Annual Report 2015

The Bank has received the consent of the Supervisor of Banks to the publication of the annual financial report on a consolidated basis only, with condensed statements of the Bank (not consolidated) in Note 34 to the financial statements.
The figures of the Bank alone are available on request from the offices of the Bank at 34 Yehuda Halevi Street, Tel Aviv or on its website: www.bankleumi.co.il.
This is a translation from the Hebrew and has been prepared for convenience only. In the case of any discrepancy, the Hebrew will prevail.

Bank Leumi le-Israel B.M. and its Investee Companies
Annual Report 2015

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Message from the Chairman of the Board of Directors

Leumi Group finishes 2015 with a net profit of NIS 2,835 million and a net profit yield of 10.3% on the shareholders' equity. The annual report which is placed before you tells the story of an intense and action-packed year, in which the numbers appearing tell a story. More than anything, they serve as proof - proof of the fact that, by virtue of a consistent policy, based on a long-term strategic perspective, challenging goals can be set and fulfilled. It should be noted that Leumi management did well to translate the strategy outlined by the Board of Directors into deed, and our actions in the past year will testify to that. We declared our preparedness in anticipation of establishing a new Digital Banking Division., the first of its kind in Israel, which will be launched some time in 2016. We continued the implementation of a streamlining program, which included, among other things, the merger of the Arab Israel Bank within Leumi. Similarly, the establishment of a new organizational model in the Banking Division, as part of a policy to curtail our international activity in the area of Private Banking, we decided to close the line of activity in Luxembourg, in order to allocate most of the resources to core activity in Israel. We expanded our activity with the corporate sector **– with an emphasis on small and medium-sized businesses** – with the view that encouraging their growth is essential to maintaining a healthy Israeli economy.

We have recently taken steps to comply with the primary capital targets as provided by the Bank of Israel. These steps are indicative of the Bank's ability to contend with complex challenges.

2015 symbolized a continuation of several changes. The global economy, faithful to its historical function as the litmus paper of the geo-political process, continues to be characterized by instability. Most countries experienced a slowdown of growth, particularly China, Russia and Latin American countries. On the other hand, we have witnessed a trend of improvement in economic activity in the United States and Europe, which continues to recover from the destructive effects of the 2008 crisis. The extent of the financial stability has improved in the developed economies, albeit with continuing uncertainty. However, the risks in the emerging markets persist. We turn our attention to 2016 with cautious optimism, accompanied by certain trepidation.

For us, the figures show slow growth. On the one, this growth reflects the expanding private consumption, and on the other hand, it indicates a weakness in investments and in exports. In order to restore Israel to a growth track, the captains must "recalculate course" and address the key fundamental issues of the domestic economy, chief of which is the integration of the ultra-Orthodox and Arabs into the labor market and into the national economy; dealing with the low productivity in the economy; strengthening exports and encouraging investments at home and abroad.

There is no disputing the fact that we are living in the midst of a fast-changing world, which presents us with many challenges: **the technological revolution**, unprecedented in its scope and dimensions, affects every aspect in our lives and recalls other revolutions which changed the face of history, for example, the Industrial Revolution. We are all required to adapt ourselves to this new digital reality, in which everything is done "online". The competition is becoming tougher, more intense, and it shows no mercy to those who fall behind. Leumi Group, for its part, is not resting on its laurels, and as will be noted, we are happy to relate that we have recently laid the infrastructure in anticipation of the launch of new Digital Banking in Israel, which is expected to occur some time in 2016.

The challenges facing Israeli banks are large and complex. The regulatory authorities are expected to announce **a number of key reforms** in the coming months whose declared main purpose is to increase competition in the banking market. Competition is a central and significant component in the growth of the economy. However, it is desirable and appropriate that every change made is done thoroughly and intelligently, with impassioned, professional businesslike discussions between the parties. To those who praise the absence of competition in the banking system, it is said that the **banking market in Israel is characterized by fierce competition**. Moreover, new players have entered the race, and they are many, diverse and equipped with innovative technology – from the larger institutional entities to the small young and lively Fintech companies.

Aside from this, it is important to note the extensive activity carried out by Leumi in the community, in a wide range of areas, emphasizing activity to promote "Tomorrow's Generation". In 2015, we invested over NIS 32 million in activities for the community, and we operated bands of volunteers numbering 4,000 employees from among the Group. We take great pride in the cooperation with the "Follow Me – Youth Leading Change" Association, which continues to increase the scope of its activity. This year, a Friends Society was established and its operating budget was increased. From our perception, doing business is not complete without the contribution to the neighborhood and to the community within which it exists, and in this spirit, we will continue to act as has been the practice in Leumi since its foundation.

Moliére, the renowned French playwright, said "The more challenging the goal a person sets for himself, the greater the satisfaction in achieving it". 2016 has within it numerous challenges – from my knowledge of the Group's capabilities, which are based on professional, dedicated and quality employees, I am quite certain that we can succeed in implementing our credo, and the **existence of enterprising and innovative banking for our customers**.

David Brodet

Chairman of the Board of Directors

28 February 2016

Report of the Board of Directors and Management

The following is the sixty-fifth annual report of Bank Leumi le-Israel B.M. and the one hundred and fourteenth report of the business, founded in 1902. This report will be presented to the Bank's Annual General Meeting. This report is based on an analysis of the data included in the Bank's Financial Statements and Management Review, and on additional data as required. This report is prepared in accordance with the public reporting directives of the Supervisor of Banks.

General Review, Goals and Strategy

Description of the Leumi Group's Business Activities

Bank Leumi and its subsidiary companies constitute one of the largest banking groups in Israel, continuing activities that began 114 years ago. The Bank's predecessor, the Anglo Palestine Company, was established in London in 1902 by Otsar Hityashvuth HaYehudim Jewish Colonial Trust Limited, the predecessor of Otsar Hityashvuth HaYehudim B.M.[1]

The Bank is defined as a banking corporation under the Banking (Licensing) Law, 1981, and holds a banking license under that law. As a "bank" and a "banking corporation" the Bank's activities are governed and delineated by a system of laws, orders and regulations, including, *inter alia,* the Banking Ordinance, the Bank of Israel Law, the Banking (Licensing) Law and the Banking (Service to Customer) Law, as well as by directives, rules, instructions and position papers of the Supervisor of Banks.

The Leumi Group is involved in a variety of financial banking and non-banking activities, in Israel and overseas. The Group's activities are carried out through the Bank and subsidiaries and companies included on equity basis, and through overseas branches and representative offices.

The Group's policy, in Israel and overseas, is to provide its customers with comprehensive banking and financial solutions and a high level of professional service, to enable them to make use of varied distribution channels and to offer them a wide variety of products, adapted to their needs.

As a leading banking group, aiming to achieve high levels of long-term profitability, Leumi constantly scrutinizes trends and changes in the business environment in which it operates and formulates a strategy to deal with these changes.

To implement its strategy, the Bank is organized into four main lines of business, concentrating on different market segments, with each business line specializing in providing banking and financial services to a particular customer segment.

Corporate Banking concentrates on servicing major and international companies; commercial banking concentrates on servicing middle market companies; Retail Banking concentrates on providing banking services mainly to households, small businesses and wealthy customers who require investment solutions at high level of complexity within the framework of Private Banking; and the Capital Market and Financial Management Division coordinates the activities of all the dealing rooms and *nostro* rooms under one roof, with a view to improving and expanding the range of services to customers who are active in the capital and financial markets, including institutional customers. In addition, the Bank established a division for Digital Banking whose function is to centralize the Bank's digital, innovative and marketing activity, including setting up the new Digital Banking as a sub-brand.

Some of the financial services are provided by means of subsidiary companies that operate in various fields, such as: credit cards, retail, banking for hi-tech customers and underwriting.

Furthermore, the Group invests in non-banking corporations operating in the various fields inside and outside Israel. The management of the non-banking investment portfolio is mostly conducted through the subsidiary, Leumi Partners Ltd.

The Leumi Group operates in a competitive market in all its operating segments. The main competitors are currently other Israeli banks, although, in certain segments, there are additional competitors whose numbers are constantly growing, such as overseas banks and non-bank competitors, for example, insurance companies and other institutional entities and technology-based solutions (FinTech companies) that focus on areas of banking activity, mainly with retail customers.

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[1] Otsar Hityashvuth HaYehudim B.M. was the controlling shareholder of the Bank until the equalization of voting rights in the Bank in 1991. In 1993, most of the shares of the Bank passed to the ownership of the State, under the Bank Shares Arrangement Law (Temporary Provision), 1993. On 3 September 2007, the company ceased to be an interested party in the Bank.

Update of the structure of the report to the public

On 28 April 2015, a circular was published on the subject of "Update of the Structure of the Annual Report to the Public of a Banking Corporation". The aims of the circular regarding the update of the structure of the financial statements are, *inter alia*: an improvement in the quality of reporting to the public by making the information in the report to the public more useful and accessible, increasing the consistency within the banking system in the way the annual financial statements are presented, and formulating a format for the annual report to the public which will be based on the presentation practices in the United States and Europe. The main points of the circular are:

- A change in the order of the presentation in the financial statements, the presentation of the statement of profit and loss before the balance sheet, the presentation of profit and loss notes before balance sheet notes.
- The cancelation of the management review and its integration into the Report of the Board of Directors and a change the name of the Report of the Board of Directors to the "Report of the Board of Directors and the Management".
- The publication of a separate Report on Risks on the Bank's website.

Summary of Financial Position

The consolidated statements of profit and loss data for the years 2011 – 2015 are as follows:

	2015	2014		2013		2012	2011
	(NIS millions)						
Interest income	**8,784**	10,012		12,134		13,507	14,283
Interest expenses	**1,666**	2,649		4,777		6,099	7,176
Net interest income	**7,118**	7,363		7,357		7,408	7,107
Expenses in respect of credit losses	**199**	472		268		1,236	734
Net interest income after expenses in respect of credit losses	**6,919**	6,891		7,089		6,172	6,373
Non-interest income							
Non-interest financing income	**1,610**	795		1,127		444	11
Commissions	**4,092**	4,167		4,188		4,199	4,116
Other income	**595**	179	(a)	116	(a)	131	48
Total non-interest income	**6,297**	5,141		5,431		4,774	4,175
Operating and other expenses							
Salaries and related expenses	**5,448**	5,151	(a)	5,070	(a)	5,310	5,061
Building and equipment maintenance and depreciation	**1,702**	1,655	(a)	1,821	(a)	1,819	1,704
Amortization of intangible assets and goodwill	**5**	58		88		23	2
Other expenses	**1,681**	2,507		1,838		1,968	1,574
Total operating and other expenses	**8,836**	9,371		8,817		9,120	8,341
Profit before taxes	**4,380**	2,661		3,703		1,826	2,207
Provision for taxes on profit	**1,691**	1,278	(a)	1,380	(a)	800	418
Profit after taxes	**2,689**	1,383		2,323		1,026	1,789
Banking corporation's share in profits (losses) of companies included on equity basis after tax	**177**	42		(293)		(67)	148
Net profit							
Before attributing to non-controlling interests	**2,866**	1,425		2,030		959	1,937
Attributed to non-controlling interests	**(31)**	(12)		(42)		(37)	(46)
Attributed to shareholders of the banking corporation	**2,835**	1,413		1,988		922	1,891
Basic and diluted earnings per share:							
Net profit attributed to shareholders of the banking corporation (in NIS)	**1.92**	0.96		1.35		0.63	1.28

(a) Restated as a result of a retroactive application of United States generally accepted accounting principles regarding employee rights, see Note 1D.1 and for the retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development, see Note 1D.2.

Total assets under management of the Group (both balance sheet and off-balance sheet*) amounted to NIS 1,214 billion as at 31 December 2015, compared with NIS 1,223 billion at the end of 2014, a decrease of 0.7%. The decrease in total assets under management is primarily attributable to the exercise of a "declared money" policy operated by the Bank and the progress of realizing a decision of the Bank to exit International Provision Banking activity in the overseas units and representative offices.

* Total assets, as well as customers' securities, the value of securities in custody of mutual funds, provident funds and supplementary training funds for which operational, management, custodial and pension counseling services are provided.

The consolidated balance sheet data for the years 2011-2015 are as follows:

	2015	2014	2013	2012	2011
	NIS millions				
Assets					
Cash and deposits with banks	**60,455**	60,615	44,351	54,621	53,044
Securities	**69,475**	52,113	63,735	56,408	47,936
Securities borrowed or purchased under agreements to resell	**1,764**	2,000	1,360	1,435	1,225
Credit to the public	**265,070**	256,468	244,757	245,378	245,287
Allowance for credit losses	**(3,671)**	(3,988)	(3,883)	(4,114)	(3,967)
Credit to the public, net	**261,399**	252,480	240,874	241,264	241,320
Credit to governments	**453**	528	558	442	448
Investments in companies included on equity basis	**924**	2,216	1,689	2,129	2,270
Buildings and equipment	**3,095**	3,162 (a)	3,028 (a)	3,705	3,653
Intangible assets and goodwill	**18**	43	99	189	181
Assets in respect of derivative instruments	**11,250**	16,909	13,054	11,438	11,573
Other assets	**7,666**	6,918 (a)	6,056 (a)	4,714	4,204
Total assets	**416,499**	396,984	374,804	376,345	365,854
Liabilities and equity					
Deposits of the public	**328,693**	303,397	286,003	289,538	279,404
Deposits from banks	**3,859**	4,556	4,310	4,073	5,056
Deposits from governments	**750**	467	397	451	519
Securities lent or sold under agreements to repurchase	**938**	1,238	624	1,007	442
Debentures, bonds and subordinated notes	**21,308**	23,678	25,441	27,525	29,999
Liabilities in respect of derivative instruments	**11,098**	15,650	13,487	12,762	12,069
Other liabilities	**20,746**	21,860 (a)	19,395 (a)	16,092	14,737
Total liabilities	**387,392**	370,846	349,657	351,448	342,226
Non-controlling interests	**340**	340	340	307	254
Equity attributable to shareholders of the banking corporation	**28,767**	25,798	24,807	24,590	23,374
Total equity	**29,107**	26,138	25,147	24,897	23,628
Total liabilities and equity	**416,499**	396,984	374,804	376,345	365,854

(a) Restated as a result of a retroactive implementation of United States generally accepted accounting principles regarding employee rights, see Note 1D.1 and for the retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development, see Note 1D.2.

The principal financial ratios (in %) are as follows:

	As at 31 December				
	2015	2014 (f)	2013 (f)	2012	2011
Credit to the public, net, to total balance sheet	**62.8**	63.6	64.3	64.1	66.0
Securities to total balance sheet	**16.7**	13.1	17.0	15.0	13.1
Deposits of the public to total balance sheet	**78.9**	76.4	76.3	76.9	76.4
Deposits of the public to total credit net	**125.7**	120.2	118.7	120.0	115.8
Total equity to risk assets (a) (e)	**13.74**	13.90	14.59	14.87	14.34
Tier 1 capital to risk assets (e)	**9.58**	9.09	9.19	8.55	8.07
Leveraging ratio (g)	**6.27**	-	-	-	-
Liquidity coverage ratio (g)	**105.00**	-	-	-	-
Equity (excluding non-controlling interests) to balance sheet	**6.9**	6.5	6.6	6.5	6.4
Net profit to average equity (excluding non-controlling interests)	**10.3**	5.4	8.0	3.8	8.3
Rate of provision for tax on the profit before taxes	**38.6**	48.0	37.3	43.8	18.9
Expenses in respect of credit losses to credit to the public, net	**0.08**	0.19	0.11	0.51	0.30
Of which: expenses in respect of collective allowance to credit to the public, net	**0.17**	0.22	0.11	0.13	0.15
Expenses in respect of credit losses to total risk of credit to the public	**0.05**	0.12	0.07	0.34	0.20
Interest income, net to total balance sheet	**1.71**	1.85	1.96	1.97	1.94
Total income to total assets (b)	**3.22**	3.15	3.41	3.24	3.08
Total income to total assets managed by the Group (b) (c)	**1.11**	1.02	1.10	1.16	1.19
Total operating and other expenses to total balance sheet	**2.12**	2.36	2.35	2.42	2.28
Total operating and other expenses to total assets managed by the Group (c)	**0.73**	0.77	0.76	0.87	0.88
Net profit to total average assets (d)	**0.69**	0.40	0.53	0.26	0.56
Interest margin (g)	**1.84**	1.98	1.87	1.87	2.12
Operating and other expenses (excluding early retirement expenses) to total income (b)	**65.8**	74.6	68.4	72.2	73.9
Non-interest income to operating and other expenses (excluding early retirement expenses)	**71.3**	55.1	62.1	54.3	50.1
Non-interest income to total income (b)	**46.9**	41.1	42.5	39.2	37.0

(a) Capital – with the addition of noncontrolling interests, net of investments in banking and financial non-consolidated subsidiaries and sundry adjustments.

(b) Total income – net interest income and noninterest income.

(c) Including off balance sheet activity.

(d) Average assets are total income-producing and other balance sheet assets.

(e) Since 2014, the capital liquidity ratio has been computed in accordance with the provisions of Basel III directives. Until 2013 (inclusive), this was computed in accordance with the provisions of the Basel II directives.

(f) Restated as a result of a retroactive implementation of United States generally accepted accounting principles regarding employee rights, see Note 1D.1 and for the retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development, see Note 1D.2.

(g) Pursuant to the Bank of Israel directives, the leverage ratio and the liquidity coverage ratio were computed from the second quarter of 2015. Accordingly, comparative figures are not presented.
For further information regarding the leverage ratio, see chapter "Structure and development of the assets and liabilities, capital, capital adequacy – Capital and capital adequacy" and for further information regarding liquidity coverage ratio, see chapter "Exposure to risks and ways of managing them".

Forward-Looking Information in the Report of the Board of Directors and Management

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

Forward-looking information is generally drafted with 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 programs", "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 a past fact.

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 currency markets and the capital markets, to legislation, to directives of regulatory bodies, to the behavior of competitors, to technological developments and to personnel matters.

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 forecasted, 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 the Leumi Group are likely to be materially different.

The Bank does not undertake to publish updates of the forward-looking information in these reports.

Principal Risks inherent in the Operations of the Bank

Credit risk, constitutes the central core activity of the Bank and the Group, which is maintained in a decentralized manner in a number of business lines.
Credit risk is the Bank's risk of a loss as a result of the possibility that a counterparty does not fulfill its obligations vis-à-vis the banking corporation, as agreed. This risk is in accordance with the Group's core business and is reflected in activity with corporate, commercial and retail customers, as well as *nostro* activity. The Bank implements an overall policy for credit risk management, in accordance with the provisions of Proper Conduct of Banking Management Regulation no. 311.

For details of credit risk and its management, see below in the chapter, "Credit Risk".

Market risk, including liquidity risk, is another important risk in the Bank's activity. The routine management of market risks is intended to support the achievement of business targets, while estimating the forecast profit against the damage likely to emanate from exposure to these risks. Exposures to market risk are managed dynamically as a part of the system of restrictions established by the Board of Directors and the risk committees at different levels which delineates the impact of market's exposure on the economic value, the accounting profit, capital reserve and liquidity position.

For details of market risk and its management, see below in the chapter, "Market Risk".

In the Bank's activity as a financial intermediary, there are operational risks which also include, *inter alia*, information security and cyber risks, information technology risks, embezzlement and fraud risks, legal risks, compliance and business continuity risks. Operating risk is defined as the risk of a loss as the result of the lack of adequacy or a failure of internal procedures, personnel or systems, or as a result of external events including cyber incidents. The definition of risk does not include strategic risk or reputational risk.

Operational risk management is conducted in accordance with generally accepted ("best practice") standards in all parts of the Group, and whenever the risk environment changes, the Bank updates the tools for managing these risks. In recent years, as a result of the rapid development in technology, in general, and, as a corollary, in banking, and as a result of external changes to the Bank, the information security and cyber risks and the risks of embezzlements and frauds have increased, and the Bank continues to take steps to strengthen the risk management in this area.

For details of operational risk and its management, see below in the chapter, "Operating Risks".

Goals and Business Strategy

Leumi's Vision

"To lead enterprising and innovative banking for the customer"

At the basis of the vision is the aspiration to devise a dynamic system, which combines the Bank's values with product and technological innovation – a system that will be, for our customers, a place in which they can find the best and most suitable solution for their financial requirements, and, in so doing, derive a fair profit, maintain the Bank's stability and create a balance between the needs of the employees and the expectations of the shareholders. As a financial group, with major influence over the business and public culture in Israel, Leumi considers its commitment to the community to be a social and ethical anchor, which it will continue to nurture.

Leumi's strategy

In light of the significant trends and changes in the activity environment, Leumi has identified two main courses of action, the combination between them which is at the Group's strategic core. On the one hand, building the "New Banking", which is based on the digital and technological innovation, and on the other hand, the adaptation of traditional banking, placing an emphasis on continuing a professional and quality service to all customer segments according to their needs, preferences and rate of adopting their digital innovativeness. These two courses of action are dependent on and combined with the necessity to streamline capital and risk assets in favor complying with capital adequacy targets.

Leumi has been taking measures to adapt the Bank's activity model ("traditional banking") for many years. As a part of this process, the Bank merged Leumi Mortgage Bank, Leumi Financing and the Arab Israel Bank, and amalgamated the Corporate Division with the Commercial Division, and the Private Banking Department within the Banking Division. In addition, the Group reduced its work-force by 1,400 positions and began to implement a multi-year plan for the merger of branches, to adapt of the teller service model, and to replace the branch service model with a multi-channel vision.

The Bank recently announced a gradual change in the organizational structure of the Banking Division, at the basis of which is a transition from a geographical structure which was customary till now to management according to customer-focused, more efficient lines of business, so enabling maximum interfaces with the various units in the Bank. The new structure will operate according to four lines of business: small businesses, private banking, premium and retail, with each line operating in a format of an independent profit center.

In addition, in the strategic framework of a reduction in the international private banking activity, Leumi has continued to close its international offices which are engaged in the field.

These activities are intended to create a smaller, more flexible and more nimble platform, which is capable of coping with the challenges of changes in the activity environment. Despite the large amount of activity carried out, the Bank still has a long way to go before it reaches the target to which it aspires, and accordingly, plans have been developed in the Bank to continue the adaptation, realization and streamlining of the organization and processes in future years.

For the construction of the "new banking", Leumi continues its steps to set up the new Digital Banking as a separate sub-brand The Bank intends to launch Digital Banking in phases commencing mid-2016. Digital Banking will provide its customers with differentiated products and services and will be established on the basis of advanced technological, flexible and disparate systems and working processes which will help it to be more efficient, and hence cheaper for its customers. The new Digital Banking has been set up with an emphasis on a superior and advanced customer experience - one based on providing a solution to the Digital Banking customers' requirements, chief of which is the convenience and "any time, any place" availability, simplicity, personal adaptation and fairness.

On 1 January 2016, Leumi established a new division – Digital Banking. This division will be practiced in setting up the new Digital Banking, and at the same time, continuing to upgrade the digital services of Leumi Digital and the Bank's "Big Data" abilities, such that Leumi will continue to be at the forefront both in digital innovation and the overall customer experience across the Bank's channels of communication.

Leumi Group has four strategic goals:

1. Upgrading the service model and value proposals to the targeted segments.
2. Assimilation of an organizational customer-centered culture – focusing on training and motivating employees of the organization in line with the Group's core values and vision.
3. Improving efficiency and flexibility – focusing on the human resource, information technology and procurement.
4. Creation of a qualitative and innovative technological environment – focusing on strengthening business performance and the Bank's ability to respond rapidly to constant changes in the activity environment.

For each of the strategic goals, a set of success indices, long-term quantitative targets and initiatives for their attainment have been defined.

Realization of the Group's strategy is achieved in compliance with the risk appetite approved by the Board of Directors, using advanced processes and tools for the management of various types of risks and the completion of preparations for regulatory requirements.

The Group's goals have been adapted to the lines of business in which Leumi operates.

It should be noted that, in strategic planning, there is a not inconsiderable degree of uncertainty with the realization of long-term strategic trends dependent on several variable factors: the state of the markets in Israel and abroad, the security situation, and the constant effects of regulatory changes, whose scope and focus over several years still cannot be stated with certainty.

Lines of Business and Operating Segments

The Bank in Israel is organized into four lines of business. Each business line specializes in the provision of service to segments of customers with similar characteristics and needs. This specialization allows for the provision of a high level of professional service. In addition, there are a number of management units that provide various services to the lines of business.

The subsidiary companies in Israel and abroad have been assigned to the relevant business line within the Group.

The following are details of the Bank's four major lines of business:

Retail banking deals with private and small business customers and also includes the Mortgage Department and the Private Banking Department. The aim of retail banking is to provide a multi-channel, integrative customer experience in the branch channel and in the direct channels (Leumi CALL, the Internet, cellular, electronic terminals, information booths and ATM's), based on a modern, operational service model, adapted to customer requirements. The main strategic goals of retail banking are to expand the customer base in operating segments which have potential, and increase activity levels with customers by continually improving the level of service and adapting value proposals to the needs of the customer in accordance with his way of life.

Private Banking deals with wealthy private customers. Activity is conducted through specialist centers and branches in Israel and the Bank's offices in the United States and in the United Kingdom.

Commercial banking deals with middle-market business customers and their interested parties, including senior office-holders in the companies. The strategic goal of commercial banking is to continue to strengthen its leading position by expanding the volume and range of activities with existing customers and by recruiting new customers, whilst providing a range of financial and banking services required for its customers operating in Israel and abroad.

Corporate banking deals with the project support and financing of the segment of large business customers and multi-national corporations, including entrepreneurial and contract companies involved in large projects in the area of real estate and infrastructure. Among other things, those managed in the Corporate Department and the Construction and Real Estate Department are customers whose business activity is complex, whose business is international and/or whose activity is managed in several of the Bank's overseas subsidiaries. The objectives of corporate banking are to provide the entire spectrum of customers with all necessary financial and banking services, while involving the various units in the Leumi Group, in Israel and abroad, as necessary, so as to increase the variety of products and services offered to customers.

Capital markets banking and financial management deals with the management of the Bank's *nostro* and the operation of all the Bank's dealing rooms for the purpose of securities trading and brokerage activities in currencies, interest rates, derivatives and securities. Financial management includes the development of financial and investment products, management of the Bank's assets and liabilities (Assets and Liabilities Management - ALM) and in the management of investments in financial assets. The division also manages the relationship with overseas financial institutions and is responsible for providing services to customers in Israel active in the capital and money markets, including institutional customers. The management of non-bank investments is conducted through Leumi Partners.

Central trends in the operating environment

The competitive and business environment in which the Bank operates is complex and is influenced by several exogenic factors. The financial markets around the world and in Israel, regulation in Israel and abroad, and changes and trends in areas, such as technology and the customers' preferences, affect Group activity and the strategy derived as a result thereof.

For information regarding the macro-economic environment in Israel and around the world, see the chapter, "Principal Developments in the Economy".

Increased regulation

The impact of regulation on the banking sector continues to expand in Israel and throughout the world, with the regulatory supervision focused on two main areas: regulation which is aimed to maintain the stability and reduce the extent of risk in their activity and regulation, the aim of which is to protect the consumer, to encourage competition and to bring an improvement in the services he receives.

On a domestic level, we are witness to several local legislative initiatives, some of which derive from the socioeconomic discourse and deal with encouraging competition and increased transparency in the banking system.

One of the main local initiatives that has reached implementation in recent years is the Zaken Committee for the Encouragement of Competition, which has led to proposals for customer commission tracks, the approval for the opening and closing of accounts via the Internet, the issue of debit cards, a change in the definition of a small business, etc. A further major initiative which has affected the market and the activities of the banks, is the Concentration Law, which will lead to changes in ownership and control of financial and non-bank entities and will impact in the banks' ability to invest in non-banks entities.

Recently, a number of other significant regulatory initiatives are being examined, the most important of which is that of the Strum Committee, to promote competition in the banking and financial services, which submitted the interim conclusions on December 14, 2015. The committee's recommendations, including the separation of credit card companies from the two largest banks, Leumi and Hapoalim, and the restrictions on these banks in the areas of payments via credit cards have significant implications for the activity and competition structure in the domestic banking industry.

In addition to the restrictions regarding income, increased regulation creates material pressures for banks in terms of costs and inputs required for careful preparation and compliance with directives.

In addition, the regulations have an impact on competition and growth of the banking system in Israel, as they impose restrictions on the ability of banks to expand their activity through acquisitions and mergers or to enter into new areas of operation.

For further information regarding the regulatory environment and the implications of the central initiatives, see chapter "Legislation and Regulations relating to the Banking System".

The consumer environment

Economic, social and technological changes, with an emphasis on the increasing use of mobile phones and the wide sharing of information on social networks and the constant improvement in the customer experience provided by hi-tech companies and retail networks, with an emphasis on convenience and "anywhere, anytime" availability, simplicity, personal customization and fairness and transparency, continue to increase consumer awareness and materially change consumption habits.

More so than in the past, the customer today expects banking to be fairer and more available and more accessible, simpler and more transparent. As mentioned above, the customer has high consumer awareness and is linked to other consumers, particularly through social networks. He is also more aware of his purchasing experience, a fact which gives him know-how and a large amount of bargaining power. The customer consumes information and services through a wide array of digital and physical channels and expects a uniform service experience using the various interfaces with the Bank. The digital channels are becoming an increasing focus of activity in the customer's interface with the Bank.

As a result, the effect of technological innovativeness on the consumer trends continues to intensify, with the mobile phone, in particular, changes the consumption habits, method of payment, buying experience, buying location, etc. The consumer is continually connected and expects to receive services and information in every place and at any time of day, in line with his choice and preferences.

These developments accelerate the adoption of innovations within the financial industry and lead it to a turning-point in which entities that do not know how to adapt to the new reality are likely to "remain behind" and are adversely affected. Banks around the world invest many efforts in upgrading infrastructures that will allow for better familiarity with the customer, simplification of the interface with him, adaptation of value proposals to his needs and preferences and the use of crowd wisdom and gamification. Some of the leading banks, particularly, those with a flexible and advanced technological infrastructure, are taking measures to adopt new models and develop innovations, *inter alia*, through cooperation with external companies engaged in the field, on the basis of the existing platform. Other banks choose to establish a designated and separate digital platform ("digital bank") which creates the desired customer experience and facilitates the required flexibility to meet the increasing speed of change.

At the same time, non-bank entities, predominantly innovative start-up "Fintech" companies continue to develop "disrupting" business models, which place a new benchmark in the customer experience and direct competition vis-à-vis the banks in various areas. More and more banks around the world operate in various ways to cooperate with those Fintech companies, and even devise designated plans to develop the area (for example, through start-up accelerators, incubators and designated investment for the field).

Competitive environment

Domestic banks

In 2015, the trend of increase in the level of competition in all of the banking sectors of activity continued. The domestic banks continue to focus on households (*inter alia*, through consumer credit and mortgages) and in the small and medium business segments. They are taking steps to enroll new customers and increase the scope of activity, and focus efforts on developing innovative digital services, launching value proposals based on customer clubs, establishing new multi-channel service models and improving their operating efficiency, *inter alia*, by a change in the branch deployment model and branch mergers, updating the teller model, etc.).

Non-bank competitors

Loans by institutional entities – In recent years, there has been a clear trend of increasing loans of institutional entities to the business sector. These loans are characterized by large amounts, and are therefore, in most cases, designated for large corporations. In addition, as a part of the trend of institutional entities to grant direct loans, the trend of granting finance to infrastructure projects and to income-generating properties, and supporting the construction of residential projects (usually, in cooperation with the commercial banks) has continued.

Technology-based players – In recent years, with the expansion in consumers' use of advanced technology (particularly mobile phones), the supply and quality of ventures/developments offering high-tech based financial services are becoming greater and greater (Fintech). Most of these ventures do not represent overall competition to the traditional banks, but certainly they gnaw away at the banks' share in certain areas of activity – payments, money transfer, financial investments and securities trading, loans (including peer-to-peer models), savings and financial management services.

