: "US customers").

The principal risks in cross-border activity derive from both the aspect of the provision of financial services to foreign customers, and from the aspect of the provision of financial services in foreign jurisdictions. Among the risks included are legal risks deriving from conflicts between laws, risks from non-familiarity with the applicable foreign law, risks relating to legislative provisions in connection with the prohibition of money laundering, etc.

There is no statutory provision in Israel law requiring banking corporations to comply with the provisions of foreign law. However, banking laws in Israel impose a duty on banking corporations to conduct their business properly, including acting in compliance with the law and regulations. In this context, a breach of the foreign law relevant to banking activity can be considered a violation of the duty to ensure that banking corporations conduct themselves properly. Proper Conduct of Banking Business regulations require a banking corporation to identify, understand, manage, reduce and monitor all of the risks, including legal risks, reputational risks, on a group basis. This duty also relates to a banking corporation's cross-border activity.

The legal risks and reputational risks in cross-border activity grew significantly from 2008 particularly in all matters relating to US customers. From 2008, the US authorities increased enforcement of the tax laws applicable to US taxpayers who maintain accounts outside the US and, in this context, banks and bank officials operating outside the United States, which, according to US law, are considered as assisting US taxpayers in evading tax. In February 2008, a committee of the United States Senate decided to investigate the issue of banks outside the United States acting as "tax shelters" for US taxpayers and, in July 2008, a report of the investigation was published, emphasizing monies held offshore in Liechtenstein and Switzerland. In the same period, the investigation was started by the US authorities in UBS regarding a suspicion of assisting in the evasion of tax by US taxpayers. Commencing in 2009, a number of programs were launched in the United States to disclose monies which had not been declared to the US tax authorities, in which tens of thousands of US taxpayers participated who held accounts outside the United States. In some of the cases, the taxpayers furnished information regarding bank officials who had assisted them in evading tax. During the period, information was published regarding proceedings taken by the US authorities, in which indictments were filed against foreign banks and their employees in respect of collaboration and assistance in defrauding the US authorities in identifying, computing, evaluating and collecting tax. In February 2009, the FINMA (the Swiss Financial Market Supervisory Authority), issued the report of its investigation into the cross-border activity of UBS with US customers, and also published the agreement signed between UBS and the US authorities, in which UBS admitted a violation of Title 18, United States Code, Section 371 and was fined the sum of US$ 780 million. This was followed by reports of a discontinuance of activity of Swiss and other banks, including UBS, with US customers.

With effect from 2008, the Bank adopted measures to reduce exposure to the risks involved in activity with US customers, mainly in aspects relating to area of securities, including the taxation of securities and offshore accounts. The Bank took legal advice from US lawyers, and subsequently, took steps to update procedures in the area. In 2008, the procedures for representatives traveling to the United States were updated; in 2009, directives were established prohibiting the provision of securities services to US customers making use of US means of communication, the opening of offshore accounts for US customers was forbidden and it was decided to close existing offshore accounts and to cease travel by representatives to the United States. In 2011, a comprehensive procedure was established for dealing with US customers and, in 2013-2014, the Bank promoted a "clean money" policy and a "declared money" policy for reducing the exposure from cross-border activity of foreign resident customers.

On 22 December 2014, Bank Leumi signed agreements with the U.S. Department of Justice and with the New York Department of Financial Services, in which it admitted committing violations of Title 26, United States Code, Section 7206(2), all in violation of Title 18, United States Code, Section 371. These agreements were signed in accordance with and on the basis of US law. Pursuant to the agreements as aforesaid, a substantial fine amounting to US$ 400 million was imposed on Leumi Group (at the date of the audit, the negotiations with the U.S. Securities and Exchange Commission (SEC) have not been concluded). The fine was also imposed in respect of actions committed between 2002 and 2010-2011. Notwithstanding that the U.S. authorities announced the program only in 2008 to combat banks assisting customers evade tax, it should be noted that the agreement with the U.S. Department of Justice does not apply to individuals, as well as corporations of Leumi Group which are not mentioned in the agreement.

The agreement signed by Bank Leumi with the U.S. Department of Justice as aforesaid, includes a document with agreed facts (hereinafter: "statement of facts"). It arises from the statement of facts that Bank Leumi and its offices in the United States, Switzerland and Luxembourg, and the Bank's Trust Company in Israel have, from 2000 (at least) and until 2010 (at least), executed transactions which, according to U.S. law, constituted assistance in the preparation and presentation of various false reports and documents to the tax authorities in the United States ("to willfully aid and assist in the preparation and presentation of false income tax returns and other documents to the Internal Revenue Service of the Treasury Department").

According to the statement of facts, Bank Leumi and its offices in Switzerland and in Luxembourg offered a range of services and products to US taxpayers, which assisted them in opening and maintaining undeclared accounts, which included: 1) the issue standby letter of credit bank guarantees (hereinafter - SBLC) which served as collateral for credit extended to customers of the US offices; 2) the use of offshore entities and trust accounts; 3) the use of hold mail, assumed name accounts, and numbered accounts; and 4) the opening and holding of accounts for US customers who left UBS and other Swiss banks following publication of the investigation undertaken by the US authorities into UBS.

The scope of activity of the Group and the Bank with US customers and their contribution to profitability was limited.

Summary and conclusions

A banking corporation which maintains cross-border activity with foreign customers must, as a matter of routine, analyze the foreign law relevant to its banking activity, to identify the risks arising from the fact and take the means necessary in order to minimize them, and to adapt its policy to the changes which occur.

Against the backdrop of the developments which took place in the approach of the U.S. administration and the enforcement authorities since 2008, Bank Leumi, which carried out cross-border activity with US customers, should have analyzed all of the activities and services that it makes available to US customers and examined what is deemed by the US authorities to be assistance in tax evasion, in order to assess the risks in this activity, including the legal risk, as they were in the period under examination, both at the corporate level and at the group level, and to take the necessary steps to reduce the risks as aforesaid.

From 2008 to 2011, the Bank identified and acted to reduce some of the risks which prevailed in light of the abovementioned developments. However, the Bank did not carry out a mapping and examination as stated in the report, and accordingly, it did not identify and did not assess all of the risks which materialized later, and, as a consequence, did not monitor nor manage them. The fact that the Bank's cross-border activity with US customers was negligible and made only a marginal contribution to its profits does not reduce the obligation to maintain a basic process for risk management in the aforesaid limited activity, as even a negligible activity may create a high exposure to risk for the Bank.

Under Israeli law, a tax violation does not constitute a source offense under the Prohibition of Money Laundering Law. Nevertheless, even if there are no duties of examination and reporting of tax issues, this does not mean that the Bank is released from its duty to manage its risks in a proper manner and does not allow its banking services to be utilized for the purpose of evading tax through it. This duty applies to the Bank even more in relation to its US customers, after the US authorities announced a campaign against tax evasion by US taxpayers, through the maintenance of accounts outside the borders of the United States.

The main responsibility for the failure to re-examine the policy in all matters related to cross-border activity with US customers, the failure to map the activities and services offered by the Bank to US customers, and the failure to examine what was deemed to be assisting in tax evasion according to the US authorities, including seeking a legal opinion on the matter, against the background of the developments as outlined in the report, lies with the Chief Executive Officer and the Manager of the International Private Banking Division. In addition, until January 2010, the Chief Executive Officer and the Division Manager did not sufficiently present the Board of Directors with the information regarding the developments and change in the level of risk arising from them.

The Chairman of the Board of Directors did not demand from Management more detailed information regarding the developments mentioned in the Report and their implications on the Bank's activity, and did not include the matter on the agenda of the Board of Directors until January 2010.

The Board of Directors sufficed with the reports submitted to it within the context of the Reports of the Chief Executive Officer, and even when there were discussions in the Board of Directors, it did not demand the mapping of all of the activities and services offered to US customers by the Bank, and that the Bank examine what was deemed by the U.S. authorities as assistance in tax evasion, including by seeking a legal opinion on the matter, in order to identify, monitor and deal with the increasing risks in the Bank's cross-border activity with US customers. In this context, it should be noted that during the period examined, the Board of Directors employed a legal counsel to the Board of Directors on a permanent basis.

The Board of Directors and the Chief Executive Officer did not arrange for a proper and independent framework of control over the offices abroad. The supervisory and control function over the offices' activity reported to the International Private Banking Division, a fact which impaired the independence of this function and the effectiveness of its activity. Thus, it did not facilitate an independent procedure for identifying the risks inherent in activity with US customers, their evaluation and recommendations to limit the exposure of the International Private Banking Division and the offices. The reports furnished to the Board of Directors regarding these offices' exposure to risk, as required in paragraph 10(a)(4) of Proper Conduct of Banking Business Directive No. 301 (on the basis of the directive that was in effect from June 1998 and onwards) did not present the Board of Directors with the development of exposures to the risk of cross-border activity in general, and of US customers in particular.

Actions of the International Private Banking Division with US customers, in the years 2008- 2010, which included: recruiting US customers from Swiss banks and extending SBLC-type guarantees secured by "back-to-back" deposits held in Israel, Switzerland and Luxembourg, without noting the details of who was requesting the guarantee, increased the exposure to risks from the cross-border activity of US customers. The extension of SBLC-type guarantees secured by "back-to-back" guarantees also exposed the Bank to money laundering risks.

Management did not update the "gatekeepers" in a timely or complete manner. As a result of the publication of the UBS affair, the International Private Banking Division issued revised instructions, on the basis of consultation with U.S. lawyers without involving the internal Legal Counsel, who was only consulted on the topics of the US customers in May 2009. In addition, the Compliance Department was not fully updated on the discussions which took place between the

Compliance Officer in the US and the business functions in the International Private Banking Division with regard to noting the name of the applicant for the guarantee on the bank guarantee documents issued in the Group for extending "back-to-back" credit in the US office.

From the nature of the events, the bonuses paid by the Bank to office-holders who served during the period of the investigation, and in particular the Chairman of the Board of Directors, the Chief Executive Officer and the Manager of the International Private Banking Division, in respect of the years to which the fine relates, did not take into account the profound damage incurred by the Bank; the position taken by the Banking Supervision Department is that it is only right that the Bank should determined an outline for re-calculating the amounts of the bonuses that were paid.

From an examination of several "back-to-back" transactions, it appears that the Bank apparently committed a breach of Section 9 of the Prohibition of Money Laundering Order (Identification, Reporting and Record-Keeping Obligations of Banking Corporations), 2001, regarding the reporting to the Authority on transactions appearing to be unusual.

Summary of requirements:

In view of the findings set out above, the Bank is required, inter alia, to appoint a committee to hold a process of drawing conclusions from the incident. The process of drawing conclusions is to include, inter alia, an examination of the conduct of Senior Management and the Board of Directors during the years 2008-2010, due to the profound damage incurred by the Bank, to establish an outline for re-calculating the amount of the bonuses paid to the office-holders on the basis of the committee's findings, in particular for the Chairman of the Board of Directors, the Chief Executive Officer and the Manager of the International Private Banking Division. For this purpose, the Board of Directors is entitled to appoint the independent committee. In addition, the report includes further demands relating to the reinforcement of risk management, including policy, procedures and control in the areas which appeared in the report.

Below is a summary of the Bank's response to the Audit Report:

1. The Bank of Israel Audit Report focuses on the fact that the Bank did not identify in time, and as a consequence did not respond in time, to the risk involved in the activity vis-à-vis US customers who evaded taxes, which came to light after the fact. Most of the audit related to the fact that the Bank did not identify the risk even when the UBS affair was published in 2008.

2. Already in 2008, even before the banking system in Israel and around the world had internalized the existing risk, when the Bank understood the change in policy, regulation and enforcement, it began to remedy defects in the areas in which it understood that its activity required a change, and this was when there were still no regulations on the topic. This fact was also prominent in the arrangement which the Bank reached with the U.S. Department of Justice and appears in the report.

3. The Audit Report relates to the years 2007 to 2011, and as a consequence does not include the large amount of activity carried out from 2011, when the risk was understood.