Internet and social bank models – In recent years, the trend of setting up Internet banks, a large proportion of which are being established by the traditional banks themselves, has become widespread. These banks offer a basket of services in direct channels (with restricted access or no access at all to the branch) and are focused on retail customers who are interested in an advanced digital service experience, together with attractive price offers.

Main Changes in the Past Year

Savings and efficiency

As a consequence of the changes outlined above, several threats and pressures have been created for the income of the banking system and the banks are, thus required to streamline their activity.

In 2012, Leumi Group defined a three-year streamlining with the aim of achieving material savings in the Group's operating expenses (particularly in all matters related to the number of personnel and salary expenses in the Bank). The program included steps in this area (a reduction of 1,000 positions) and in other significant expense areas, the targets that were defined as part of the plan for 2012-2014 were fully attained. At the beginning of 2015, the Group specified an additional three-year streamlining program (2015-2017), pursuant to which the Group intends to reduce the number of positions by 1,000. This reduction is based on the streamlining procedure in the whole Group, mainly, in the Bank, but also, in the subsidiaries in Israel and abroad.

Within the Bank, the program is based mainly on a reduction in positions due to natural retirement, positions in respect of which the Bank does not expect to recruit new employees, as well as in a reduction of the number of positions of temporary employees (particularly as a result of the implementation of changes of branch strategy). In the rest of the Group, the reduction in positions will be based mainly on the closure and/or sale of some of the Bank's activity abroad and the continuation of streamlining in the Group's activity in Israel.

In January 2015, a new collective agreement was signed which will be in effect for four years, which reduces the liability in respect of the rights of employees recorded in the Bank's books and increases the Bank's capital.

The changes in this collective agreement vis-à-vis the previous agreement are expected to yield a current saving as a result of the operating salary expense. According to the Bank's estimate, for the four years of the agreement, in aggregate, the savings will amount to NIS 250 million.

For further information regarding the new collective agreement, see Note 23.

On 12 January 2016, the Banking Supervision Department published a letter regarding "Operational Streamlining of the Banking System in Israel". Pursuant to the letter, the board of directors of a banking corporation must draw up a multi-year streamlining plan. A banking corporation which meets the conditions specified in the letter will receive relief, according to which it will able to spread the effect of the plan over five years on a straight-line basis for the purposes of computing capital adequacy.

The Bank is in the stages of examining a multi-year streamlining program.

Another area in which the Group, particularly in the Bank, has undergone streamlining, with an emphasis on the Bank, is in the areas being used – both in total amount and their location. The total area in use by the Bank has decreased on the past three years (2013 - 2015) by 16,600 sq. mtrs., together with a transfer of office space from expensive areas in the heart of the cities to locations in which the overall cost is lower. These relocations have created for the Bank disposals of real estate amounting to NIS 320 million. The Bank foresees that in future years, with the reduction in staff numbers in the Group, a continuation of this trend.

It should be emphasized that the Bank's assessment regarding the aggregate annual savings constitutes forward-looking information and represents solely the Bank's forecasts, the realization of which is not certain and is based on the Bank's assessments, correct as of the time of the report.

The Bank's forecasts, as aforesaid, may not be realized, in whole or in part, or may differ materially from the current forecasts due to various factors, including changes in the number of the workforce in the company and the mix of the employees, other changes in the collective agreement applicable to the Bank's employees, changes in macro variables and changes in regulations in the area of activity.

Some of the information in this chapter is "forward looking information". For the meaning of this term, see the chapter, "Forward-Looking Information".

Merger between the Bank and 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 within the Bank ("the merger" and/or "the change in structure"). 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).

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 – Economic 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.

See immediate reports dated 12 November 2015 (Ref. no. 2015-01-153777).

The merger which was executed is a statutory merger, pursuant to the provisions of Chapter 1 of the Eighth Part of the Companies Law, 1999, and subject to the provisions of Chapter 2, Part E2 of the Income Tax Ordinance (New Version), 1963 ("the Ordinance") such that on the execution of the merger, all of the assets and liabilities of the Arab Israel Bank will be transferred to the Bank and the Arab Israel Bank will cease to exist - without the need for liquidation.

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

On 31 December 2015, the merger was executed and the merger certificate was received from the Registrar of Companies.

Until the date of the merger, the Arab Israel Bank provided financial services, mainly to customers among the Arab population in Israel.

Aims of the merger:

The merger is intended for business and economic 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, and will enable them 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.

Taxation ruling in an agreement dated 19 November 2015

On 19 November 2015, the Tax Authority furnished the Bank with a tax ruling in an agreement entitled: "the Merger of the Arab Israel Bank Ltd. with and within bank Leumi Le-Israel Ltd. Pursuant to Section 103B of the Income Tax Ordinance" ("the tax ruling"), which confirms that the details of the merger plan as of 31 December 2015 of Bank Leumi Le-Israel Ltd. and the Arab Israel Bank Ltd. As conveyed in a request submitted to the Tax Authority, and subject to compliance with the conditions set forth in the Ordinance and the tax ruling, meet the conditions set forth in Sections 103C(1) and (7) to the Ordinance.

The main points of the tax ruling are:

1. With regard to the merger –
    - 1.1 The date of the merger will be 31 December 2015 ("the merger date").
    - 1.2 No new rights in the Bank will be allocated to its shareholders due to the merger. Accordingly, on the sale of the Bank's shares the cost of the investment in the shares of the Arab Israel Bank will not be added to the original price of the shares as aforesaid. The cost / investment amount will be canceled and will not be allowed in any way for tax purposes, either directly or indirectly. In addition, the provisions of Section 103E of the Ordinance will apply to the assets and liabilities transferred to the Bank in the context of the merger, and no further amount will be attributed to them in excess of the original price, as it was in the Arab Israel Bank.

1.3 No expense and/or loss whatsoever will be allowed in the hands of the Bank and/or a third party thereto due to the merger.

1.4 Every expense or deduction accrued in the Arab Israel Bank and in the Bank through the date of the merger and not allowed for tax purposes through this date ("the expenses"), and if they were allowed as a deduction, a loss would be incurred at the merger date, will be considered as a part of the losses of Arab Israel Bank and/or the Bank, as appropriate, through the merger date, and the provisions of Section 103H of the Ordinance will apply, all this, if they were allowed as a deduction for tax purposes within two years of the merger date.

For this purpose, "expense or deduction accrued" – includes any provisions and/or liabilities which were not allowed for deduction for tax purposes, which, if they had been deductible for tax purposes at the merger date, they would have created a loss.

It was clarified that the provisions of this section do not contain anything to detract from the provisions of Section 103H of the Ordinance. In addition, it was clarified the tax ruling does not constitute the approval of the allowance of the expenses as stated in this section, an issue which will be examined by the assessing officer.

1.5 For the purpose of implementing the provisions of Section 103H of the Ordinance, the losses of the Arab Israel Bank and Bank Leumi, as far there are any, will be permitted for offset against the Bank's income with effect from the tax year following the merger, providing that in each tax year, an amount exceeding 20% (and a spread of 5 years) of the total of the losses of the Arab Israel Bank and Bank Leumi or 50% of the Bank's taxable income in that year before offsetting the loss from prior years (whichever is lower) will not be allowed for offset as aforesaid.

1.6 Advance payments due to surplus non-deductible expenses which were held by the Bank or by the Arab Israel Bank prior to the merger will be available for offset against tax or betterment tax in the Bank (following the merger) in equal proportions over a period of 5 years from the date of the merger (20% each year).

1.7 The Bank is obliged to inform the Land Taxation Manager on the land assets transferred to it in the context of the merger, including the shares of the Arab Israel Bank Investment Company and to pay purchase tax at a rate 0.5%, under the terms to be stipulated by the Land Taxation Manager, within 40 days of the merger date. To avoid any doubt, it is clarified that as regards purchase tax, the date of purchasing the transferred land assets will be the merger date.

1.8 The Bank is obliged to furnish the Land Taxation Manager, within 40 days of the merger date, with an assessment of the value of the transferred land assets and shares of the Arab Israel Bank Investment Company, as of the date of the merger. To avoid any doubt, it will be clarified that there is nothing in the tax ruling which derogates or impairs the authorities of the Land Taxation Manager to stipulate and assess the value of the transferred assets.

1.9 If it becomes apparent that any of the conditions provided in Section 103C of the Ordinance is not fulfilled ("a breach"), the Bank and the Arab Israel Bank will be liable to taxes and compulsory payments an exemption from which has been granted, with the addition of linkage differences and interest from the date of the merger up to the date of payment, all in accordance with the provisions of Section 103J of the Ordinance. In such an event, an expert assessment of value of the Arab Israel Bank as of the date of the merger in accordance with the Income Tax Rules (Application for a Pre-ruling for a Merger Plan), 1995, will be submitted to the Assessing Officer immediately after the date of the breach. The approval and consent of the Assessing Officer will be required for the assessment of value as aforesaid.

2. With regard to Arab Israel Bank employees –

2.1 The transfer of employees pursuant to Section 103P of the Ordinance was approved.

2.2 The transfer of the ownership in all of the personal funds transferred in the name of the employees transferred from Arab Israel Bank to the Bank was approved, and it was confirmed that the transfer of the proceeds of the provident funds, as stated above, would be exempt from salary tax and withholding tax pursuant to Regulation 2(a)(6) of the Income Tax Rules (Exemption from Tax due to Transfer and Change of Designation of Monies in Provident Funds), 1990.

2.3 The transfer of the balance of the monies remaining in the Central Fund of the Arab Israel Bank on the date of merger within the Central Fund of Bank Leumi within 60 days of the merger date, as provided in the central severance pay arrangement of the Arab Israel Bank was approved.

The transfer of the funds as stated above will be exempt from salary tax and from withholding tax pursuant to Regulation 2(a)(6) of the Income Tax Rules (Exemption from Tax due to the Transfer and Change of Designation of Monies in Provident Funds), 1990. It should be emphasized that the Central Fund of the Arab Israel Bank will be emptied after the said 60-day period.

2.4 The transferred employees will be subject to a continuity of rights to severance pay as stated in Section 103P of the Ordinance, and on their retirement from the Bank, the period of their employment in the Bank and in the Arab Israel Bank will be brought into account for the purposes of calculating the exemption of the retirement grants.

2.5 If an employee who retired prior to the merger date, or as a result of the merger, received a exempt retirement grant from the Arab Israel Bank pursuant to the provisions of Section 9(7a) of the Ordinance, and returned to work in the Bank within six months of the retirement data, the retirement grant that the said employee received will be considered salary, and in this case, the Bank will deduct the tax as required.

2.6 Any payment to employees in the participating companies in the merger which was carried out as a result of the merger by the companies as stated above will be considered work income and tax will be deducted therefrom in accordance with the Income Tax Regulations (Deduction from Salary and Wages and the Payment of Employer's Tax), 1993.

3. With regard to the holdings of the State of Israel in Bank Leumi, it was clarified that a country may be viewed as a minority shareholder for the purposes of Section 103J(e) of the Ordinance and that if the State of Israel sells its shares in Bank Leumi, in whole or in part, during the period required as defined in Section 103 of the Ordinance, the sale will be considered an event without the knowledge or without the control of the shareholders, as started in Section 103J(e) of the Ordinance.

4. General clarifications

4.1 The tax ruling is contingent on the complete fulfillment of the other conditions stipulated in the Ordinance and the tax ruling, including the terms relating to the required period, as defined in Section 103 of the Ordinance, the effective date of which is the merger date.

4.2 The Bank and Arab Israel Bank have undertaken to include a note on the fact of making a change of structure in their financial statements and in the tax reconciliations. The note will set forth the terms of the tax ruling. This requirement will apply with regard to the 2015 annual financial statements and tax reconciliation of the Arab Israel Bank and Bank Leumi.

4.3 There is nothing in the tax ruling which constitutes any type of approval for the purpose of the facts and/or the transactions and/or the actions and/or the data furnished by the Bank. In addition, there is nothing in the tax ruling which constitutes making an assessment in any way to any factor, these subjects which can be examined by the assessing officer.

4.4 The tax ruling does not constitute any approval as regards the tax aspects in respect of the purchase of the minority shares of the Arab Israel Bank and/or any determination in any way of the final tax indebtedness and/or the classification of the income and/or the withholding in respect of the purchase of the minority shares in the Arab Israel Bank directly and/or indirectly, these can be examined by the assessing officer.

4.5 Nothing in the tax ruling that detracts from the authorities of the Assessing Officer and/or the Tax Authority pursuant to the Ordinance and according to provisions of any law.

4.6 It was clarified that the tax ruling was given on the basis of the presentations and documents submitted in writing and verbally, including those set forth in the tax ruling, subject to the terms in Part Two of the Ordinance. The tax ruling will be retroactively cancelled if it becomes clear that the details and facts which were furnished pursuant to the request for the ruling are materially incorrect or incomplete, or if it becomes clear that material details set forth are not fulfilled or that the conditions stipulated by the manager in the tax ruling have not been fulfilled.

4.7 All expenses related, directly and indirectly, to this change in structure, including legal expenses, audit fees, the cost of experts, consultants and fees, will not be allowed as a deduction, directly and/or indirectly, for parties participating in the change in the structure outlined in the tax ruling and/or a party related thereto, as a deduction or as an expense pursuant to Section 17 of the Ordinance.

4.8 The Bank and the Arab Israel Bank have undertaken, jointly and severally, to confirm in writing to the Mergers and Splits Department in the Tax Authority and to the Assessing Officer, within 30 days from the date of receiving the tax ruling that they agree to accept all of the terms of the tax ruling to the letter and without qualification. Such confirmations have been furnished as required.

Trends, Phenomena, Developments and Material Changes

Principal Developments in the Economy[1]

According to the estimate of the Central Bureau of Statistics, the gross domestic products grew in 2015 by 2.6% in real terms, similar to growth rate in 2014. The growth was led by an increase in private consumption, while investments in fixed assets and exports fell.

The global economy

In January 2016, the International Monetary Fund revised its estimate of the expected development of growth in the world for 2015 and the forecast for 2016, in comparison to a previous announcement in October 2015. The changes among the advanced countries were minor. According to the Fund's revised estimates, growth in the United States and the Euro Area in 2015 amounted to 2.5% and 1.5%, respectively, while in 2016, it is expected to amount to 2.6% and 1.7%, respectively. The forecast for growth of global output in 2015 remained at 3.1%.

The State Budget and its Financing

During 2015, the Government's budget deficit amounted to some NIS 24.5 billion, about 2.15% of GDP. This compared with the planned annual deficit, according to the budget proposal for 2015 of NIS 31.4 billion (2.75% of GDP). The variance of the actual deficit from that planned originated from higher than forecast income of NIS 3.6 billion and lower than planned expenses amounting to NIS 3.3 billion. In this context, it should be recalled that since the beginning of the year to 19 November, 2015, the Government operated without an approved budget framework, and pursuant to the Economy and State Basic Law, the Government was enabled to expend 1/2 of the 2014 budget each month.

Foreign trade and capital transactions

Israel’s aggregate trade deficit in 2015 amounted to some US$ 7.9 billion, a fall of US$ 6 billion, compared with the deficit for 2014. The reduction in the trade deficit is due to the effect of a significant reduction in the value of imports, in dollar terms, of energy prices, against the background of a fall in prices on the world market.

During 2015, foreign currency capital outflows were higher than capital inflows. Direct investments in Israel, via the banking system, amounted to US$ 8.0 billion, while financial investments amounted to US$ 2.9 billion. However, investments by Israeli residents abroad (direct investments through Israeli banks and the financial investments) amounted to US$ 7.3 billion, most of which consisted of financial investments, part of which was hedged in order to cancel the effect of exposure to changes in the exchange rate.

Exchange Rate and Foreign Currency Reserves

The exchange rate of the shekel fell in value against the dollar in 2015 by some 0.3%, while against the euro, there was an appreciation of 10.1%. This was against the background of the significant weakness of the euro against the dollar around the world.

Foreign currency balances in the Bank of Israel at the end of December 2015 amounted to some US$ 90.6 billion. This compared with US$ 86.1 billion at the end of December 2014. The increase in balances was most affected by foreign currency purchases by the Bank of Israel.

During the year, foreign currency purchases by the Bank of Israel, part of a program of purchases to offset the effect of gas production on the exchange rate, totaled US$ 3.1 billion. In total, the Bank of Israel purchased foreign currency amounting to US$ 8.8 billion in 2015.

Inflation and Monetary Policy

The Israeli consumer price index fell in 2015 by 1.0%, a rate which is under the lower limit of the Government's target range of the price stability of 1% to 3%. The main explanation for the decrease in the index was a decrease in energy products around the world, which directly affects their prices in Israel. Thus, the index excluding the energy component was unchanged in 2015. Most of the index items fell in the past year, compared with the two items which were prominent in their increase: housing (2.2%) and fruits and vegetables (13.2%).

The Bank of Israel interest rate in December 2014 was 0.25%. In the interest decision for March 2015, the interest rate was lowered to 0.10% and was kept at this level from April 2015 until December 2015, and the

[1] The sources of the data for review and for the graphs – publications of the Central Statistical Bureau, the Bank of Israel, the Finance Ministry and the Tel Aviv Stock Exchange.

decisions for January and February 2016. The Monetary Committee held that, in view of the strengthening in the rate of appreciation of the effective exchange rate against the basket of currencies, the reduction of the interest rate to a level of 0.10% was the most appropriate step to support the attainment of the policy targets, given the moderate inflationary environment. In the interest notice for February 2016, the committee noted that it estimates that the monetary policy will remain expansive for some time and that it considers that the risk of attaining the inflation target increased, and the risk for growth remains high.

Israeli capital market

The shares and convertible securities index rose by some 6.8% during 2015, following an increase of some 11.5% in 2014. The moderation of the increases was affected by the decreases in capital markets around the world (particularly from the third quarter) against the background of a slowdown in economic activity in China, with the slowdown in growth in Israel and the geopolitical situation also contributing to the moderate price increases, despite the low interest rates and positive macro factors, such as the rate of unemployment which was at a low-point.

Average daily trading volumes of shares and convertible securities increased in 2015 by 19.5%, compared with the average for 2014, and amounted to some NIS 1,449 million, against a backdrop of the vigilant activity in the capital market in Israel and abroad.

The Government bond market was characterized during the past year by a mixed trend. The price of index-linked Government bonds fell by 0.2%, while unlinked Government bonds increased by 2.8% (the fixed interest bond indices rose by 3.3%, while the variable interest (*Gilon*) bond index decreased by 0.1%). This was against a background of a moderate inflationary environment which was reflected in a fall in the consumer price index, which diverts demand from index-linked assets to unlinked assets.

In the index-linked non-government debenture market (corporate bonds) in 2015, there were moderate price increases of some 0.8%, following price increases of some 1.0% in 2014.

Financial Assets held by the Public

The value of the portfolio of financial assets held by the public increased in 2015 by 5.3%, reaching NIS 3,340 billion at the end of December 2015. This increase in the value of the portfolio derived from an increase in all of its components, with prominent factors being the increase in unlinked components. The weight of shares (in Israel and abroad) in the financial assets portfolio of the Israeli public reached some 23.5% at the end of December 2015, compared with some 24.0% in December 2014.

Bank Credit

Bank credit in the economy granted to the private sector, including corporate credit and household credit, (before allowances for credit losses) increased in the first eleven months of 2015 by 5.5%. This was a consequence of a 3.9% increase in credit extended to the corporate sector and a 7.1% increase in credit extended to the household sector. The development of the components of housing credit indicated an increase in housing credit of 8.0%, with non-housing credit (consumer credit) expanding by 5.2%.

The following table sets out details of changes in representative exchange rates and the CPI and the rates of change therein:

	31 December			
	2015	2014	2013	2012
	NIS			
Exchange rate:				
U.S. dollar	**3.902**	3.889	3.471	3.733
Euro	**4.247**	4.725	4.782	4.921
Pound sterling	**5.784**	6.064	5.742	6.037
Swiss franc	**3.925**	3.929	3.897	4.077
Consumer price index:	(points)			
For November (the "known" index)	**106.4**	107.4	107.5	105.5
Index for December	**106.3**	107.4	107.6	105.7

Rates of change were as follows:

	31 December			
	2015	2014	2013	2012
	in %			
Rate of change:				
U.S. dollar	**0.3**	12.0	(7.0)	5.2
Euro	**(10.1)**	(1.2)	(2.8)	3.9
Pound sterling	**(4.6)**	5.6	(4.9)	9.9
Swiss franc	**(0.1)**	0.8	(4.4)	7.6
Consumer price index:				
For November (the "known" index)	**(0.9)**	(0.1)	1.9	4.0
Index for December	**(1.0)**	(0.2)	1.8	3.8

Developing risks in the activity environment

The following risks are risks that have intensified in the recent period with the increase in business complexity, the rise in technological capabilities and the increased regulatory climate.

Increase in regulatory requirements, particularly, the capital requirements

The intensification of the regulatory requirements, particularly, the capital requirements, impacts the Group's business model, profitability and capital adequacy requirements. The risk arises from the directives of the various regulatory authorities, which can result in a change in the Group's business environment.

In recent years, the requirements from banks around the world and in Israel have been made more stringent, against a backdrop of drawing conclusions from the financial crisis. The main changes, as reflected in the Basel III directives, mainly dealt with a significant reinforcement of the capital and liquidity requirements of banks in Israel and around the world. The effect of these requirements is considerable – both on profitability and on the business model. Leumi is equipped to meet the capital targets required by the regulator.

In addition, against a backdrop of further potential regulations, such as the interim report of the Strum Committee, a proposed credit data law, international drafts on Basel IV, etc., the Bank is closely monitoring the drafts, studying them and making the necessary preparations.

Macro-economic risk

Macro-economic risk is risk to the Group's income and capital arising from a low interest environment around the world, low economic growth levels compared to the past, China and the emerging markets, stability in the euro area, geo-political instability in countries of the world and in the Middle East, in particular. The Bank examines the level of risk to the macro-economic environment under systematic stress scenarios and monitors developments in the market in order to adapt its activity when required.

Information security and cyber risk

Cyber risk is defined as impairment of a material asset of the Bank through an attack via cyberspace, and includes exposing information (leakage), information availability (lockout), reliability and completeness of information (disruption).

Cyber risks are not new and they have accompanied the Bank's activity in recent years. However, there has been a noticeable increase in the scope and impact of the threats around the entire world, including Israel.

Leumi invests great effort in implementing control and protection mechanisms and processes.

For further information regarding information and cyber security risks, see chapter "Operating risks".

Technological risks

In recent years, there have been significant changes in activity in the banking and operating environment, arising, *inter alia*, from the new requirements on the part of the customers regarding the way in which their activity is managed and the integration of innovative and advanced technologies.

These technological environments relate to, among other things, the provision of services in digital channels, the use of mobile phones, cloud computing, the Fintech industry, etc.

In order to facilitate the abovementioned advanced services, the Bank needs compatible technological infrastructures.

In order to manage the abovementioned risks, a policy document has been prepared and assimilated within the Bank, defining the principles for managing technological risks and including the organizational framework, areas of operation and responsibility of the various factors and the working processes required for the management of technological and information risks.

For further information regarding technological risk, see chapter "Operating Risk".

Material changes in items in the financial statements

The net profit attributable to shareholders of the banking corporation (hereinafter, "the net profit") was materially affected in 2015 by gains on the sale of the Israel Corporation, while the net profit for 2014 was materially affected by expenses in respect of the investigations related overseas customers.

The table below presents a summary of the financial results as reported in the statement of profit and loss, and excluding the abovementioned effects:

	For the year ended	
	2015	2014
Reported net profit	**2,835**	[(a)]1,413
Reported return on capital	**10.3%**	[(a)]5.4%
Gain on the disposal of shares of the Israel Corporation	**638**	-
Gains on the disposal of investment by the Israel Corporation	**-**	342
Expenses in respect of arrangements with overseas authorities	**(48)**	(1,026)
Adjustment of yield bonus to proforma profit	**(106)**	134
Proforma net profit	**2,351**	1,963
Proforma yield	**8.5%**	7.7%
Reported efficiency ratio	**65.9%**	[(a)]74.9%
Proforma efficiency ratio	**68.9%**	67.8%

(a) Restated as a result of the retroactive application of United States generally accepted principles regarding employee rights. See Note 1D.1, and for the retroactive application pf the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development see Note 1D.2.

The proforma net profit in 2015 was NIS 388 million higher, compared with 2014 (an increase in the return on capital from 7.7% to 8.5%. The principal points of the comparison of the proforma profit for 2014 to that of 2015 indicates the following:

a. In light of the significant fall in the shekel interest environment (average for 2015 – 0.13%, 2014 – 0.61%), and in light of the highest negative index in 2015 (a negative index of 0.9% compared with a negative index of 0.1% in 2014), there was a decrease of NIS 245 million in net interest income. This effect was moderated by an increase in the volume of credit (3.5% year-on-year). The negative index of the fourth quarter of 2015 (0.7%) adversely affected the results for this quarter by NIS 140 million (before tax).

b. Proforma noninterest income – increased in 2015 by NIS 345 million compared with 2014. Most of this increase originates from profits on the sale of buildings in the United States amounting to NIS 380 million before tax and a profit on the disposal of shares in Mobileye and Derech Eretz amounting to NIS 244 million before tax. The increase was offset by the recording of impairment expenses in respect of shares of Kenon Holdings in the fourth quarter of 2015 amounting to NIS 282 million before tax.

c. The total amount of credit loss expenses fell by NIS 273 million to a level of 0.08% of net credit to the public (from a level of 0.19% in 2014), mainly due to recording credit loss expenses amounting to NIS 208 million in 2014 as a result of the initial implementation of the Bank of Israel directives from January 2015 regarding "the Collective allowance in respect of credit to private individuals".

d. In view of the decision of the Bank to exit European private banking (offices in Switzerland and Luxembourg), the net profit of the Group for 2015 was impaired by NIS 170 million, most of which were closure expenses and amortization of goodwill. Of this amount, the impairment to the net profit of the fourth quarter was NIS 100 million.

e. The impact of companies included on equity basis – At the end of the first quarter of 2015, the holding in the Israel Corporation became an available-for-sale portfolio and the Group ceased to record the profit in respect of this company on an equity basis. In contrast to 2014, in 2015, there were high equity profits amounting to NIS 135 million.

The net profit per share attributable to shareholders of the banking corporation in 2015 was NIS 1.92, compared with NIS 0.96 in 2014.

Total profit after the effect of tax (in addition to the net profit including adjustments in respect of the presentation of available-for-sale securities at fair value and adjustments from the translation of financial statements) amounted in 2015 to NIS 2,936 million. The increase in total profit derives from an increase in the net profit, an increase in positive adjustments of liabilities in respect of employee benefits amounting to NIS 414 million after tax, which was offset by a decrease in adjustments in respect of available-for-sale securities amounting to NIS 327 million after tax.

For further information, see chapter "Structure and development of assets, liabilities, capital and capital adequacy - Securities".

Principal Developments in Income, Expenses and Other Comprehensive Income[1]

The net profit attributable to the shareholders of the banking corporation (hereinafter "net profit") of Leumi Group in 2015 amounted to NIS 2,835 million, compared with NIS 1,413 million in 2014 – an increase of 100.6%.

The increase in net profit in 2015, compared with 2014 is explained as follows:

	For the year ended 31 December			
	2015	**2014**	Change	
	NIS millions		NIS millions	%
Net income interest	**7,118**	7,363	(245)	(3.3)
Expenses in respect of credit losses	**199**	472	(273)	(57.8)
Non-interest income	**6,297**	5,141 (a)	1,156	22.5
Operating and other expenses	**8,836**	9,371 (a)	(535)	(5.7)
Profit before taxes	**4,380**	2,661	1,719	64.6
Provision for tax	**1,691**	1,278 (a)	413	32.3
Profit after taxes	**2,689**	1,383	1,306	94.4
The Bank's share in profits (losses) of companies included on equity basis	**177**	42	135	+
Net profit attributed to non-controlling interests	**(31)**	(12)	(19)	-
Net profit attributed to shareholders in the banking corporation	**2,835**	1,413	1,422	
Return on equity	**10.3**	5.4		
Profit per share	**1.92**	0.96		

(a) Restated due to the retroactive application of United States generally accepted accounting principles regarding employee rights. See Note 1D.1 and for the retroactive application of the directives of the Supervisor of Banks regarding the capital of the capitalization of software costs for self-development, see Note 1D.2.

Net interest income

Net interest income of Leumi Group in 2015 amounted to NIS 7,118 million, compared with NIS 7,363 million in 2014, a decrease of NIS 245 million, or 3.3%.

The decrease in net interest income in 2015, compared with last year, was primarily attributable to the fall in interest rates in the market (average interest for 2014 was 0.61%, compared with average interest in 2015 of 0.13%). The effect was partly offset by an increase in credit.

The ratio of net interest income to the average balance of income-bearing assets (net return on income-bearing assets) was 2.00%, compared with 2.22% in the corresponding period in 2014.

Total Interest Margin in 2015 was 1.84%, compared with a margin of 1.98% in 2014.

The interest margins in activity in Israel by segment were as follows:

In the unlinked shekel sector, 2.23%, compared with 2.49% in the corresponding period last year. The interest margin in the foreign currency sector was 1.31%, compared to 1.74% in the corresponding period last year. In the index-linked segment, the interest margin was 0.44%, compared with 0.42% in the corresponding period last year.

For further information relating to interest income and expenses, see Appendix 1 – Rates of Income and Expenses and Analysis of Changes in Interest Income and Expenses.

(1) The financial statements are prepared in reported values. The known consumer price index fell by 0.9% in 2015. The shekel depreciated in nominal terms by 0.3% against the U.S. dollar, and appreciated against the euro by 10.1%. The representative rate of exchange of the U.S. dollar on 31 December 2015 was NIS 3.902.
For further details see Note 1E.

Expenses in respect of credit losses

	For the year ended 31 December			
	2015	**2014**	Change	
	NIS millions		NIS millions	%
Individual expense (income) in respect of credit losses	**(254)**	(94)	(160)	-
Collective expenses (income) in respect of credit losses	**453**	566	(113)	(20.0)
Total expense (income) in respect of credit losses	**199**	472	(273)	(57.8)
Percentage ratios (in annual terms):				
Individual expenses (income) in respect of credit losses to total credit to the public, net	**(0.09)**	(0.03)		
Collective expenses in respect of credit losses to total credit to the public, net	**0.17**	0.22		
Total expenses (income) in respect of credit losses to total credit to the public, net	**0.08**	0.19		

Expenses in respect of credit losses of Leumi Group amounted to NIS 199 million in 2015, compared with NIS 472 million in 2014, a decrease of 57.8%. In the Bank, expenses in respect of credit losses amounted to NIS 149 million in 2015, compared with NIS 195 million in 2014.

In 2014, following the initial implementation of the Bank of Israel directives in January 2015 relating to "collective allowance in respect of credit to private individuals", credit loss expenses amounting to NIS 208 million were recorded. In accordance with the abovementioned regulation, in 2015, the Bank revised the method of calculating the measurement of the rate of credit losses in the collective allowance, and as a result, NIS 26 million were recorded in credit loss expenses.

For further information regarding the initial application of the Bank of Israel directive regarding the collective allowance in respect of credit to private individuals, see Note 1D.6.
For further information relating to credit loss expenses, see Chapter "Credit Risk, Disclosure, assessment, classification and rules of credit loss allowance", Note 13 and Note 29..

Noninterest Income

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions		NIS millions	%
Non-interest financial income	**1,610**	795	815	+
Commissions	**4,092**	4,167	(75)	(1.8)
Other income	**595**	179	416	+
Total	**6,297**	5,141	1,156	22.5

Noninterest income of Leumi Group in 2015 amounted to NIS 6,297 million compared with NIS 5,141 million in 2014, an increase of NIS 1,156 million (22.5%).