   The Report does not deal with the steps taken by the Bank to correct the irregularities, at the Bank's initiative and prior to being given regulatory directives. The correction of the irregularities, which was intensified in 2011, was carried out when the Bank began to gain insights that it did not have till then. The correction of the irregularities reflected, among other things: (a) a change in business policy, by discontinuing activities which created exposure; (b) a gradual and orderly departure from banking activity in countries in which there was a high risk of violations in assisting customers to evade the payment of tax; (c) pioneering the treatment in Israel of the monies of foreign resident customers that were suspected of being money not reported to the relevant tax authorities (declared money policy); (d) activity in tangential topics, such as: prohibited activity in securities pursuant to the law of the country of residence of the account holder (cross-border policy). At the same time as the change in policy, the Bank took steps vis-à-vis the regulatory authorities in order to amend the rules so as to facilitate the banking system in implementing a declared money policy. In fact, the Banking Supervision Department published only in March 2015, for the first time, a regulatory directive on the matter, giving banks the tools for enforcing on customers the making of declarations regarding the source of monies.

4. The issues should be examined from an overall perspective of the norms by which the entire banking system operated, with the knowledge of the regulators in many countries. The insight of understanding in the international banking system and among the regulatory authorities was that the issue of customers' reports to the tax authorities was a subject under the sole responsibility of the customers, and this subject was not part of the banks' responsibilities or involvement. This realization was supported in Israel, inter alia, by the fact that the legislature had decided (and has still not changed its mind on the matter) not to include tax violations as source offenses in the Prohibition of Money Laundering Law. This realization also finds support in the fact that, over the years, in discussions within Government ministries, the subject of the inclusion of tax violations as source offenses in the Prohibition of Money Laundering was raised and deferred over and over again by those who dictate policy, inter alia, arguing that this is a question of undeclared monies of world Jewry, which Israeli governments in past years took steps for world Jewry to deposit in the banking system in Israel, for establishing the country's economy.

5. The Audit Report tells us that there are no grounds for concern that irregular practices were adopted in the Bank in relation to the Israeli banking system. On the contrary, when the policy in Leumi changed, resulting in an outflow of customers' undeclared monies, other banks in Israel took in some of those customers.

6. The Report determines that Bank Leumi did not understand the risk that exists in activity vis-à-vis US customers using the Bank's services for the evasion of tax, even when the UBS affair was made public in 2008. However, in examining the issues, the following facts should be taken into account:

   6.1 It was not just Bank Leumi that not understand in real time the risk of assisting US customers in tax evasion, but rather, it was a question of failure to realize on the part of most of the banking system and the regulatory system around the world and in Israel.

   6.2 When the UBS affair came to light, the services were hired of a leading international firm specializing in international financial regulations, in order to analyze the necessary conclusions for the Bank. The mapping of the risks and lessons for further action did not include assisting US customers in evading tax. In other words, even the lawyers whose services were hired did not fully understand the risk, which actually materialized later. The layers indicated certain steps which had to be taken and the Bank enacted these measures within a short timeframe.

   6.3 Furthermore, the Bank obtained advice from another law firm, a leading and well-known US law office, which the Bank has consulted over the years, as have other financial institutions in Israel. This firm also presented the Bank with a list of recommendations and the Bank quickly and purposefully took steps to make the changes required as a result of the recommendations. With hindsight, and to everyone's regret, the recommendations were neither sufficient, nor complete.

   6.4 The various publications regarding the UBS affair focused on a series of actions, which were understood by the Bank as not being generally accepted practice in Bank Leumi. Accordingly, the conventional wisdom in the Bank, as in many other banks, was that the UBS affair was irrelevant to activity conducted in the Bank.

7. Apart from the steps taken over the years since 2008, the Bank has not minimized for a moment the seriousness of the repercussions of the US customers affair, and has not, Heaven forbid, attempted to sweep the matter under the carpet without dealing with it thoroughly and drawing the necessary conclusions. Among the steps the Bank has taken, it is worth noting that, already in March 2015, the Bank appointed an Independent Committee to examine this subject. The majority of the members of the Independent Committee (three of the five) are parties from outside the Bank. The Committee is headed by the former Tel Aviv District Court President, Justice Uri Goren (retired) and one of the members is Jerusalem District Court

Justice Orit Efal-Gabai (retired). Another member of the Committee is Dr. Leah Paserman, a renowned expert on corporate and securities laws.

This is the end of the summary of the response.

After reqeipt of the Bank of Israel Audit Report, as stated above, the Bank began its preparations to implement the requirements of the Bank of Israel, as appearing in the Report, and, inter alia, established a committee of the Board of Directors for drawing conclusions.

C. Examination of the Attorney General

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.

D. Independent Claims Committee headed by the former President of the Tel Aviv District Court, Judge Uri Goren (retired) that was appointed to examine the US customers affair

1. On 15 February 2015, the Board of Directors appointed an Independent Claims Committee (hereinafter: the **"Committee"**) to examine the US customers affair, including "to review and make recommendations to the Board of Directors as to the correct legal action for the Bank, taking into account all the circumstances relating to the US customers affair". The committee was set up, inter alia, in the context of legal proceedings undertaken on the subject of the US customers by various parties, as described in paragraph E below.

   The committee was headed by the former President of the Tel Aviv District Court, Judge Uri Goren (retired) and the other members were: the Hon. Jerusalem District Court Judge Orit Efal-Gabai (retired); Dr. Leah Paserman-Jozefov, Prof. Yedidya Stern (who serves as a director in the Bank); and Dr. Samer Haj-Yehia (who serves as a director in the Bank).

   For purposes of its activity, the Committee appointed for itself a legal adviser who accompanied its work - Dr. Assaf Eckstein of Bar-Ilan University.

2. On 11 March 2015, a decision was handed down by the Hon. Judge Khaled Kaboub of the Tel-Aviv District Court (Economic Department), confirming the appointment of the Committee and delaying the hearings in the claims filed in connection with the US customers affair, so that the Committee could make its recommendations.

3. On 11 October 2015, the Bank's Board of Directors discussed the report submitted to it by the Committee.

4. In the chapter in the Report on its conclusions and recommendations, the Committee stated, inter alia, that:

   "In our case, we did not find any evidence that the office holders and other officials of the banking group did not act in the best interests of the Bank, as they understood it, in the US customers affair or with the goal of promoting external or private interests at the expense of the best interests of the Bank. From the presentation of facts made to us and from the evidence we examined, it appears that the officials in the Group acted in real time based on business considerations, and without knowing that this activity would harm the Bank, even though it turned out otherwise.

   In petitions for derivative actions, the plaintiffs alleged breach of fiduciary duty on the part of the office holders, originating from the fact that the level of bonuses awarded to them was derived from the Bank's performance, and these were influenced positively by the prohibited activity with the US customers. According to the plaintiffs, this situation created "with the office holders, a conflict of interest between carrying out their duty in the Leumi Group [...]

and their own good (the salary, bonuses and remunerations that they receive increased as a result of the illegal activities of the Group and as derived from it)."

Our opinion differs: as explained in Chapter E of this Report, the Group's activity with US customers was minor relative to the Group's activity as a whole, and its impact on the return on equity achieved by the Group in the relevant years examined by the Committee was negligible. It should be clarified that the bonuses of senior office holders were derived from the activity of the whole Group, according to the consolidated financial statements, whereas the activity with US customers did not constitute a substantial part of the Group's activities. Accordingly, we found that the bonuses awarded to office holders and other officials at the Bank, would not have subverted the intention of those responsible for the Bank and its good.

Based on the above, we found no contradiction between this finding of the absence of personal liability of office holders for breach of fiduciary duty and the admission by the Bank to the US authorities.

Duty of care:

Another question that arises in examining the US customers affair is whether the Bank's office holders violated the duty of care that they owe to the Bank.

After we considered the totality of the facts presented to us, some of which are reviewed in Chapter 5 of this Report and the relevant statutory provisions, we found that there is a probable possibility that the activity of office holders of the Group, after the UBS affair, suffered a breach of the duty of care.

The Committee warned itself against being caught up in a wrong mindset of "hindsight". The Bank's modus operandi with regard to the US customers was not understood to be wrong by many key banks worldwide, who adopted similar practices on a much wider scale, as described in Chapter 6 above. In addition, the regulatory environment in Israel only recently raised a warning flag against these practices. Even the report published by the Bank of Israel following the audit conducted in Bank Leumi in connection with the US customers affair did not see fit to point out the flaw in the conduct of the Bank in the years prior to the disclosure and publication of the UBS affair.

However, we believe that there is a probable possibility of negligence on the part of officer holders in the Group. This possibility lies mainly in how the Bank responded (or refrained from responding) to the change in the global banking landscape, stemming from the UBS affair. Our impression is that the lack of sufficient attention to the DPA signed by US authorities with Bank UBS; the absence of a thorough investigation of the significance relevant to the Bank and the possible implications of this affair; and the manner in which the Bank handled some of the activities that turned out in actual fact to be prohibited, and that were the central matter of the DPA signed with it, was not sufficiently swift and/or determined...

Alongside the office holders, other employees of the banking group should have taken swifter and / or more determined actions to make the necessary amendments. In the context of these, the relevant normative framework is tort law. Here again, we find that there is a probable possibility that the activity of some employees of the Bank over the years was negligent.

The existence of a probable possibility of negligent conduct by some the office holders or employees of the Bank, as stated above, led the Committee to examine the possibilities of a claim by the Bank against them. This examination led us to address the insurance arrangements, exemption and indemnification applicable to the Bank.

According to Section 258 of the Companies Law, a company may exempt an officer from liability for a breach of the duty of care against it. It is not authorized to grant such exemptions for breach of fiduciary duty. The restrictions concerning granting exemption does not apply to employees who are not considered office holders. In addition, under

Section 263 of the Companies Law, a company may insure the liability of office holders or to indemnify them for a breach of the duty of care or for a breach of fiduciary duty provided that this was made in good faith, when the office holder had reasonable grounds to believe that the action does not harm the best interests of the company.

As of 2004, the Bank exempted office holders from liability to it. In addition, the Bank, over the years relevant to the Committee's examination, purchased an insurance policy covering the liability of directors and officers (D & O Policy), and after obtaining the requisite approvals under the Companies Law (including the approval of the General Meeting). The policy is a group policy covering the liability of directors and officers in all the companies in the banking group, both in Israel and abroad. The policy is a "claims made" type of policy (a policy whose coverage is based on the date of filing the claim and not on the date of occurrence of the event). The possible exposure was reported to the insurers in 2011, shortly after the beginning of the investigation by the US authorities and the relevant policy is therefore that of 2011.

The insurance amount (the limit of coverage to the claim) according to the policy relevant to the events that are the subject of the US customers affair, is US$ 250 million. Due to the wide scope of coverage under the policy, and in accordance with the practices advised to us as usual for insurances of banking institutions of such a large scale, the structure of the insurance is by means of a captive insurer. The captive insurer is a wholly owned subsidiary of the Bank incorporated overseas that serves as a sort of internal insurer for the Bank to cover a range of banking risks (such as embezzlement and fraud, loss of bank documents, lost or stolen bills, etc.), including those relating to the liability of office holders. It should be noted that the establishment of the captive insurer was approved by the Bank of Israel. Moreover, according to the information in the financial statements of banks in Israel, there is a captive insurance structure in at least one other large bank.

In accordance with the structure of the policy, the captive insurance covers liability of various amounts determined based on the amount of damage for which the policy is exercised, with the maximum amount that the captive insurance has to pay is about $26 million (when the amount of damage for which the insurance is exercised amounts to tens of millions of dollars). Alongside the coverage provided by the captive insurance, the risks covered under the policy are insured through many reinsurers in a pyramid structure, details of which are beyond the scope of this report. In the event of a judgment or arrangement in a derivative claim (a claim that is submitted on behalf of the Bank), a problematic situation was created in which the captive insurer, which is a subsidiary of the Bank, pays the Bank a certain amount of the damage (amounting to about $ 26 million). The Committee was informed that this problematic situation was amended as a lesson of the claims that are being examined as part of the Committee's work, and commencing with the policy purchased in 2015, the captive insurance bears no insurance risk for covering the liability in respect of office holders in the banking group.

It is important to emphasize that officers liability coverage is insurance in which the insured persons are the office holders and not the Bank. Accordingly, when the policy is exercised under its conditions, payments made by the insurers are on behalf and instead of the relevant office holders or as an indemnity of office holders after the payments were borne by them.