The increase in noninterest income derives from the following factors:

- An increase in noninterest financing income amounting to NIS 815 million as a result of profit on the sale of shares of the Israel Corporation (NIS 811 million), Mobileye (NIS 144 million) and Derech Eretz (NIS 100 million). On the other hand, there was a decrease in respect of the shares of Kenon Holdings amounting to NIS 152 million, due to impairment in value, less a dividend received.
- An increase on net other income amounting to NIS 416 million, mainly as a result of the sale of buildings in the subsidiary, Bank Leumi USA.

The increase was offset by a decrease in commissions amounting to NIS 75 million mainly as a result of the sale of Leumi Switzerland to Julius Baer. Excluding this effect, commissions increased by NIS 66 million, an increase of 1.8%.

Noninterest income of the Bank in 2015 amounted to NIS 4,200 million, compared with NIS 3,331 million in 2014, an increase of NIS 869 million, or 26.1%.

The table below presents details of noninterest financing income:

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions		NIS millions	%
Net income (expenses) in respect of derivative instruments and exchange rate differences, net	**53**	(346)	399	+
Profits from sale of available-for-sale debentures, net	**181**	205	(24)	(11.7)
Profits from investments in shares including dividends (a)	**1,303**	452	851	+
Net profits in respect of loans sold	**11**	28	(17)	(60.7)
Realized and unrealized profits from adjustments to fair value of debentures and shares for trading,	**62**	456	(394)	(86.4)
Total	**1,610**	795	815	+

(a) In 2015, includes mainly profit from the sale of shares of the Israel Corporation, Mobileye and Derech Eretz amounting to NIS 811 million, NIS 288 million and NIS 100 million before the effect of tax, respectively, and in 2014, includes profit from the sale of Tower, Mobileye, and Partner amounting to NIS 150 million, NIS 144 million and NIS 70 million before the effect of tax, respectively. In addition, in 2015, includes expenses for the impairment of shares of Kenon Holdings amounting to NIS 152 million, before the effect of tax.

The following table presents a breakdown of commissions:

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions		NIS millions	%
Account management	**762**	821	(59)	(7.2)
Activity in certain securities and derivative instruments	**675**	816	(141)	(17.3)
Credit cards	**963**	939	24	2.6
Dealing with credit	**200**	196	4	2.0
Commissions for distribution of financial products	**306**	286	20	7.0
Conversion differences	**325**	318	7	2.2
Commissions from financing transactions	**542**	487	55	11.3
Other commissions	**319**	304	15	4.9
Total commissions	**4,092**	4,167	(75)	(1.8)

Total income from commissions in 2015 was influenced by a decrease in the activity of the office in Switzerland, due to the completion of the sale of the activity to Julius Baer in the first quarter of 2015 (annual effect of NIS 141 million). Excluding this effect, commissions increased by NIS 66 million, an increase of 1.8%

Income from commissions accounts for 46.3% of the operating and other expenses, compared with 44.5% in 2014.

Details of other income are as follows:

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions		NIS millions	%
Profits from severance pay fund	**35**	39	(4)	(10.3)
Other income	**560**	140	420	+
Total	**595**	179	416	+

The increase in other income derives from the sale of buildings in the sum BLUSA, amounting to NIS 380 million.

The weight of noninterest income as a percentage of total income (i.e., net interest income and noninterest income) was 46.9%, compared with 41.1% in 2014.

Operating and other expenses

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions		NIS millions	%
Salaries and related expenses	**5,448**	5,151	297	5.8
Depreciation	**660**	660	-	-
Maintenance of buildings and equipment	**1,047**	1,053	(6)	(0.6)
Other expenses (including amortization of intangible assets), excluding expenses related to the investigation of overseas customers	**1,622**	1,481	141	9.5
Total operating and other expenses, excluding expenses related to the investigation of overseas customers	**8,777**	8,345	432	5.2
Expenses related to the investigation of overseas customers	**59**	1,026	(967)	(94.3)
Total operating and other expenses, including expenses related to the investigation of overseas customers	**8,836**	9,371	(535)	(5.7)

Total operating and other expenses of Leumi Group in 2015 amounted to NIS 8,836 million, compared with NIS 9,371 million in 2014, a decrease of 5.7%. Excluding the expenses relating to the arrangements with the overseas authorities, operating and other expenses in 2015 amounted to NIS 8,777 million, compared with NIS 8,345 million in 2014, an increase of NIS 432 million or 5.2%.

In 2014, expenses related to the end of the investigation in respect of overseas customers (the arrangement with the DOJ and DFS and related expenses) were included mainly in two components –

(a) A provision for the arrangement with the United States Securities Authority amounting to US$ 5 million, which was made on the instructions of the Bank of Israel.

(b) Legal expenses for accompanying the regulatory authorities on behalf of the DFS pursuant to an order signed by the parties, in respect of the protection of office-holders against class actions. With regard to the latter, when proceedings are finished, they are expected to be indemnified by the Bank's office-holders' insurance structure.

Total operating and other expenses of the Bank in 2015 amounted to NIS 6,625 million, compared with NIS 6,467 in 2014, an increase of NIS 158 million, or 2.4%. Excluding the expenses relating to the arrangements with the overseas authorities, other and operating expenses in the Bank in 2015 amounted to NIS 6,579 million, compared with NIS 6,211 million in 2014, an increase of NIS 368 million or 5.9%. The increase derives from an increase in yield bonus expenses compared to last year.

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions		NIS millions	%
Salary and related expenses (a) (b)	**3,842**	4,082	(240)	(5.9)
Yield bonus	**522**	100	422	+
Pension, severance pay and voluntary retirement expenses, net of fund profits (a)	**1,084**	969	115	11.7
Total salary expenses	**5,448**	5,151	297	5.8

(a) Restated as a result of the retroactive application of United States generally accepted accounting principles regarding employee rights, see Note 1D.1.

(b) Restated as a result of the retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development, see Note 1D.2

Salary expenses in 2015 amounted to NIS 5,448 million, compared with NIS 5,151 million in 2014, an increase of NIS 297 million, or 5.8%.

The increase in salary expenses derives from an increase of NIS 422 million in yield bonus expenses, in light of the high yield level, compared with last year and an increase in current salary expenses in the U.S. subsidiary. In addition, the actuarial costs increased by NIS 115 million, mainly due to a one-time expense in respect of a change in the employee pension and health insurance liability structure in the U.S. subsidiary. On the other hand, the increase was offset by a decrease in operating salary expenses amounting to NIS 240 million, mainly due to the one-time effects of the salary agreement signed at the beginning of 2015 and due to a decrease in the number of employees in the Group.

For information regarding the adoption of accounting principles in the U.S. regarding employee rights, see Note 1D.1.

For further information, see Note 23.

Salary and related expenses (excluding early retirement expenses) account for 61.7% of total operating expenses, compared with 55.0% in 2014.

Operating and other expenses (excluding salary)

Operating and other expenses, excluding salary, amounted to NIS 3,388 million in 2015, compared with NIS 4,220 million in 2014, a decrease NIS 832 million, 19.7%.

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

1. The recording of expenses in respect of arrangements with overseas authorities in 2015 amounting to NIS 59 million, compared with NIS 1,026 million in 2014.
2. A provision in respect of anticipated costs of closing the offices in Switzerland and Luxembourg and the amortization of goodwill amounting to NIS 137 million which was recorded in 2015.

For further information, see Notes 6 and 7.

Operating expenses constitute 65.8% of total income, compared with 74.6% in 2014.

Total operating and other expenses (in annual terms) constitute 2.12% of the total balance sheet, compared with 2.36% for 2014. Operating and other expenses, excluding expenses in respect of the arrangements with overseas authorities, which constituted 2.11% of the total balance sheet, compared to 2.10% for 2014.

Tax expenses

Provision for taxes on profit of Leumi Group for 2015 amounted to NIS 1,691 million, compared with NIS 1,278 million in 2014. The rate of the provision in 2015 was some 38.6% of the pre-tax profit, compared with 48.0% in 2014, a decrease of some 9.4 percentage points. The decrease in the rate of tax provision is primarily attributable to a decrease in disallowed expenses in respect of the arrangements with overseas authorities, compared with the corresponding period last year.

Expenses for 2015 (fourth quarter) include a deferred tax expense amounting to NIS 49 million in respect of the reduction in the rate of profit tax from 18% to 17%,with effect from 1 October 2015.

Profit after taxes

Profit after taxes for 2015 amounted to NIS 2,689 million, compared with NIS 1,383 million in 2014, an increase of 94.4%.

Profits of companies included on equity basis

Profits of companies included on equity basis amounted to a profit of NIS 177 million in 2015, compared with a profit of NIS 42 million in 2014.

Most of the profit in this item derives from the contribution of the following companies:

1. The Israel Corporation Ltd. – A loss of NIS 114 million in 2015, compared with a loss of NIS 8 million in 2014.

   With effect from 31 March 2015, the Bank classifies the investment in the Israel Corporation in the available-for-sale securities portfolio in accordance with the fair value of the investment as of 31 March 2015, The Bank's share of the equity value in the profit 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 market value of the investment in the Israel Corporation in other comprehensive income only.

2. Companies included on equity basis of Leumi Partners Ltd. amounting to NIS 44 million in 2015, compared to a profit of NIS 34 million in 2014.

For further information, see chapter "Companies included on equity basis".

Net profit

Net profit before attribution to holders of non-controlling interests amounted to NIS 2,866 million in 2015, compared with a profit of NIS 1,425 million in 2014, an increase of 101.1%.

Net profit attributable to holders of non-controlling interests in 2015 amounted to NIS 31 million, compared to a profit of NIS 12 million in 2014.

Net profit attributable to the shareholders of the banking corporation for 2015 amounted to NIS 2,835 million, compared with a profit of NIS 1,413 million in 2014, an increase of 100.6%.

Investments and expenses of the Bank in respect of the Technological Data Department in 2015

Expenses recorded in the statement of the profit and loss amounted to NIS 1,503 million (NIS 1,388 million in 2014), of which NIS 450 million was recorded in salary and related expenses (NIS 515 million in 2014) and NIS 593 million (NIS 477 million in 2014 in depreciation expenses) and NIS 460 million in other expenses (NIS 396 million in 2014).

Costs in respect of the Technological Data Department not recorded in statement of profit and loss but recorded as assets in the financial statements in 2015 amounted to NIS 695 million, compared with NIS 660 million in 2014.

The balance of assets in the balance sheet in respect of the Technological Data Department as of 31 December 2015 amounted to NIS 1,750 million, compared with NIS 1,747 million as of 31 December 2014.

The following table presents a statement of total profit:

	For the year ended 31 December 2015						
	Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other comprehensive income of investee companies dealt with under the equity method	Adjustments in respect of employee benefits	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 initial implementation of US GAAP on "Employee Rights"	-	-	-	(725)	(725)	-	(725)
Balance at 1 January 2013 after initial implementation of the new rules	494	(149)	112	(725)	(268)	(1)	(267)
Net change during the year	(315)	(165)	(12)	(295)	(787)	(3)	(784)
Balance at 31 December 2013	179	(314)	100	(1,020)	(1,055)	(4)	(1,051)
Net change during the year	215	249	(78)	(884)	(498)	-	(498)
Balance at 31 December 2014	**394**	**(65)**	**22**	**(1,904)**	**(1,553)**	**(4)**	**(1,598)**
Net change during the year	**(327)**	**(2)**	**16**	**414**	**101**	**-**	**101**
Balance at 31 December 2015	**67**	**(67)**	**38**	**(1,490)**	**(1,452)**	**(4)**	**(1,448)**

(a) Adjustments from the translation of financial statements of foreign activities which, from the nature opf their activity differs from the functional currency of the banking corporation, including adjustments in respect of companies included on equity basis.

(b) Net profits (losses) in respect of net hedging of investment in foreign currency.

(c) Restated due to the retroactive application of United States generally accepted principles regarding employee rights, see Note 1D.1.

Structure and Development of Assets and Liabilities, Capital and Capital Adequacy

Total Assets of the Leumi Group on 31 December 2015 amounted to NIS 416.5 billion, compared with NIS 397.0 billion at the end of 2014, an increase of 4.9%. The Bank's total assets on 31 December 2015 amounted to NIS 387.8 billion, compared with NIS 363.3 billion at the end of 2014, an increase of 6.7%.

Out of the Group's total assets, the value of assets denominated in or linked to foreign currency was some NIS 85.6 billion, some 20.6% of total assets. In 2015, the shekel was depreciated against the US dollar by 0.3% and the shekel appreciated against the euro by 10.1%. The change in the exchange rates of the shekel against foreign currencies contributed to a decrease of 0.3% in the Group's total balance sheet, so that canceling the effect of the depreciation of the shekel, the total balance sheet increased to NIS 417.6 billion.

Total assets under the Group's management – The total balance sheet as well as customers' securities portfolios, and provident funds and supplementary training funds in relation to which operational management and deposit management services are provided – amounted to NIS 1,214 billion, compared with NIS 1,223 billion at the end of 2014 (about US$ 311 billion and US$ 314 billion, respectively).

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

	Consolidated				Bank			
	31 December				31 December			
	2015	2014	Change		**2015**	2014	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Total assets	**416,499**	396,984 (a)	19,515	4.9	**387,783**	363,321 (a)	24,462	6.7
Cash and deposits with banks	**60,455**	60,615	(160)	(0.3)	**58,928**	57,276	1,652	2.9
Securities	**69,475**	52,113	17,362	33.3	**63,620**	43,669	19,951	45.7
Credit to the public, net	**261,399**	252,480	8,919	3.5	**230,466**	221,190	9,276	4.2
Buildings and equipment	**3,095**	3,162 (a)	(67)	(2.1)	**2,487**	2,556 (a)	(69)	(2.7)
Deposits of the public	**328,693**	303,397	25,296	8.3	**300,177**	287,378	12,799	4.5
Deposits from banks	**3,859**	4,556	(697)	(15.3)	**6,703**	8,889	(2,186)	(24.6)
Debentures, notes and subordinated notes	**21,308**	23,678	(2,370)	(10.0)	**21,308**	5,953	15,355	257.9
Equity attributed to the shareholders of the banking corporation	**28,767**	25,798 (a)	2,969	11.5	**28,767**	25,798 (a)	2,969	11.5

(a) Restated as a result of a retroactive application of United States generally accepted accounting principles regarding employee rights, see Note 1D.1 and the retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs for self-development, see Note 1D.2.

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

	Consolidated				Bank			
	31 December				31 December			
	2015	2014	Change		**2015**	2014	Change	
	NIS millions		NIS millions	%	NIS millions		NIS millions	%
Documentary credits, net	**1,755**	1,624	131	8.1	**1,121**	1,079	42	3.9
Guarantees securing credit, net	**6,058**	5,969	89	1.5	**4,944**	4,892	52	1.1
Guarantess to apartment purchasers, net	**19,292**	17,523	1,769	10.1	**19,292**	17,523	1,769	10.1
Other guarantees and liabilities, net	**16,903**	16,863	40	0.2	**16,380**	16,418	(38)	(0.2)
Derivative instruments (a)	**616,885**	664,316	(47,431)	(7.1)	**612,351**	653,890	(41,539)	(6.4)
Options of all types	**111,125**	149,837	(38,712)	(25.8)	**110,098**	149,673	(39,575)	(26.4)

(a) Including "forward" transactions, financial exchange transactions, futures, swaps and credit derivatives
For further information, see Note 27A and 27B

3. The following table sets out the development of balances of customers' off-balance sheet financial assets with the Leumi Group:

	31 December 2015	31 December 2014	Change	
	NIS millions		NIS millions	%
Securities portfolios (a)	**592,820**	618,728	(25,908)	(4.2)
Assets in respect of which operating services are provided: (a)(b)(c)				
Mutual funds	**59,451**	74,052	(14,601)	(19.7)
Provident and pension funds	**71,221**	67,434	3,787	5.6
Supplementary training funds	**73,569**	65,466	8,103	12.4

(a) Including a change in market value of securities and the value of securities of mutual and provident funds held in custody, in respect of which operational management and custodial services are provided. Excluding the effect of exiting the offices in Switzerland and Luxembourg, there was a decrease in the customer securities portfolio amounting to NIS 7.9 billion.
(b) The Group in Israel does not manage mutual funds, provident funds or supplementary training funds.
(c) Assets of customers in relation to which the Group provides operational management services, including balances of the funds of customers who receive counseling at Leumi.

Credit to the public, net

Credit to the public in the Leumi Group at the end of 2015 amounted to NIS 261.4 billion, compared with NIS 252.5 billion at the end of last year, an increase of 3.5% - in the Bank, net credit to the public amounted to NIS 230.5 billion compared to NIS 221.2 billion at the end of last year, an increase of 4.2%. Credit to the public constitutes 62.8% of total assets, compared with 63.6% at the end of 2014.

The change of the exchange rate of the shekel against all foreign currencies contributed to a decrease of 0.3% in total credit to the public. Excluding the effect of the depreciation, there was an increase of 3.8% in total credit to the public, so that excluding the effect of the depreciation of the shekel, total credit was NIS 262.1 billion.

As well as granting credit to the public, the Group invests in the securities of companies, amounting to NIS 14,095 million at the end of 2015, compared with NIS 15,005 million at the end of 2014. These investments also involve credit risk.

Total credit to the public by the Group in Israel amounted to some NIS 238.1 billion at the end of 2015, compared to NIS 229.3 billion at the end of 2014.

The following table sets out the mix of credit to the public by linkage segment:

	31 December 2015		31 December 2014		Change	
	NIS millions	% of mix	NIS millions	% of mix	NIS millions	%
Unlinked (a)	**172,795**	**66.1%**	159,755	63.3%	13,040	8.2
CPI-linked	**49,178**	**18.8%**	51,221	20.3%	(2,043)	(4.0)
Foreign currency and linked to foreign currency	**39,426**	**15.1%**	41,504	16.4%	(2,078)	(5.0)
Of which: US dollar	**28,768**	**73.0%**	29,813	71.8%	(1,045)	(3.5)
Euro	**4,809**	**12.2%**	5,599	13.5%	(790)	(14.1)
Total	**261,399**	**100.0%**	252,480	100.0%	8,919	3.5

(a) Including non-monetary items.

Credit to the public in unlinked shekels increased by NIS 13,040 million, or 8.2%, and index-linked credit to the public fell by NIS 2,043 million, or 4.0%. The decrease in foreign currency and foreign currency-linked credit to the public amounted to NIS 2,078 million, or 5.0%, and after neutralizing the effect of the changes in the exchange rate of the shekel, credit to the public in foreign currency and linked to foreign currency fell by 3.4%.

The following table sets out the development of credit to the public, before the allowance for credit losses, by principal operating segment:

	31 December 2015	31 December 2014	Change	
	NIS millions	NIS millions	NIS millions	%
Individuals - housing loans	**81,805**	75,863	5,942	7.8
Individuals - other	**37,400**	35,361	2,039	5.8
Construction and real estate	**50,124**	47,262	2,862	6.1
Commercial	**26,654**	27,253	(599)	(2.2)
Industry	**20,307**	23,159	(2,852)	(12.3)
Other	**48,780**	47,570	1,210	2.5
Total	**265,070**	256,468	8,602	3.4

For further details on the development of credit and credit risks according to market sector, see chapter "Credit Risk".

Problem debts

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

	31 December 2015			31 December 2014		
	Balance sheet	Off-balance sheet	Total	Balance sheet	Off-balance sheet	Total
	NIS millions			NIS millions		
Impaired debts	**3,037**	**150**	**3,187**	3,500	212	3,712
Substandard debts	**1,172**	**220**	**1,392**	2,062	619	2,681
Special mention debts	**2,498**	**851**	**3,349**	2,645	513	3,158
Total	**6,707**	**1,221**	**7,928**	8,207	1,344	9,551

Problem credit risk:

	31 December 2015	31 December 2014
	NIS millions	
Commercial problem credit risk	**8,461**	10,439
Retail problem credit risk	**1,303**	1,309
Total	**9,764**	11,748
Allowance for credit losses	**1,836**	2,197
Problem credit after allowance for credit losses	**7,928**	9,551

For additional information on problem credit, see chapter "Credit Risk"

Credit to governments as at 31 December 2015 amounted to NIS 453 million, a decrease of NIS 75 million, 14.2%, compared with 31 December 2014.

Securities

Policy for managing investments in securities (*Nostro*)

The Group's policy for managing investments in securities (*nostro*) is defined in the framework of the Group's annual and multi-year work program. The policy defines the approved risk appetite for attaining the business targets. The risk appetite includes principles and quantitative limits for losses which the Group is willing to absorb in scenarios at various levels of severity. The main restrictions refer to the amounts of investment, level of risk and credit rating, interest duration, etc.) , exposure to issuer, exposure to investment manager/fund manager, geographic exposure, etc. All of the investments are made from a list of investment instruments permitted for investment.

The *nostro* portfolios are managed out of an overall view at the level of the Bank and the Group, being a central component in management of liquidity and market risks.

The overall view reflects, in principle the investment preferences with a partial/low correlation with the rest of the activity of the Bank and the Group. Accordingly, the advantage inherent in the *nostro* investments in foreign currency in securities issued abroad, which contribute to the dispersal of risks outside the Israeli economy are taken into account.

The risk dispersal in the multi-dimensional *nostro* portfolio. Geographical dispersal, between market sectors, between investment managers, between investment instruments, etc.

The investments are made on the basis of risk-adjusted profitability taking into account the appropriate capital requirements.

In the investment considerations, particular emphasis is placed on the avoidance of significant losses (downside risk).

The *nostro* activity is focused on central markets, which function in a developed and active regulatory environment.

The approval of the permitted investment instruments takes into account various aspects, such as, transparency and the ease of access to an independent and reliable source for remeasurement/value pricing, and a minimizing the complexity and operating and legal risks.

The Group’s investments in securities as at 31 December 2015 amounted to NIS 69.5 billion, compared with NIS 52.1 billion in 2014, an increase of 33.3%.

Securities in the Group are classified into two categories: securities for trading and available-for-sale securities.

The classification of a security purchased by the Bank for the available-for-sale securities portfolio or for the trading securities portfolio is done at the date of purchase and is carried out in accordance with the Bank's intention for the use of the securities. Securities that are purchased for the purposes of trading (or with the aim of hedging other components of the trading portfolio), for the purposes of market-making or within the framework of the dealing room, are classified to the trading portfolio, while securities purchased as part of managing the Bank's assets and liabilities are classified in the available-for-sale portfolio.

Securities for trading 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 in the balance sheet at fair value, with the difference between fair value and adjusted cost presented as a separate item in shareholders' equity in other overall profit, called "adjustments for presentation of available-for-sale securities at fair value" less the related tax. Whenever the impairment is of a non-temporary nature, the difference is charged to the statement of profit and loss.

Method of calculating fair value

The fair value of Israeli securities is based mainly on prices quoted on the Tel-Aviv Stock Exchange and the fair value of foreign securities on prices received from external sources.

Debentures in Israel which are denominated in NIS and are not tradable have been revalued using a model, as there is no active market for these debentures.

The following table sets out the classification of the securities item in the consolidated balance sheet:

	31 December 2015			31 December 2014		
	Securities available for sale	Trading securities	Total	Securities available for sale	Trading securities	Total
	NIS millions					
Government of Israel	**28,553**	**6,664**	**35,217**	14,290	7,915	22,205
Foreign governments	**8,128**	**3,058**	**11,186**	4,715	505	5,220
Financial institutions in Israel	**35**	**238**	**273**	65	374	439
Foreign financial institutions.	**6,262**	**148**	**6,410**	5,676	266	5,942
Asset-backed (ABS) or mortgage-backed (MBS)	**9,566**	**751**	**10,317**	7,687	1,438	9,125
Others in Israel	**586**	**152**	**738**	907	319	1,226
Others abroad	**1,694**	**320**	**2,014**	2,602	660	3,262
Shares and mutual funds	**2,703**	**617**	**3,320**	3,180	1,514	4,694
Total securities	**57,527**	**11,948**	**69,475**	39,122	12,991	52,113

(a) Unrealized profits (losses) from adjustments to fair value amounting to NIS 294 million which were recorded in other comprehensive income (31 December 2014 – NIS 712 million)

(b) Unrealized profits (losses) from adjustments to fair value amounting to losses of NIS 100 million which were recorded in profit and loss (31 December 2014 – profits of NIS 152 million)

As at 31 December 2015, 82.8% of the Group's *nostro* portfolio was classified as available-for-sale securities and 17.2% as the trading portfolio. This classification allows for flexibility in the management of the securities portfolio. 4.8% of the value of the securities represents investments in shares of companies that are not presented on equity basis, but according to cost or to the market value of the shares traded on the stock exchange.

For details in the value of securities according to the method of measurement, see Note 32A.

Available-for-sale portfolio

1. In 2015, there was a decrease in other comprehensive income in respect of available-for-sale securities amounting to NIS 423 million (before the effect of tax). The decrease derives from securities which were sold and classified to profit and loss amounting to NIS 792 million (before tax) which was offset by an increase as a result of a rise in value amounting to NIS 369 million. This compared with an increase in other comprehensive income in respect of available securities amounting to NIS 355 million (before tax) in the corresponding period last year which derived from the sale of securities amounting to NIS 1,002 million which partly offset by a decrease in value amounting to NIS 647 million (before tax).

2. In addition, NIS 181 million was recorded to profit and loss, in respect of net profits from the sale of available-for-sale debentures, compared with profits of NIS 205 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 31 December 2015, amounted to a positive amount of NIS 67 million (after the effect of tax) compared with NIS 394 million at the end of 2014. These amounts represent net profits which had not been realized at the dates of the financial statements.

Bank management estimates that there is impairment in securities in the available-for-sale portfolio, which is of a temporary nature. The Bank intends, and is able, to continue holding the investments until the expected recovery of the full cost of the assets or until their redemption. Accordingly, this impairment is recorded in capital. This is on the basis of the critical accounting policies set forth in Note 1.

For details regarding adjustment to fair value of available-for-sale securities which were charged to equity, see Note 12.

Trading portfolio

On 31 December 2015, there was NIS 11.3 billion of debentures and NIS 0.6 billion of shares in the trading portfolio, compared with NIS 11.5 billion of debentures and NIS 1.5 billion of shares at 31 December 2014. As of 31 December 2015, the trading portfolio constitutes 17.2% of the Group's total *nostro* portfolio, compared to 24.9% at 31 December 2014.

For further information relating to the composition of the portfolio, see Note 12.

In respect of trading debentures, realized and unrealized profits amounting to NIS 67 million were recorded in the statement of profit and loss, compared with losses amounting to NIS 423 million in 2014, and in respect of shares and funds, realized and unrealized losses were recorded amounting to NIS 5 million, compared with profits of NIS 33 million in 2014.

Investments in securities issued abroad

The Group’s securities portfolio includes NIS 34 billion (some US$ 8.7 billion) of securities issued abroad. Approximately 95% of the portfolio is invested in debt instruments, all of which (except for 2.0%) are **investment grade** securities, of which 92% are rated 'A-' and above). 7.0% of the portfolio is invested in shares and funds. Around a third of the market risk of the investment in shares and funds is fully hedged. Of the said portfolio, NIS 29 billion (US$ 7.4 billion) is classified in the available-for-sale securities portfolio, and the balance is classified in the trading portfolio.

A. Investments in asset-backed securities issued abroad

The Group’s asset-backed securities portfolio (both mortgage-backed and non-mortgage-backed), all of which is rated investment grade at 31 December 2015, amounted to NIS 10.3 billion (US$ 2.6 billion), compared with NIS 9.1 billion at 31 December 2014. Of the said portfolio as of 31 December 2015, NIS 9.6 billion (US$ 2.5 billion) is classified in the available-for-sale portfolio.

The available-for-sale portfolio of investments in asset-backed securities abroad as at 31 December 2015 includes an investment in mortgage-backed debentures amounting to NIS 7.5 billion. 93% of the total mortgage-backed debentures in the available-for-sale portfolio were issued by federal agencies in the United States (GNMA, FHLMC and FNMA) and rated at the date of the report as AAA..

For further information regarding investments in asset-backed debentures, see Note 12.

As at 31 December 2015, the accumulated net impairment charged to shareholders' equity resulting from the mortgage-backed securities portfolio was NIS 64 million.

The total of the asset-backed debentures, which are not in the U.S. State guarantee and are not covered by U.S. federal institutions in the available-for-sale portfolio and the trading portfolio, amounts to some NIS 1,377 million.

The projected term to maturity for all the mortgage-backed securities portfolio is an average of 4.6 years. In addition to mortgage-backed securities, the Group’s available-for-sale portfolio also includes other securities backed by assets other than mortgages (car financing credit and other types of credit), amounting to some NIS 2.1 billion. Of these, CLO-type debentures amount to NIS 2.1 billion. The projected term to maturity of the debenture portfolio backed by assets other than mortgages is 3.1 years on average.

B. Investments in non-asset backed securities issued abroad

The Group’s securities portfolio as at 31 December 2015 includes some NIS 23.4 billion (US$ 6.0 billion) of non-asset-backed securities. Of these securities, NIS 19.2 billion (US$ 4.9 billion) are classified in the available-for-sale portfolio, with the balance in the trading portfolio. Of the total securities, 96% are investment grade and they include mainly securities issued by the U.S. government, banks and financial institutions, securities, and the balance, mainly securities issued by the Israeli government.

For further information regarding exposure to overseas financial institutions, see chapter, "Credit Risk".

As at 31 December 2015, aggregate increase in value in shareholders' equity in respect of non-asset-backed securities issued abroad in the available-for-sale portfolio amounted to NIS 117 million (NIS 73 million after tax).

As stated above, in addition to the available-for-sale portfolio, the securities portfolio also includes non-asset backed securities in the trading portfolio. This includes mainly securities of states, banks and financial institutions, and securities funds. 98% of the securities in the trading portfolio are of **investment grade**.

The value of the non-asset backed trading portfolio as of 31 December 2015 amounted to NIS 4.2 billion (US$ 1.1 billion). The difference between fair value and adjusted cost, if there is such a difference, is recorded in the profit and loss account.

Investments in debentures - issued in Israel

Investments in debentures issued in Israel amounted to NIS 34.8 billion on 31 December 2014, of which NIS 33.8 billion was in debentures issued by the Government of Israel in NIS, with the balance in debentures of the Government of Israel in foreign currency and debentures issued by companies. Some 61.4% of the investments in corporate debentures amounting to NIS 0.6 billion were included in the available-for-sale portfolio, and the balance was in the trading portfolio.

Corporate debentures in the available-for-sale portfolio amounting to NIS 0.6 billion includes a positive capital reserve amounting to NIS 27 million and a negative capital reserve amounting to NIS 1 million.

All the corporate debentures in the trading portfolio and part of those in the available–for-sale portfolio are listed and traded on the Stock Exchange. The revaluation of the traded corporate debentures is based on market prices on the stock exchange, and the revaluation of the non-listed corporate debentures is carried out as described above.

Investments in shares and funds

Total investments in shares and funds amounted to some NIS 3,320 million on 31 December 2015, of which NIS 2,270 million was in listed shares and NIS 1,050 million was in non-listed shares. Of the total investment, NIS 2,703 million is classified in the available-for-sale portfolio and NIS 617 million is classified in the trading portfolio.

The capital required in respect of these investments at 31 December 2015 was NIS 415 million.

For further information, see Note 12.

Risk management objectives and policy with regard to investment in shares

Investment policy:

The Bank has defined the Group's investment policy to include setting limits for the volume of overall investment and in a single company, the investment mix, and the various levels of risk between types of non-banking investments.

Definition of the aim of the investment:

- Achieving a higher return in comparison with a *nostro* financial investment;
- Maximizing the value of the investment and achieving better investment terms by leveraging the reputation of the Leumi Group;
- Widening the spread of risk and varying the Group's sources of revenue;
- Moderating the volatility of the *nostro* portfolio (time gaps).

The structure of the portfolio is divided into 3 sub-groups:

- Strategic investments which the Bank plans to hold for the long term;
- Medium-term investments;
- Investments in growth companies (start-up companies).

Accounting treatment of investments:

Investments are recorded as investments in the available-for-sale securities portfolio. When the investment is in a company included on equity basis, it is recorded in "investments included on equity basis";

For further information with regard to the accounting method, Note 1F.

Main changes in investments in shares in 2015

Mobileye N.V.

In the first quarter of 2015, Leumi Partners sold its entire holdings in shares of Mobileye for an aggregate consideration of NIS 313 million. In respect of these sales, the Bank recorded a pre-tax profit of NIS 288 million in the first quarter of 2015.

T.S.I. Roads Partnership (Route 6)

On 16 June 2015, Leumi Partners 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").

On 31 December 2015, the transaction was completed, pursuant to which the 18.9%-holding in the Partnership was sold for aggregate proceeds of NIS 350 million (net of costs related to completion of the transaction). On fulfillment of certain conditions, Leumi Partners may receive additional proceeds of NIS 4.3 million.

Profit before tax of NIS 100 million was recorded in respect of the completion of the sale.

For further information on the subject of the sale of the shares of the Israel Corporation in August 2015, see the chapter "Companies Included on Equity Basis".

For further information regarding a lien on securities, see Note 26.

Deposits of the Public

Deposits of the public in the Group amounted to NIS 328.7 billion at the end of 2015, compared with NIS 303.4 billion at the end of 2014, an increase of 8.3%.

The change in the exchange rate of the shekel against all foreign currencies reduced total deposits of the public by 5%, so that, excluding the depreciation of the shekel, the increase in deposits of the public was 8.9%.

The following table sets out the mix of deposits of the public by type and linkage sector:

	31 December 2015				
	On demand	Short-term	Savings schemes	Earmarked deposits	Total
	NIS millions				
Israeli currency:					
Unlinked	**108,688**	**86,737**	**-**	**-**	**195,425**
CPI-linked	**-**	**23,152**	**2,431**	**-**	**25,583**
Foreign Currency:					
Including linked to foreign currency	**57,458**	**49,763**	**-**	**-**	**107,221**
Non-monetary	**-**	**464**	**-**	**-**	**464**
Total	**166,146**	**160,116**	**2,431**	**-**	**328,693**

	31 December 2014				
	On demand	Short-term	Savings schemes	Earmarked deposits	Total
	NIS millions				
Israeli currency:					
Unlinked	71,241	95,238	-	-	166,479
CPI-linked	-	24,884	2,515	-	27,399
Foreign Currency:					
Including linked to foreign currency	56,383	52,793	-	-	109,176
Non-monetary	-	343	-	-	343
Total	127,624	173,258	2,515	-	303,397

Developments in the various types of deposits were as follows:

- Unlinked shekel deposits of the public fell by NIS 28.9 billion, 17.4%, compared with 31 December 2014 as a result of an increase in deposits on demand.
- Deposits of the public denominated in or linked to foreign currency decreased by NIS 2.0 billion, 1.8%, compared with 31 December 2014, and after offsetting the effect of the changes in the exchange rate of the shekel, these deposits fell by 0.3%. Deposits of the public with the foreign subsidiaries in 2015 increased by some 14.2%, or about NIS 4.4 billion, a result of the Bank's decision to exit international provision banking in the units and representative offices overseas.
- CPI-linked shekel deposits fell by NIS 1,816 million, 6.6%, compared with 31 December 2014, mainly in fixed term deposits.

Deposits from Governments

Deposits from Governments amounted to some NIS 750 million at the end of 2015, an increase of NIS 283 million, compared to 2014.

This item includes deposits of foreign governments in overseas offices which, at the end of 2015, amounted to NIS 604 million, compared with NIS 344 million at the end of 2014, and deposits from government sources which were extended to the banks in previous years mainly for restructuring debts of the kibbutzim, and also deposits for granting housing loans to eligible members of the public.

Deposits with banks and deposits from banks

A. Deposits with banks (central and commercial):

	31 December 2015		31 December 2014	
	Central banks	Commercial banks	Central banks	Commercial banks
	NIS millions			
Israeli currency:				
Unlinked	**46,777**	**1,474**	38,970	1,286
CPI-linked	**-**	**246**	-	263
Foreign currency including linked to foreign currency	**5,279**	**3,619**	5,343	12,681
Total deposits with banks	**52,056**	**5,339**	44,313	14,230

Total deposits with banks decreased by 2.0%.

B. Deposits from banks (central and commercial):

	31 December 2015		31 December 2014	
	Central banks	Commercial banks	Central banks	Commercial banks
	NIS millions			
Israeli currency:				
Unlinked	**-**	**1,886**	-	1,807
CPI-linked	**-**	**72**	-	91
Foreign currency including linked to foreign currency	**-**	**1,901**	-	2,658
Total deposits with banks	**-**	**3,859**	-	4,556

By law, the Bank of Israel is permitted to provide loans to banking corporations against collateral. The Bank uses its deposits with the Bank of Israel for this purpose, as well as a pledge against its securities portfolio.

On 31 December 2015, deposits of the Group with the Bank of Israel amounted to NIS 47.1 billion, against which there were no loans from the Bank of Israel.

As may be seen from these tables, the liquidity position of the Group is extremely high, and the Group has net deposits with banks amounting to NIS 53.5 billion.

Debentures, capital notes and subordinated notes

	31 December 2015	31 December 2014	Change	
	NIS millions			%
Debentures and notes	**3,182**	652	2,530	+
Subordinated notes	**18,126**	23,026	(4,900)	(21.3)
Total	**21,308**	23,678	(2,370)	(10.0)

Debentures, capital notes and subordinated notes totaled NIS 21.3 billion on 31 December 2015, compared with NIS 23.7 billion as at 31 December 2014, a decrease of 10.0%. In the first half of 2015, NIS 5.7 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 debentures, consisting of a total of NIS 1.7 billion of Series 177 debentures and a total of NIS 1.15 billion of Series 178. On 21 January 2016, the Series 177 was expanded and further debentures amounting to NIS 3.6 billion were issued.

Series 177 debentures are due for repayment in one installment on 30 June 2020, are linked as to principal and interest to the consumer price index and bear 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).

Series 178 debentures are due for repayment in one installment on 31 March 2024, are not linked as to principal and interest to any index and bear 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.

Pursuant to a shelf proposal dated 20 January 2016, on 21 January 2026, the Bank issued a total of NIS 926 million of Series 400 deferred notes.

The deferred notes are due for maturity in one lump-sum on 21 January 2026, with an option for the issuer for early repayment not before 21 January 2021 and not after 21 February 2021, are not linked to any linkage base, and bear interest of 3.25% per annum. On this date, given the failure to exercise the Bank's right to early redemption, the nominal interest in the fee will be updated according to the difference between the anchor interest (as defined in the shelf proposal report) on the date of the issue and that which is on the update of the interest.

On fulfillment of circumstances for a defined event (a defined event for non-existence or a defined event for absorbing principal losses, whichever is earlier), the deferred notes will be converted to shares at the fair value of the shares on the conversion date or at the floor rate which is determined (NIS 6.78 per share), whichever is higher.

These notes are eligible for inclusion in Tier 2 from the date of issue.

Other assets and debit balances in respect of derivative instruments

At the end of 2015, other assets amounted to NIS 7.7 billion, compared with NIS 6.9 billion at the end of 2014, an increase of some 10.8%,

The balance of the obligation in respect of the fair value of derivative instruments made with and for customers fell from NIS 16.9 billion at 31 December 2014 to NIS 11.3 billion at 31 December 2015.

Other liabilities and credit balances in respect of derivative instruments

Other liabilities amounted to NIS 20.7 billion at 31 December 2015, compared with NIS 21.9 billion at 31 December 2014, an increase of 5.1%.

The credit balance in respect of the fair value derivative instruments made with and for customers amounted to NIS 11.1 billion compared with NIS 15.7 billion at the end of 2014.

Capital Resources and Capital Adequacy

Capital attributable to the Shareholders of the Banking Corporation (hereinafter "capital") of the Group as at 31 December 2015 amounted to NIS 28,767 million, compared with NIS 25,798 million at the end of 2014, an increase of 11.5%. The increase in shareholders' equity mainly derives from the increase in other comprehensive income, as detailed above.

The capital attributable to shareholders of the banking corporation in respect of comparative figures has been restated in light of the retroactive implementation of United States generally accepted accounting principles regarding employee rights and the directives of thee Banking Supervision Department regarding the capitalization of software costs.

Shareholders' equity to total assets as at 31 December 2015 reached 6.9%, compared to 6.5% as at 31 December 2014.

Capital adequacy structure

	31 December 2015	31 December 2014
	Audited	Audited
	NIS millions	
Capital for purposes of calculating capital ratio		
Tier 1 shareholders' equity, after regulatory adjustments and deductions	**29,001**	27,723
Tier 2 capital, after deductions	**12,593**	14,684
Total capital	**41,594**	42,407
Weighted balances of risk assets		
Credit risk	**277,034**	273,881
Market risk	**5,167**	10,839
Operational risk (b)	**20,432**	20,317
Total weighted balances of risk assets	**302,633**	305,037
Ratio of capital to risk components		
Ratio of Tier 1 shareholders' equity to risk components	**9.58%**	9.09%
Ratio of total capital to risk components	**13.74%**	13.90%

Implementation of the Basel III directives in Israel

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

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

1. Tier 1, including Tier 1 shareholders' equity and additional Tier 1 capital;
2. 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 subsidiaries (minority interests) and deducting goodwill, intangible and other assets and regulatory adjustments and other deductions, all as set forth in Proper Conduct of Banking Business Management Regulation No. 202 "Measurement and Capital Adequacy – Regulatory Capital" and subject to the transitional provisions of Proper Conduct of Banking Business Management Regulation No. 299 "Measurement and Capital Adequacy – Regulatory Capital – Transitional Provisions".

Additional Tier 1 capital which comprises capital instruments complying with the criteria determined in Proper Conduct of Banking Business Management Regulation No. 202. There are no capital instruments in this tier in the Leumi Group. Any additional Tier 1 capital instruments that are issued in the future will be required to comply with 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 is cancelled.

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

With regard to capital instruments which were included in Tier 2 capital on 31 December 2013, the transitional provisions and the asset recognition ceiling which was computed to 1 January 2014, according to 80% of the balance of instruments as of 31 December 2014, were determined, 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 in the Bank's website: /http://leumi.co.il/home01/32587 in Chapter regarding >Financial information and meetings> Additional regulatory disclosures.

It should be noted that the amount actually recognized as 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.

Pursuant to the shelf proposal report dated 20 January 2016, on 21 January 2016, the Bank issued a total of NIS 926 million of Series 400 deferred notes, which are eligible for inclusion in Tier 2.

For further information on the issue, see chapter "Structure and development of the alance sheet, debentures, capital notes and deferred notes".

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 calculations as the ratio of the amount of overall capital to weighted risk assets.

The capital adequacy targets prescribed by the Bank of Israel are as follows:

Pursuant 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 capital ratio of 9% with effect from 1 January 2015. In addition, a large banking corporation, whose total balance sheet assets on a consolidated basis constitutes at least 20% of the balance sheet assets in the banking system in Israel, will be required to comply with a minimum Tier 1 capital ratio of 10%, with effect from 1 January 2017. This additional provision applies to the Bank. In addition, all banking corporations in Israel are required to maintain a minimum overall capital ratio of 12.5% from 1 January 2015. A large banking corporation will be required to maintain a minimum overall capital ratio of 13.5% by 1 January 2017. Leumi is subject to this additional directive.

On 28 September 2014, the Supervisor of Banks published a circular for an amendment to Proper Conduct of Banking Business Management Regulation no. 329 "Restrictions on the Grant of Housing Loans". Pursuant to the amended directive, the banking corporation will be required to increase Tier 1 shareholders' equity target at a rate expressing 1% of the balance of housing loans. The date for commencing compliance with the capital target determined is 1 January 2017, and banking corporations are to increase the capital target in fixed quarterly rates from 1 January 2015 until 1 January 2017. The effect of the amendments to the regulation on Leumi Group at the final effective date is 0.27% of the capital adequacy ratio, with the effect being spread in accordance with the regulation over eight quarters.

Compliance with these targets will be achieved gradually.

Capital adequacy targets prescribed 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 will not be less than the rate required for covering risks as estimated in the ICAAP process. In addition, targets that the Group wishes to meet in the event of a stress scenario have been defined.

As part of the regulatory review procedure, the Supervisor directed the determination of internal capital targets which matched the Bank's risk profile. Further thereto, the Board of Directors of the Bank 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.

The regulations regarding employee rights, which were initially implemented in January 2015, were the influencing factor and are 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 which is at historically low levels and due to the high volatility that accompany this kind of measurement. The Bank is examining ways of moderating the volatility in capital arising from the regulations, e.g., purchase, direct or indirect of instruments hedging the effect of changes in the capitalization coefficients (in full or in part), which are used for discounting the liability for employee rights.

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.

As of December 2015, the Bank's Tier 1 capital adequacy 9.58%. The Bank is prepared for meeting the capital targets on 1 January 2017. The completion of the required capital (the transition to an increase in the regulatory capital deriving from its current profitability net of the increase in the risk assets and the effect of the transitional provisions) by effected by:

- Managing the increase in risk assets, through the improvement of the risk assets (improvement of the collateral, etc.), investing in nostro assets requiring a lower capital allocation, selective management of credit in the cut-off of sectors, segments and risk, syndication and re-insurance.

  Two significant measures adopted by the Bank are:

  (a) The Bank has entered into an agreement with high internationally-rated international re-insurers to purchase insurance for the portfolio of guarantees by virtue of the Sales Law (Apartments) and obligations to take out guarantees as aforesaid. The purchase of the insurance is intended mainly to reduce the restricted capital in respect of the risk of the credit deriving from the issue of the guarantees, employing a policy as "credit risk mitigating". Pursuant to Proper Conduct of Banking Management Regulation no. 203, on completion of the procedure, an improvement of 0.22% – 0.28% is expected in the Tier 1 shareholders' equity adequacy ratio.

  (b) The Bank is in advance contacts with institutional entities from the Harel Insurance Group for the joint extension of housing loans, secured, *inter alia*, by mortgages and pledges on contractual rights in connection with land. Pursuant to the agreement which has been formulated, which is subject to regulatory approvals, the percentage of participation of Harel in each joint loan will not exceed 50%. The aggregate of the loans to be extended by Harel in 20116 will not exceed NIS 4 billion and in 2017, it will not exceed an amount to be specified, but, in any event, it will not be less than NIS 4 billion.

- According to a circular of questions and answers of the Bank of Israel from 4 February 2016, on a net deferred tax asset created as a result of timing differences and the high probability of its realization, the threshold deduction included in paragraph 13 of Proper Conduct of Banking Management Regulation no. 202 will not apply. The deferred tax asset as aforesaid will be weighted as a risk asset at a rate of 250%. The update is expected to reduce the deductions from the Bank's regulatory capital and improve capital adequacy. However, at this stage, it is not possible to asses the precise effect on the Bank's capital.

- Converting the rights of employees into shares of the Bank: On 17 February 2016, a special collective agreement was signed between representatives of the Bank's employees and the Bank, pursuant to which various rights, accumulated in favor of employees in the Bank would be converted into shares of the Bank that will be issued to employees at the price of the Bank's shares, in the amount of those rights, on the basis of the amount at which those rights are recorded in the Bank's books. If the process is completed, and the target amount for conversion – NIS 1.15 billion – is achieved, it is expected to increase the Bank's Tier 1 shareholders' equity capital adequacy by 0.37%.

For further information regarding the special collective agreement, see Note 23.

Regulatory changes which are likely to impact capital requirements and planning:

Operational efficiency measures

On 12 January 2016, the Banking Supervision Department published a letter regarding "Operational efficiency measures on the bank system in Israel". Pursuant to the letter, the board of directors of a banking corporation must outline a multi-year streamlining program. A banking corporation which meets the conditions specified in the letter will receive relief according to which it can spread the impact of the program over five years on a straight-line basis for the purpose of computing the capital adequacy.

The Bank is in the stages of devising a multi-year streamlining program.

Capital requirements in respect of exposures to central counterparties

On 22 October 2015, the Banking Supervision Department published a circular regarding "Capital requirements in respect of exposures to central counterparties" (hereinafter "the circular"). The circular amends the provisions of Proper Conduct of Banking Business Directives nos. 203 and 204, with the aim of adapting them to the recommendations of the Basel Committee in all matters related to the capital requirements in respect of exposures of banking corporations to central counterparties. The circular sets forth the new directives which will apply to exposures to central counterparties which are caused by OTC derivatives, derivative transactions marketable on the stock exchange and securities financing transactions. The directives differentiate between a central counterparty which is not eligible and an eligible counterparty, with the latter being determined in reduced capital requirements.

The aforementioned requirements are likely to increase the Bank's capital requirements in respect of exposures as aforesaid, although, at this stage, the Bank is prepared to implement the directive and is examining the effect of its implementation on the capital ratios.

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 302.7 billion at the end of December 2015. Every increase of 1% in the risk assets (approx. NIS 3 billion) in future years will reduce the Tier 1 shareholders' equity capital adequacy ratio by 0.09%, and the overall capital ratio by 0.14%.
- Profit that will accrue or a change in the capital reserve – The Tier 1 shareholders' equity of Leumi amounted to NIS 29.0 billion at the end of December 2015. The overall capital amounted to NIS 41.6 billion. Every accrual of net profit and/or positive change in the capital reserve amounting to NIS 1 billion will improve the Tier 1 shareholders' equity adequacy ratio and the overall capital ratio by 0.33%.
- Accounting standards regarding employee rights – According to these standards, the actuarial liability for employees is discounted according to the market interest rates which are influenced by the Government of Israel debenture curve and by the United States AA corporate debenture margin. An increase of 0.1% across the interest curve for discounting, under the assumption that the curve rises and falls consistently, and in the absence of hedging transactions which the Bank has carried out until now, 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 information regarding capital adequacy policy and management refers to future activities of the Bank, and is defined as "forward-looking information". For the meaning of this term, see the chapter, "Forward-Looking Information".

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 provided. The leverage ratio at 31 December 2015 was 6.27%.

Regulatory operating segments

On 3 November 2014, a circular regarding reporting on operating segments and a file of questions and answers for implementation was published. On 10 September 2015, an update to the file of questions and answers was published. The circular updates the Public Reporting Directives in all matters related to the reporting requirements for regulatory operating segments.

The new rules will apply from the financial statements for 2015 and thereafter in the manner set forth below:

- In the statements for 2015, there is a disclosure requirement in connection with the balance sheet data in relation to the regulatory operating segments as defined in the new provisions. In accordance with the new provisions, it is permissible not to provide disclosure of comparative figures for balance sheet data of regulatory operating segments, but rather to include comparative figures, in accordance with the Public Reporting Directives which were in effect prior to the introduction of the circular. In addition, disclosure is not required of the Financial Management segment.
  These disclosure requirements are in addition to the disclosure requirements on operating segments in accordance with the Public Reporting Directives which were in effect prior to the introduction of the circular.
- With effect from the financial statements for the first quarter of 2016, full disclosure is required according to the new rules, except for disclosure of the Financial Management segment. Comparative figures should be retroactively adjusted. It is permitted to present comparative figures of one year only in the 2016 statements, in relation to the note on regulatory operating segments. For the purpose of presenting the comparative figures, it will be possible to rely on the classification of the customer to the regulatory operating segments as of 1 January 2016.
- Commencing the sts of the first quarter of 2017, the requirements of the circular must be implemented in full.

Data according to regulatory operating segments of the main balance sheet items are as follows:

	31 December 2015			
	Credit to the public	Deposits of the public	Total assets	Assets under management
	NIS millions			
Activity in Israel				
Households	**116,040**	**110,728**	**115,928**	**85,413**
Private Banking	**606**	**26,031**	**613**	**51,258**
Small businesses	**57,662**	**47,893**	**57,216**	**40,273**
Medium-size businesses	**25,053**	**29,787**	**25,416**	**24,810**
Large businesses	**41,262**	**48,368**	**41,399**	**90,613**
Institutional entities	**318**	**34,384**	**1,299**	**260,396**
Financial management segment	**339**	**4,927**	**132,352**	**224,919**
Other segment	**2**	**13**	**7,152**	**-**
Total activity in Israel	**241,282**	**302,131**	**381,375**	**777,682**
Activity abroad				
Private individuals	**2,412**	**10,045**	**3,248**	**15,102**
Business activity	**21,363**	**15,416**	**21,262**	**2,007**
Other	**13**	**1,101**	**10,614**	**2,270**
Total activity abroad	**23,788**	**26,562**	**35,124**	**19,379**
Total	**265,070**	**328,693**	**416,499**	**797,061**

For further information regarding operating segments, see Note 28A.

Operating Segments in the Group

This chapter describes the business development according to operating segments in accordance with the Public Reporting Directives which were in effect prior to the introduction of the circular regarding regulatory operating segments.

Pursuant to the directives of the Bank of Israel, an operating segment is a component in which three characteristics are fulfilled:

1. Deals with business activities, from which income is likely to be generated and which bears expenses, (including income and expenses from transactions with other segments in the Bank)
2. The results of its operations are regularly examined by the management and the board of directors in order to make decisions regarding the allocation of resources to the segment and the assessment of its performance.
3. There is separate financial information regarding the segment.

The following is a description of the main operating segments prescribed by the Bank of Israel directives in accordance with the abovementioned characteristics:

1.	Households	-	The provision of banking services to households and private individuals at all stages of life.
2.	Small businesses	-	The provision of banking services to small businesses and to local authorities.
3.	Private banking	-	The provision of local and global financial services and solutions to private customers with a large portfolio of monetary assets.
4.	Commercial banking	-	The provision of banking and financial services to medium-sized (middle-market) companies and to interested parties in these companies.
5	Corporate banking	-	The provision of banking and financial services to large companies and international companies in the market in their activities in Israel and around the world, and the provision pf banking and financial services to the construction and real estate secor.
6.	Financial management and capital markets	-	The activity of the nostro and dealing rooms and the provision of services to institutional customers and foreign financial institutions, including the results of activity of the investments in companies included on equity basis (non-bank) and investment in shares in the available-for-sale portfolio.
7.	Others	-	Activity which is not allocated to other segments. This includes the Group's other activities, each of which do not reach any profit-making segment pursuant to the directives of the Supervisor of Banks.

The activity by segment includes within it inter-segmental activity, such as services provided to customers of one segment and activity deriving from products, such as mortgages, credit cards, capital market and real estate.

For further information, see Note 28B.

a. The criteria for attribution of the customer according to operating segment in Israel, in general, are as follows:

Corporate customers:

Segment	Scope of approved facility	Business turnover of the borrower
Corporate banking (a)	Above NIS 120 million	Above NIS 400 million
Commercial banking (b)	From NIS 10 million to NIS 120 million (inclusive)	From NIS 20 million to NIS 400 million
Small businesses	Up to NIS 10 million	Up to NIS 20 million

(a) Customers with a facility in excess of NIS 80 million are also dealt with in the corporate banking segment, if their total obligo in the banking system exceeds NIS 250 million. In addition, customers of the Construction and Real Estate Department whose approved credit facilities exceeds NIS 50 million in real estate projects (CL) and NIS 80 million in infrastructure projects are associated with this segment.

(b) Includes startup companies at every level of credit facility and business turnover.

Private customers

Segment	Israeli residents	Foreign residents
	Financial wealth	
Private banking	Over NIS 6 million	Over NIS 0.5 million
Households	Up to NIS 6 million	Up to NIS 0.5 million

Interested parties, including senior office-holders of the companies managed in the commercial department are dealt with in the banking segment.

It should be noted that the attribution to a particular operating segment is sometimes done according to criteria other than those noted above, such as: the scope of the approved facilities and the business turnover, which involves corporate customers, and financial wealth. Criteria, such as the nature of the business activity of a corporation and the extent of its business, such as the scope of international trade, complex and special transactions, complex projects and building development, are likely to change the segmental attribution of a particular customer.

As stated above, the Bank is organized into business lines, and its policy is to attribute, as far as possible, the customers to the business lines / operating segments to which they are most appropriate, according to their nature and their activity. Nevertheless, it should be emphasized that the segmental attribution is sometimes also determined in coordination with the customers at his request and the monetary expenses in respect of the customer are recorded in the segment in which his account is actually managed.

b. Banking subsidiaries are attributed to the operating segments as follows:

- Arab Israel Bank – for households, for small businesses, for commercial banking and for financial management. On 31 December 2015, the Arab Israel Bank was merged within Leumi.

  For further information regarding the merger of the Arab Israel Bank, see chapter ""Principal changes in the past year

- Leumi USA – for commercial banking, for private banking and for financial management.
- Bank Leumi Switzerland and Luxembourg – for private banking.

  For further information regarding the sale of the activity of Bank Leumi Switzerland and Bank Leumi Luxembourg, see chapter "Principal investee companies.".

- Leumi UK – for households, for small businesses, for commercial banking, for corporate bank and for private banking.
- Leumi Romania – for households, for small businesses, for commercial banking and for private banking.

The data of the segments on a consolidated basis are the extraction of a summary of the segments according to the various definitions in each of the organs in the Group, which are not identical in their size. In general, the Bank accounts for approximately 80% in each segment.

Financial measurement system

Method of attributing income and expenses according to operating segments in the Bank is carried out as follows:

Net interest income

The profit center is credited with interest received from the loan it has extended, or debited with the interest paid to the deposits it has raised.

At the same time, the profit center providing the loan is debited and the profit center receiving the loan is credited at the transfer process. The transfer process are usually determined according to the market prices with certain adjustments and generally reflect a risk-free return or marginal costs for raising sources of the same linkage and currency type and for a similar period. Effects deriving from changes in shekel / foreign currency exchange rate differences and changes in the consumer price index on the surpluses of uses and/or sources are attributed in the Group to the financial management segment. In the method outlined above, the profit centers carry credit risks and do not carry market risks.

The statement of profit and loss of each of the segments also includes the settlement of accounts in respect of the capital allocated to the segment. Each profit center is credited in respect of Tier 1 capital which is allocated to it in respect of the risk assets according to the risk-free return and is debited in respect of an increment in the cost on Tier 2 capital. In this method, the available capital attributed to the segment is credited with interest equal to the marginal cost of raising sources in accordance with the segment it finances, or is invested in the capital market.

The interest income from the management of the nostro is recorded in the financial management capital markets segment

Expenses in respect of credit losses

Expenses in respect of credit losses are charged in the profit center in which the customer's account is maintained. As above, the collective allowance required according to the Bank of Israel directives.

Noninterest income

All of the noninterest income (noninterest financial income, commissions and other income) which the Bank collects from its customers and/or from subsidiaries in respect of various services is recorded to the credit of the profit center in which the customer's account is maintained. Income from nostro securities, profits from severance pay funds and dividends which the Bank receives are recorded in the financial market capital markets profit center.

Expenses

Expenses are attributed to the business lines (divisions and departments in the Bank) in accordance with the segmental attribution of the customers dealt with in those business lines.

In a minority of cases, a business lines deals with a number of operating segments, the expenses of the business lines are attributed to the relevant segments and products on the basis of the multi-dimensional costing of the transactions. The costing is a system in which the cost of the transaction is computed, taking into account the type of the transaction, the type of customer executing it and the channel in which the transaction is executed.

Expenses not related to the direct activity of the profit center (operating segment), such as expenses in connection with the actuarial liability for pension, are not recorded to the profit centers and are recorded in the financial management and others segment.

For further information, see Note 28B.

The following are principal data according to operating segments of the principal balance sheet items as at:

	Credit to the public			Deposits of the public			Total assets		
	31 December 2015	31 December 2014	Change	**31 December 2015**	31 December 2014	Change	**31 December 2015**	31 December 2014	Change
	NIS millions		%	NIS millions		%	NIS millions		%
Households (a)	**119,515**	110,696	8.0	**127,108**	115,480	10.1	**120,230**	111,377	7.9
Small businesses	**26,206**	24,034	9.0	**28,917**	26,090	10.8	**26,227**	24,063	9.0
Private banking	**4,663**	5,882	(20.7)	**31,697**	34,830	(9.0)	**5,646**	10,346	(45.4)
Commercial banking	**53,278**	49,833	6.9	**52,911**	44,598	18.6	**55,830**	51,923	7.5
Corporate banking	**55,095**	58,761	(6.2)	**27,521**	27,754	(0.8)	**56,432**	60,723	(7.1)
Financial management and other	**2,642**	3,274	(19.3)	**60,539**	54,645	10.8	**152,134**	138,552	9.8
Total	**261,399**	252,480	3.5	**328,693**	303,397	8.3	**416,499**	396,984	4.9

(a) Credit to households also including housing loans (mortgages) increased by 8.0% and, after canceling housing loans, increased by 7.9%. Housing loans amounted to NIS 80.2 billion at the end of 2015, having increased by 8.0%.

The following are principal data according to operating segments of off-balance sheet items and data on customers' balances in the capital market:

	Guarantees and documentary credits			Securities portfolios, including mutual funds		
	31 December 2015	31 December 2014	Change	**31 December 2015**	31 December 2014	Change
	NIS millions		%	NIS millions		%
Households	**359**	369	(2.7)	**115,982**	127,429	(9.0)
Small businesses	**1,441**	1,461	(1.4)	**12,524**	12,630	(0.8)
Private banking	**277**	336	(17.6)	**76,330**	94,520	(19.2)
Commercial banking	**6,950**	7,050	(1.4)	**23,531**	25,420	(7.4)
Corporate banking	**33,099**	31,468	5.2	**47,855**	52,890	(9.5)
Financial management and other	**1,883**	1,295	45.4	**520,839**	512,791	1.6
Total	**44,009**	41,979	4.8	**797,061**	825,680	(3.5)

Return on equity by operating segments

The equity for the purpose of calculating the capital to risk assets ratio (Tier 1 and Tier 2 capital) was allocated to the segments according to the relative share of each segment in the total of all the weighted risk assets of the Group, and according to the allocation of Pillar 2 equity for each segment according to its characteristics and constituents.

The profit of the operating segments has been adjusted for risk capital in each segment. The risk-adjusted yield has been calculated as the ratio of the adjusted profit to shareholders' equity allocated to the segment, constituting the share of the allocated risk capital (Tiers 1 and 2).

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

	31 December 2015	31 December 2014	Change	
	NIS millions		NIS millions	%
Households	**46**	144	(98)	(68.1)
Small businesses	**283**	292	(9)	(3.1)
Corporate	**(206)**	(1,020)	814	79.8
Commercial	**534**	474	60	12.7
Private banking	**778**	1,169	(391)	(33.4)
Financial management: Capital markets	**397**	101	296	+
Non-bank investments	**703**	297	406	+
Other	**300**	(44)	344	+
Total	**2,835**	1,413	1,422	+

Below is the return on risk adjusted capital (RORAC) by operating segments:

The RORAC amounts were calculated according to the allocation of all of the Bank's capital between the segments (according to actual capital adequacy pursuant to Basel).

	Allocation of all the capital	
	Return on capital (RORAC)	
	31 December 2015	31 December 2014
	%	
Households	**0.7**	2.1
Small businesses	**13.4**	15.1
Private banking	**(28.3)**	(117.7)
Commercial banking	**8.5**	9.5
Corporate banking	**9.9**	15.6
Financial management	**37.1**	13.0
Other	**28.4**	(5.7)
Total to net profit	**10.3**	5.4

For details of the operating segments, see Note 28B.

A. Household Segment

General

The household segment is characterized by making value proposals and providing financial services to households and private individuals, in relatively low monetary volumes per customer. These proposals and services are provided to customers according to their varying needs and preferences, segmenting customers according to demographics, place of residence, occupation, financial characteristics and stage of life.