Finally, in accordance with the terms of the policy, it covers officers liability to third parties and to the Bank, but only in cases where the exemptions granted to officers do not exempt them from liability to the Bank.

The Committee found that the system of exemptions established by the Bank does not necessarily cover the entire period relevant to the US customers affair, nor the overall liabilities that may stem from the part of the office holders vis-à-vis the Bank and its subsidiaries, in respect of their activities in this affair. In this context, we should note that this activity was spread over several countries, took place over ten years, and involved many characters with varied positions in the banking group (and some of the characters even had double roles). Given all this, we thought that the rights of the insured office holders regarding the insurance should be exercised in full.

Before the Committee formulated its recommendations, it invited representatives of the (non-captive) insurers in order to hear their views about the possibility that the insurance will recognize the liability of office holders and alleviate part of the damage to the Bank. The decision to summon the insurers resulted from weighing broader considerations relating to the best interests of the Bank. Weighing these considerations led to the recognition that the management of drawn-out proceedings against a relatively large number of officers (some of whom may have an exemption, and the resources available to any of them will not change the picture of alleviating the overall damage) may harm the best interests of the Bank, its reputation, labor relations at the Bank and the future ability of the Bank to recruit talented managers to its ranks.

After intense proceedings with the insurers, an offer was received from them in final and absolute settlement of all claims in connection with the US customers affair to pay the Bank a total of $92 million under the terms set out in the insurers' offer attached as Appendix B, and in accordance with the insurance structure of the Bank's insurance policy. The insurance structure includes coverage provided by the Leumi Re Company, a subsidiary fully controlled by the Bank, which covers part of the insurance risk in the policy, in the amount of $26 million, with the remaining liability covered by commercial insurers.

The Committee weighed up the various relevant considerations, and its conclusion is that the Bank's best interests at this time are to make full use of its claim against the insurers. To what does this refer? As explained in Chapter C of this report, the achievement of the best interests of the Bank required the Bank to consider broad-based concerns. As part of these considerations, the Committee found, inter alia, that legal proceedings are expected to take many years with the conduct of the Bank itself in years past at the focus of the proceedings. A lengthy engagement on the subject of the US customers affair may cause damage to the reputation of the Bank. In addition, legal action taken by the Bank against employees for acts they believed were done in the best interests of the Bank and were not understood by them or by their superiors to be criminal when they were carried out - may suppress positive initiatives and the taking of reasonable business risks, which are part of the activity of every bank.

In light of the above, despite the fact that the amount of the insurance proceeds will not alleviate the entire damage caused to the Bank, the proposed arrangement by the insurance can bring to a swift, efficient and economical end to the US customers affair that will free the Bank to address challenges expected for it in the future. Although the amount of the insurance covers only part of the damage caused to the Bank, it is an unprecedented amount in claims of this type in Israel.

It is important to mention in this context that the insurance policy insures the office holders and therefore also covers other employees of the Bank, in respect of their liability to the Bank and / or third parties (and is not a policy that covers the Bank itself). Therefore, payment received under an arrangement with the insurers is a payment made on behalf of and instead of office holders and employees of the Group. In this way, this makes full use of the right of action of the Bank regarding the probably possibility of the existence of acts of negligence or omissions by office holders and employees of the Bank in connection with the US customers affair.

Restitution of bonuses:

Beyond the duties of conduct set forth in the Companies Law, imposed on office holders in the Bank, and in order to maximize the best interests of the Bank, the Committee decided to discuss the bonuses given to three senior office holders of the Bank for their performance during the relevant years: Eitan Raff, who served as Chairman of the Board of Directors and during the relevant period as Chairman of the Board of Directors of Bank Leumi USA; Galia

Maor, who served as CEO of the Bank and during the relevant years as Chairperson of Leumi Switzerland (Leumi Private Banking); and Zvi Itzkowitz who served as the Private and International Division Manager. The first two headed the Group and Mr. Itskovitch, during the relevant period, headed the division in which the activity in question took place, and served as member of the Board of Directors of Leumi Switzerland and Chairman of the Board of Directors of Leumi Luxembourg.

Bonuses to senior officers of the Bank are derived primarily from the return on equity of the Group, namely the Group's profitability. When allocating the bonuses, the Group's profits were predicted to be high, but in actual fact it transpired, from information that was not known at the time of approval of the bonuses by the Board of Directors, that alongside these profits the Bank was required to pay the US authorities a very high amount which could change the picture. Accordingly, we thought it correct to demand that the three senior officers in question should make restitution of part of the total of the bonuses paid to them in the relevant years. The aforementioned restitution, in addition to the liability taken on their behalf by the insurers, is appropriate in the circumstances. Our position is that the said restitution should express the relationship between profitability achieved by the Bank in the relevant years and the actual damage in light of arrangements that the Bank reached with the US authorities.

The grounds for the Bank's potential lawsuit were utilized in full in the arrangement with the insurers. This arrangement includes conditions set by the insurers to the finality of all claims and proceedings in connection with the US customers affair and a clarification that they will not pay the substantial amount they agreed to pay under the agreement, without achieving finality of the various claims. In addition, since the insurance policy is for the office holders and not for the Bank, the insurers stipulated that payment of the amount under the arrangement is with the agreement of the senior officers and their waiving of any additional requirement from the insurers. In these circumstances, the ability to require restitution of significant amounts from the senior officers out of the bonuses paid to them, beyond those set, is limited. The Committee believes that it is of great importance to determine the principle of restitution of a portion of the bonuses paid in cases such as this, although the condition of restitution was not included when awarding bonuses to the senior officers. Although it would appear that the absolute recoverable amount is not high, under the overall considerations and in particular the need to achieve finality for the realization of the arrangement with the insurers, and considering the amounts of bonuses received by the senior officers, the Committee believes that the amount is appropriate and reasonable. The ratio between the amounts paid by the Bank in connection with the US customers affair and the Bank's total profit generated in the relevant period is approximately 11%. The amount of bonuses paid to the three office holders in the relevant period is approximately NIS 45.7 million (at the dollar exchange rate on the date of each payment). Accordingly, the amount recoverable required from the three senior officers is NIS 5.1 million. This amount represents approximately 22% of the net bonuses received by the senior officers and about 11% in gross terms. The calculation of these amounts prepared by Cognum Financial Consulting Ltd. (formerly Itzhak Swary Ltd.) is attached as an appendix …

The three senior officers informed the Committee that for the purpose of concluding the affair from their point of view, they are prepared to return the required amount out of the bonuses they received.

The Auditors:

The auditors of the Bank - Somekh Chaikin (KPMG) and Kost Forer Gabbay (Ernst & Young) – have served in their positions for many years, including the years relevant to the US customers affair. These two firms audit the consolidated financial statements of the banking group, including the financial statements of the subsidiaries. Accordingly, there are duties imposed on them in connection with the examination of the financial statements of the subsidiaries.

The Committee examined the possible claims against the auditors, heard their counsel, and received documents and presentations which included expert opinions. The auditors argued that there was no defect in their work.

In a professional review of accounting audit standards presented to us, it was claimed that an event on a global scale, such as UBS, obliged the auditors of the Bank to examine in depth whether the kind of events and risks that exposed UBS to criminal proceedings and the payment of heavy fines in the United States, took place also in Bank Leumi, mutatis mutandis. According to the claim, the auditors, within such an examination, should not have satisfied themselves with general explanations by the Bank's management, but should have investigated and considered the matter thoroughly, including receiving the opinion of independent experts in the field.

Despite the general claim that there was no defect in their work, we were not shown sufficient evidence that the auditors examined properly the UBS affair, following the reports and their implications on the financial statements of the Bank and its subsidiaries, whose financial statements are consolidated with the financial statements of the Bank. Apparently, the auditors satisfied themselves with a general reliance on the understanding of the Bank's office holders with regard to the event, that the UBS affair was not relevant regarding Bank Leumi and its subsidiaries in view of the different manner in which it operated, without the auditors looking in depth at the issue independently.

The time-constraints facing the Committee, when question marks arose requiring an examination of the auditors' responsibility, made it impossible to ascertain the relevant factual evidence in its entirety.

Under these circumstances, we hoped that the auditors would agree to join the agreement emerging with the insurers and with the three senior officers, to enable a swift and efficient completion of all the proceedings. However, the auditors refused to join the arrangement. Instead, they proposed "to move the discussion of the case of the auditors, including the completion of claims and the presentation of their position, to the Audit Committee of the Bank".

The Bank's best interests under the circumstances are to reach an agreement with the insurers, in which the Bank will receive US$ 92 million, which is an unprecedented amount in Israel, as a complete and final settlement of all potential claims of the Bank in respect of the affair. Accordingly, leaving the question open of the liability of the auditors will prevent attainment of finality (as the auditors may involve other parties and office holders of the Bank in a lawsuit, if filed, against them), which is a condition for the insurers' willingness to reach an agreement with the Bank. Therefore, giving preference to practical considerations, we recommend that the Board of Directors avoid filing a lawsuit against the auditors.

However, we do not believe that it is appropriate at this time to drop the issue of the actions of the auditors in the affair. We recommend that the Board of Directors, either by itself or through any of its committees, discuss the possibility that failures occurred, apparently, in the work of the auditors, at the latest prior to any discussion on extending the term of office of the auditors. We believe that, before the Audit Committee formulates a recommendation to the Board of Directors and subsequently for the General Meeting of Shareholders of the Bank, as to the continued tenure of the auditors, it should take this issue into account and examine the steps to be taken in light of this.

To sum up:

In 2008, the US authorities began adopting a strict policy of enforcing US tax laws and related laws, and subjugating the global financial system to this policy. This process exposed a long list of banks around the world to claims that were not made in past years. Bank Leumi was one of the first 11 banks against whom this policy change was invoked. The expansive scope of facts that became apparent during the Committee's discussions raised the tension between acceptable commercial behavior and a legal system that was applied for the first time. The practical consequence for Bank Leumi has been the payment of an unprecedented sum of approximately $400 million to the US authorities.

The Committee, whose mission was to recommend to the Board of Directors how to exercise in full the rights of the Bank, recommends it to accept the following arrangements:

- Receipt of a sum of $92 million (which at the time of writing is the equivalent of approximately NIS 360 million) from the insurance companies in absolute and final disposal of all claims of the Bank for the negligence of office holders and employees of the Group.
- Restitution of NIS 5.1 million by three senior office holders of the Bank in respect of the bonuses awarded to them for the relevant period."

5. The Board of Directors decided, at its meeting on 11 October 2015, unanimously, to adopt the Committee's report and the recommendations contained in the report in full.

   On 12 October 2015, the Bank filed a notice with the Tel Aviv District Court of the Committee's report, attaching the Committee's report, and of the approval by the Board of Directors of all the Committee's recommendations, and requested a relative short delay from the Court in order to arrive at detailed arrangements with all the relevant parties for carrying out the Committee's recommendations and so that it will be possible to submit a petition to the Court for approval of these arrangements.

   On 21 October 2015, a decision was handed down by the District Court postponing the dates for submitting legal documents by 30 days, so that the response of the Bank (and other respondents) to the petition for approval of a derivative action will be submitted by 12 December 2015, and a reply to the responses will be submitted by 26 December 2015. The hearing set for 8 December 2015 was canceled and instead a hearing was set for 12 January 2016.

E. Legal proceedings

Pursuant to of the investigations of the US authorities, a number of actions have been served against the Bank and office holders who served and who are serving in the Bank and the Group, as follows:

In the opinion of the Management of the Bank, based on legal opinions with regard to the chances of these actions, (inasmuch as they refer to claims against the Bank), it is not possible at this stage to evaluate their chances (except for the claim set out in paragraph 2 below) and for this reason no provision has been made in their respect.

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 US taxpayers to execute transactions that prevented the US tax authorities from collecting taxes from their citizens. 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.

   As explained in paragraph D above, the Board of Directors in February 2015 appointed an independent claims committee, for an overall review of the advisable course of legal action to the Bank in light of the totality of events in connection with the US customers affair, and on 11 March 2015, a decision was handed down by the Hon Judge Khaled Kabub of the Tel-Aviv District Court (Economic Department) approving the appointment of the Committee and postponing proceedings in the claims filed in connection with the US customers affair, to enable the committee to make its recommendations.