Structure and characteristics of the segment

Branches: A wide deployment of 222 branches (including 11 counters and 36 branches of the Arab Israel Bank Ltd.) located throughout the country and organized into eight districts on a geographical basis. Service to customers in the branch is provided by teams of bank officials divided according to customer segment. These teams centralize the handling of all aspects of the customer's affairs and specialize the treatment according to the customer's particular characteristics and needs. From 1 January 2016, the branches of the Arab Israel Bank merged within Leumi.

In 2015, one branch opened, and at the same time, 16 branches were merged.

In 2016, the Bank intends to continue to explore branch openings, at the same time as merging 16 branches, in accordance with the Bank's strategy.

Online and digital banking: A telephone call center in Leumi Call, Leumi information devices, and through advanced Internet and cellular solutions.

The segment is taking steps, *inter alia*, to expand the number of customers receiving telephone service provided by the Leumi Call center (to which hundreds of thousands of customers are currently connected through which most of the day-to-day transactions in their accounts are carried out) and to expand activity in the digital channels (thousand of transactions are performed every day via the Internet and cellular devices).

In 2015, developments continued in the cellular field and a number of new applications were developed.

In addition, the developments in the online banking website continued.

Objectives and business strategy

The following information is "forward-looking information." For the meaning of this term, see "Forward-Looking Information".

The Bank's vision is to lead enterprising and innovative banking for customers on the basis of which the following strategic targets of the household segment were determined.

Increasing market share and wallet share while aiming for a fair profit – by increasing its customer base and expanding the activity of existing customers, with an emphasis on providing customer experience and efficient customized service. In this context, it should be noted that loans to the household segment are an important growth engine in retail banking, in view of the high dispersal level and good credit risk management skills.

Improving customer experience – Since 2013, the Bank has been focused on the subject of customer experience, adapting and improving service to the customer based on his financial needs. The strategic focus on this topic is based on customized service and value proposals, technological infrastructures and processes supporting customer experience.

The points of emphasis on the line of business in the household segment are:

- A systematic and constant focus on improving the level of customer service by upgrading employee professionalism and skills, and measuring and controlling work procedures and the customer interface. Improving customer service will increase customer satisfaction and loyalty, by creating advantages among groups of customers and providing differential value proposals.
- Broadening the availability and accessibility of service to customers by adapting branches to future banking needs, integrating advanced automated instruments and adapting them to the various customer needs and expanding the direct distribution channels;
- Expanding the availability and accessibility of the direct distribution channels with advanced telephone, cell phone and Internet response services and devices that enable customers to carry out their financial operations independently;

- Developing financial products and services by providing professional and objective counseling in relation to financial investment products and pension products that correspond to the needs of customers, while using data mining and analytical models to analyze and forecast the financial activities and needs of the relevant customers;
- Systematic, information-based initiative *vis-à-vis* customers in all operating segments: investments, pension counseling, consumer and commercial credit and current account services;
- Collaboration with companies in the Group, in order to utilize the Group's abilities in providing comprehensive banking solutions to customers.

Developments in the markets of the segment or in customer characteristics

The household segment was affected by changes in the demographic and economic data for the population of the State, by changes in private consumption and by customers' saving characteristics.

Private consumer expenditure increased in real terms in 2015 by 4.5%, and in terms of private consumption per capita, by 2.4%. These data indicate a slightly faster expansion than 2014, in which expenditure for private consumption in real terms increased by some 3.7%. This is mainly explained by a relative rapid increase in current consumption, and despite a slight fall in the consumption of durable products in against a backdrop of a decrease in unemployment rates and market interest rates.

Products and services

Private credit: The Bank offers customers various credit products, which are appropriate to their needs and the various stages in their lives, including the possibility of receiving a pre-approved loan, limited in amount, via all of the self-service channels, including ATMs, according to the characteristics and needs of each customer.

In recent years, there has been a considerable increase in credit to households in Israel. Loans are attractive, as a result of, among other things, low interest rates in the economy. The leverage level of households in Israel is low compared to other developed countries, although the trend is still one of increasing amounts of credit and with it, the risk.

The Bank's policy is to take steps to disperse credit risk by determining the level of exposure frameworks in the credit portfolio. The management of the credit portfolio is carried out according to considerations of risk and return versus risk.

Investments: The Bank offers a variety of both single deposit and installment-based deposits, and savings schemes, with various linkage bases, for periods that suit the customer, as well as a variety of investment products, including structured deposits in Israeli and foreign currency and savings schemes. The Bank also offers investment counseling and pension counseling services.

Mortgages: The Bank offers housing loans via the Mortgage Department in 101 representative offices operating in Leumi branches and seven independent offices. The Mortgage Department develops tools which are intended to assist customers in planning the appropriate mortgage for them, now and in the future. In this context, the Mortgage Department offers those who are interested in obtaining a mortgage a comprehensive website, a guide including explanatory videos and an application on a cellular device supporting customers in planning the mortgage. In addition, the Bank offers its customers the "Integration Method" which adapts the mix of loan tracks to customer requirements.

Credit cards: The Bank offers a range of payment means which are issued via Leumi Card Ltd. and Diners cards issued through Cal.

For further information, see chapter on "Activities in products, credit cards".

Pension counseling

The balances of the pension assets held by customers receiving consultation in the Leumi Group which are known to be held at the end of December 2015, including advance training funds in respect of which consultancy is provided in the framework of pension consulting and/or investment consulting, amounts to some NIS 24.9 billion.

Customers

The Bank is able to offer its services with adaptations to the following various population groups in the segment: households with medium to low levels of wealth and current account requirements, customers with growth, for example,: young people, discharged soldiers, students and new immigrants, pensioners, salary-earners, mortgage customers and wealthy private customers.

The segmentation of customers according to the various groups allows each group to be matched to its relevant value proposal, according to its needs and its preferences.

Marketing and distribution

The following information is "forward-looking information." For the meaning of this term, see above in the Chapter, "Forward-Looking Information".

Household banking is based on a countrywide distribution network, professional and skilled manpower and technological systems that enable the provision of efficient service to customers, as well as measurement and control tools for the Management. The Bank sees strategic importance in a correct deployment of branches. In addition, emphasis is placed on offering service via a multitude of channels, while maintaining a uniform customer experience and level of service. The principal distribution channel of the household segment is the branch channel, while some of the direct channels - the Internet, cellular devices, Leumi Call and ATMs - are in a continuing growth trend, both for execution of transactions and for informational needs. The Bank also makes use of direct mailings, advertising on websites in general and on the Bank’s websites in particular, and other media, including newspapers and television. In addition, the Bank operates a number of communication channels on social networking media including a Twitter account and banking blog and an exclusive page on Facebook. Through these channels, the Bank provides a service to customers and general and marketing information for the use of the public.

The marketing activity is based both on advanced analytic information systems and on the construction and leverage of the business data world (Big Data) which enable the characterization of the customers' requirements and behavior, in order to offer products and services to customers suited to their requirements.

Structure of the competition

The fundamental principles of success are: the segmentation and understanding the requirements of customers and the provision of value proposals for contending with the competition, the availability and correct usage of distribution channels, while improving efficiency.

Competition in retail banking has been developing in recent years from financial and other entities, primarily from credit card companies (in the area of consumer credit), mortgage banks, insurance companies, retail marketing chains and financial technology ventures. Some of the competition is created by entities that are not subject to the supervision of the Bank of Israel, or not supervised at all, and do not operate under the restrictions that apply to the banks.

Directives issued by the Supervisor of Banks, which make it easier for customers to move from bank to bank, affect competition between banks in this segment.

In the field of pension counseling, the competition over customers is intense; competitors include insurance agents, pension arrangement managers and companies that manage their own pension funds.

Below is a summary of the results of operations of the Household Segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity Banking and finance	Overseas activity Mortgages	Total
	2015						
	NIS millions						
Net interest income:							
From external sources	**1,134**	**236**	**6**	**1,590**	**(3)**	**9**	**2,972**
Intersegmental	**485**	**(16)**	**(1)**	**(888)**	**13**	**(1)**	**(408)**
Non-interest income:							
From external sources	**524**	**567**	**475**	**76**	**6**	**1**	**1,649**
Intersegmental	**3**	**167**	**-**	**-**	**-**	**-**	**170**
Total income	**2,146**	**954**	**480**	**778**	**16**	**9**	**4,383**
Expenses (income) in respect of credit losses	**275**	**13**	**-**	**14**	**3**	**2**	**307**
Operating and other expenses:							
To external sources	**2,688**	**662**	**364**	**244**	**13**	**9**	**3,980**
Intersegmental	**4**	**(2)**	**-**	**-**	**-**	**-**	**2**
Profit (loss) before taxes	**(821)**	**281**	**116**	**520**	**-**	**(2)**	**94**
Provision for (benefit from) taxes on profit	**(310)**	**97**	**44**	**194**	**-**	**-**	**25**
Profit (loss) after taxes	**(511)**	**184**	**72**	**326**	**-**	**(2)**	**69**
Group share in profits of companies included on equity basis after the effect of tax	**-**	**5**	**-**	**-**	**-**	**-**	**5**
Net profit attributable to non-controlling interests	**-**	**(28)**	**-**	**-**	**-**	**-**	**(28)**
Net profit (loss)	**(511)**	**161**	**72**	**326**	**-**	**(2)**	**46**
Return on equity							**0.7%**
Average balance of assets	**27,025**	**10,964**	**352**	**76,986**	**56**	**206**	**115,589**
Of which: investments in companies included on equity basis	**-**	**3**	**-**	**-**	**-**	**-**	**3**
Average balance of credit to the public, net	**26,725**	**10,722**	**177**	**76,932**	**56**	**206**	**114,818**
Average balance of liabilities	**119,677**	**1,012**	**-**	**163**	**933**	**8**	**121,793**
Average balance of deposits of the public	**119,494**	**69**	**-**	**-**	**933**	**8**	**120,504**
Average balance of risk assets	**27,649**	**11,508**	**363**	**43,424**	**300**	**72**	**83,316**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**79,486**	**-**	**-**	**-**	**79,486**
Average balance of securities	**-**	**-**	**43,648**	**-**	**178**	**-**	**43,826**
Average balance of other assets under management	**2,523**	**-**	**-**	**-**	**-**	**-**	**2,523**
Margin from credit-granting activities*	**1,355**	**221**	**5**	**702**	**(4)**	**8**	**2,287**
Margin from deposit-taking activities	**264**	**(1)**	**-**	**-**	**14**	**-**	**277**
Total interest income, net	**1,619**	**220**	**5**	**702**	**10**	**8**	**2,564**
Balance of credit to the public, net	**27,976**	**11,091**	**208**	**79,979**	**61**	**200**	**119,515**
Balance of deposits of the public	**126,153**	**65**	**-**	**-**	**882**	**8**	**127,108**

* The margin is, in effect, the interest gap between the interest received from the granting of credit and the interest paid on raising deposits, and the transfer prices set by the Capital Markets Division.
This comment relates to all of the operating segments.

Household Segment (continued):

	Banking and finance	Credit cards	Capital market	Mortgages	Overseas activity: Banking and finance	Overseas activity: Mortgages	Total
	2014						
	NIS millions						
Net interest income:							
From external sources	896	239	6	1,912	(7)	11	3,057
Intersegmental	793	(20)	(2)	(1,217)	17	(1)	(430)
Non-interest income:							
From external sources	526	551	474	81	6	1	1,639
Intersegmental	14	167	-	-	-	-	181
Total income	2,229	937	478	776	16	11	4,447
Expenses (income) in respect	357	25	-	23	-	2	407
Operating and other expenses:							
To external sources	2,485	632	403	243	14	8	3,785
Intersegmental	1	(1)	-	1	-	-	1
Profit (loss) before taxes	(614)	281	75	509	2	1	254
Provision for (benefit from) taxes on profit	(225)	91	28	190	1	-	85
Profit (loss) after taxes	(389)	190	47	319	1	1	169
Group share in profits of companies included on equity basis after the effect of tax	-	5	-	-	-	-	5
Net profit attributable to non-controlling interests	(1)	(29)	-	-	-	-	(30)
Net profit (loss)	(390)	166	47	319	1	1	144
Return on equity							2.1%
Average balance of assets	24,398	10,107	172	71,021	44	217	105,959
Of which: investments in companies included on equity basis	-	2	-	-	-	-	2
Average balance of credit to the public, net	23,966	9,882	171	70,974	44	217	105,254
Average balance of liabilities	114,918	1,264	-	281	945	8	117,416
Average balance of deposits of the public	114,749	52	-	-	944	8	115,753
Average balance of risk assets	25,584	10,618	185	38,927	268	76	75,658
Average balance of mutual funds and supplementary training funds	-	-	79,559	-	-	-	79,559
Average balance of securities	-	-	47,315	-	182	-	47,497
Average balance of other assets under management	3,586	-	-	-	-	-	3,586
Margin from credit-granting activities	1,172	218	4	695	(7)	10	2,092
Margin from deposit-taking activities	517	1	-	-	17	-	535
Total interest income, net	1,689	219	4	695	10	10	2,627
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 Volume of Activity

Total credit to households at the end of 2015 amounted to NIS 119.5 billion, an increase of 8.0%. Of this, consumer credit totaled NIS 39.3 billion, accounting for 32.9%, , and credit for housing totaled NIS 80.2 billion, accounting for 67.1%. Deposits of the public increased from NIS 115.5 billion to NIS 127.1 billion, an increase of 10.1%.

Main Changes in the Net Profit

Net profit from the household segment totaled NIS 46 million in 2015, compared with NIS 144 million in the corresponding period in 2014, a reduction of NIS 98 million, or 68.1%.

The decrease in net profit derives from an increase in operating expenses of NIS 195 million due to an increase in salary expenses in respect of the allocation of a yield bonus to the segment which depends on the number of employees. The decrease was offset by a decrease in expenses in respect of credit losses amounting to NIS 100 million, deriving, *inter alia*, from expenses recorded last year in respect of the adjustment of the collective allowance in credit to private individuals as required by Bank of Israel regulations.

It should be clarified with regard to the method of attribution of noninterest income in a 'credit card' product that a situation of inter-segmental exists when Leumi Card clears a card issued by the Bank. In such a case, the clearing commission collected from the merchant is recorded as income in the small businesses segment or in the corporate segment and the interchange commission is recorded in the same segment as an expense, and at the same time, as income in the household segment.

Mortgages

The net profit in mortgages amounted in 2015 to NIS 326 million, compared with NIS 319 million in 2014, an increase of NIS 4 million.

B. Small Business Segment

General

The small business segment is characterized by the provision of value proposals and financial services to small and medium businesses with an activity turnover of up to NIS 20 million and a balance of indebtedness of NIS 10 million. These proposals and services are provided to customers according to their varying needs, while segmenting customers according to their business activity turnovers, the extent of their credit needs and the sector in which their businesses operate. The Bank also handles the personal accounts of customers of small and medium businesses who receive an overall service in one place.

Structure and characteristics of segment

The services are provided to small and medium business customers in a range of various channels.

Branches: Business customers receive the services from business teams in branches which specialize in the needs of the customers, including through a designated service center and various digital channels.

Online and digital channels: A Leumi Call telephone center, Leumi data devices, using advanced Internet and cellular solutions. Leumi invests many resources in development and has reached a high and multi-channel level of availability (telephone, facsimile, e-mail, mobile and Internet) in order to provide customers with an effective interface with the Bank for executing transactions and obtaining data anywhere, anytime.

The Bank allows business customers to perform transactions in the account after logging in using "identification questions". On the business site, as part of the "Digital Assistant", value proposals for the business customer have been incorporated. In addition, on the English business website, new services in English have been integrated: signing execution orders, transfers to another account and signing for international trade services. The international trade service on the Internet was opened at the end of 2014 to all customers and the Bank incorporated new services: payment by import collection documents type, export transactions with a particular purchaser and giving an instruction to change import documentary type transactions, etc.

Objectives and Strategy

The following information is "forward-looking" information. For the meaning of this term, see above in the chapter, "Forward-Looking Information".

The Bank's vision is to lead enterprising and innovative banking for customers on the basis of which the strategic targets of the small business segment were determined.

Increase in market share and wallet share – while aiming for a fair profit – by increasing its customer base and expanding the activity of existing customers. These targets naturally place an emphasis on providing a customer experience and streamlined service adapted to the financial needs of business customers.

The Bank has defined small and medium businesses as a targeted population and accordingly, launched Leumi's business arena, which is a package of exclusive and innovative tools and services. The arena includes four separate content worlds:

1. World of credit: Its purpose is to offer credit products customized to the needs of the small and medium business: Speedy, flexible credit, in large amounts, available anytime, even if a branch is closed. Among the products are "Leumi Fund" (a fund providing loans at preferred terms to small business customer meeting specific criteria), loans "at the touch of a button", loans to persons transferring a business, etc.
2. Availability and content: Its objective is to provide the business owner with available, professional, speedy service in flexible hours, business service center manned by professional personnel and providing a solution even when the branch is closed.
3. Digital tools: The objective of this world is to enable the business to obtain information and execute transactions in its account anywhere at any time, using a range of means – the Internet, cellular phones, and tablets.
4. Expertise and content: The provision of management tools to the customer using various media.
    - "Business Management School" – Meetings in conjunction with the Open University (Nationwide) and the best of the experts on management topics (financial management, marketing management, negotiations, networking).
    - Business community on Facebook: Provides the business owner with added value through collaboration – both from similar business owners and from experts in the field at Leumi.

The points of emphasis on the lines of business in the small business segment are:

- A systematic and constant focus on improving the level of customer service by an upgrade in employee professionalism and skills, and measuring and controlling the work processes and the customer interface. Improving customer service will increase customer satisfaction and loyalty, by creating differential value proposals.
- Broadening the availability and accessibility of service to customers by adapting the branches to future banking needs, while integrating advanced automated instruments, and adapting them to the various customer needs and expanding the direct distribution channels.
- Expanding the availability and accessibility of the direct marketing channels: by way of advanced telephone, cell phone and Internet response services and instruments for self-service performance of financial operations;
- Developing financial products and services by providing professional and objective counseling in relation to financial investment products and pension products that correspond to the needs of customers, while using data mining and analytical models to analyze and forecast the relevant customers' financial activities and needs.
- Systematic, information-based initiative *vis-à-vis* customers in all the products; commercial credit, consumer credit, international trade, investments, current account services and improving the level of service for increasing customer satisfaction and loyalty, through creating advantages among groups of customers by providing differential service.
- Collaboration with companies in the Group, in order to utilize the Group's abilities in providing comprehensive banking solutions to customers.
- Increasing the use of analytical models as supporting tools for decisions regarding customer activities.

Developments in the markets of the segment and in the characteristics of its customers:

There were no significant changes in the small business segment during the past year. However, competition in this segment is increasing (see Structure of the competition, below).

Products and services

The small business segment specializes in the provision of banking solutions including advice on commercial credit, advice on investments and routine business activity, with a sub-segmentation according to the level of activity and risk. Value proposals to small and medium business customers include a number of core products:

Credit: - The services provided to the business customers include, *inter alia*, ongoing financing according to customers' needs, the financing of investments to maintain and expand activity, the provision of solutions in the field of financing and international trade. In addition, the service includes banking services for companies' employees and managers.

Investments: In the field of investments, Leumi offers a variety of both single deposit and installment-based deposits, and savings schemes, with various linkage bases, for periods that suit the customer, as well as a variety of investment products, including structured deposits in Israeli and foreign currency, savings schemes, provident funds and mutual funds.

Tender for small businesses

On 17 January 2016, the Ministry of Finance announced that the proposal of the Leumi-Menorah Partnership won first place from the bids submitted as part of the State tender to finance small and medium-sized businesses.

The new fund is expected to begin in April 2016. Pursuant to the joint activities of the Partnership, loans will be made to small and medium-sized businesses with a Government guarantee.

The loans will be extended by the joint finance of Leumi – 60% and Menorah – 40%. As part of the first tranche of the guarantee, loans of up to NIS 1 billion will be available to small and medium-sized businesses.

Customers

The customers associated with this segment are characterized by diverse business activities (small to medium sized) and a great number and variety of sectors and fields. As a rule, customers with a volume of credit facilities up to NIS 10 million (inclusive) or customers with a bu turnover of up to NIS 20 million will be attributed to the Small Business segment.

Marketing and Distribution

The small business segment is based on a nationwide distribution network, professional and skilled manpower, technological systems that enable the provision of efficient service to customers, as well as measurement and control tools for Management. Leumi sees strategic importance in a broad distribution network; consequently, teams are established in most of the branches in the Banking Division for handling customers in the segment, with the emphasis on deepening the familiarity with these customers and their needs, and on finding appropriate solutions for them. In addition, Leumi attaches great importance to the direct channels: the Internet, cellular phones, Leumi Call and self-service devices are on a continuing upward trend, both in performing transactions and for information requirements.

Marketing activity is based both on advanced analytical data systems on construction and leverage of the business data world (Big Data), which enable the characterization of customer requirements and their behavior, in order to offer customers products and services tailored to their needs.

Structure of the competition

The competition with which the Bank contends in the Small Business segment has seen a strengthening trend in recent years. In recent years, the smaller banks have been expanding their activities in this segment by means of marketing tactics and the use of price strategy.

In addition, competition has been developing recently from financial and other entities, primarily from credit card companies, insurance companies, which are showing interest in financing small businesses, brokers and fund managers.

The Bank competes by exploiting its expansive distribution advantages, professional and skilled manpower in the various banking fields and its data processing ability, all of which enable Leumi to be proactive and offer customers high-quality products and services.

Below is a summary of the results of operations of the Small Business Segment:

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	2015							
	NIS millions							
Net interest income:								
From external sources	**787**	**21**	**1**	**2**	**307**	**41**	**10**	**1,169**
Intersegmental	**(57)**	**(1)**	**-**	**(1)**	**(27)**	**(1)**	**(3)**	**(90)**
Non-interest income:								
From external sources	**305**	**122**	**32**	**1**	**73**	**22**	**3**	**558**
Intersegmental	**2**	**(42)**	**-**	**-**	**-**	**-**	**-**	**(40)**
Total income	**1,037**	**100**	**33**	**2**	**353**	**62**	**10**	**1,597**
Expenses in respect of credit losses	**120**	**-**	**-**	**-**	**36**	**22**	**-**	**178**
Operating and other expenses:								
To external sources	**681**	**63**	**19**	**-**	**134**	**46**	**7**	**950**
Intersegmental	**(1)**	**6**	**-**	**-**	**-**	**-**	**-**	**5**
Profit (loss) before taxes	**237**	**31**	**14**	**2**	**183**	**(6)**	**3**	**464**
Provision for taxes on profit	**92**	**10**	**5**	**1**	**69**	**1**	**1**	**179**
Profit (loss) after taxes	**145**	**21**	**9**	**1**	**114**	**(7)**	**2**	**285**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit (loss)	**145**	**19**	**9**	**1**	**114**	**(7)**	**2**	**283**
Return on equity								**13.4%**
Average balance of assets	**15,517**	**1,034**	**19**	**70**	**7,393**	**898**	**264**	**25,195**
Average balance of credit to the public, net	**15,510**	**1,019**	**19**	**70**	**7,391**	**898**	**264**	**25,171**
Average balance of liabilities	**19,396**	**1,516**	**-**	**-**	**6,054**	**1,110**	**171**	**28,247**
Average balance of deposits of the public	**19,388**	**-**	**-**	**-**	**5,910**	**1,110**	**170**	**26,578**
Average balance of risk assets	**12,814**	**930**	**23**	**39**	**7,499**	**1,152**	**264**	**22,721**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,433**	**-**	**-**	**-**	**-**	**4,433**
Average balance of securities	**-**	**-**	**8,297**	**-**	**-**	**6**	**-**	**8,303**
Average balance of other assets under management	**116**	**-**	**-**	**-**	**-**	**-**	**-**	**116**
Margin from credit-granting activities	**704**	**20**	**1**	**1**	**273**	**18**	**5**	**1,022**
Margin from deposit-taking activities	**26**	**-**	**-**	**-**	**7**	**22**	**2**	**57**
Total interest income, net	**730**	**20**	**1**	**1**	**280**	**40**	**7**	**1,079**
Balance of credit to the public, net	**16,232**	**1,061**	**25**	**62**	**7,516**	**949**	**361**	**26,206**
Balance of deposits of the public	**21,067**	**-**	**-**	**-**	**6,636**	**1,047**	**167**	**28,917**

Small Business Segment (continued):

	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	2014							
	NIS millions							
Net interest income:								
From external sources	768	20	1	3	315	52	11	1,170
Intersegmental	(63)	(2)	-	(1)	(48)	(12)	(4)	(130)
Non-interest income:								
From external sources	306	119	31	1	68	21	2	548
Intersegmental	2	(42)	-	-	-	-	-	(40)
Total income	1,013	95	32	3	335	61	9	1,548
Expenses (income) in	111	-	-	-	14	57	-	182
Operating and other expenses:								
To external sources	627	57	16	-	125	39	5	869
Intersegmental	-	6	-	-	-	-	-	6
Profit before taxes	275	32	16	3	196	(35)	4	491
Provision for taxes on profit	104	10	6	1	74	-	1	196
Profit after taxes	171	22	10	2	122	(35)	3	295
Net profit attributable to non-controlling interests	-	(3)	-	-	-	-	-	(3)
Net profit	171	19	10	2	122	(35)	3	292
Return on equity								15.1%
Average balance of assets	14,658	958	21	77	7,036	965	257	23,972
Average balance of credit to the public, net	14,628	945	21	77	7,034	965	257	23,927
Average balance of liabilities	17,459	1,604	-	-	4,942	779	144	24,928
Average balance of deposits of the public	17,442	-	-	-	4,818	779	144	23,183
Average balance of risk assets	11,917	855	23	42	7,059	1,106	257	21,259
Average balance of mutual funds and supplementary training funds	-	-	4,188	-	-	-	-	4,188
Average balance of securities	-	-	8,526	-	-	8	-	8,534
Average balance of other assets under management	184	-	-	-	-	-	-	184
Margin from credit-granting activities	612	18	1	2	253	17	5	908
Margin from deposit-taking activities	93	-	-	-	14	23	2	132
Total interest income, net	705	18	1	2	267	40	7	1,040
Balance of credit to the public, net, 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 volume of activity

Activity levels in Israel increased this year in the small business segment, in accordance with the Bank's decision to focus on small and medium-sized businesses. Credit to the public increased by NIS 2.2 billion, or 9.0%, while deposits of the public increased by NIS 2.8 billion, or 10.8%.

Main changes in the net profit

Net profit in the small business segment totaled NIS 283 million in 2015, compared with NIS 292 million in the corresponding period last year, a decrease of 3.1%.

Despite an increase in interest income amounting to NIS 39 million, as a result of an increase in activity in this segment, there was a decrease in net profit, as a result of the allocation of yield bonus to the segment affected by the number of employees amounting to NIS 52 million which is included in salary expenses in operating expenses.

C. Private Banking Segment

General

The private banking segment provides services to wealthy customers in Israel and worldwide. The activities are carried out through unique centers and branches in Israel designated for foreign and Israeli residents.

The structure of the segment and its characteristics

The Private Banking segment provides an exclusive and personal service envelope by professional teams at the highest level in all the channels. The segment in Israel is managed by the Provision Banking Department, which has five unique Private Banking centers located around the country – Tel Aviv, Jerusalem, Haifa and Herzlia Pituach. The centers serve wealthy private customers, including local residents and foreign residents in their native tongue, and who are familiar with their customers' needs, preferences and areas of interest. In addition, the department manages two designated departments for a section of the customers with investment portfolios of between NIS 1.5 and NIS 6 million located in Haifa and Rehovot.

Goals and business strategy

The Bank's vision is to conduct initiating and innovative banking for customers. The Private Banking department operates in light of this vision, and according thereto, it has established its strategic targets: increasing market share and wallet share, aiming for profits, by increasing the customer base and expanding existing customers' activity. The private banking service values are derived from these targets: focus on and attention to each existing and potential customer, aiming for the profit of the customer's asset portfolio, to the level of professionalism and excellence in service, while developing professional, enterprising and competitive teams, and the highest standard of service orientation.

The principles of the activity of the Private Banking centers and teams are as follows:

- Measurement of the team as a profit and loss center – a partnership of all of the office-holders in the team in the provision of the service to the customers to attain the business targets.
- Customer portfolio management exercising initiative, objective and professional investment advice and business development capabilities for the purpose of business development and attaining business targets.
- Provision of a comprehensive envelope of channels – to increase the availability of the service for the customer's convenience and tailored to his needs.

The Bank has decided to exit the overseas representative offices and units which deal with private banking, including the closure of the most of the Bank's representative offices overseas. Accordingly, in 2015, a cooperation agreement was signed with Julius Baer, pursuant to which most of the customers of Leumi Switzerland were transferred to Julius Baer, and the Swiss offices were prepared for closure. In November 2015, an agreement was signed to sell the assets of the customers of Bank Leumi Luxembourg to Banque J. Safra Sarasin (Luxembourg), a transaction which was closed in January 2016.

In addition, on 15 February 2016, Leumi Jersey, a subsidiary of Bank Leumi UK entered into an agreement to sell its holdings in the trust company in Jersey. The effectiveness of the agreement is subject to the receipt of regulatory approvals which are required for the purpose. In light of the relatively limited scope of activity of the trust company in Jersey, the execution of the transaction is not expected to have a significant effect on the Bank's activity,

In addition, Bank Leumi UK is having contacts to sell the holdings or the activity of Leumi Jersey.

For further information in respect of the sale of Bank Leumi Jersey, see chapter "Principal investee companies, Bank Leumi UK".

Developments in the markets of the segment and characteristics of the customers

The business reality is characterized by intensified competition conditions with a high level of uncertainty and significant regulatory changes. In Leumi, two main factors influence the activity in this segment: "cross border" and "declared money" policy.

- Since 2013, Bank Leumi has applied a declared money policy, pursuant to which the Bank has taken steps to regulate accounts of foreign resident customers vis-à-vis the tax authorities in their country of residence. *Inter alia,* this policy is reflected in the withdrawal of unregulated monies.

The Bank estimates, as a result of the adoption of the "declared money" policy, that the Bank's customers, mostly foreign residents, have withdrawn monies from the Bank and closed accounts. The Bank's estimate in Israel, for amounts withdrawn from the Group as a result of the assimilation of the "declared money" policy, from 2011 to immediately prior to the end of the reported period amounts to a total exceeding US$ 6 billion.

- **Cross border –** Leumi implements a policy which is aimed at compliance with the local law in the countries in which the population of foreign resident customers.

It should be noted that the "declared money" and "cross-border" policy is a Group policy, which is subject to the adjustments required by local legislation in the place of residence of the Bank's office.

Products and services

Investment advice – The private banking teams are staffed by the leading professional and skilled investment counselors, whose function is to devise comprehensive and exclusive financial solutions for the customer, adapted to his needs and preferences, the customer's risk appetite and his preferred geographical dispersal. Leumi places at the customer's disposal extensive professional knowhow, supported by the advanced market analysis by means of a research desk specifically intended for Private Banking customers, assisted by some of the world's leading global advice systems.

Trade in securities – Leumi provides customers with varied opportunities on the Tel Aviv Stock Exchange and most of the stock exchanges around the world. The range of investment channels include shares, debentures and ETFs, Israeli and foreign mutual funds, derivatives, hedging transactions and combined strategies. The customer can trade both by giving instructions via the private banking team and by Leumi advanced trading system. In addition, the private banking staff has at its disposal designated desks for trading in Israeli securities in the Bank dealing rooms.

Reporting – Leumi makes available to its customers the Odyssey system, one of the most advance leading system around the world for managing investment portfolios, provides extensive analyses of investment portfolios and includes a computation of the customer portfolio yield according to various parameters, remeasurement of the portfolio in various currencies and at various dates, reflects extensive data on every investment, analysis of the customer's expected cash flow, long-term historical movements, etc.

Professional conferences – The Bank arranges professional conferences for its customers on financial topics and the capital market, in order to provide the customers with information and tools which assist the customer in making decisions regarding his investments.

Cooperation with the Leumi Group – As an integral part of the customer concept in the center, customer managers act with the various units and subsidiaries of Leumi to devise comprehensive solutions to the range of the customer's financial requirements and improve their value.

Credit – Credit products specifically adapted to Private Banking customers, finance for any purpose, in large amounts with flexibility in the credit features, collateral mix – as quickly and easily as possible.

Credit cards - A range of prestigious credit cards, Visa, Mastercard, Platinum, First World Signia, the prestigious credit card in Israel which confers an exclusive customer experience – concierge services around the world 24/7, the best conversion rate to the El Al Airline Club, overseas travel insurance, passport card, exclusive VIP benefits in Israel and around the world, direct conversion from 14 selected currencies to the shekel, etc.

Customers

The customer of Private Banking are private customers holding investment portfolios of more than NIS 6 million, which are divided into two main segments – private banking for residents of Israel and private banking for foreign residents. Each segment has designated branches which are located in Tel Aviv, Jerusalem, Haifa and Herzlia Pituach .

In addition, there are two designated branches in Private Banking for the section of customer portfolios of between NIS 1.5 million and NIS 6 million which are located in Haifa and Rehovot. During 2016, the deployment of the branches for this section of customers will be expanded.

Marketing and distribution

The marketing objective is to increase the customer base while creating image differentiation, both within the Group and *vis-à-vis* the competition, while complying with the provisions in the regulations. In addition, the Bank takes steps to retain customers and increase the Bank's share in customers' asset portfolios. Marketing the private banking segment is carried out through image advertising in the media and press aimed at an affluent target audience, as well as through customer events, professional conferences, sponsorships and collaborations with leading cultural and communal institutions in Israel and around the world, direct mailings and the Internet.

Structure of Competition

In the private banking segment, Leumi competes in Israel with Israeli banks, investment houses and local representative offices of foreign banks, which have the same customer targets. Overseas, the Bank competes with local banks and investment houses that offer private banking and investment services, as well as with branches and representative offices of other Israeli banks.

Below is a summary of the results of operations of the Private Banking Segment:

						Overseas activity				
	Banking and finance	Credit cards	Capital market	Mortgages	Real estate	Banking and finance	Capital market	Mortgages	Real estate	Total
	2015									
	NIS millions									
Net interest income:										
From external sources	**(52)**	**-**	**3**	**1**	**12**	**5**	**-**	**32**	**-**	**1**
Intersegmental	**114**	**-**	**(3)**	**(1)**	**1**	**131**	**-**	**(20)**	**2**	**224**
Non-interest income:										
From external sources	**25**	**1**	**158**	**-**	**18**	**118**	**89**	**5**	**1**	**415**
Intersegmental	**6**	**1**	**-**	**-**	**-**	**(1)**	**-**	**-**	**-**	**6**
Total income	**93**	**2**	**158**	**-**	**31**	**253**	**89**	**17**	**3**	**646**
Expenses in respect of credit losses	**4**	**-**	**-**	**-**	**1**	**(1)**	**-**	**-**	**-**	**4**
Operating and other expenses:										
To external sources	**226**	**2**	**74**	**-**	**14**	**412**	**150**	**13**	**1**	**892**
Intersegmental	**-**	**1**	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**2**
Profit (loss) before taxes on profit	**(137)**	**(1)**	**84**	**-**	**16**	**(159)**	**(61)**	**4**	**2**	**(252)**
Provision for (benefit from) taxes	**(50)**	**-**	**29**	**-**	**6**	**(16)**	**(11)**	**1**	**-**	**(41)**
Profit (loss) after taxes	**(87)**	**(1)**	**55**	**-**	**10**	**(143)**	**(50)**	**3**	**2**	**(211)**
Net profit attributable to non-controlling interests	**-**	**-**	**-**	**-**	**-**	**5**	**-**	**-**	**-**	**5**
Net profit (loss)	**(87)**	**(1)**	**55**	**-**	**10**	**(138)**	**(50)**	**3**	**2**	**(206)**
Return on equity										**(28.3%)**
Average balance of assets	**1,712**	**81**	**3**	**60**	**851**	**3,599**	**-**	**794**	**-**	**7,100**
Average balance credit to the public, net	**1,575**	**81**	**3**	**59**	**842**	**1,643**	**-**	**790**	**-**	**4,993**
Average balance of liabilities	**19,890**	**-**	**46**	**-**	**1,696**	**11,053**	**-**	**13**	**92**	**32,790**
Average balance of deposits of the public	**19,765**	**-**	**46**	**-**	**1,688**	**10,657**	**-**	**13**	**91**	**32,260**
Average balance of risk assets	**1,836**	**84**	**29**	**33**	**854**	**3,356**	**-**	**278**	**-**	**6,470**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**10,115**	**-**	**-**	**400**	**1,532**	**-**	**-**	**12,047**
Average balance of securities	**-**	**-**	**50,949**	**-**	**-**	**1,970**	**17,119**	**-**	**-**	**70,038**
Average balance of other assets under management	**33**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33**
Margin from credit-granting activities	**25**	**-**	**-**	**-**	**10**	**19**	**-**	**12**	**-**	**66**
Margin from deposit-taking activities	**39**	**-**	**-**	**-**	**3**	**115**	**-**	**-**	**2**	**159**
Total interest income, net	**64**	**-**	**-**	**-**	**13**	**134**	**-**	**12**	**2**	**225**
Balance of credit to the public, net	**1,577**	**88**	**2**	**70**	**811**	**1,356**	**-**	**759**	**-**	**4,663**
Balance of deposits of the public	**20,926**	**-**	**-**	**-**	**1,769**	**8,900**	**-**	**13**	**89**	**31,697**

Private Banking Segment (continued):

	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
	2014									
	NIS millions									
Net interest income:										
From external sources	(97)	-	(8)	1	12	47	-	38	(1)	(8)
Intersegmental	160	-	9	(1)	2	141	-	(24)	3	290
Non-interest income:										
From external sources	21	1	165	-	18	175	182	4	1	567
Intersegmental	13	1	-	-	2	14	-	-	-	30
Total income	97	2	166	-	34	377	182	18	3	879
Expenses in respect of credit losses	11	-	-	-	-	3	-	-	-	14
Operating and other expenses:										
To external sources	428	2	74	-	15	1,051	337	12	2	1,921
Intersegmental	1	1	-	-	-	1	1	-	-	4
Profit (loss) before taxes on profit	(343)	(1)	92	-	19	(678)	(156)	6	1	(1,060)
Provision for (benefit from) taxes	(31)	-	34	-	7	(17)	(5)	1	-	(11)
Profit (loss) after taxes	(312)	(1)	58	-	12	(661)	(151)	5	1	(1,049)
Net profit attributable to non-controlling interests	-	-	-	-	-	29	-	-	-	29
Net profit (loss)	(312)	(1)	58	-	12	(632)	(151)	5	1	(1,020)
Return on equity										(117.7%)
Average balance of assets	1,468	70	15	57	749	7,469	-	810	-	10,638
Average balance credit to the public, net	1,371	70	15	56	739	3,018	-	810	-	6,079
Average balance of liabilities	17,569	-	146	-	1,527	15,848	-	14	114	35,218
Average balance of deposits of the public	17,372	-	145	-	1,519	15,188	-	14	113	34,351
Average balance of risk assets	1,576	72	49	31	743	4,994	-	284	-	7,749
Average balance of mutual funds and supplementary training funds	-	-	9,212	-	-	116	1,598	-	-	10,926
Average balance of securities	-	-	44,556	-	-	2,389	32,549	-	-	79,494
Average balance of other assets under management	82	-	-	-	-	-	-	-	-	82
Margin from credit-granting activities	17	-	1	-	10	44	-	14	-	86
Margin from deposit-taking activities	46	-	-	-	4	144	-	-	2	196
Total interest income, net	63	-	1	-	14	188	-	14	2	282
Balance of credit to the public, net, at 31 December 2014	1,494	74	4	61	781	2,642	-	826	-	5,882
Balance of deposits of the public at 31 December 2014	18,321	-	91	-	1,646	14,665	-	13	94	34,830

Main changes in volume of activity

On 31 December 2015, credit to the public, net, amounted to NIS 4.7 billion, a decrease of NIS 1.2 billion, or 20.7%, compared with 2014. Deposits of the public totaled NIS 31.7 billion, a decrease of NIS 3.1 billion, 9.0% compared with 2014.

The decrease in the volume of credit to the public and deposits of the public in the segment derives mainly from:

1. exercising of the "**declared money**" policy, which the Bank operates, and;
2. focusing on the exercise of the Bank's decision to exit international private banking, which was carried out through foreign branches and representative offices which are focused on international private banking activity.

As a result of the above decision, the volume of assets under the Group's management fell by NIS 22.9 billion, particularly in respect of Switzerland and Luxembourg, compared with the balances at 31 December 2014.

In addition to the decrease in the volume of assets under the management of the Group, as a result of the realization of the decision to close the office in Switzerland and Luxembourg, the net profit of the Group for 2015 was adversely affected by NIS 170 million, which mainly comprise closure expenses and amortization of goodwill.

Changes in the net profit

The loss in the private banking segment in 2015 amounted to NIS 206 million, compared with a loss of NIS 1,020 million in the corresponding period last year, a decrease in the loss of NIS 814 million. The loss in 2015 is primarily attributable to a loss in the office in Switzerland as a result of recording a provision for expenses in respect of the closure of the office in Switzerland and Luxembourg. The loss in 2014 derives from expenses in respect of the arrangements with overseas authorities which were recorded in the segment.

D. Commercial Banking Segment

General

Commercial banking specializes in the provision of the entire spectrum of financial services to middle-market business entities in all sectors of the economy. The interested parties of the business companies in the segment, including shareholders and senior office holders, are also dealt with in this segment.

Service and marketing to these companies are carried out on an individual basis, including the financing of transactions with credit instruments tailored to the customers' unique requirements, the adaptation of investment products and financial instruments for hedging risks, the financing of international trade transactions and the financing of start-up companies.

The commercial banking segment also includes activities outside of Israel through the Bank's subsidiaries abroad. Companies that are served by the Commercial Department can also opt to work with these offices, in expanding their overseas activities. Banking services abroad for local customers and Israeli customers, including the provision of credit lines to finance international trade, real estate purchases, and company mergers, are available to companies mainly through Bank Leumi USA, Bank Leumi (UK) and Bank Leumi Romania.

For further details about the overseas units, see below in the Chapter, "Principal Investee Companies".

Structure and characteristics of the segment

The segment is managed in Israel by the Commercial Department, which is a part of the Commercial Corporate Division. The Commercial Department is a unique structure in the Israeli banking system, which enables it to provide its customers with all-inclusive and comprehensive service (a one-stop shop) and affords the Division a competitive edge. The principal contact with customers is through designated commercial branches located throughout the country and through technological services, like direct channels, cash management system, etc. The Commercial Department has 25 business branches located in industrial zones and in the major cities, which are attributed geographically to five commercial districts. The branches specialize in the management of business activities characteristic of the segment's customers, giving the Department a competitive advantage.

As part of the "Commercial 2020" project, it has been decided to transfer some of the branches' operating activities to performance centers as a part of the Commercial Department. The aim of the project is to continue the improvement of the customer experience and broaden the availability of service, while improving operating efficiency.

In addition, as part of the project, it was decided to establish a high-tech center in Herzlia, which will centralize all of the activity of high-tech companies in Leumi, and will be managed as a part of the Commercial Department.

Goals and business strategy

The following information is "forward-looking information." For the meaning of this term, see above in the Chapter, "Description of the Banking Corporation and Forward-Looking Information".

Commercial banking serves middle-market business customers. The strategic objective of commercial banking is to continue to strengthen its competitive advantage by expanding the activities with existing customers and by recruiting new customers, placing an emphasis on financing customers characterized by potential for growth and an appropriate level of risk, while providing comprehensive banking solutions for the benefit of its customers operating in Israel and abroad. As part of these services, in 2014, the Commercial Department began financing construction projects using the Closed End Financing (the C/L Format) in accordance with criteria specified for this purpose. In addition, one of the strategic focuses is strengthening Leumi's advantage and leadership in the field of hi-tech, leveraging the expertise and professionalism of the hi-tech teams in the Commercial Department in conjunction with Leumi Tech.

Development in the markets of the segment, and in its customers' characteristics

The main activities of the segment's customers are in the local market, in the industrial, infrastructure, hi-tech, trade and services and real estate sectors of the economy and markets abroad, either directly or through foreign subsidiaries.

Expectations for 2016 are for continuation of moderate economic growth around the world and in Israel which is expected to have implications for export customers and customers active in the domestic market. Accordingly, the Commercial Department is taking particularly cautious steps in risk management, regularly reviewing the customer population, and, in particular, sensitive customers, in particular, and reviewing trends of development and their implications.

Products and services

The Commercial Department has a wide range of products designed for its different customers, including, inter alia, financing revolving capital requirements, financing long-term investments, foreign trade finance, rental property finance and C/L finance, invoice discounting and factoring, financing of mergers and acquisitions, etc.

Leumi is the first Israeli bank to launch a "cash management" system, an innovative and secured portal, which includes a package of advanced financial services and products. The portal enables, *inter alia*, the receipt of centralized data regarding accounts in the various banks, monetary balances and movements.

Customers

Customers belong to the Commercial Department are medium-sized business companies from various sectors of industry: commerce, industry, real estate, hi-tech, etc. In addition, the Commercial Department also provides services for interested parties in those companies.

As a rule, customers with a volume of approved credit facilities between more than NIS 10 million and NIS 120 million (inclusive) or with a business turnover of between more than NIS 400 million will be associated with the commercial banking segment. In addition, the segment includes startup companies with any credit facility or business turnover.

Marketing and distribution

The service and marketing to customers of the Commercial Department are provided through 25 business branches dispersed around the country and provide customers with an answer to all of the needs of the company and the interested parties therein under one roof (a one-stop-shop). Alongside the provision of service in branches, the commercial customers enjoy service using technological means and online channel, for example, the **cash management** portal, as noted above.

Structure of competition

Competing parties in this segment of activity, in both the spheres of credit and investments and banking services, are all of the banks operating in Israel (domestic and foreign), overseas banks, entities operating in the capital market and entities engaged in non-bank finance. In recent years, the Bank competed in the commercial bank segment with ever –increasing competition on the part of the abovementioned factors.

Below is a summary of the results of operations 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
	2015							
	NIS millions							
Net interest income:								
From external sources	**667**	**9**	**-**	**336**	**526**	**-**	**178**	**1,716**
Intersegmental	**(60)**	**-**	**-**	**(83)**	**(77)**	**-**	**(28)**	**(248)**
Non-interest income:								
From external sources	**278**	**78**	**26**	**64**	**84**	**1**	**12**	**543**
Intersegmental	**19**	**(34)**	**-**	**1**	**-**	**-**	**-**	**(14)**
Total income	**904**	**53**	**26**	**318**	**533**	**1**	**162**	**1,997**
Expenses in respect of credit losses	**(105)**	**-**	**-**	**(16)**	**14**	**-**	**4**	**(103)**
Operating and other expenses:								
To external sources	**626**	**40**	**17**	**85**	**408**	**-**	**49**	**1,225**
Intersegmental	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit before taxes	**383**	**13**	**9**	**249**	**111**	**1**	**109**	**875**
Provision for taxes on profit	**145**	**4**	**3**	**94**	**46**	**-**	**47**	**339**
Profit after taxes	**238**	**9**	**6**	**155**	**65**	**1**	**62**	**536**
Net profit attributable to non-controlling interests	**-**	**(2)**	**-**	**-**	**-**	**-**	**-**	**(2)**
Net profit	**238**	**7**	**6**	**155**	**65**	**1**	**62**	**534**
Return on equity								**8.5%**
Average balance of assets	**23,246**	**364**	**31**	**10,230**	**15,231**	**-**	**3,786**	**52,888**
Average balance of credit to the public, net	**21,708**	**358**	**30**	**10,204**	**14,960**	**-**	**3,726**	**50,986**
Average balance of liabilities	**31,434**	**1,043**	**69**	**3,901**	**11,706**	**-**	**1,286**	**49,439**
Average balance of deposits of the public	**30,895**	**-**	**69**	**3,724**	**11,068**	**-**	**1,286**	**47,042**
Average balance of risk assets	**27,478**	**376**	**219**	**10,683**	**15,279**	**-**	**3,786**	**57,821**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**4,383**	**-**	**-**	**79**	**-**	**4,462**
Average balance of securities	**-**	**-**	**18,260**	**-**	**1,408**	**1,377**	**-**	**21,045**
Average balance of other assets under management	**287**	**-**	**-**	**-**	**-**	**-**	**-**	**287**
Margin from credit-granting activities	**581**	**9**	**-**	**249**	**255**	**-**	**92**	**1,186**
Margin from deposit-taking activities	**25**	**-**	**-**	**4**	**195**	**-**	**58**	**282**
Total interest income, net	**606**	**9**	**-**	**253**	**450**	**-**	**150**	**1,468**
Balance of credit to the public, net	**22,361**	**364**	**-**	**10,962**	**15,638**	**-**	**3,953**	**53,278**
Balance of deposits of the public	**34,786**	**-**	**-**	**4,166**	**11,523**	**-**	**2,436**	**52,911**

Commercial Banking Segment (continued):

					Overseas activity			
	Banking and finance	Credit cards	Capital market	Real estate	Banking and finance	Capital market	Real estate	Total
	2014							
	NIS millions							
Net interest income:								
From external sources	603	9	2	325	545	-	146	1,630
Intersegmental	17	(1)	(1)	(101)	(66)	-	(43)	(195)
Non-interest income:								
From external sources	223	77	31	43	69	6	14	463
Intersegmental	67	(33)	-	16	-	-	-	50
Total income	910	52	32	283	548	6	117	1,948
Expenses (income) in respect of credit losses	(4)	-	-	2	121	-	34	153
Operating and other expenses:								
To external sources	518	32	44	68	325	3	31	1,021
Intersegmental	-	-	-	-	-	-	-	-
Profit (loss) before taxes	396	20	(12)	213	102	3	52	774
Provision for taxes on profit	151	6	(5)	80	41	1	23	297
Profit (loss) after taxes	245	14	(7)	133	61	2	29	477
Net profit attributable to non-controlling interests	-	(3)	-	-	-	-	-	(3)
Net profit (loss)	245	11	(7)	133	61	2	29	474
Return on equity								9.5%
Average balance of assets	23,450	339	176	8,973	14,102	-	3,132	50,172
Average balance of credit to the public, net	21,132	339	160	8,957	13,904	-	3,071	47,563
Average balance of liabilities	26,178	1,115	81	3,050	10,321	-	1,170	41,915
Average balance of deposits of the public	25,306	-	81	2,951	10,293	-	973	39,604
Average balance of risk assets	29,406	389	423	9,123	11,726	-	3,132	54,199
Average balance of mutual funds and supplementary training funds	-	-	5,839	-	-	120	-	5,959
Average balance of securities	-	-	18,325	-	74	1,377	-	19,776
Average balance of other assets	497	-	-	-	-	-	-	497
Margin from credit-granting activities	578	8	-	217	243	-	99	1,145
Margin from deposit-taking activities	42	-	1	7	236	-	4	290
Total interest income, net	620	8	1	224	479	-	103	1,435
Balance of credit to the public, net, 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

Main Changes in the Volume of Activity

Credit to the public, net, increased by some NIS 3.4 billion, 6.9%. Deposits of the public increased by some NIS 8.3 billion, 18.6%, as a result of an increase in activity in Israel amounting to NIS 7.1 billion and an increase in overseas activity amounting to NIS 1.2 billion.

Main Changes in the Net Profit

Net profit in the commercial banking segment totaled NIS 534 million in 2015, compared with NIS 474 million in 2014, an increase of 12.7%.

The increase in profit derives from credit loss income amounting to NIS 103 million in 2015, as a result of collections in the Bank and in the United Kingdom office, compared with credit loss expenses amounting to NIS 153 million in 2014. The increase was offset by operating and other expenses amounting to NIS 204 million, as a result of a yield bonus recorded in 2015 and a change in the mix of the employees in the subsidiary in the United States**.**

E. Corporate Banking Segment

General

The corporate banking segment specializes in providing banking and financial services to large corporations, some of which are corporations with multi-national activities, and customers whose main occupation is in the fields of construction and real estate and infrastructure projects. The customers belonging to this segment are characterized by their leading position in the market and dominance in their sphere of business. The services provided are based on the provision of an overall solution for all of the customer's needs, with a view to the entire range of their business activity, *inter alia*: various types of credit, financing and international trade, investment services, capital market activities, financial instruments designed to hedge against market risks through dealing rooms, complex transactions (projects, mergers and acquisitions, syndicate organization), banking services, etc. Services outside of Israel are provided to the corporate segment through the Bank's overseas units - Bank Leumi USA, Bank Leumi (UK) and Bank Leumi Romania.

Structure and characteristics of the segment

The corporate banking segment is managed in Israel by the Corporate and Commercial Division and the International Credit and Real Estate Division and is dealt with by the Corporate Department and the Construction and Real Estate Department, which together operate seven corporate sectors. Service to customers is provided by customer relations managers, who coordinate the Group's services to the customer and specialize in the market sector in which the customer operates. The segment supplies a comprehensive range of banking services to all types of companies in the various sectors. The customers' accounts are mainly managed through departments located in central branches, which specialize in handling large customers and customers with diverse activities, as well as through the Bank's overseas offices. Special/complex transactions, for example, the acquisition of means of control, examination of investment programs and the financing of projects, international trade activity, finance of foreign debtors/domestic debtors, financial transactions executed by way of a syndicate, etc. are handled by designated units specializing in handling transactions of this kind, due to the complexity and level of risk involved.

The Special Loans Unit, which operates within the framework of the segment, deals with corporate customers who have encountered difficulties, with experience in assisting in the recovery of active customers and the collection of debts of corporate customers who cannot be rehabilitated.

Business objectives and strategy

The following information is "forward-looking information." For the meaning of this term, see above in the Chapter, "Forward-Looking Information".

The main objective of this segment is to deepen its relative advantage, provide maximum service to the segment's customers and to continue to improve its contribution to the Group's profits, through careful and prudent scrutiny of the exposures deriving from customers' activity and the unique risks for this sector. At the same time, the segment acts to expand the variety of products and services being offered to customers.

In light of the slowdown in business activity which occurred in 2014, the segment continued with the implementation of sound credit policy, distinguishing between the various risk levels, and the determination of credit margins and its terms, respectively.

The financing of business activity in the Bank's main service centers abroad contributes to the dispersal of risks through exposure to various macroeconomic environments and various characteristics of customers. Accordingly, the Bank is taking steps to increase its participation in transactions of its overseas offices, particularly real estate and hotels.

Developments in markets of the segment or changes in the characteristics of its customers

The following information is "forward-looking information". For the meaning of this term, see above in the chapter, "Description of the Banking Corporation and Forward-Looking Information".

2015 was characterized by a continuation in the decrease in demand for business bank credit, against a backdrop of a slowdown in business activity and in a diminution in large financing transactions, at the same time as an increase in competition among the capital market institutions, on the one hand, and capital restrictions in the banking system, on the other.

Expectations for 2016 are for a continuation in moderate economic growth in Israel, which, inter alia, will also have implications for the domestic market. Business activity will be affected by the macroeconomic situation in Israel and around the world, such as: the prices of goods and energy, the change between currencies and the geopolitical situation, which will affect the investment decisions of large corporations in the Israeli economy.

The corporate segment manages credit risks with extreme caution with regular review of customer populations and focusing on sensitive customers and examining trends of developments and their repercussions.

The housing real estate area in 2015 was characterized by strong activity in the housing market, with a significant increase in demand, this, in light of uncertainty regarding the application of the Government's plans (""Target Price" and "Price to Mortgagee" plans). In the fourth quarter of 2015, there was an increase in the marketing volumes of housing units as part of the "Price to Mortgagee" plans. However, the impact on the residential market has not yet been felt throughout Israel.

The office rental property market, which serves the corporate segment, correlates strongly with growth in the corporate product. In future years, it is likely that there will be an excess supply of office space in projects which are currently in the process of construction, and noting that fact, there was a significant decrease this year in the rate of starting new projects, particularly in the central part of the country, but no material changes have been noted in the occupancy rate or in rents.

The commercial real estate market is strongly affected by developments in private household consumption. This market remained relatively stable, which was reflected in maintaining relatively high occupancy rates and stable rents, despite the fall in the level of private consumption. However, a certain trend of tenants' anxiety as regards the ratio of rent at the level of redemption may be distinguished, which, in certain cases, is continuing to fall.

In the field of national infrastructure, including in the area of performance and infrastructure, which, in recent years, has enjoyed an increase in the volume of housing and non-housing construction, a slowdown in the rate of new project starts at a national level continued, together with fluctuations in the volumes of construction in the residential market and increasing competition in the area of performance.

In 2016, as in previous years, activity in the area of real estate is expected to be affected by the macroeconomic situation, government/regulatory intervention (particularly in the housing market), building completions (particularly in the office market) and the volumes of investments by the State in the area of national infrastructure.

For further information, on the subject of the world economy, see the Chapter, "Principal Developments in the Economy".

Products and services

The services provided include, *inter alia*, ongoing financing according to the customers' needs, financing of investments to maintain and expand operations, provision of solutions in the spheres of financing and international trade (including financing credit insurance or private insurance companies of projects abroad), financing and guidance of national and international projects, financing of mergers and acquisitions, extension of finance in large transactions through organization of syndicates cooperating with the institutional entities and foreign and Israeli banks, financial instruments to hedge against currency risks, interest risks and fluctuations in commodities prices. The service also includes the initiation and promotion of banking services to the companies, managements and employees of companies.

Leumi is the first Israeli bank to launch a "cash management" system, an innovative and secured portal, which includes a package of advanced financial services and products. The portal enables, *inter alia,* the receipt of centralized data regarding accounts in the various banks, monetary balances and movements.

Finance in the area of construction and real estate was effected by the use of specific analysis and monitoring tools which assist in the decision-making process and control of financial support given to the various projects and assets. Financing was carried out, directing the diversity of the credit portfolio and distinguishing between the various segments – housing, rental property with a designation for commerce and offices, construction for industry and commerce. The financing of projects during the period of construction, and particularly, for housing, will, in general, be effected using the construction loan method which facilitates frequent close supervision of the project being financed.

Financing the area of construction and real estate also includes the special funding format for national infrastructure projects using the various types of the public private partnership (PPP) method. Analysis of these transactions and the construction of the appropriate financing package are carried out taking into account the nature of the project, an analysis of the ability to service the debt, the extent of right of recourse to promoters, the establishment and operation contract restriction and technical limitations, etc.

In addition, pursuant to the financing of the area of construction and real estate, the segment also deals with the extension of credit, support of the initiation and development of real estate and hotel projects, the purchase of rental properties, including nursing retirement homes and their operation through the Bank's overseas units.

Customers

Customers belonging to this segment are mostly characterized by their leading position in the market and dominance in their field of activity. Some of these are public companies from a variety of different sectors of the economy, with complex organizational structures comprised of numerous management echelons and a broad span of control.

As a rule, customers with a volume of approved credit facilities exceeding NIS 120 million (inclusive) or customers with a business turnover of more than NIS 20 million and NIS 400 million will be associated with the corporate banking segment. Customers with a facility of up to NIS 80 million will also be dealt with in the corporate banking segment, if their total obligo in the banking system exceeds NIS 250 million. In addition, customers in the Construction and Real Estate Department whose approved facilities exceed in aggregate NIS 50 million in real estate projects (CL) and up to NIS 80 million in infrastructure and performance projects are also included in this segment.

Marketing and distribution

Service and marketing to customers are provided by customer relations managers who specialize in the sector of the economy in which the customers operate, and who coordinate the Group’s services to customers.

Structure of competition

The status of the Israeli banks as the sole financers of corporations has continued to diminish over the years, such that the weighting of credit to the corporate sector (including small and middle-market businesses) provided by the banking system is below 50%.

There is competition in the segment, both on the part of the other banking groups in Israel and foreign banks, and on the part of the Israeli capital market and the institutional entities, such as insurance companies and pension funds, which make up most of the competition for business credit (particularly for large companies). In recent years, there has been a greater involvement from the institutional entities, and, as a consequence, the percentage of direct loans extended by institutional corporate entities has continued to increase.

Below is a summary of the results of operations of the Corporate Banking segment:

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	2015						
	NIS millions						
Net interest income:							
From external sources	**904**	**21**	**-**	**650**	**3**	**(1)**	**1,577**
Intersegmental	**(280)**	**(1)**	**-**	**(137)**	**-**	**6**	**(412)**
Non-interest income:							
From external sources	**(236)**	**192**	**10**	**297**	**2**	**2**	**267**
Intersegmental	**403**	**(94)**	**-**	**51**	**-**	**-**	**360**
Total income	**791**	**118**	**10**	**861**	**5**	**7**	**1,792**
Expenses in respect of credit losses	**(183)**	**-**	**-**	**52**	**-**	**-**	**(131)**
Operating and other expenses:							
To external sources	**390**	**93**	**8**	**171**	**4**	**4**	**670**
Intersegmental	**1**	**-**	**-**	**-**	**-**	**-**	**1**
Profit before taxes	**583**	**25**	**2**	**638**	**1**	**3**	**1,252**
Provision for taxes on profit	**220**	**7**	**1**	**241**	**1**	**-**	**470**
Profit after taxes	**363**	**18**	**1**	**397**	**-**	**3**	**782**
Net profit attributable to non-controlling interests	**-**	**(4)**	**-**	**-**	**-**	**-**	**(4)**
Net profit	**363**	**14**	**1**	**397**	**-**	**3**	**778**
Return on equity							**9.9%**
Average balance of assets	**36,273**	**380**	**-**	**21,527**	**91**	**5**	**58,276**
Average balance of credit to the public, net	**34,682**	**353**	**-**	**21,479**	**91**	**5**	**56,610**
Average balance of liabilities	**20,993**	**2,627**	**1**	**6,457**	**170**	**255**	**30,503**
Average balance of deposits of the public	**19,867**	**-**	**1**	**5,828**	**169**	**255**	**26,120**
Average balance of risk assets	**47,967**	**416**	**18**	**38,910**	**160**	**5**	**87,476**
Average balance of mutual funds and supplementary training funds	**-**	**-**	**779**	**-**	**-**	**-**	**779**
Average balance of securities	**-**	**-**	**52,198**	**-**	**-**	**-**	**52,198**
Average balance of other assets under management	**173**	**-**	**-**	**-**	**-**	**-**	**173**
Margin from credit-granting activities	**612**	**21**	**-**	**509**	**(1)**	**2**	**1,143**
Margin from deposit-taking activities	**12**	**(1)**	**-**	**4**	**4**	**3**	**22**
Total interest income, net	**624**	**20**	**-**	**513**	**3**	**5**	**1,165**
Balance of credit to the public, net	**33,359**	**330**	**-**	**21,352**	**54**	**-**	**55,095**
Balance of deposits of the public	**21,528**	**-**	**-**	**5,597**	**259**	**137**	**27,521**

Corporate Banking Segment (continued):

	Banking and finance	Credit cards	Capital market	Real estate	Overseas activity: Banking and finance	Overseas activity: Real estate	Total
	2014						
	NIS millions						
Net interest income:							
From external sources	1,172	20	1	741	1	1	1,936
Intersegmental	(446)	(2)	1	(247)	7	3	(684)
Non-interest income:							
From external sources	502	188	13	431	2	1	1,137
Intersegmental	(164)	(92)	-	(108)	-	-	(364)
Total income	1,064	114	15	817	10	5	2,025
Expenses in respect of credit losses	(370)	-	-	(119)	-	-	(489)
Operating and other expenses:							
To external sources	362	81	9	171	7	3	633
Intersegmental	1	-	-	-	-	-	1
Profit before taxes	1,071	33	6	765	3	2	1,880
Provision for taxes on profit	406	9	2	288	1	-	706
Profit after taxes	665	24	4	477	2	2	1,174
Net profit attributable to non-controlling interests	-	(5)	-	-	-	-	(5)
Net profit	665	19	4	477	2	2	1,169
Return on equity							15.6%
Average balance of assets	39,298	381	67	21,042	89	43	60,920
Average balance of credit to the public, net	37,689	354	66	20,998	89	42	59,238
Average balance of liabilities	19,452	2,874	-	5,432	461	167	28,386
Average balance of deposits of the public	17,992	-	-	4,850	461	167	23,470
Average balance of risk assets	47,651	420	102	36,017	142	43	84,375
Average balance of mutual funds and supplementary training funds	-	-	1,879	-	-	-	1,879
Average balance of securities	-	-	58,714	-	-	-	58,714
Average balance of other assets under management	192	-	-	-	-	-	192
Margin from credit-granting activities	716	18	-	484	-	2	1,220
Margin from deposit-taking activities	10	-	2	10	8	2	32
Total interest income, net	726	18	2	494	8	4	1,252
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 Volume of Activity

In the corporate banking segment, there was a decrease in credit to the public of some NIS 3.7 billion, or 6.2%, primarily from domestic activities. There was a decrease in deposits of the public of some NIS 0.2 billion, or 0.8%.