On 12 October 2015, the Bank notified the Court of the report of the independent committee and the adoption of the conclusions and recommendations by the Board of Directors, as detailed in paragraph D above.

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 the main point of which 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 their permission and consent to carry 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 the 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 who 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 (that was classified subsequently as an appeal).

4. 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 1 above.

5. 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 paragraph D above. On 12 October 2015, the Bank submitted to the Tel Aviv District Court, as mentioned in paragraph D above, the report of the Independent Claims Committee. At the same time, the Bank claimed that, in the Bank's opinion, the claim submitted in New York should be dismissed out right since there is no point in conducting proceedings in New York at the same time a similar claim is being conducted in Israel, and moreover the purpose of the Committee's recommendations is to arrive at an overall arrangement. The Bank further notified the Court that insofar as agreement is not achieved regarding the US derivative claim, the Bank will requesting a blocking order obliging the dismissal of the proceedings being conducted in New York and/or will take any other measure that is relevant.

F. Examination by the US Securities and Exchange Commission (SEC)

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 it required.

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.

2. Other proceedings

A. In March 2012, an indictment was served against Leumi Romania and against 4 managers in Leumi Romania, regarding a debit transaction in the account of a customer, who, according to the General Prosecutor in Romania, was carried out unlawfully. The indictment was submitted as a result of a complaint by the customer who alleged that he incurred damage as the result of the Bank's action (the amount of the damage is not material). On 28 November 2012, the court in Romania accepted Bank Leumi Romania's arguments that the General Prosecutor in Romania had no authority to serve an indictment against it and certain employees/managers, and decided to send the case back to the General Prosecutor for rewording and resubmission of the indictment. The General Prosecutor and the complainant appealed the decision. The appeal was approved, the case was sent back to the lower court and hearings commenced in the case. On 7 October 2015, a judgment was rendered under which the Court rejected some of the claims of the suit, but convicted Leumi Romania, as well as the four accused individuals, of the offense of abuse of office, for performing the above debit activity.

The decision stipulates a penalty of suspended imprisonment for the four individual defendants and restrictions on employment in certain position (also suspended). Regarding Leumi Romania, the Court ruled a fine of 20 thousand Ron and the requirement to display the verdict in the offices of Leumi Romania for a period of two months. It also rules that Leumi Romania and the four individual defendants will compensate the customer with an amount equal to 10 thousand euros and to pay the expenses of the proceedings to the State. The parties to the proceedings are filing appeals against the verdict.

B. 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 Companies 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. The background to the petition is the petitioner's claim that, 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 that the value of the collateral made it possible, allegedly, to collect the debt in full.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates

A. Scope of activity

	30 September 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	-	2,614	-	-	-	2,614
Total	-	2,614	-	-	-	2,614
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,614	-	-	-	2,614
b) ALM derivatives (a)(b)						
Futures contracts	-	15,831	2	63,539	361	79,733
Forward contracts	13,364	14,600	208,967	423	27	237,381
Exchange-traded options						
Options written	-	789	16,907	13,847	10	31,553
Options purchased	-	789	16,899	13,847	10	31,545
Other options						
Options written	-	10,328	20,566	2,011	100	33,005
Options purchased	-	7,837	20,897	2,571	100	31,405
Swaps	691	286,952	29,641	24,851	349	342,484
Total	14,055	337,126	313,879	121,089	957	787,106
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	144,281	-	-	-	144,281
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	50	50
Spot foreign exchange contracts	-	-	17,507	-	-	17,507
Total	-	-	17,507	-	50	17,557
Grand total	14,055	339,740	331,386	121,089	1,007	807,277

(a) Except credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity (cont'd)

	30 September 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	-	-	-	-	-	-
Gross negative fair value	-	177	-	-	-	177
b) ALM derivatives (a)(b)						
Gross positive fair value	306	8,403	4,454	2,118	35	15,316
Gross negative fair value	317	8,028	4,197	2,029	43	14,614
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	1	1
e) Total						
Gross positive fair value (c)	306	8,403	4,454	2,118	35	15,316
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	306	8,403	4,454	2,118	35	15,316
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	20	27	481	141	1	670
Gross negative fair value (c)	317	8,205	4,197	2,029	44	14,792
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	317	8,205	4,197	2,029	44	14,792
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	1	6	478	1	2	488

(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 liabilities in respect of embedded derivative instruments in the amount of NIS 2 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 26 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity (cont'd)

	30 September 2014 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(1) Nominal amount of derivative instruments						
a) Hedging derivatives (a)						
Forward contracts	-	-	720	-	-	720
Swaps	-	2,483	-	-	-	2,483
Total	-	2,483	720	-	-	3,203
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	2,483	-	-	-	2,483
b) ALM derivatives (a)(b)						
Futures contracts	-	18,697	345	49,903	911	69,856
Forward contracts	10,415	23,573	175,762	238	47	210,035
Exchange-traded options						
Options written	-	4,120	18,502	11,081	351	34,054
Options purchased	-	4,120	17,947	10,948	351	33,366
Other options						
Options written	-	12,101	28,590	1,629	370	42,690
Options purchased	-	9,334	28,066	1,621	406	39,427
Swaps	666	269,754	28,471	16,533	507	315,931
Total	11,081	341,699	297,683	91,953	2,943	745,359
Of which: interest rate swap contracts in which the banking institution agreed to pay a fixed rate of interest	-	147,253	-	-	-	147,253
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
banking corporation is a beneficiary	-	-	-	-	-	-
Spot foreign exchange contracts	-	-	12,693	-	-	12,693
Total	-	-	12,693	-	-	12,693
Grand total	11,081	344,182	311,096	91,953	2,943	761,255

(a) Except credit derivatives and foreign exchange spot contracts.
(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity (cont'd)

	30 September 2014 (Unaudited)					
	Interest contracts		Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	Shekel – index	Other				
	(NIS millions)					
(2) Gross fair value of derivative instruments						
a) Hedging derivatives (a)						
Gross positive fair value	-	6	21	-	-	27
Gross negative fair value	-	139	27	-	-	166
b) ALM derivatives (a)(b)						
Gross positive fair value	210	8,573	6,264	1,081	78	16,206
Gross negative fair value	324	8,086	5,974	1,104	76	15,564
c) Other derivatives (a)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
e) Total						
Gross positive fair value (c)	210	8,579	6,285	1,081	78	16,233
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of assets in respect of derivative instruments	210	8,579	6,285	1,081	78	16,233
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	4	42	777	99	2	924
Gross negative fair value (c)	324	8,225	6,001	1,104	76	15,730
Fair value amounts offset in the balance sheet	-	-	-	-	-	-
Book value of liabilities in respect of derivative instruments	324	8,225	6,001	1,104	76	15,730
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	44	21	1,090	80	3	1,238

(a) Except credit derivatives.
(b) Derivatives constituting part of the Bank's asset and liability management not designated for hedging.
(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 6 million and gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 28 million.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

A. Scope of activity (cont'd)

	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 derivatives (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)	-	-	-	-	-	-
d) Credit derivatives and foreign exchange spot contracts						
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	-	-
Spot foreign exchange contracts	-	-	18,397	-	-	18,397
Total	-	-	18,397	-	-	18,397
Grand 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 (cont'd)

A. Scope of activity (cont'd)

	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)	-	-	-	-	-	-
d) Credit derivatives						
Credit derivatives in which the banking corporation 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 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 (cont'd)

B. Credit risk in respect of derivative instruments by counterparty to the contract

	30 September 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)	**267**	**7,890**	**2,436**	**4**	**4,719**	**15,316**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	**-**	**3,469**	**1,176**	**4**	**718**	**5,367**
Mitigation of credit risk in respect of cash collateral received	**-**	**448**	**270**	**-**	**20**	**738**
Net amount of assets in respect of derivative instruments	**267**	**3,973**	**990**	**-**	**3,981**	**9,211**
Off-balance sheet credit risk in respect of derivative instruments (d)	**-**	**3,896**	**1,306**	**92**	**5,338**	**10,632**
Mitigation of off-balance sheet credit risk	**-**	**278**	**128**	**55**	**714**	**1,175**
Net off-balance sheet credit risk in respect of derivative instruments	**-**	**3,618**	**1,178**	**37**	**4,624**	**9,457**
Total credit risk in respect of derivative instruments	**267**	**7,591**	**2,168**	**37**	**8,605**	**18,668**
Book balance of liabilities in respect of derivative instruments (a) (c)	**304**	**9,353**	**2,537**	**115**	**2,483**	**14,792**
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	**-**	**3,469**	**1,176**	**4**	**718**	**5,367**
Cash collateral pledged	**-**	**988**	**289**	**72**	**1**	**1,350**
Net amount of liabilities in respect of derivative instruments	**304**	**4,896**	**1,072**	**39**	**1,764**	**8,075**

See notes on page 260.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

B. Credit risk in respect of derivative instruments by counterparty to the contract (cont'd)

	30 September 2014 (Unaudited)					
	Stock Exchanges	Banks	Dealers/ brokers	Governments and central banks	Others	Total
	(NIS millions)					
Book balance of assets in respect of derivative instruments (a) (b)	305	8,924	2,344	61	4,599	16,233
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	3,414	846	31	699	4,990
Mitigation of credit risk in respect of cash collateral received	-	577	318	20	-	915
Net amount of assets in respect of derivative instruments	305	4,933	1,180	10	3,900	10,328
Off-balance sheet credit risk in respect of derivative instruments (d)	-	3,713	854	88	4,694	9,349
Mitigation of off-balance sheet credit risk	-	113	14	27	607	761
Net off-balance sheet credit risk in respect of derivative instruments	-	3,600	840	61	4,087	8,588
Total credit risk in respect of derivative instruments	305	8,533	2,020	71	7,987	18,916
Book balance of liabilities in respect of derivative instruments (a)	381	9,065	2,151	31	4,102	15,730
Gross amounts not offset in the balance sheet:						
Derivative financial instruments	-	3,414	846	31	699	4,990
Cash collateral pledged	-	419	120	-	37	576
Net amount of liabilities in respect of derivative instruments	381	5,232	1,185	-	3,366	10,164

See notes on next page.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

B. Credit risk in respect of derivative instruments by counterparty to the contract (cont'd)

	31 December 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	1,196	87	5,321	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	1,125	35	4,310	9,335
Total credit risk in respect of derivative instruments	304	8,879	2,136	35	7,933	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 15,314 million (at 30 September 2014 - NIS 16,227 million, at 31 December 2014 – NIS 16,909 million).
(c) Of which a book balance of standalone derivative instruments in the amount of NIS 14,766 million (at 30 September 2014 - NIS 15,702 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.

Note 7 – Activity in Derivative Instruments – Scope, Credit Risks and Repayment Dates (cont'd)

C. Repayment Dates – Nominal Amounts: Balances

	30 September 2015 (Unaudited)				
	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	**824**	**3,836**	**6,265**	**3,130**	**14,055**
Other	**31,853**	**67,039**	**155,976**	**84,872**	**339,740**
Foreign currency contracts	**213,823**	**78,091**	**29,299**	**10,173**	**331,386**
Contracts in respect of shares	**97,701**	**22,603**	**781**	**4**	**121,089**
Commodities and other contracts	**779**	**184**	**44**	**-**	**1,007**
Total	**344,980**	**171,753**	**192,365**	**98,179**	**807,277**
	30 September 2014				
	Unaudited				
Total	311,738	174,176	171,607	103,734	761,255
	31 December 2014				
	Unaudited				
Total	333,697	187,922	185,343	107,191	814,153

Note 8 – Balances and fair value assessments of financial instruments

	30 September 2015 (Unaudited)				
	Book value	Fair value			
		Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	52,562	41,805	9,855	939	52,599
Securities (b)	67,545	47,617	16,598	3,330	67,545
Securities borrowed or purchased under agreements to resell	1,420	1,420	-	-	1,420
Credit to the public, net	260,009	1,799	59,983	196,880	258,662
Credit to governments	474	-	45	445	490
Assets in respect of derivative instruments	15,314	1,586	11,606	2,122	15,314
Other financial assets	1,258	473	11	774	1,258
Total financial assets	398,582 (c)	94,700	98,098	204,490	397,288
Financial liabilities					
Deposits of the public	317,991	1,826	192,047	125,654	319,527
Deposits from banks	3,650	-	3,525	98	3,623
Deposits from governments	644	-	579	92	671
Securities lent or sold under agreements to repurchase	503	503	-	-	503
Debentures, notes and subordinated notes	22,187	18,896	342	4,789	24,027
Liabilities in respect of derivative instruments	14,766	1,588	12,929	249	14,766
Other financial liabilities	7,653	471	-	7,170	7,641
Total financial liabilitiies	367,394 (c)	23,284	209,422	138,052	370,758
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	341	-	-	341	341
In addition, liabilities in respect of employee rights, gross - pension and severance pay (d)	15,421	-	-	15,421	15,421

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 124,540 million and NIS 134,842 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.
(d) The liability is shown gross, and does not take the plan assets managed in its respect into account.

Note 8 – Balances and fair value assessments of financial instruments (cont'd)

	30 September 2014 (Unaudited)				
	Book value	Fair value			
		Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	(NIS millions)				
Financial assets					
Cash and deposits with banks	54,612	38,697	14,862	1,072	54,631
Securities (b)	46,058	27,251	15,344	3,463	46,058
Securities borrowed or purchased under agreements to resell	2,019	2,019	-	-	2,019
Credit to the public, net	249,481	2,363	61,517	187,138	251,018
Credit to governments	510	-	47	480	527
Assets in respect of derivative instruments	16,227	1,087	12,013	3,127	16,227
Other financial assets	988	189	-	799	988
Total financial assets	369,895 (c)	71,606	103,783	196,079	371,468
Financial liabilities					
Deposits of the public	286,632	2,583	154,121	132,586	289,290
Deposits from banks	4,781	-	4,447	404	4,851
Deposits from governments	391	-	323	91	414
Securities lent or sold under agreements to repurchase	1,172	1,172	-	-	1,172
Debentures, notes and subordinated notes	23,932	23,571	385	2,572	26,528
Liabilities in respect of derivative instruments	15,702	996	14,367	339	15,702
Other financial liabilities	8,207	179	-	8,032	8,211
Total financial liabilitiies	340,817 (c)	28,501	173,643	144,024	346,168
Off-balance sheet financial instruments					
Transactions whose balance represents credit risk	307	-	-	307	307

(a) Level 1 - fair value measurements using prices quoted in an active market.
Level 2 - fair value measurements using other significant observable data.
Level 3 - fair value measurements using significant unobservable data.

(b) For further details on the book value and fair value of securities, see note on securities.

(c) Of which: Assets and liabilities in the amounts of NIS 100,491 million and NIS 120,656 million, respectively, whose book value is the same as the fair value (instruments shown in the balance sheet at fair value) or is an approximation of fair value (instruments for an original term of up to 3 months for which the book value is used as an approximation of fair value). For further information on financial instruments measured for fair value on a recurring and non-recurring basis, see Notes 8A – 8C.

Note 8 – Balances and fair value assessments of financial instruments (cont'd)

	31 December 2014 (Audited)				
	Book	Fair value			
	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 September 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	27,294	1,593	-	28,887
Foreign government bonds	7,186	1,029	-	8,215
Bonds of Israeli financial institutions	-	48	-	48
Bonds of overseas financial institutions	106	4,862	-	4,968
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	5,897	2,021	7,918
Other bonds in Israel	112	484	-	596
Other bonds abroad	51	1,206	-	1,257
Shares and mutual funds available for sale	2,062	-	-	2,062
Total securities available for sale	36,811	15,119	2,021	53,951
Securities held for trading:				
Government of Israel bonds	8,524	125	-	8,649
Foreign government bonds	1,412	20	-	1,432
Bonds of financial institutions in Israel	156	-	-	156
Bonds of financial institutions abroad	-	128	-	128
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	852	-	852
Other bonds in Israel	139	-	-	139
Other bonds abroad	-	354	-	354
Shares and mutual funds held for trading	575	-	-	575
Total securities held for trading	10,806	1,479	-	12,285
Assets in respect of derivative instruments:				
Shekel-index contracts	-	123	183	306
Interest contracts	56	7,962	383	8,401
Foreign currency contracts	-	2,961	1,260	4,221
Share contracts	953	556	271	1,780
Commodities and other contracts	6	4	25	35
Activity in Maof market	571	-	-	571
Total assets in respect of derivative instruments:	1,586	11,606	2,122	15,314
Others:				
Credit and deposits in respect of lending of securites	1,799	2	-	1,801
Securities borrowed or purchased under agreements to resell	1,420	-	-	1,420
Other	473	11	-	484
Total others	3,692	13	-	3,705
Total assets	52,895	28,217	4,143	85,255

Note 8A – Items measured at fair value (cont'd)
A. Items measured at fair value on a recurring basis (cont'd)

	As at 30 September 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	-	277	40	317
Interest contracts	55	8,150	-	8,205
Foreign currency contracts	-	3,725	208	3,933
Share contracts	953	739	1	1,693
Commodities and other contracts	6	38	-	44
Activity in Maof market	574	-	-	574
Total liabilities in respect of derivative instruments	1,588	12,929	249	14,766
Others:				
Deposits in respect of lending of securites	1,827	22	11	1,860
Securities lent or sold under agreements to repurchase	503	-	-	503
Others	471	-	-	471
Total others	2,801	22	11	2,834
Total liabilities	4,389	12,951	260	17,600

Note 8A – Items measured for fair value (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	As at 30 September 2014 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Assets				
Securities available for sale:				
Israeli government bonds	11,183	1,523	-	12,706
Foreign government bonds	2,869	657	-	3,526
Bonds of Israeli financial institutions	39	62	-	101
Bonds of overseas financial institutions	410	4,011	-	4,421
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	5,357	1,893	7,250
Other bonds in Israel	440	285	-	725
Other bonds abroad	997	1,639	-	2,636
Shares and mutual funds available for sale	2,025	-	-	2,025
Total securities available for sale	17,963	13,534	1,893	33,390
Securities held for trading:				
Government of Israel bonds	7,747	377	-	8,124
Foreign government bonds	200	3	-	203
Bonds of financial institutions in Israel	530	-	-	530
Bonds of financial institutions abroad	-	239	-	239
Asset-backed (ABS) or mortgage-backed (MBS) bonds	-	559	-	559
Other bonds in Israel	394	-	-	394
Other bonds abroad	-	632	-	632
Shares and mutual funds held for trading	417	-	-	417
Total securities held for trading	9,288	1,810	-	11,098
Assets in respect of derivative instruments:				
Shekel-index contracts	-	70	140	210
Interest contracts	8	7,964	607	8,579
Foreign currency contracts	4	3,672	2,247	5,923
Share contracts	347	288	109	744
Commodities and other contracts	35	19	24	78
Activity in Maof market	693	-	-	693
Total assets in respect of derivative instruments	1,087	12,013	3,127	16,227
Others:				
Credit and deposits in respect of lending of securites	2,363	6	-	2,369
Securities borrowed or purchased under agreements to resell	2,019	-	-	2,019
Other	186	-	-	186
Total others	4,568	6	-	4,574
Total assets	32,906	27,363	5,020	65,289

Note 8A – Items measured for fair value (cont'd)

A. Items measured for fair value on a recurring basis (cont'd)

	As at 30 September 2014 (Unaudited)			
	Fair value measurements using:			
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value
	(NIS millions)			
Liabilities				
Liabilities in respect of derivative instruments:				
Shekel-index contracts	-	249	75	324
Interest contracts	8	8,216	1	8,225
Foreign currency contracts	4	5,441	263	5,708
Share contracts	347	420	-	767
Commodities and other contracts	35	41	-	76
Activity in Maof market	602	-	-	602
Total liabilities in respect of derivative instruments	996	14,367	339	15,702
Others:				
Deposits in respect of lending of securites	2,583	19	9	2,611
Securities lent or sold under agreements to repurchase	1,172	-	-	1,172
Others	179	-	-	179
Total others	3,934	19	9	3,962
Total liabilities	4,930	14,386	348	19,664

Note 8A – Items measured for fair value (cont'd)

A. Items measured for fair value on a recurring basis (cont'd)

	As at 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 (cont'd)
A. Items measured for fair value on a recurring basis (cont'd)

	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 (cont'd)
B. Items measured for fair value on a non-recurring basis

	As at 30 September 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	-	-	2,029	2,029	2
Other assets	-	-	-	-	-
Total	-	-	2,029	2,029	2

	As at 30 September 2014 (Unaudited)				
	Fair value measurements using:				
	Prices quoted in an active market (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Total profit (loss) from changes in value for period
	(NIS millions)				
Collateral-dependent impaired credit	-	-	1,474	1,474	(51)
Other assets	-	-	-	-	-
Total	-	-	1,474	1,474	(51)

	As at 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 September 2015 (Unaudited)										
	Changes in items measured for fair value included in Level 3										Unrealized profits (losses) in respect of instruments held at 30 September 2015
		Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the year	In profit and loss statement (a)	In other comprehensive income (b)	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 September 2015	
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,890	133	(15)	140	-	(127)	-	-	-	2,021	(12)
Total bonds available for sale	1,890	133	(15)	140	-	(127)	-	-	-	2,021	(12)
Total shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Total shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	149	5	-	-	-	-	-	29	-	183	45
Interest contracts	360	51	-	-	-	(28)	-	-	-	383	62
Foreign currency contracts	1,750	(1,037)	-	547	-	-	-	-	-	1,260	45
Share contracts	145	126	-	-	-	-	-	-	-	271	180
Commodities and other contracts	26	(1)	-	-	-	-	-	-	-	25	19
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	2,430	(856)	-	547	-	(28)	-	29	-	2,122	351
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	4,320	(723)	(15)	687	-	(155)	-	29	-	4,143	339
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	38	(16)	-	-	-	-	-	18	-	40	16
Foreign currency contracts	293	(85)	-	-	-	-	-	-	-	208	(86)
Share contracts	-	1	-	-	-	-	-	-	-	1	-
Total liabilities in respect of derivative instruments	331	(100)	-	-	-	-	-	18	-	249	(70)
Total others	16	(5)	-	-	-	-	-	-	-	11	11
Total liabilities	347	(105)	-	-	-	-	-	18	-	260	(59)

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.

(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	For the three months ended 30 September 2014 (Unaudited)										
		Realized and unrealized profits (losses), net, included									Unrealized profits in respect of instruments held at 30 September 2014
	Fair value at beginning of the year	In profit and loss statement (a)	In other comprehensive income (b)	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 September 2014	
	(NIS millions)										
Assets											
Securities available for sale:											
Foreign government bonds	4	2	-	-	(6)	-	-	-	-	-	-
Bonds of financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	-	-	-	-	-	-	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,748	159	11	97	-	(122)	-	-	-	1,893	21
Others in Israel	9	(1)	-	-	-	(8)	-	-	-	-	-
Total bonds available for sale	1,761	160	11	97	(6)	(130)	-	-	-	1,893	21
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts (a)	110	10	-	-	-	-	-	20	-	140	37
Interest contracts (a)	482	157	-	-	-	(32)	-	-	-	607	137
Foreign currency contracts	916	769	-	562	-	-	-	-	-	2,247	1,155 (c)
Share contracts	32	77	-	-	-	-	-	-	-	109	72
Commodities and other contracts	-	24	-	-	-	-	-	-	-	24	24
Total assets in respect of derivative instruments	1,540	1,037	-	562	-	(32)	-	20	-	3,127	1,425
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,301	1,197	11	659	(6)	(162)	-	20	-	5,020	1,446
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts (a)	70	(8)	-	-	-	-	-	13	-	75	14
Interest contracts (a)	3	(2)	-	-	-	-	-	-	-	1	1
Foreign currency contracts	274	(11)	-	-	-	-	-	-	-	263	(40)
Total liabilities in respect of derivative instruments	347	(21)	-	-	-	-	-	13	-	339	(25)
Total others	7	2	-	-	-	-	-	-	-	9	9
Total liabilities	354	(19)	-	-	-	-	-	13	-	348	(16)

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.
(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).
(c) Restated.