Main Changes in the Net Profit

Net profit in the corporate banking segment in 2015 totaled NIS 778 million, compared with NIS 1,169 million in the corresponding period last year, a decrease of 33.4%.

The decrease in profit derived mainly from a decrease in net noninterest income amounting to NIS 146 million, as a result of profit from the sale of Tower shares amounting to NIS 150 million which was recorded last year and from income in respect of credit losses amounting to NIS 358 million, as a result of collections which occurred last year.

F. Financial Management Segment – Capital Markets

General

This segment includes two areas:

1. The financial management of the Bank and of the Group deals with the management of the dealing rooms and provides various services to banks and institutional investors, and acts as a "customer manager" for them. The main areas of activity of the segment are as follows:
   - Management of the *nostro*, by way of the investment of the Bank's independent financial means in tradable and non-tradable investment instruments and management of direct investments, in the companies' tradable and non-tradable shares, with the non-bank investments being managed by Leumi Partners.
   - Management of the dealing rooms, which provide trading services to customers of the Bank, including market-making, primarily in currencies, securities and derivative instruments;
   - Management of sources and applications and liquidity;
   - Management of market risk exposures – including the management of basis, interest and liquidity exposures;
   - Price management – by setting transfer prices and costing special financial transactions;
   - Management of banking activity of institutional customers and other corporations with extensive activity in the capital market;
   - Development of financial instruments.
2. Leumi Partners, which constitutes the investment banking vehicle of the Leumi Group and operates a unique **merchant banking** platform combining four areas of activity:
   - Management of a portfolio of nonbank investments of Leumi Group;
   - Underwriting, consulting and management of private and public capital mobilizations in Israel;
   - Consulting and management of the mergers and acquisition (M&A) processes and capital mobilizations;
   - Economic analyses and valuations.

For further information regarding Leumi Partners, see Chapter on "Principal Investee Companies, Leumi Partners".

Structure of the segment

Financial management (except for activity carried by Leumi Partners as outlined above) is carried out by the Capital Markets Division, which centralizes and coordinates the topic at Group level. The financial management activity includes the banking portfolio and the trading portfolio, as well as providing service to customers active in the capital and money markets, including institutional customers. Activity in the banking portfolio is managed in the ALM Department and includes the management of sources and applications and exposure to market risks and liquidity. Activity for commerce is performed by the trading rooms and *nostro* units in Israeli and foreign currencies.

The main tools for management of the banking portfolio – transition prices, activity in the available-for-sale *nostro* portfolios and the use of derivative instruments.

The main areas of responsibility of ALM – Management of the Bank's financial capital and exposures to market risks, management of corporate and statutory liquidity and liquidity risk, as well as the allocation of sources to the various applications by means of the implementation of transition price policy. This policy is determined according to: the Bank's requirements, planning and management of the mix of sources and applications, developments in the corporate environment and forecasts. Within this framework, the methodology for settling accounts between the profit centers is also determined, and the complex and special transactions are priced.

The day-to-day management of the liquidity is applied pursuant to the Bank's policy and according to the requisite directives. The management is carried out by a designated unit, whose main function is the optimal planning and management of the liquidity balances, subject to the risk appetite, ensuring a level of liquidity which enables corporate activity, compliance with all the Bank's financial obligations in a normal business environment and in stress scenarios. The measurement, analysis, planning and reporting is carried out through Summix (formerly Risk Pro) risk management system, which provides vast information on any financial activity of the Bank and on market and liquidity risks inherent therein. The system facilitates review and control of the effect of various scenarios (price and quantity) on the Bank's financial profitability and capital.

For a description of the main points of policy for investments in securities (*nostro*), see chapter "Structure and Development of Assets and Liabilities, Capital and Capital Adequacy, Securities".

Corporate strategy and goals

The strategy of the Financial Management segment is to increase the gap in leading in the Israeli capital market against competitors, maintaining the Bank's financial strength through:

- Providing an overall customer experience, adapted to a particularly high standard.
- Provision an innovative technological environment which corresponds to the needs of the customer.
- Preparing for utilizing the opportunity in changes in the business environment and in competition.
- Providing a package of total service to customers with customized solutions.
- Coordinating all of the relevant services for customers who are active in the capital market under one roof in the capital market.

The activity of Leumi Partners , which is, by its nature, activity in long-term investment, does not come into the calculations of the Bank's sources and uses. This is because of the high uncertainty both in relation to yield and in relation to the period to realization. These uncertainties consequently cause that, on the one hand, the activity is not included in the asset and liability management, and on the other hand, it is kept at a level of a few percentage points of the nostro.

It should be further clarified that the targets of the non-bank investment activity are the achievement of a surplus yield in comparison to the financial investment of the nostro, the increase in of the investment and the attainment of favorable investment terms by the leverage of goodwill and the accumulated experience of Leumi Group, supplementary activity to the credit portfolio and the expansion of the Group's value proposal to its customers, the widening of the risk dispersal and the variety of income sources of the Group, as well as the Group's business promotion by the leverage of the investment for the purpose of constructing additional income sources for Leumi Partners and other units of the Group. It should be further noted that the target for the maximum total non-bank investment of Leumi Partners is NIS 3 billion (and in accordance with the directive received from the Bank of Israel on 23 March 2015, the maximum total non-bank investment must be reduced to NIS 2.5 billion by 1 January 2017). As a rule, the target for single investment total stands at NIS 250 – 400 million, focusing on investments with a duration of 6 years. The non-bank investment strategy establishes a preference for private companies. In addition, the high feasibility of realization is included between the quality points of emphasis in the non-bank investment policy of Leumi Partners.

Profit of the segment

The segment’s profit is mainly influenced by the *nostro* activities, the dealing rooms and ALM management, as well as the results of non-banking companies included on equity basis. The principal components of net profit are as follows:

- Results of market risk management, including the changes that have occurred in transfer prices. Income and expenses resulting from changes in transfer prices are attributed in full to the financial segment, to which all of the market risks from the other operating segments are also transferred;
- Profits/losses from the realization of securities and from provisions for declines in values of securities in respect of declines of a non-temporary nature, and from unrealized profits/losses from adjustments of securities for trading to market value;
- Adjustments of derivative instruments to market value;
- Effects of foreign currency/shekel exchange rate and consumer price index differentials, including adjustments from the translation of overseas investments, including the effects of related taxes;
- Income deriving from market-making activity;

- Income/expenses deriving from the investment for pension, jubilee and regular holiday reserves;
- Particular costs relating to pension liabilities, calculated on an actuarial basis;
- Profits of companies included on equity basis.

Operating expenses of the segment include mainly direct operating expenses, as well as indirect expenses involved in the management of market risks, management of the independent securities (the *nostro*) portfolios and management of the dealing rooms.

Developments in the markets

The financial management was managed in 2015 against a background of a number of significant trends, including a decline in the level of returns and credit margins in Israel and around the world, devaluation of the shekel, and a decline in the rate of increase in the price index which was affected by a reduction in the prices of goods around the world, particularly energy prices.

Products and services

Most of the activity in this segment includes custodian services, brokerage and negotiable and non-negotiable derivatives. In addition, the Bank provides operating services to provident fund and mutual fund management services. Against the backdrop of proposals for the regulation that will prevent the Bank from continuing to provide operating services to provident funds, on 27 October 2015, the Bank published an Immediate Report regarding the management of initial and non-binding contacts to sell its subsidiary, which supplies, among other things, these services. At this stage, no decisions or directives on the subject have been announced. The transaction to be carried out, if any, will not have a significant impact on the Bank's financial results.

Customers

The customers belonging to this segment are insurance companies, provident funds, training funds, pension funds, mutual funds, ETFs, commercial banks and investment banks, as well as other customers operating intensively in the capital markets.

Marketing and distribution

Marketing is carried out by the customer managers in the lines of business for their customers, and by the customer managers in the Capital Markets Division for customers of the division (institutional, capital market, portfolio managers and foreign banks).

Competition structure

The Bank faces strong competition in the field of its activities in the capital market, in granting brokerage and custodian services, and activity in negotiable and non-negotiable derivatives against local banks, foreign banks and investment houses.

Below is a summary of the results of operations of the Financial Management Segment – Capital Markets:

	For the year ended 31 December	
	2015	2014
	NIS millions	
Net interest income:		
From external sources	**(317)**	(422)
Intersegmental	**930**	1,137
Non-interest income:		
From external sources	**2,320**	720
Intersegmental	**(434)**	118
Total income	**2,499**	1,553
Expenses (income) in respect of credit losses	**(56)**	205
Operating and other expenses:		
To external sources	**1,080**	1,054
Intersegmental	**57**	51
Profit before taxes	**1,418**	243
Provision for tax on profit (tax benefit)	**490**	(118)
Profit after taxes	**928**	361
Group share in losses (profits) of companies included on equity basis	**172**	37
Loss attributable to non-controlling interests	**-**	-
Net profit	**1,100**	398
Return on equity	**37.1%**	13.0%
Average balance of assets	**136,370**	118,119
Average balance credit to the public, net	**3,163**	3,610
Average balance of liabilities	**110,467**	102,060
Average balance of deposits of the public	**58,913**	51,351
Average balance of risk assets	**34,689**	35,406
Average balance of mutual funds and supplementary training funds	**203,100**	188,353
Average balance of securities	**392,722**	384,106
Margin from credit-granting activities	**2,580**	3,822
Margin from deposit-taking activities	**(1,967)**	(3,107)
Total interest income, net	**613**	715
Balance of credit to the public, net	**2,641**	3,274
Balance of deposits of the public	**60,529**	54,636

In 2015, the net profit of the segment amounted to NIS 1,100 million, compared with a profit of NIS 398 million in 2014. This segment includes the Group's share in the profits of companies included on equity basis. The increase in net profit derives from an increase in noninterest income amounting to NIS 1,048 million, mostly as a result of profits from the sale of the shares of the Israel Corporation, Mobileye and Derech Eretz. The increase was partially offset by an increase in the provision for tax.

It should be clarified that all of the Bank's actuarial income and expenses are recorded in the Financial Management segment and not in other segments.

Companies included on equity basis (non-banking) (presented in the Financial Management segment).

The operating results of the Group’s non-banking investments are presented in the Financial Management segment.

Total investments of the Leumi Group in companies included on equity basis totaled some NIS 924 million on 31 December 2015, compared with NIS 2,216 million on 31 December 2014.

Investments in the shares of companies included on equity basis

	Book value			**Market value**		**Capital adequacy requirements (a)**	
	31 December 2015	31 December 2014	Change	**31 December 2015**	31 December 2014	**31 December 2015**	31 December 2014
	NIS millions		%	NIS millions			
The Israel Corporation Ltd.	**-**	1,318	(100.0)	**-**	2,566	**-**	165
Others	**924**	898	2.9	**-** (b)	- (b)	**116**	112
Total	**924**	2,216	(58.3)	**-**	2,566	**116**	277

(a) The capital requirements have been computed at 12.5% in accordance with the minimum ratio applicable from 1 January 2015. In 2013, the capital requirements were computed at 9% in accordance with the minimum required until the end of 2013.
(b) Of this, NIS 203 million at 31 December 2015 and NIS 194 million at 31 December 2014 are quoted.

The contribution of the companies to the Group's net profit (in NIS millions) is as follows:

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions			%
The Israel Corporation Ltd.	**114**	(8)	122	+
Others	**63**	50	13	26.0
Total	**177**	42	135	+

The profits of companies included on equity basis for the Group in 2015 amounted to NIS 177 million, compared with NIS 42 million in the corresponding period last year.

The contribution of companies included on equity basis to other comprehensive income at 31 December 2015 was a profit of NIS 16 million, after tax, at 31 December 2015, compared with a loss of NIS 78 million, after tax, at 31 December 2014.

The Israel Corporation

As of the date of signing this report, the Bank held 5.9% of the means of control in the Israel Corporation Ltd., (hereinafter, "the Israel Corporation") which is considered a significant non-bank corporation pursuant to the Banking Law (Licensing), as amended via the Concentrations Law on 11 December 2013

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

In fourth quarter of 2015, impairment expenses amounting to NIS 282 million was recorded in respect of the shares of Kenon Holdings.

G. "Others" Segment – This segment includes activities not attributed to other segments.

This segment includes the other activities of the Group, each of which does not meet the criteria to be considered a profit segment, pursuant to the directives of the Bank of Israel.

This activity mainly includes a portion of the activities of the capital market companies that is not attributed to other segments. The main companies are the part of Leumi Partners which does not belong to the financial management segment and Leumi Capital Market Services.

The profit in the "other" segment in 2015 amounted to NIS 300 million, compared with a loss of NIS 44 million in 2014.

The following table presents a summary of the main changes, in NIS millions:

	For the year ended 31 December			
	2015	2014	Change	
	NIS millions			%
Net profit in the Bank	**126**	74	52	70.3
Other companies in Israel	**16**	15	1	6.7
Companies abroad	**174**	4	170	+
Tax adjustments (a)	**(16)**	(137)	121	88.3
Total	**300**	(44)	344	+

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

Activities in Products

1. Capital market activities

The Group's activities in the capital market include investment, consulting in training funds, the operation of all the dealing rooms for market-making, trade, currency brokerage, interest rates, in derivatives and securities, brokerage and custodial services, and banking and financial services to entities active in the capital market. A subsidiary of Leumi Partners Ltd., Leumi Partners Underwriters, engages in underwriting and the distribution of private and public offerings. The profit in capital market activity amounted to NIS 79 million, compared with a profit of NIS 72 million in the corresponding period last year, an increase in net profit of NIS 151 million, deriving mainly from a decrease in the loss from overseas activities.

The following table presents data on the activities in the capital market as presented in the various operating segments, including the activities of customers in the capital market, and the results of Leumi Partners Underwriters:

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Financial management and others	Overseas activities	Total
	2015							
	NIS millions							
Net interest income	**5**	**1**	**-**	**-**	**-**	**1**	**-**	**7**
Non-interest income	**475**	**32**	**158**	**26**	**10**	**149**	**90**	**940**
Total income	**480**	**33**	**158**	**26**	**10**	**150**	**90**	**947**
Operating and other expenses	**364**	**19**	**74**	**17**	**8**	**178**	**150**	**810**
Profit (loss) before taxes	**116**	**14**	**84**	**9**	**2**	**(28)**	**(60)**	**137**
Net profit (loss)	**72**	**9**	**55**	**6**	**1**	**(15)**	**(49)**	**79**

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Financial management and others	Overseas activities	Total
	2014							
	NIS millions							
Net interest income	4	1	1	1	2	5	-	14
Non-interest income	474	31	165	31	13	144	194	1,052
Total income	478	32	166	32	15	149	194	1,066
Operating and other expenses	403	16	74	44	9	179	376	1,101
Profit (loss) before taxes	75	16	92	(12)	6	(30)	(182)	(35)
Net profit (loss)	47	10	58	(7)	4	(17)	(167)	(72)

2. Credit cards - Leumi Card

Leumi Card Ltd. (hereinafter: "Leumi Card") is a credit card company which is engaged in issuing credit cards, clearing credit card transactions, credit card operations and providing payment solutions and financial products.

Issuance segment – Leumi Card issues cards under the brand names, Visa and Mastercard, through which businesses that honor these brands in Israel and around the world may be paid. Leumi Card issues two types of credit card: credit cards issued jointly with Bank Leumi to its customers and credit cards issued, usually in cooperation with business entities to customers of all of the banks ("non-bank credit cards").

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

The number of valid cards held by Leumi Card customers at the end of 2015 amounted to 2.48 million (of which 1.64 million were bank cards and 841 thousand were non-bank cards), compared with 2.36 million cards (of which 1.59 million were bank cards and 775 thousand were non-bank cards) at the end of 2014, an increase of 5%. The percentage of active cards stands at 82% of total valid cards (for this purpose, "active cards" are valid cards with which at least one transaction has been made in the course of the last quarter).

The total issuance turnover of Leumi Card in 2015 – (The volume of transactions made in all of the cards of Leumi Card during the period, excluding withdrawals of cash in Israel, and net of elimination of transactions) amounted to NIS 67.8 billion (of which NIS 50.2 billion was for bank cards and NIS 17.6 billion was for non-bank cards), compared to NIS 63.9 billion in 2014 (of which NIS 47.3 billion was for bank cards and NIS 16.6 billion was for non-bank cards)– an increase of 6%.

Clearing sector – Leumi Card clears the Visa and Mastercard-type credit cards, and from May 2012, also clears the Isracard-type credit cards. The clearing of the credit cards from the said brands is performed through a joint interface which is operated via the Automated Bank Services Ltd. ("ABS"). In 2015, the company began clearing the UnionPay brand, in accordance with a license agreement it signed with UnionPay International Co. Ltd. Organization.

The clearing services include the securing of payment to businesses with which Leumi Card is connected in clearing agreements in respect of transaction vouchers executed by credit cards of the types that Leumi Card clears, this, in exchange for a commission collected by Leumi Card from the business ("business commission"). In addition, Leumi Card offers businesses credit products and financial solutions, such as loans, discounting of vouchers and advance payments.

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.

The Strum Committee has yet to publish its recommendations, and it is still not possible to know whether the On 14 December 2015, the Interim Report of the Strum Committee was published and on 6 January 2016, an additional version of the draft report was published for comments from the public. At this stage, it is not possible to assess what the Company's final recommendations will be after the process of hearing the public's comments to the draft report. Furthermore, it is impossible to assets at this stage whether the Committee's recommendations, in their final format, will be adopted in the legislation, and if indeed, they are adopted, what the transitional provision to be stipulated will be. It should be noted in this context that during the Committee's work, a number of key points of dispute came to light between the Bank of Israel and the Ministry of Finance, mainly, in all matters related to giving banks the option of issuing new credit cards, and in relation to the factors which would regulate the new credit market that would be established.

Currently, there is no proposed law and there is no legislation which requires the sale of credit card companies by the banks. 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 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 yet 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 85 million, according to the tax rate known at the publication date of the financial statements..

For information relating to legislation regarding credit cards, see Chapter "Legislation and Regulation relating to the Banking System".

The income of Leumi Card totaled some NIS 1,054 million in 2015, compared with NIS 1,015 million in 2014.

Leumi Card ended 2015 with a net profit of NIS 180 million, compared with NIS 197 million in 2014.

The Bank's holding in credit cards

The information below is "forward-looking information". For the meaning of this term, see in the chapter "Forward-looking information"

On 3 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 aggregate consideration to be paid pursuant to the transaction is estimated at 21.2 billion euros, and this is made up of payment in cash and shares. The execution of the transaction is subject to the receipt of various regulatory approvals. Pursuant to the reports, it is expected that the transaction will be completed in 2016.

According to preliminary information which reached the Bank regarding the method of allocation of the consideration between the members in Visa Europe Ltd., as long as the transaction is completed, the consideration that is expected to be paid to the Bank in respect of the companies in Visa Europe Ltd. is expected to amount to NIS 274 million in cash and NIS 94 million in shares. (According to the preliminary assessments as stated above, the total of these two components are expected to amount to NIS 368 million.) In addition, according to the conditions of the transaction, future consideration is expected, contingent on compliance with the targets provided in the transaction, which will be paid in two years time, in a total of NIS 105 million in cash. The data above were computed according to the exchange rate of the euro on 23 December 2015.

There is no certainty that the transaction will be concluded.

The following table presents data on credit card activities in the Group, as presented in the various operating segments:

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Total
	2015					
	NIS millions					
Net interest income	**220**	**20**	**-**	**9**	**20**	**269**
Non-interest income	**734**	**80**	**2**	**44**	**98**	**958**
Total income	**954**	**100**	**2**	**53**	**118**	**1,227**
Expenses in respect of credit losses	**13**	**-**	**-**	**-**	**-**	**13**
Operating and other expenses	**660**	**69**	**3**	**40**	**93**	**865**
Profit (loss) before taxes	**281**	**31**	**(1)**	**13**	**25**	**349**
Profit attributed to non-controlling interests	**(28)**	**(2)**	**-**	**(2)**	**(4)**	**(36)**
Net profit (loss)	**161**	**19**	**(1)**	**7**	**14**	**200**

	Households	Small businesses	Private banking	Commercial banking	Corporate banking	Total
	2014					
	NIS millions					
Net interest income	219	18	-	8	18	263
Non-interest income	718	77	2	44	96	937
Total income	937	95	2	52	114	1,200
Expenses (income) in respect of credit losses	25	-	-	-	-	25
Operating and other expenses	631	63	3	32	81	810
Profit (loss) before taxes	281	32	(1)	20	33	365
Profit attributed to non-controlling interests	(29)	(3)	-	(3)	(5)	(40)
Net profit (loss)	166	19	(1)	11	19	214

3. Construction and real estate

This includes activity in the field of construction and real estate in the Bank's various operating segments.

The following table sets out data regarding construction and real estate activities, as presented in the various operating segments:

	Small businesses	Private banking	Commercial banking	Corporate banking	Overseas activity	Total
	2015					
	NIS millions					
Net interest income	**280**	**13**	**253**	**513**	**181**	**1,240**
Non-interest income	**73**	**18**	**65**	**348**	**18**	**522**
Total income	**353**	**31**	**318**	**861**	**199**	**1,762**
Expenses (income) in respect of credit losses	**36**	**1**	**(16)**	**52**	**4**	**77**
Operating and other expenses	**134**	**14**	**85**	**171**	**61**	**465**
Profit before taxes	**183**	**16**	**249**	**638**	**134**	**1,220**
Net profit	**114**	**10**	**155**	**397**	**77**	**753**

	Small businesses	Private banking	Commercial banking	Corporate banking	Overseas activity	Total
	2014					
	NIS millions					
Net interest income	267	14	224	494	128	1,127
Non-interest income	68	20	59	323	20	490
Total income	335	34	283	817	148	1,617
Expenses (income) in respect of credit losses	14	-	2	(119)	34	(69)
Operating and other expenses	125	15	68	171	41	420
Profit (loss) before taxes	196	19	213	765	73	1,266
Net profit (loss)	122	12	133	477	44	788

Profit centers in the Group

The following table presents details on the contribution of the Group's principal profit centers to the net operating profit:

	2015		2014	
	Total investment	Contribution to net profit	Total investment	Contribution to net profit
	NIS billions	NIS millions	NIS billions	NIS millions
The Bank (d)	**2,015**	1,544	471	31
Subsidiary companies in Israel (a)	**657**	586	71	12
Overseas subsidiary companies (b) (d)	**35**	(721)	756	+
Companies included on equity basis (a)	**128**	4	124	+
Net profit	**2,835**	1,413	1,422	+
Profit (loss) of the overseas offices, in nominal values ($ million) (c)	**33**	(250)	283	+

(a) Companies included on equity basis of subsidiaries in Israel were included in consolidated subsidiaries in Israel.
(b) Following certain adjustments to accounting principles in Israel.
(c) As reported by the overseas offices, including net profit to noncontrolling interest holders.

Following are the principal changes in the contributions of the profit centers (after translation adjustments):

The Bank

The increase in net profit in the Bank is due mainly to an increase in noninterest financial income as a result of the sale of shares of the Israel Corporation amounting to NIS 638 million after the effect of tax and an increase in other income amounting to NIS 75 million from the sale of assets. The increase was offset by a decrease in net interest income amounting to NIS 198 million as a result of a decrease interest and an increase operating and other expenses amounting to NIS 158 million, mainly due to a yield bonus recorded in 2015, compared with expenses in respect of the arrangement with overseas authorities which were recorded last year.

Subsidiaries in Israel

The increase in net profit of consolidated companies in Israel is due mainly to an increase in the profits of Leumi Partners amounting to NIS 117 million, as a result of an increase from the sale of shares of Mobileye and Derech Eretz. The increase was partly offset by a decrease in the profits of the Arab-Israel Bank and Leumi Card.

Subsidiaries abroad

The total contribution to the net profit of the overseas offices (excluding overseas branches) as a convenience translation to U.S. dollars amounted to a profit of US$ 33.0 million, compared with a loss of US$ 250.0 million in the corresponding period last year. The overseas offices' contribution to net profit in shekels and with certain adjustments to Israeli accounting principles, amounted to a profit of NIS 35 million, compared with a loss of NIS 721 million in the corresponding period last year. The increase in profit arises from the expenses in respect of the arrangements with overseas authorities which were recorded last year.

Companies included on equity basis

With effect from 31 March 2015, as a result of the decrease in the rates of shareholding and the permanent waiver on the Bank's representation on the Board of Directors of the Israel Corporation, the Bank classifies the investment in the Israel Corporation in the available-for-sale securities portfolio. The Bank's share in the profits of the Israel Corporation is for the first quarter of 2015. With effect 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 in other comprehensive income only.

Accordingly, the profits of companies included on equity basis include the profit of the Israel Corporation amounting to NIS 114 million in respect of the first quarter of 2015, compared to a loss of NIS 8 million in respect of 2014. In addition, the item also includes profits of companies included on equity basis of Leumi Partners.

Activities according to the Group's Structure

In 2015, the volume of activities in Israel was 91.6%, an increase of 0.7%, compared with 2014. The volume of overseas activity in 2015 was 8.4%, a decrease of 0.7%.

Credit to the public in activities in Israel totaled some NIS 238.1 billion at the end of 2015, compared with NIS 229.3 billion at the end of 2014, an increase of 3.8%. Credit to the public in overseas activities totaled some NIS 23.3 billion at the end of 2015, compared with NIS 23.2 billion at the end of 2014, an increase of 0.8%.

Deposits of the public in activities in Israel totaled some NIS 302.1 billion at the end of 2015, compared with NIS 272.5 billion at the end of 2014, an increase of 10.9%. Total deposits in overseas activities amounted to NIS 26.6 billion at the end of 2015, compared with NIS 30.9 billion at the end of 2014, a decrease of 14.2%.

Information according to geographical regions[a]:

The following table presents principal data according to geographical regions:

	Total Balance Sheet			Credit to the Public			Deposits of the public		
	31 December 2015	31 December 2014	Change	**31 December 2015**	31 December 2014	Change	**31 December 2015**	31 December 2014	Change
	NIS millions		%			%			%
Israel	**381,377**	360,685	5.7	**238,054**	229,314	3.8	**302,130**	272,452	10.9
United States	**23,685**	20,225	17.1	**15,530**	14,363	8.1	**17,675**	16,471	7.3
United Kingdom	**9,149**	8,778	4.2	**6,836**	6,242	9.5	**7,156**	7,200	(0.6)
Switzerland	**609**	5,105	(88.1)	**36**	1,259	(97.1)	**4**	4,955	(99.9)
Luxembourg	**505**	756	(33.2)	**238**	406	(41.4)	**985**	1,368	(28.0)
Romania	**1,158**	1,249	(7.3)	**705**	841	(16.2)	**743**	818	(9.2)
Others abroad	**16**	186	(91.4)	**-**	55	(100.0)	**-**	133	(100.0)
Total	**416,499**	396,984	4.9	**261,399**	252,480	3.5	**328,693**	303,397	8.3

(a) Classified according to the location of the office.

For information regarding exposures to foreign countries, see chapter "Credit Risk".

The following table presents a breakdown of the net profit by geographical regions:

	Net profit			
	December 2015	December 2014	Change	
	NIS millions			%
Israel (a)	**2,752**	2,138	614	28.7
United States (b)	**240**	(182)	422	(231.9)
United Kingdom (c)	**45**	83	(38)	(45.8)
Switzerland (d)	**(134)**	(554)	420	(75.8)
Luxembourg	**(39)**	(29)	(10)	34.5
Romania (e)	**(40)**	(58)	18	(31.0)
Others abroad (f)	**11**	15	(4)	(26.7)
Total	**2,835**	1,413	1,422	100.6

The profit from activities abroad is shown according to their contribution in the consolidated financial statements.

(a) Net profit in Israel increased by some NIS 614 million. Net profit after tax at the Bank in Israel increased due to the reasons set forth in the chapter, "Profit centers in the Group ". In addition, the net profit also increased in subsidiaries in Israel, mainly in Leumi Partners.

(b) The profits of the subsidiary in the United States rose compared with the corresponding period last year, as well as in terms of U.S. dollars, mainly due to the expenses in respect of the arrangements with overseas authorities which were attributed to the office in the United States in 2014.

(c) The profit of the subsidiary in the United Kingdom increased relative to the corresponding period last year in local terms, mainly as a result of a decrease in expenses in respect of credit losses.

(d) The decrease in the losses of the subsidiary in Switzerland derives from its material share in the expenses in respect of the arrangements with overseas authorities which were recorded in 2014.

(e) The loss in the Romanian office in 2014 and 2015 derives from high credit loss expenses incurred as a part of the process to reduce the percentage of the non-yielding credit portfolio of the total credit portfolio of the office, which was higher than the average in the banking system in Romania.

(f) The profit relates mainly to Leumi Re, after adjustments for the purpose of the consolidated report.

(g) Of this in respect of the arrangements with overseas authorities, NIS 48 million – in Israel, NIS 41 million and in the United States, NIS 7 million (2014 – NIS 1,026 million, Israel, NIS 256 million, United States NIS 237 million, Switzerland, NIS 505 million and Luxembourg, NIS 28 million).

For further details, see Note 28B.

Major Investee Companies[1]

The Leumi Group operates in Israel and abroad through subsidiaries which are: banks, finance companies and financial services companies. The Group also invests in non-bank corporations operating in the fields of insurance, energy, chemicals, infrastructure, etc.

For information regarding investments in non-banking corporations, see chapter, "Companies Included on Equity Basis".

The Bank's total investments in investee companies (including investments in capital notes) amounted to NIS 12.5 billion on 31 December 2015, compared with NIS 13.5 billion on 31 December 2014, and the contribution of the investee companies to the Group's net profit amounted to a profit of NIS 820 million, compared with a loss of NIS 131 million in 2014.