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

For the nine months ended 30 September 2015 (Unaudited)

	Fair value at beginning of the year	Realized and unrealized profits (losses), net, included: In profit and loss statement (a)	Realized and unrealized profits (losses), net, included: In other comprehensive income (b)	Acquisitions and issues	Sales	Extinguishments	Adjustments from translation of financial statements	Transfers to Level 3 (1)	Transfers from Level 3	Fair value at 30 September 2015	Unrealized profits in respect of instruments held at 30 September 2015
	(NIS millions)										
Assets											
Securities available for sale:											
Asset-backed (ABS) or mortgage-backed (MBS) bonds	2,009	67	(9)	362	(100)	(308)	-	-	-	2,021	(4)
Total bonds available for sale	2,009	67	(9)	362	(100)	(308)	-	-	-	2,021	(4)
Assets in respect of derivative instruments:											
Shekel-index contracts	145	4	-	-	-	-	-	34	-	183	54
Interest contracts	423	51	-	-	-	(91)	-	-	-	383	(6)
Foreign currency contracts	2,307	(2,674)	-	1,627	-	-	-	-	-	1,260	404
Share contracts	64	207	-	-	-	-	-	-	-	271	240
Commodities and other contracts	64	(39)	-	-	-	-	-	-	-	25	18
Total assets in respect of derivative instruments	3,003	(2,451)	-	1,627	-	(91)	-	34	-	2,122	710
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	5,012	(2,384)	(9)	1,989	(100)	(399)	-	34	-	4,143	706
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	41	(32)	-	-	-	-	-	31	-	40	33
Foreign currency contracts	110	98	-	-	-	-	-	-	-	208	93
Share contracts	-	1	-	-	-	-	-	-	-	1	-
Total liabilities in respect of derivative instruments	151	67	-	-	-	-	-	31	-	249	126
Total others	11	-	-	-	-	-	-	-	-	11	11
Total liabilities	162	67	-	-	-	-	-	31	-	260	137

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.
(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

	For the nine months ended 30 September 2014 (Unaudited)										
		Realized and unrealized profits (losses), net, included									
	Fair value at beginning of the year	In profit and loss statement (a)	In other comprehensive income (b)	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 September 2014	Unrealized profits in respect of instruments held at 30 September 2014
	(NIS millions)										
Assets											
Securities available for sale:											
Foreign government bonds	7	-	-	-	(7)	-	-	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	120	(1)	-	-	-	(119)	-	-	-	-	-
Asset-backed (ABS) or mortgage-backed (MBS) bonds	1,733	30	2	479	(160)	(191)	-	-	-	1,893	24
Others in Israel	9	-	-	-	-	(9)	-	-	-	-	-
Total bonds available for sale	1,869	29	2	479	(167)	(319)	-	-	-	1,893	24
Assets in respect of derivative instruments:											
Shekel-index contracts	86	25	-	-	-	-	-	29	-	140	80
Interest contracts	391	292	-	-	-	(76)	-	-	-	607	246
Foreign currency contracts	1,334	(54)	-	967	-	-	-	-	-	2,247	1,286 (c)
Share contracts	-	109	-	-	-	-	-	-	-	109	99
Commodities and other contracts	-	24	-	-	-	-	-	-	-	24	24
Total assets in respect of derivative instruments	1,811	396	-	967	-	(76)	-	29	-	3,127	1,735
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	3,680	425	2	1,446	(167)	(395)	-	29	-	5,020	1,759
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	75	(23)	-	-	-	-	-	23	-	75	19
Interest contracts	-	1	-	-	-	-	-	-	-	1	1
Foreign currency contracts	304	(41)	-	-	-	-	-	-	-	263	(43)
Total liabilities in respect of derivative instruments	379	(63)	-	-	-	-	-	23	-	339	(23)
Total others	-	9	-	-	-	-	-	-	-	9	9
Total liabilities	379	(54)	-	-	-	-	-	23	-	348	(14)

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.
(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).
(c) Restated.

Note 8B – Changes in items measured for fair value on a recurring basis included in Level 3 (cont'd)

For the year ended 31 December 2014 (Audited)

	Fair value at beginning of the year	Realized and unrealized profits (losses), net, included: In profit and loss statement (a)	Realized and unrealized profits (losses), net, included: In other comprehensive income (b)	Acquisitions and issues	Sales	Extinguishments	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	-	-	-	-	-	2,307	1,273
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)

(a) Realized profits (losses) were included in the statement of profit and loss under non-interest financing income.

(b) Unrealized profits (losses) were included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 8C – Additional information on significant unobservable data and assessment techniques used in fair value measurement of items classified in Level 3

As at 30 September 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)	2,021	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	97	Discounting cash flows	Inflationary expectations	(0.6%)-(0.1%)	(0.35%)
	86	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	1.06%
Interest contracts	383	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	1.06%
Foreign currency contracts	117	Discounting cash flows	Inflationary expectations	(0.6%)-(0.1%)	(0.35%)
	1,143	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	1.06%
Share contracts	271	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	1.06%
Commodities contracts	25	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	1.06%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel/index interest contracts	40	Discounting cash flows	Inflationary expectations	(0.6%)-(0.1%)	(0.35%)
Foreign currency contracts	208	Discounting cash flows	Inflationary expectations	(0.6%)-(0.1%)	(0.35%)
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	2,029	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 (cont'd)

As at 30 September 2014

A. Quantitative information regarding Level 3 fair value measurement (in NIS millions)

	Fair value	Assessment technique	Unobservable inputs	Range	Average (3)
Assets					
Securities available for sale (1)					
Asset-backed securities (ABS) or Mortgage-backed securities (MBS)	1,893	Discounting cash flows	Margin Probability of default Rate of early repayment Loss rate	70-230 bp 2.5%-6% 20% 30%-40%	162 bp 4.25% 20% 35%
Assets in respect of derivative instruments (2)					
Shekel-index interest contracts	105	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.29%
	35	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Interest contracts	607	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Foreign currency contracts	215	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.29%
	2,032	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Share contracts	109	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Commodities contracts	24	Discounting cash flows	Transaction counterparty risk	0.03%-100%(*)	2.35%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Interest contracts	75	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.29%
Foreign currency contracts	263	Discounting cash flows	Inflationary expectations	0.1%-1.08%	0.29%
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,474	Fair value of collateral			

* In respect of a failed counterparty.

B. Qualitative information regarding Level 3 fair value measurement

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 (cont'd)

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 Probability of default Rate of early repayment Loss rate	70-160 bp 2.5%-6% 20% 30%	115 bp 4.25% 20% 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 September		For the nine months ended 30 September	
	2015	2014	**2015**	2014
	(Unaudited)			
	(NIS millions)			
A. Interest income (a)				
From credit to the public	**2,311**	2,414	**6,317**	6,895
From credit to governments	**5**	5	**12**	14
From deposits with Bank of Israel and cash	**5**	37	**31**	124
From deposits with banks	**14**	33	**59**	67
From securities borrowed or purchased under agreement to resell	**1**	3	**3**	10
From debentures (b)	**127**	173	**361**	568
Total interest income	**2,463**	2,665	**6,783**	7,678
B. Interest expenses (a)				
On deposits of the public	**(325)**	(445)	**(781)**	(1,289)
On deposits from governments	**(1)**	(2)	**(3)**	(5)
On deposits from banks	**(4)**	(5)	**(11)**	(23)
On securities lent or sold under agreement to repurchase	**(1)**	(2)	**(3)**	(7)
On debentures, bonds and subordinated notes	**(257)**	(312)	**(594)**	(793)
Total interest expenses	**(588)**	(766)	**(1,392)**	(2,117)
Total interest income, net	**1,875**	1,899	**5,391**	5,561
C. Details of the net effect of hedging derivative instruments interest income and expenses (c)				
Interest income	**(13)**	(12)	**(21)**	(33)
Interest expenses	**-**	-	**-**	-
D. Details of accumulated interest income from bonds				
Available for sale	**103**	140	**296**	481
For trading	**24**	33	**65**	87
Total included in interest income	**127**	173	**361**	568

(a) Including the effective component of hedging relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 4 million and NIS 101 million for the three month and nine month period ended on 30 September 2015, respectively, NIS 10 million and NIS 67 million for the three month and nine month period ended on 30 September 2014, respectively.

(c) Details of the effect of hedging derivative instruments on sub-paragraphs a and b.

Note 10 – Non-interest financing income

	For the three months ended 30 September		For the nine months ended 30 September	
	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)	**-**	7	**-**	10
Net income (expense) from ALM derivative instruments (b)	**778**	1,214	**(196)**	900
Total from activity in derivative instruments	**778**	1,221	**(196)**	910
A.2. From investment in bonds				
Profits from sale of bonds available for sale (f)	**36**	12	**163**	129
Losses from sale of bonds available for sale (f)	**(1)**	(2)	**(9)**	(2)
Total from investment in bonds	**35**	10	**154**	127
A.3. Exchange rate differentials, net	**(1,031)**	(1,397)	**73**	(1,093)
A.4. Profits (losses) from investment in shares				
Profits from sale of shares available for sale (c) (f)	**318**	229	**885**	403
Losses from sale of shares available for sale (f)	**(75)**	(31)	**(107)**	(47)
Profit from sale of shares in companies included on equity basis	**-**	-	**522**	-
Dividend from shares available for sale	**160**	1	**168**	7
Losses from sale of shares in companies included on equity basis	**-**	-	**-**	-
Total from investment in shares	**403**	199	**1,468**	363
A.5. Profits in respect of loans sold (g)	**11**	28	**11**	28
Total non-interest financing income in respect of activities not for trading purposes	**196**	61	**1,510**	335
B. Non-interest financing income in respect of activities not for trading purposes				
Income net in respect of other derivative instruments	**(1)**	(4)	**(1)**	-
Realized and unrealized profits (losses) from fair value adjustments of bonds held for trading, net (d)	**190**	128	**87**	358
Realized and unrealized profits (losses) from fair value adjustments of shares held for trading, net (e)	**(60)**	39	**(57)**	26
Total from trading activities (h)	**129**	163	**29**	384
Total non-interest financing income in respect of activities not for trading purposes	**325**	224	**1,539**	719

See notes on next page.

Note 10 – Non-interest financing income (cont'd)

Notes

(a) Excluding the effective part of hedging relationships.

(b) Derivative instruments comprising part of the Bank's asset and liability management not designated for hedging relationships.

(c) 30 September 2015: In the third quarter and in the second quarter there were no material sales; in the first quarter 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.
30 September 2014: In the third quarter including profit from the sale of Mobileye, Tower and Otzar Hityashvuth Hayehudim in the amount of NIS 144 million, NIS 38 million and NIS 30 million, respectively, in the second quarter including profit from the sale of shares in Tower and Electra in the amount of NIS 22 million and NIS 17 million, respectively. In the first quarter including profit from the sale of shares in Partner and Tower in the amount of NIS 70 million and NIS 39 million, respectively.

(d) Of which: part of the profits (losses) related to bonds held for trading still held at the balance sheet date in the amount of NIS 46 million and NIS 14 million for the three and nine month period ended on 30 September 2015, respectively (for the three and nine month period ended on 30 September 2014 - NIS 49 million and NIS 72 million, respectively).

(e) Of which: part of the profits (losses) related to shares held for trading still held at the balance sheet date in the amount of NIS (96) million and NIS (128) million for the three and nine month period ended on 30 September 2015, respectively (for the three and nine month period ended on 30 September 2014 - NIS 41 million and NIS 58 million, respectively).

(f) Reclassified from accumulated other comprehensive income.

(g) In the third quarter of 2015, loans amounting to NIS 98 million were sold (NIS 344 million in the third quarter of 2014).

(h) For interest income from the investment in bonds held for trading, see Note 9.

Note 11 - Operating Segments

	Household segment	Small business segment	Private banking segment	Commercial segment	Corporate segment	Financial management segment	Other segment	Total consolidated
For the three months ended 30 September 2015 (Unaudited)								
	(NIS millions)							
Interest income (expenses), net - from outside entities	**891**	**302**	**-**	**428**	**441**	**(187)**	**-**	**1,875**
Non-interest income - from outside entities	**406**	**136**	**84**	**134**	**191**	**361**	**32**	**1,344**
Intersegmental income (expenses)	**(191)**	**(39)**	**67**	**(77)**	**(216)**	**469**	**(13)**	**-**
Total income	**1,106**	**399**	**151**	**485**	**416**	**643**	**19**	**3,219**
Expenses (income) in respect of credit losses	**113**	**34**	**(2)**	**(28)**	**(52)**	**8**	**-**	**73**
Net profit (loss) attributable to shareholders of the banking corporation	**7**	**80**	**(19)**	**133**	**184**	**279**	**40**	**704**

	Household segment	Small business segment	Private banking segment	Commercial segment	Corporate segment	Financial management segment	Other segment	Total consolidated
For the three months ended 30 September 2014 (Unaudited)								
	(NIS millions)							
Interest income (expenses), net - from outside entities	848	302	(26)	413 (a)	510 (a)	(148)	-	1,899
Non-interest income (expenses) - from outside entities	404	139	143	136 (b)	387	149 (b)	(83)	1,275
Intersegmental income (expenses)	(145)	(49)	115	(66)	(391)	444	92	-
Total income	1,107	392	232	483	506	445	9	3,174
Expenses (income) in respect of credit losses	55	29	3	81	(156)	44	-	56
Net profit (loss) attributable to shareholders of the banking corporation	47	91	(359)	75	315	524	(57)	636

(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 (cont'd)

	For the nine months ended 30 September 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 (expenses), net - from outside entities	**2,359**	**870**	**18**	**1,276**	**1,239**	**(371)**	**-**	**5,391**
Non-interest income - from outside entities	**1,244**	**418**	**328**	**397**	**215**	**2,053**	**97**	**4,752**
Intersegmental income (expenses)	**(319)**	**(104)**	**155**	**(214)**	**(120)**	**635**	**(33)**	**-**
Total income	**3,284**	**1,184**	**501**	**1,459**	**1,334**	**2,317**	**64**	**10,143**
Expenses (income) in respect of credit losses	**207**	**91**	**3**	**(103)**	**(1)**	**(31)**	**-**	**166**
Net profit (loss) attributable to shareholders of the banking corporation	**51**	**243**	**(92)**	**424**	**517**	**1,155**	**106**	**2,404**

	For the nine months ended 30 September 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	2,318	886	(14)	1,203 (a)	1,487 (a)	(319) (a)	-	5,561
Non-interest income (expenses) - from outside entities	1,219	406	432	372 (b)	652	879 (b)	(33)	3,927
Intersegmental income (expenses)	(219)	(137)	257	(156)	(641)	817	79	-
Total income	3,318	1,155	675	1,419	1,498	1,377	46	9,488
Expenses (income) in respect of credit losses	176	79	2	60	(370)	42	-	(11)
Net profit (loss) attributable to shareholders of the banking corporation	171	263	(878)	370	859	627	44	1,456

(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 (cont'd)

	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	1,936	(422)	-	7,363
Non-interest income - from outside entities	1,639	548	567	463	1,137	720	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

Note 12 – Accumulated Other Comprehensive Income (Loss)

A. Changes in accumulated other comprehensive income (loss), after effect of tax

1. Changes in accumulated other comprehensive income (loss)

A. For the three month period ended 30 September 2015 and 2014

	Other comprehensive income (loss) 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 30 June 2014	171	(334)	98	(906)	(971)	(4)	(967)
Net change in the period	312	68	(3)	1	378	-	378
Balance at 30 September 2014	483	(266)	95	(905)	(593)	(4)	(589)
Balance at 30 June 2015	526	(96)	39	(1,273)	(804)	(7)	(797)
Net change in the period	**(470)**	**39**	**3**	**28**	**(400)**	**2**	**(402)**
Balance at 30 September 2015	**56**	**(57)**	**42**	**(1,245)**	**(1,204)**	**(5)**	**(1,199)**

(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) (cont'd)

A. Changes in accumulated other comprehensive income (loss), after effect of tax (cont'd)

1. Changes in accumulated other comprehensive income (loss) (cont'd)

B. For the nine month period ended 30 September 2015 and 2014

	Other comprehensive income (loss) 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	304	48	(5)	115	462	-	462
Balance at 30 September 2014	483	(266)	95	(905)	(593)	(4)	(589)
Balance at 31 December 2014	394	(65)	22	(1,904)	(1,553)	(4)	(1,549)
Net change in the period	**(338)**	**8**	**20**	**659**	**349**	**(1)**	**350**
Balance at 30 September 2015	**56**	**(57)**	**42**	**(1,245)**	**(1,204)**	**(5)**	**(1,199)**

(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) (cont'd)

A. Changes in accumulated other comprehensive income (loss), after effect of tax (cont'd)

1. Changes in accumulated other comprehensive income (loss) (cont'd)

C. For the years 2014 and 2013

	Other comprehensive income (loss) 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) (cont'd)

B. Changes in accumulated other comprehensive income (loss), before and after effect of tax (c)

	For the three months ended 30 September					
	2015			2014		
	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	**(407)**	**110**	**(297)**	632	(137)	495
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss (e)	**(278)**	**105**	**(173)**	(208)	25	(183)
Net change in the period	**(685)**	**215**	**(470)**	424	(112)	312
Translation adjustments (a)						
Adjustments for translation of financial statements	**100**	**-**	**100**	181 (d)	- (d)	181
Hedges (b)	**(98)**	**37**	**(61)**	(165)	52	(113)
Net change in the period	**2**	**37**	**39**	16	52	68
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**3**	**-**	**3**	(6) (d)	3 (d)	(3)
Net change in the period	**3**	**-**	**3**	(6)	3	(3)
Employee benefits (c)						
Actuarial loss (profit) in the period	**(6)**	**2**	**(4)**	(15)	10	(5)
Amortization of actuarial profit (loss)	**52**	**(20)**	**32**	10	(4)	6
Net change in the period (f)	**46**	**(18)**	**28**	(5)	6	1
Total net change in the period	**(634)**	**234**	**(400)**	429	(51)	378
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:						
Total net change in the period	**2**	**-**	**2**	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:						
Total net change in the period	**(636)**	**234**	**(402)**	429	(51)	378

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the Bank, 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.

(e) The amount before tax is reported in the statement of profit and loss under non-interest financing. See Note 11 – Non-interest financing income.

(f) The amount before tax is reported in the statement of profit and loss under salaries and related expenses. For further details, see Note 14 – Employee rights.

Note 12 – Accumulated Other Comprehensive Income (Loss) (cont'd)
B. Changes in accumulated other comprehensive income (loss), before and after effect of tax (c) (cont'd)

	For the nine months ended 30 September					
	2015			2014		
	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	**530**	**(132)**	**398**	962	(254) (a)	708
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss (e)	**(932)**	**196**	**(736)**	(483)	79 (a)	(404)
Net change in the period	**(402)**	**64**	**(338)**	479	(175)	304
Translation adjustments (a)						
Adjustments for translation of financial statements	**27**	**-**	**27**	147 (d)	2 (d)	149
Hedges (b)	**(31)**	**12**	**(19)**	(141)	40	(101)
Net change in the period	**(4)**	**12**	**8**	6	42	48
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**15**	**5**	**20**	(5)	-	(5)
Net change in the period	**15**	**5**	**20**	(5)	-	(5)
Employee benefits (c)						
Actuarial loss (profit) in the period	**890**	**(331)**	**559**	149	(54)	95
Amortization of actuarial profit (loss)	**160**	**(60)**	**100**	32	(12)	20
Net change in the period (f)	**1,050**	**(391)**	**659**	181	(66)	115
Total net change in the period	**659**	**(310)**	**349**	661	(199)	462
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:						
Total net change in the period	**(1)**	**-**	**(1)**	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:						
Total net change in the period	**660**	**(310)**	**350**	661	(199)	462

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the Bank, 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.

(e) The amount before tax is reported in the statement of profit and loss under non-interest financing. See Note 11 – Non-interest financing income.

(f) The amount before tax is reported in the statement of profit and loss under salaries and related expenses. For further details, see Note 14 – Employee rights.

Note 12 – Accumulated Other Comprehensive Income (Loss) (cont'd)

B. Changes in accumulated other comprehensive income (loss), before and after effect of tax (c) (cont'd)

	For the year ended 31 December		
	2014		
	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
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss	(647)	133	(514)
Net change in the period	355	(140)	215
Translation adjustments (a)			
Adjustments for translation of financial statements	459	(41)	418
Hedges (b)	(267)	98	(169)
Net change in the period	192	57	249
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	(108)	30	(78)
Net change in the period	(108)	30	(78)
Employee benefits (c)			
Actuarial loss (profit) in the period	(1,439)	521	(918)
Amortization of actuarial profit (loss)	55	(21)	34
Net change in the period (e)	(1,384)	500	(884)
Total net change in the period	(945)	447	(498)
Changes in components of other comprehensive income (loss) attributed to non-controlling interests:			
Total net change in the period	-	-	-
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:			
Total net change in the period	(945)	447	(498)

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the Bank, 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) The amount before tax is reported in the statement of profit and loss under non-interest financing. See Note 11 – Non-interest financing income.

(e) The amount before tax is reported in the statement of profit and loss under salaries and related expenses. For further details, see Note 14 – Employee rights.

Note 13 – Deposits of the Public

A. Types of deposits by location raised and type of depositor

	30 September 2015	30 September 2014	31 December 2014
	(Unaudited)		(Audited)
	(NIS millions)		
In Israel			
On demand			
Non-interest bearing	**67,156**	47,907 (a)	54,937
Interest bearing	**76,991**	37,935 (a)	55,823
Total on demand	**144,147**	85,842	110,760
Fixed term	**147,667**	170,982	161,900
Total deposits in Israel[1]	**291,814**	256,824	272,660
Outside Israel			
On demand			
Non-interest bearing	**9,475**	13,363	13,945
Interest bearing	**3,661**	3,059	2,919
Total on demand	**13,136**	16,422	16,864
Fixed term	**13,041**	13,386	13,873
Total deposits outside Israel	**26,177**	29,808	30,737
Total deposits of the public	**317,991**	286,632	303,397
[1]Of which:			
Deposits of private persons	**132,544**	119,833	121,943
Deposits of institutional entities	**57,680**	50,047 (a)	54,051 (a)
Deposits of corporations and others	**101,590**	86,944 (a)	96,666 (a)

(a) Reclassified.

B. Deposits of the public by size

	30 September 2015	30 September 2014	31 December 2014
	(Unaudited)		(Audited)
	(NIS millions)		
Up to 1	**94,380**	85,147	86,042
From 1 to 10	**81,779**	75,845	78,995
From 10 to 100	**55,280**	48,835	52,543
From 100 to 500	**31,257**	30,538	30,537
Above 500	**55,295**	46,267	55,280
Total	**317,991**	286,632	303,397

Note 14 – 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 or partial social security arrangement ((hereinafter: "social security") , 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 pension or severance pay if the conditions are met entitling them to such benefits, and in any other case the mix and size of the benefits are adjusted according to 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/Jubilee 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, besides 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 ((hereinafter: "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 from 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 14 – Employee Rights (cont'd)

A. Employee benefits

	As at 30 September		As at 31 December	
	2015	2014	2014 (a)	2013 (a)
	Unaudited			
	NIS millions			
Post-retirement benefits - pension and severance pay				
Amount of liability	**15,421**	14,637	16,256	14,367
Fair value of plan assets	**6,959**	7,109	7,041	7,119
Excess liabilities over plan assets (included under other liabilities)	**8,462**	7,528	9,215	7,248
Long-service (Jubilee) bonus				
Amount of liability	**533**	898	942	898
Fair value of plan assets	**-**	-	-	-
Excess liabilities over plan assets (included under other liabilities)	**533**	898	942	898
Other benefits				
Amount of liability	**619**	409	499	410
Fair value of plan assets	**-**	-	-	-
Excess liabilities over plan assets (included under other liabilities)	**619**	409	499	410
Total[1]				
Excess liabilities in respect of employee rights over plan assets (included under "Other liabilities")	**9,614**	8,835	10,656	8,556
[1]Of which: in respect of employee benefits overseas	**211**	130	222	122

B. Defined benefit pension plan
1. Commitment and state of funding

A. Change in commitment in respect of forecast benefit

	As at 30 September		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	**152**	160	223	209
Interest cost	**550**	621	838	779
Deposits of plan participants	**35**	37	49	53
Actuarial loss (profit)	**(1,147)**	(140)	1,410	494
Changes in foreign currency exchange rates	**(1)**	23	42	37
Benefits paid	**(424)**	(474)	(721)	(660)
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	43	48	75
Commitment in respect of forecast benefit at the end of the period	**15,421**	14,637	16,256	14,367
Commitment in respect of accumulated benefit at the end of the period	**14,683**	13,878	15,374	13,500

(a) Restated.

Note 14 – Employee Rights (cont'd)

B. Defined benefit pension plan (cont'd)
1. Commitment and state of funding (cont'd)

B. Change in fair value of plan assets and state of funding of the plan

	As at 30 September		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:	**4**	329	388	593
Forecast return on plan assets	**134**	99	156	157
Actuarial profits and losses	**35**	37	49	53
Changes in foreign currency exchange rates	**(2)**	21	37	43
Benefits paid	**(253)**	(496)	(708)	(624)
Fair value of plan assets at the end of the period	**6,959**	7,109	7,041	7,119
State of funding - net liability recognized at the end of the period (included in other liabilities)	**8,462**	7,528	9,215	7,248

C. Amounts recognized in the consolidated balance sheet

	As at 30 September		As at 31 December	
	2015	2014	2014 (a)	2013 (a)
	Unaudited			
	NIS millions			
Amounts recognized under other liabilities	**8,462**	7,528	9,215	7,248
Liability net recognized at the end of the period	**8,462**	7,528	9,215	7,248

D. Amounts recognized in accumulated other comprehensive income (loss) before the effect of tax

	As at 30 September		As at 31 December	
	2015	2014	2014 (a)	2013 (a)
	Unaudited			
	NIS millions			
Net actuarial loss	**1,898**	430	1,959	607
Net liability in respect of transition	**-**	974	974	974
Closing balance in accumulated other income	**1,898**	1,404	2,933	1,581

(a) Restated.

Note 14 – Employee Rights (cont'd)

B. Defined benefit pension plan (cont'd)
2. Expense for the period

A. Benefit cost components included in profit and loss

	For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December	
	2015	2014	**2015**	2014	2014 (a)	2013 (a)
	Unaudited					
	NIS millions					
Service cost	**49**	46	**152**	160	223	209
Interest cost	**196**	207	**550**	621	838	779
Forecast return on plan assets	**(93)**	(107)	**(276)**	(329)	(380)	(570)
Amortization of amounts not recognized - net actuarial loss	**44**	11	**155**	34	53	16
Reductions, disposals, special contractual benefits in respect of dismissal	**-**	(16)	**-**	43	48	75
Total cost of benefit, net	**196**	141	**581**	529	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 September		For the nine months ended 30 September		For the year ended 31 December	
	2015	2014	**2015**	2014	2014 (a)	2013 (a)
	Unaudited					
	NIS millions					
Net actuarial loss (profit) for the period	**23**	10	**(875)**	(140)	1,402	471
Amortization of amounts not recognized - net actuarial profit	**(44)**	(11)	**(155)**	(34)	(53)	(16)
Changes in foreign currency exchange rates	**(8)**	5	**(5)**	(3)	3	1
Total recognized in other comprehensive income	**(29)**	4	**(1,035)**	(177)	1,352	456
Net cost of benefit	**196**	141	**581**	529	782	509
Total recognized in cost of benefit, net, for the period and in other comprehensive income	**167**	145	**(454)**	352	2,134	965

C. Estimate of amounts included in accumulated other comprehensive income that are expected to be deducted from accumulated other comprehensive income to appear as an expense in the statement of profit and loss in 2015 before the effect of tax

	For the three months ended 31 December 2015
	Unaudited
	NIS million
Net actuarial loss	**70**
Total expected to be amortized from accumulated other comprehensive income	**70**

(a) Restated.

Note 14 – Employee Rights (cont'd)

B. Defined benefit pension plan (cont'd)
2. Expense for the period (cont'd)

3. Assumptions[a]

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 September		As at 31 December	
	2015	2014	2014	2013
	Unaudited			
	NIS millions			
Discount rate	**2.91%**	3.26%	2.63%	3.26%
CPI discount rate	**1.82%**	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 September		As at 31 December	
	2015	2014	2014	2013
	Unaudited			
	NIS millions			
Discount rate	**2.75%**	3.26%	3.26%	3.41%
Long term forecast return on plan assets (b)	**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) The assumptions relate to data of the Bank only.

(b) 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 1C.1.

B. Effect of a change of one percentage point on the commitment in respect of a forecast benefit before effect of tax[a]

	Increase of one percentage point				Decrease of one percentage point			
	As at 30 September		As at 31 December		As at 30 September		As at 31 December	
	2015	2014	2014	2013	**2015**	2014	2014	2013
	Unaudited							
	NIS millions							
Discount rate	**(1,922)**	(1,805)	3,162	2,299	**2,409**	2,268	2,668	2,296
CPI discount rate	**(177)**	(227)	260	260	**179**	259	247	287
Employee turnover rate	**241**	262	(282)	(227)	**(241)**	(225)	(240)	(238)
Rate of growth in remuneration	**599**	631	(654)	(536)	**(538)**	(536)	(662)	(623)

(a) The assumptions relate to data of the Bank only.

Note 14 – Employee Rights (cont'd)

B. Defined benefit pension plan (cont'd)
2. Expense for the period (cont'd)

3. Assumptions (cont'd)

The level of the liability for employee rights is affected by several key variables that include market variables (rates of interest for discounting the liability over various periods) and actuarial variables as mentioned, with some of the actuarial variables being behavioral variables of employees. It is possible that there will be a link between changes in market variables and changes in actuarial behavioral variables. For example, it is possible that if there is a sharp increase in interest rates in the Israeli economy, and in its wake government bond yields will also rise (which will decrease the level of pension liabilities), the percentage of employees electing for a pension track will also decrease (a decision which will also reduce the level of the Bank's liability for pensions).

Note 14 – Employee Rights (cont'd)

B. Defined benefit pension plan (cont'd)
4. Plan assets

A. Composition of the fair value of plan assets

	As at 30 September		As at 31 December
	2015	2014	2014 (a)
	Unaudited		
	NIS millions		
Cash and deposits in banks	**193**	137	247
Shares	**2,271**	2,344	2,309
Government bonds	**1,917**	2,211	1,887
Corporate bonds	**2,102**	2,040	2,139
Other	**476**	377	459
Total	**6,959**	7,109	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 September		As at 31 December
	2015	**2015**	2014	2014
		Unaudited		
	Percentage			
Cash and deposits in banks	**3%**	**2%**	2%	3%
Shares	**35%**	**33%**	33%	33%
Government bonds	**25%**	**28%**	31%	27%
Corporate bonds	**32%**	**30%**	29%	30%
Other	**5%**	**7%**	5%	7%
Total	**100%**	**100%**	100%	100%

(a) Restated.

Note 14 – Employee Rights (cont'd)

B. Defined benefit pension plan (cont'd)
4. Plan assets (cont'd)

C. Cash flows

1. Deposits

	Forecast	Actual deposits					
		For the three months ended 30 September		For the nine months ended 30 September		For the year ended 31 December	
	2015 (b)	**2015**	2014	**2015**	2014	2014 (a)	2013 (a)
	Unaudited						
	NIS millions						
Deposits	**42**	**82**	44	**169**	136	206	210

(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

	Unaudited
Year	NIS millions
2015	149
2016	563
2017	589
2018	608
2019	632
2020-2024	3,378
2025 and thereafter	10,718
Total (a)	16,637

(a) In discounted values.

Note 15 – Events after the balance sheet date

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

On 4 May 2015, the Board of Directors of the Bank and the Board of Directors of the Arab Israel Bank approved the execution of a merger of the Bank with the Arab Israel Bank. Pursuant to the merger agreement, the Arab Israel Bank, which is a almost wholly-owned subsidiary of the Bank, will be merged with and within the Bank.

As a result of the objection of the minority shareholders in the Arab Israel Bank to the merger proposal, a request was submitted 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. On 12 November, the court approved the merger after the parties reached an agreement with regard to the merger conditions.

The merger is expected to take effect on 31 December 2015.

On 27 October 2015, the Arab Israel Bank were informed by the Head of the Bank and Credit Card Companies' Employees Division in the New Histadrut Federation of Employees – the Ma'of Histadrut of a labor dispute and that the employees of the Arab Israel Bank would be able to strike with their approval commencing 12 November 2015.

Further to the aforesaid labor dispute, the Arab Israel Bank Employees' Committee declared a strike in the branches.

2. 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 31 March in the years 2016 to 2024 (inclusive), and on 30 September in the years 2016 to 2023 (inclusive).

The debentures are not recognized for purpose of regulatory capital.

3. Taxation

Value Added Tax

On 10 September 2015, Value Added Tax Order (Tax Rate on a Transaction and on the Import of Goods) (Amendment), 2015, was published, which reduced the rate of value added tax in respect of a transaction and the import of goods from 18% to 17%, with effect from 1 October 2015.

On 12 November 2015, the Value Added Tax Order on Non-Profit Associations and Financial Institutions (Amendment), 2015, was published, reducing the rate of profit tax levied on financial institutions from 18% to 17%, with effect from 1 October 2015. As a result of the said change, the statutory tax rate which applies to financial institutions fell from 37.71% in 2015 to 37.58% and to 37.18% from 2016 and thereafter. In addition, the rate of payroll tax, which applies to financial institutions, fell from 18% to 17%, with regard to salary payable for work in October 2015 and thereafter.

The change in the rate of profit tax is expected to result in a decrease in the balance of deferred taxes receivable, net, amounting to NIS 55 million in the fourth quarter of 2015.

The effect of the decrease in payroll tax is expected to reduce the balance of liabilities to employees in the fourth quarter of 2015 by NIS 61 million before tax and NIS 38 million after tax.

The change in payroll tax is expected to result in a decrease amounting to NIS 19 million in current salary expenses and operating expenses in 2015, compared with 2014.

4. Leumi Card

Currently, there is no proposed law and there is legislation which requires the sale of credit card companies by the banks. The Strum Committee has yet to publish its recommendations, and it still not possible to know whether the recommendations will be for such a move, and, if so, what the time-table will be and what the transitional provisions will be. Accordingly, at this stage, it is not at all possible to estimate whether an obligation to sell the holdings will be imposed on the Bank in the future and if such a an obligation is imposed, what the content of the obligation will be. As long as there is no legislation which compels a sale, the Bank does not intend to sell Leumi Card.

Furthermore, the conditions for recognizing a tax provision have not been fulfilled.

The tax effect expected to arise if and when the Bank sells Leumi Card at its equity value in the books is estimated to be NIS 90 million.

5. Leumi Capital Market Services

The implementation of the the draft of the Supervision of Financial Services Regulations (Provident Funds) (Purchase, Sale and Holding of Securities) (Amendment), 2015, published on 29 July, 2015, if passed, is likely to compel the Bank to cease providing operating services to institutional entities, on the assumption that it will prefer to continue the provision of brokerage services.

The Bank is making preliminary and non-binding contacts to examine the possibility of selling its subsidiary – Leumi Capital Market Services Ltd. ("Leumi CMS") or its activity – in full or in part. As long as it is not clear whether the aforesaid provision will become law, the Bank does not intend selling Leumi CMS.

The total revenues and profits of Leumi CMS are not material in relation to the Bank Group's revenues and profits. Accordingly, the transaction to be carried, if any, will not have a significant impact on the Bank's financial results.

6. Bank Leumi Jersey

Bank Leumi UK, a wholly-owned subsidiary of the Bank, which is a banking corporation in the United Kingdom, is making preliminary contacts in connection with a possibility of selling its holdings in its subsidiary, Bank Leumi Jersey, and the holdings of Bank Leumi Jersey in its subsidiary, limo Overseas Trust Corporation, which in incorporated in Jersey, The contacts are for the sale of the holdings in corporations as aforesaid and/or the activity of the corporations.

The total activity of Bank Leumi Jersey and of Leumi Overseas Trust Corporation is immaterial in relation to the Bank Group's activity. The transaction to be carried out, if any, will not have a significant impact on the financial results of the Bank.