The following table sets out the breakdown of the contribution of the Bank and its subsidiaries and investee companies to the net profit of the Group:

	Return on Group investment		Contribution (a) to Group net profit		
	2015	2014	**2015**	2014	Change
	%		NIS millions		%
The Bank	**11.9**	10.4	**2,015.1**	1,543.6	30.5
Total consolidated subsidiaries in Israel	**10.9**	10.6	**657.1**	586.0	12.1
of which:					
Arab Israel Bank	**12.9**	16.0	**85.7**	94.2	(9.0)
Leumi Card	**11.4**	13.6	**144.2**	156.7	(8.0)
Leumi Partners (b)	**34.0**	36.3	**402.6**	286.5	40.5
Leumi Capital Market Services Ltd.	**9.0**	9.3	**3.9**	3.6	8.3
Leumi Real Holdings	**-**	0.6	**0.2**	5.7	(96.5)
Leumi Finance	**-**	6.4	**-**	10.4	(100.0)
Leumi Tech (formerly Leumi Leasing and Investments)	**0.1**	0.9	**0.7**	9.2	(92.4)
Others	**1.2**	3.1	**24.4**	19.7	23.9
Total overseas consolidated subsidiaries	**0.8**	-	**34.8**	(721.0)	+
of which:					
Leumi USA (B.L.C.)	**9.5**	-	**239.7**	(184.1)	+
Leumi UK	**5.5**	11.0	**45.3**	83.4	(45.7)
Leumi Private Bank	**-**	-	**(134.4)**	(553.6)	75.7
Leumi Luxembourg	**-**	-	**(39.4)**	(19.5)	-
Leumi Romania	**-**	-	**(41.1)**	(57.9)	29.0
Leumi Re	**-**	18.0	**(24.0)**	15.1	-
Total of companies included on equity basis	**28.0**	0.3	**128.0**	4.4	+
Total net profit of the Group	**10.3**	5.4	**2,835.0**	1,413.0	+

(a) The profit (loss) shown is according to the company's share in the Group's results.
(b) Including the profit and/or loss companies included on equity basis of Leumi Partners.

For information regarding the investment in and contribution to Group profit of each of the major companies, see Note 15.

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[1] For the definition of investee companies – see Note 1B.

Consolidated companies in Israel

The Bank's total investments in consolidated companies in Israel amounted to NIS 6,260 million on 31 December 2015, compared with NIS 5,999 million on 31 December 2014. Their contribution to Group net operating profit amounted to some NIS 657 million in 2015, compared with NIS 586 million in 2014, an increase of 12.1%. The Group's return on its investment in the consolidated companies in Israel was 10.9% in 2015 compared with 10.6% in 2014.

Financial and other data concerning the major consolidated subsidiaries are presented below on the basis of their financial statements:

The Arab Israel Bank Ltd

The Arab Israel Bank was established in 1960 with the object of providing financial services to, and providing solutions for, the special requirements of the Arab population.

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 with and within the Bank. Pursuant to the merger agreement, the Arab Israel Bank, which is an almost wholly-owned subsidiary of the Bank, would 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 was carried out on 31 December 2015, and was registered with the Registrar of Companies.

For further information regarding the merger of the Arab Israel Bank, see chapter "Principal changes in the past year".
For further information regarding the special collective agreement in connection with the merger with representatives of the employees of the Arab Israel Bank, see chapter "Legal proceedings".

The Arab Israel Bank operated through two areas (North and South Galilee and the Northern Triangle) and 36 branches, situated mainly in the north of Israel and in the northern Triangle, which served the Arab population in these areas. Arab Israel Bank was engaged in the entire range of banking activities. With effect from 1 January 2016, the branches of the Arab Israel Bank were merged within Leumi.

The Arab Israel Bank's total assets amounted to NIS 7,988.8 million at the end of 2015 compared with NIS 7,597.2 million at the end of 2014. Net profit of the Arab Israel Bank totaled NIS 87.8 million, compared with NIS 94.4 million for 2014, a decrease of 7.0%. The net return on shareholders' equity for 2015 reached 13.2%, compared with 16.3% for 2014.

Shareholders' equity of the Arab Israel Bank amounted to NIS 712.3 million as at 31 December 2015, compared with NIS 618.8 million as at 31 December 2014.

The ratio of equity to risk assets as at 31 December 2015, reached 13.22%, as compared with 13.24% as at 31 December 2014. The Tier 1 capital ratio to risk components at 31 December 2015 was 12.13%, compared with 12.15% at 31 December 2014.

Following letters of complaint sent by a senior officer in the Arab Israel Bank in November 2015, it was decided to appoint an external factor to conduct an independent review to examine the complaint ("the external examiner"). The letters of complaint deal mainly with the ostensible improper conduct of a small number of branches of the Arab Israel Bank, including the failure to report transactions that were suspected of money laundering, the interference of customers in the activity of those branches in extending credit in excess of generally accepted procedures, a number of violent incidents on the part of customers which occurred in those branches and the non-intervention of senior officials in the Arab Israel Bank in what took place in these branches.

In addition, the complaint letters deal with the classification of loans as problem debts. In this context, it was decided to make a supplementary allowance in respect of the problematic debts in arrears from 1 to 80 days, amounting to NIS 6.8 million, which will be added to the collective allowance. The external examiner has submitted a draft report, which was sent to the relevant factors for their response. From the examinations of the Arab Israel Bank after receiving the draft report, it appears that all of the reports on the suspicious transactions in money laundering were executed as required, and the response of the Arab Israel Bank in detailed format for all matters of the complaint was forwarded, with complete explanations for the allegations which were raised.
As of the publication date of the report, the external examiner had yet to submit the final examination report on the matter.

Mr. Danny Gitter, who served as the CEO of the Arab Israel Bank until the merger, ceased to serve in his position in the Group and will retire during 2016, after 35 years of employment in Leumi Group.

Leumi Capital Market Services

"Legislation and Regulation relating to the Banking System" in the Report of the Board of Directors" sets out the draft of the regulatory provisions on Financial Services (Provident Funds) (Purchase, Sale and Holding of Securities) (Amendment), 2015, published on 29 July 2015.

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. As long as it is not clear whether the aforesaid provision will become law, the Bank does not intend to sell Leumi CMS.

Total income of Leumi CMS and its profit are not material in relation to the activity and profits of the Bank Group. Accordingly, the transaction, if it is carried out, will not have a significant impact on the Bank's financial results.

Leumi Tech Ltd

Leumi Tech (formerly Leumi Leasing & Investments Ltd.) operates and will operate in future years to promote Leumi in the area of banking services for the high-tech industry.

Two years from the date of launching Leumi Tech's activity, Leumi Group is the leading banking group for the high-tech industry in Israel and the high-tech centers around the world (Palo Alto, New York and London).

Leumi was launched out of recognition in Israeli high-tech as a growth engine of the Israeli economy. The company is a wholly-owned company of Bank Leumi le-Israel, whose object is to continue to establish Bank Leumi's status as the financial home of Israeli high-tech and take steps to promote the finance and development of the industry.

The company supports the activity of the entire Leumi Group in a solution on a range of needs at the various stages of life of the high-tech companies and customers of Leumi Group) and lends complete and comprehensive support via the various units of Leumi Group via the following:

- Development of programs and products adapted for industry.
- Creation of a center specialist in complex transactions and in granting credit.
- Development of an international platform of Leumi in the global high-tech centers.
- Creation of cooperative ventures with key players in the industry.

The balance of credit to the public in the leasing activity only totaled NIS 74.7 million as at 31 December 2015, compared with NIS 203 million at the end of 2014.

The company’s total assets totaled NIS 1,007 million as at 31 December 2015, compared with NIS 1,029 million at the end of 2014. The net profit in 2015 totaled NIS 0.6 million, compared with a profit of NIS 9.3 million in 2014.

Leumi Partners Ltd.

Leumi Partners is the investment banking vehicle of the Leumi Group and operates in four areas of activity:

1. Management of a portfolio of nonbank investments of Leumi Group;
2. Underwriting, consulting and management of private and public capital mobilizations in Israel;
3. Consulting and management of the mergers and acquisition (M&A) processes and capital mobilizations;
4. Economic analyses and valuations.

Leumi Partners and its subsidiaries employ 36 employees, most of whom are professional personnel, including lawyers, economists and accountants.

Leumi Partners finished 2015 with a profit of NIS 405 million, which arose mainly from the realization of investments and an increase in commission income, compared with a profit of NIS 307 million in 2014.

Shareholders' equity as at 31 December 2015 totaled NIS 1,326 million, compared with NIS 1,163 million at the end of 2014.

Below are details concerning developments and main fields of activity:

1. **Management of the non-banking investment portfolio of the Leumi Group.**

   Leumi Partners (hereinafter – the Company) engages in initiating, locating and carrying out direct and indirect investments in companies, projects and private investment funds. The balance of the Company's undertakings to invest in the private investment funds as at 31 December 2015 amounted to some NIS 397 million.

   The non-banking investment policy of the Leumi Group is in line with its risk appetite and the restrictions of the Banking (Licensing) Law, and therefore, includes minority holdings only (up to 20% of all means of control, and without control). The Company focuses on investments with a medium to long-term horizon, appropriate to the policy which has been established.

   Leumi Partners invests in non-banking corporations as an auxiliary corporation under the provisions of the Banking (Licensing) Law.

2. **Underwriting, consulting and management of private and public capital mobilizations in Israel**

   Through the subsidiary, Leumi Partners Underwriters, the company provides a wide range of services in the area of underwriting and consulting to companies and interested parties.

   In 2015, Leumi Partners Underwriters was one of the leading firms of underwriters in the Israeli market. Leumi Partners Underwriters participated in public offerings amounting to NIS 32 billion, and led 22 public offerings amounting to NIS 8.6 billion.

3. **Consulting and management of the processes of mergers and acquisitions (M&A) and capital mobilizations**

   The services are provided to Israeli and foreign companies who wish to effect a strategic expansion through purchases, or investors or controlling owners who are interested in selling or reducing their holdings.

   The basket of services within this framework includes: assistance in the definition of the company’s requirements and strategic objectives, the determination of the optimal investment/investor for the achievement of those objectives, the identification of target investments/investors on a global basis, assistance in making contact with the target company, involvement in negotiations until their conclusion (deal structuring) in a manner that serves the customer’s objectives and assistance in accessing sources of finance for the transaction.

   In its operations, Leumi Partners cooperates with investment houses and other entities in Israel and abroad. At the beginning of 2015, the company signed an exclusive cooperation agreement with an American investment bank, Stifel Nicolaus, which specializes in the MID-CAP sector, in general, and in the technology sector, in particular.

4. **Economic analyses and appraisals**

   Through, the subsidiary, Leumi Partners Research, the Company is engaged in conducting economic analyses and appraisals, mainly for the Leumi Group and outside economic entities.

   Leumi Partners Research maintains continuous support of the company's extensive activity in its investment transactions.

   In addition, Leumi Partners Research provides consulting services for the Bank's credit units and conducts regular economic reviews of marketable securities on the stock exchange for the Bank's Consulting Department, maintaining the principles for avoiding a conflict of interests between the Bank and the company and the customers of the Consulting Department.

The Bank Leumi le-Israel Trust Co. Ltd.

This company was founded in 1939 and is wholly owned by Leumi. In 2015, the company underwent reorganization and its activity is focused on trust services to private Israeli customers, corporate customers and capital market customers..

The company’s income from trust business for 2015 amounted to NIS 10.0 million compared with NIS 9.0 million in 2014. The company’s profit in 2015 amounted to NIS 336 thousand, compared with a profit of NIS 877 thousand in 2014.

For information on the legal claims against the trust company, see Note 25.

Competition

The company's main competitors are trustee companies of accounting/law firms and banking trust companies.

Customers

The company provides services to a range of customers:

- Private customers: Establishment of private and public religious funds, real-estate management and the management of estates;
- Corporate customers: security trustees, pledges on shares, supervision of the execution of agreements – escrow transactions, holding of shares on trust as part of merger and acquisition transactions, private investment funds and a splitting account for insurance agencies;
- Customers in the area of the capital market: ETF trust and liability notes, as well as representation of foreign banks at general meetings.

Consolidated companies (overseas offices), branches and agencies abroad

The Bank's main overseas units are located in the world's most important financial centers: New York and London. The location of the overseas offices is intended to maximize the business potential vis-à-vis Israeli corporate customers, local middle-market customers operating in sectors of the economy in which Leumi has the expertise in know-how and resources needed to provide financial services, international entities operating in Israel and the local Jewish communities in the countries in which the units are located. The Bank's major overseas target population is commercial companies. These customers receive a range of services from the units, such as customer financing and support, investment financing, foreign trade and transactions in foreign currency and their derivatives, as well as general banking services. The cooperation between the overseas units and the Bank in Israel and between the overseas units and themselves enables maximum utilization of the relative advantage that every unit has, while dispersing Leumi's risk in relation to the activity of the Israeli market.

Reports on ongoing developments and special findings in the overseas offices are sent to the Bank management and the Board of Directors.

In 2015, the changes continued in the international deployment of the Group in order to adapt for business and regulatory changes around the world, and with the aim of reducing the activity of Leumi Group in overseas private banking: an agreement was signed for cooperation with Julius Baer, pursuant to which most of the customers of Leumi Switzerland were transferred to Julius Baer and the Swiss office was prepared for closure. In November 2015, an agreement was signed for the sale of the assets of the customers of Bank Leumi Luxembourg to Banque J. Safra Sarasin (Luxembourg), a transaction which was closed in January 2016. At the end of 2015, the Bank Leumi Luxembourg representative office in Israel was closed and a decision was made to close of Leumi's representative office in Mexico. In addition, branches of the Group overseas – Bank Leumi le-Israel, Panama branch and the New York agency - were closed during the year. In February 2016, Leumi Jersey entered into an agreement to sell its holdings in the trust company in Jersey. Bank Leumi UK is conducting negotiations for the sale of customer activity of Bank Leumi Jersey. These moves are in anticipation of the closure of the Group's representative offices - in France, Germany, Canada, Chile, Hong Kong, and the representative office of the branch in Swiss branch in Israel –and the Georgetown (Cayman Islands) in 2014.

As part of strategic work carried out in Bank Leumi Romania, it was decided, *inter alia*, to focus on business in the area of the Israel customers and real estate finance, and on streamlining measures including, *inter alia*, the closure of a number of branches.

In 2013, a representative office of the Leumi Group was set up in Shanghai. The representative office constitutes the first time an Israeli bank has made its way into China. By virtue of the license held by the office, its areas of activity are limited to those of a marketing nature only, including the collection of data on the market, the establishment of a potential customer base and the examination of the future feasibility in China. The representative office reports to the Deputy President and CEO.

The Bank's total investment in overseas units at the end of 2015 amounted to NIS 4,295 million, compared with NIS 4,123 million at the end of 2014.

The following table sets forth details of the net profit (loss) of the Bank's overseas offices, as reported by them:

	For the year ended 31 December			
	2015	2014	Change	
	In millions			%
Leumi USA (BLC) - US$	**61.9**	(99.7)	161.6	+
Of which: BL USA - US$	**61.4**	(50.0)	111.4	+
Leumi UK - £	**13.9**	7.6	6.3	82.9
Leumi Private Bank - CHF	**(22.9)**	(141.6)	118.7	83.8
Leumi Luxembourg - €	**(6.0)**	(3.5)	(2.5)	-
Leumi Romania – ron (a)	**(24.5)**	(52.2)	27.7	53.1
Leumi Re - US$	**(9.4)**	(8.6)	(0.8)	-
Others - US$	**(4.1)**	(2.0)	(2.1)	-
Overseas branches - US$	**-**	(1.7)	1.7	100.0
Total translated to US dollars	**33.4**	(251.6)	285.0	+

(a) 1 ron = NIS 0.9417

The following table sets out principal data regarding the Bank's overseas units (in US$ millions) at 31 December 2015:

	USA	UK	Luxembourg	Romania
Total assets	**6,085**	**2,351**	**286**	**295**
Credit to the public	**3,905**	**1,775**	**61**	**181**
Deposits of the public	**5,098**	**1,875**	**234**	**190**
Shareholders' equity	**621**	**219**	**36**	**36**
Trust deposits and managed securities	**3,792**	**237**	**447**	**-**
Net profit	**61**	**21**	**(6)**	**(6)**
Return on equity (%)	**10.99**	**9.20**	**-**	**-**

The profit for all the consolidated overseas companies, including overseas branches, as published by them, totaled US$ 33.4 million in 2015, compared with a loss of US$ 251.6 million in 2014, an increase of US$ 285 million. The loss in 2014 derived from expenses recorded in respect of arrangements with overseas authorities.

The negative contribution of the overseas units to the net profit of the Group in shekels in 2015 amounted to a profit of NIS 35 million, compared with a loss of NIS 721 million in 2014.

For further details concerning the contribution of the units to the Group's profit, see Note 15.

Bank Leumi Le-Israel Corporation

Bank Leumi Le-Israel Corporation ("BLL Corp") was incorporated in the United States in 1984, and it is a wholly-owned subsidiary of the Bank. BLL Corp is defined under U.S. law as a banking holding company, and most of its activity is the subsidiary's holding in Bank Leumi USA.

The total assets of BLL Corp as of 31 December 2015 amounted to US$ 6.1 billion, compared with US$ 5.2 billion at the end of 2014, and the annual profit amounted to US$ 62 million, compared with a loss in 2014 amounting to US$ 50 million.

The increase in net profit in 2015 is attributable to the increase in the profits of the subsidiary, Bank Leumi USA, particularly as a result of the sale of a real estate asset in New York, which was partially offset by a one-time expense as a result of a change in the employees' pension and health insurance liability structure. This compares with a loss last year as the result of the payment of US$ 65 million in respect of the arrangements with overseas authorities. The return on capital of BLL Corporation, excluding the profit from the sale of the real estate asset and the expenses as a result of the change in the pension liability structure in 2015, and excluding the expenses related to arrangements with overseas authorities in 2014, reached a rate of 2.05% in 2015, compared with 2.35% in 2014.

On 31 December 2015, capital amounted to US$ 716 million. The ratio of capital to total assets was 11.78%, and the ratio of capital to risk assets amounted to 15.88%.

Bank Leumi USA

Bank Leumi USA (BLUSA), incorporated in 1968, holds a commercial banking license from the State of New York and is a member of the FDIC (Federal Deposit Insurance Corp.).

BLUSA engages in commercial banking, primarily financing medium and larger sized (middle-market) local companies, in international banking, mainly with Israeli companies, and also private banking for U.S. and non-U.S. residents. Most of its commercial activity is in the areas of real estate, retirement homes and nursing institutions and commerce. Further to a decision of the Group to exit the area of diamonds, the activity of the Diamonds and Jewelry Department was discontinued in the branch. BLUSA is operating through five branches in New York, California, Florida and Illinois.

BLUSA's consolidated assets amounted to US$ 6.1 billion on 31 December 2015, compared with US$ 5.2 billion at the end of 2014. Total shareholders' capital amounted to US$ 621 million on 31 December 2015 compared with US$ 542 million at the end of 2014. Credit to the public totaled US$ 3,905 million at the end of 2015, an increase of 6.7%, while deposits of the public totaled US$ 5,098 million, an increase of 15.8%.

Customers' managed securities portfolios, which are not included in the balance sheet, totaled US$ 3,792 at the end of 2015, compared with US$ 4,403 million at the end of 2014.

In 2013, BLUSA entered into agreements in connection with the sale of its interests in two buildings in New York which serve as its offices. On 3 December, 2015, the transaction was completed, following compliance with all the conditions for the execution of the transaction. The consideration received by BLUSA amounted to US$ 109 million, and the profit after the effect of tax which was recorded in the branch's statements amounted to US$ 53.2 million.

In 2015, BLUSA made changes in the structure of its employees' pension and health insurance liability. As a result of the changes, a one-time expense amounting to US$ 9 million was recorded in the fourth quarter of 2015. This will result in a reduction in future annual expenses in respect of these liabilities.

BLUSA ended 2015 with a profit of US$ 61.4 million, compared with a loss of US$ 50 million in 2014. The profit in 2015 included a profit of US$ 53.2 million from the sale of the rights in buildings in New York. The loss in 2014 resulted from the payment of US$ 65 million in respect of the arrangements with overseas authorities.

The return on capital of net profit in 2015 was 10.99%, and, excluding the profit from the sale of the real estate asset and the expense due to the change in the pension liability structure, it was 2.50%. In 2014, the return on capital, excluding expenses in respect of the arrangements with overseas authorities was 2.99%.

The balance of the expenses in respect of credit losses at the end of 2015 amounted to US$ 5.6 million, constituting 0.14% of total credit to the public.

The ratio of capital to total assets was 10.2% (2014 – 10.4%), and the ratio of capital to risk assets amounted to 15.75% (2014 – 14.23%). These capital ratios are higher than the requirements of the regulatory authorities in the United States.

On 29 April 2015, Mr. Charles D. Johnston was appointed Chairman of the Board of Directors of Bank Leumi USA, in place of Mr. David Brodet.

The Bank's Branches and Agencies

The Bank has closed its overseas branches. At the end of 2014, the business activities in the overseas branches ceased completely.

The New York agency was closed on 30 June 2015 and the license was returned to the local authorities.

The license of the Panama branch was returned to the local authorities and it was deleted from the Registrar of Companies in Panama.

Bank Leumi UK

Bank Leumi UK plc was founded in 1959 and continues the activity of the Group in England that began in 1902. It is currently the largest Israeli-owned bank in the United Kingdom. The bank's center of activity is in London and, in addition, the bank has two subsidiaries – a banking subsidiary on the Island of Jersey, Bank Leumi (Jersey) Ltd. and also a trust company in Jersey, Leumi Overseas Trust Corporation Limited, which is wholly-owned by Bank Leumi Jersey, and Leumi ABL Ltd., a subsidiary engaged in the area of asset-based lending, operating in the field of discounting and factoring of invoices.

On 15 February 2016, Leumi Jersey, a subsidiary of Bank Leumi UK, entered into an agreement to sell its holdings in the trust company in Jersey. The validity of the agreement is subject to the receipt of the requisite regulatory approvals. In view of the relatively limited activity of the trust company in Jersey, the execution of the transaction is not expected to have a significant impact on the Group's activity.

Bank Leumi UK is conducting negotiations to sell the holdings or the activity of Leumi Jersey.

Bank Leumi UK engaged in commercial and private banking. The commercial banking activity includes real estate financing, international trade, finance of media, mainly in Europe, Israel-related business and Israeli companies active in the UK.

The real estate financing finances a range of activities in the UK and Western Europe, including investments and development of residential real estate and the financing of commercial real estate (mainly hotels, retirement homes, and student halls of residence). The financing is provided to both local and non-resident customers (mostly Israelis).

Bank Leumi UK ended 2015 with a profit of £ 13.9 million, compared with a profit of £ 7.6 million in 2014. The increase in the profit is mainly the result of a fall in credit loss expenses.

Total consolidated assets of Bank Leumi UK amounted to £ 1,586 million at the end of 2015, compared to £ 1,454 million at the end of 2014.

Deposits of the public increased from £ 1,208 million at the end of 2014 to £ 1,265 million at the end of 2015. Credit to the public increased from some £ 1,026 million at the end of 2014 to £ 1,179 million at the end of 2015.

Capital, reserves and surpluses totaled £ 148 million at 31 December 2015, compared with £ 134 million at the end of 2014.

The ratio of equity to assets amounted to 9.3% (9.2% in 2014).

Bank Leumi UK is regulated by the Prudential Regulation Authority (PRA) which is an extension of the Bank of England, and by other regulatory authorities.

Bank Leumi (Switzerland)

Bank Leumi (Switzerland) was founded in 1953.

As part of Leumi's strategy to curtail overseas private banking activity, steps were taken recently to exit the activities in Switzerland. In March 2015, the transaction to sell the Bank's activity in Switzerland was completed with the transfer of most of the customers of the office to Julius Baer for consideration of CHF 10 million. In February 2015, Leumi completed the purchase of the minority shares in Leumi Private, and the Bank now holds 99.84% of the shares of the office. In addition, in June 2015, the name of the Bank was changed from Leumi Private Bank to Leumi Switzerland LSAG, and in December 2015, most of the balance of the assets of the customers of the office was transferred to the Bank Cramer & Cie SA in Switzerland.

The assets and liabilities in Switzerland which were transferred pursuant to the agreement are not material from the Group's point of view, and accordingly are dealt with, from an accounting perspective, as a discontinued activity.

The total of capital and reserves, including internal funds, amounted to CHF 75 million at the end of 2015, compared with CHF 87 million at the end of 2014.

Bank Leumi Luxembourg

In November 2015, an agreement was signed for the sale of the assets of the customers of Bank Leumi Luxembourg to Banque J. Safra Sarasin (Luxembourg) (hereinafter: "Safra") for consideration of an amount derived from the value of the customers to be transferred to the purchaser. On 29 January 2016, the transfer of the majority of the customers of Leumi Luxembourg to Safra was executed for consideration of US$ 2.6 million. On 2 February 2016, the transaction was completed following receipt of the approvals necessary for its completion. At the same time, Leumi Luxembourg is taking steps to terminate its banking activity.

Total assets at the end of 2015 amounted to some € 263 million, compared with some € 426 million at the end of 2014.

At the end of 2015, deposits of the public totaled some € 215 million compared with some € 265 million at the end of 2014.

Bank Leumi Luxembourg ended 2015 with a loss of € 6.0 million, compared with a loss of € 3.3 million in 2014, mainly due to the payment of € 8 million to the U.S. authorities which was recorded in its statements in 2014.

The capital means of Bank Leumi Luxembourg totaled some € 24 million, compared with € 38 million at the end of 2014.

Bank Leumi Romania

Leumi Romania is a banking corporation in Romania which was acquired in 2006. The bank operates 15 branches, and engages in financial activity that includes, *inter alia*, the accepting of deposits, the extension of credit, international trade and foreign currency activities.

The commercial banking activity includes real estate financing, the financing of Israeli customers operating in Romania and the financing of small and medium-sized local businesses.

As part of strategic work carried out in Bank Leumi Romania, it was decided, *inter alia*, to focus on business in the area of the Israel customers and real estate finance, and on streamlining measures including, *inter alia*, the closure of a number of branches. At the end of 2015, 6 branches were closed. As of the end of 2015, the office had 15 branches, compared with 15 branches at the end of 2014. During 2010-2015, 22 branches of Bank Leumi Romania were closed.

Bank Leumi Romania ended 2015 with a loss of 24.5 million Romanian ron (some US$ 6.1 million), compared with a loss in 2014 of some 52.0 million Romanian ron (some US$ 15.6 million). The loss in 2015, similar to 2014, was incurred as a result of high credit loss expenses, as a result of the process of re-examining the system of collateral for securing credit, particularly in the office's non-income-earning (NPL) portfolio. This process was influenced by the implementation of general directives of the central bank in Romania to reduce the proportion of the non-income-earning portfolio from the total credit portfolio in the banking system in Romania..

Since 2011, there has been a moderate improvement in the country's economy. In the long term, the growth rate in 2015-2016 is expected to average 3.6%, higher than the average expected growth rate for Eastern Europe. With the support of the IMF, regulatory and leading structural reforms in the government authorities and in the financial sector are being made, which are expected to bolster economic stability and durable growth in the medium term.

The regulatory authorities in Romania is taking steps towards Romania joining a supervisory framework of the European Central Bank, while increasing involvement in the banking system, at this stage, mainly in relation to the subject of the provisions for the reserve. The risks existing in the financial sector remain high against the backdrop of the high NPL level (an average in the banking system in Romania at 12%, although on a downward trend) and the weak financial results in the banking sector.

In 2014, there was certain recovery in the activity of the real estate market in the residential sector, especially in Bucharest, and therefore, the Bank renewed its activity in providing financial support (C/L) for financing the establishment of residential projects.

Mr. Laurentiu Gabriel Mitrache left his position as CEO of Leumi Romania, after 10 years in office. The office will appoint Mr. Gil Karni, who currently serves as CEO of Bank Leumi Luxembourg, to be the next CEO of Leumi Romania, subject to obtaining the relevant approvals required in Romania.

The total assets of Bank Leumi Romania amounted to 1,223 million Romanian ron (US$ 295 million) at the end of 2015, compared with 1,231 million Romanian ron (US$ 334 million) at the end of 2014. Deposits of the public amounted to 789 million Romanian ron (US$ 190 million) at the end of 2015, compared with 777 million Romanian ron (US$ 211 million) at the end of 2014, and credit to the public amounted to 749 million Romanian ron (US$ 181 million), compared with 798 million Romanian ron (US$ 216 million) at the end of 2014.

The capital, reserves and surplus amounted to 150 million Romanian ron (US$ 36 million) at 31 December 2015, compared with 175 million Romanian ron (US$ 47 million) at the end of 2014.

1 Romanian ron = US$ 0.241 (end of 2014 - US$ 0.271)

Leumi (Latin America)

Leumi (Latin America) S.A. terminated its banking activity and a local liquidator was appointed to accompany the legal liquidation process.

Total assets of Leumi Latin America were US$ 5 million at the end of 2015, compared with US$ 47 million in 2014.

Capital, reserves and retained earnings totaled some US$ 2 million on 31 December 2015, compared with US$ 7 million in 2014.

2015 ended with a loss of some US$ 4 million compared with a loss of US$ 1.8 million in 2014.

Leumi Re Ltd.

In June 2002, the Bank established Leumi Re Ltd. in the Island of Guernsey. The company is wholly owned by the Bank and serves as a reinsurer for insurance companies that insure the Leumi Group. The company's issued capital as at 31 December 2015 was US$ 40 million, of which US$ 16 million (US$ 10 million) was issued and repaid during the fourth quarter of 2015. Furthermore, the Bank undertook in a guarantee to make additional amounts available to Leumi Re Ltd., up to US$ 9 million.

The Bank has also given an unlimited guarantee to the insurer, New Hampshire Insurance Company, to secure payment of the insurer's claims with respect to Leumi Re Ltd.

The company was established with the approval of the Bank of Israel, which determined that:

- The Bank shall hold 100% of the means of control of the company;
- The company shall engage in banking insurance, liability insurance and property insurance;
- The company shall only engage in insurance for the Bank Leumi Group.

In 2015, the approval was renewed and expanded, such that the company was authorized also to engage in direct insurance.

The company’s total assets at the end of 2015 amounted to US$ 40.8 million, compared with US$ 38.2 million at the end of 2014, and the insurance reserves amounted to some US$ 32.2 million at the end of 2015, compared with some US$ 31.3 million at the end of 2014. Shareholders’ equity amounted to some US$ 4.8 million as of 31 December 2015, compared with US$ 4.2 million at 31 December 2014.

The loss for 2015 amounted to US$ 9.4 million, compared with a loss of US$ 8.6 million in 2014.

Since 2003, the financial statements of the company have been prepared on the basis of the revised accounting rules of the Association of British Insurers. In accordance with these rules, the company's financial statements are prepared on an annual basis, according to which the insurance reserves are calculated on the basis of an assessment of the estimated cost of settling the claims that have been reported, as at the date of the statements.

Activities of Companies Included on Equity Basis

Total investments of the Group in companies included on equity basis amounted to NIS 924 million as at 31 December 2015, compared with NIS 2,216 million as at 31 December 2014. The contribution to net profit of the companies included on the equity basis amounted to NIS 177 million in 2015, compared with a total of NIS 42 million in 2014.

For further details, see above in the Chapter, "Operating Segments in the Group – Companies Included on Equity Basis".

Exposure to Risk and Methods of Risk Management

Risk management in Leumi

Risk management in Leumi is considered an essential condition for fulfilling the Group's long-term goals. The Group deals with a wide range of activities connected with the taking of financial risks, such as credit risk, market and liquidity risks, and other risks which are not financial risks, such as operating risks, including, technological and cyber risks, legal risks, regulatory risks, reputational risks and compliance risks..

The main areas of responsibility of the Risk Management Division correspond to those defined in Proper Conduct of Banking Management Regulation no. 310 dealing with risk management, including responsibility for risk management at the Bank and Group level, directing the preparation of Leumi's risk policy with regard to all of the main risks, assisting the Board of Directors in crystallizing the Bank's risk appetite, leading the process of assessing the fairness of the capital adequacy (ICAAP) in all its various components and stress scenarios, review of risk management quality and the definition of the main gaps, including plans for their closure, the computation of the capital buffers and the capital adequacy required for Leumi's risk profile, capital planning – in conjunction with the Financial Division, responsibility for authorities in credit and market activity, responsibility for monitoring and control of the main risk limitations, development and validation of models, risk assessment and validation of the borrower's internal rating in specific portfolios in credit according to the stipulated thresholds, overall responsibility for the correctness of the classifications and allowances in credit and the computation for the collective allowance, financing central and strategic projects in real time, performance of independent analyses when making strategic decisions and approval processes of new products and forming an overall and up-to-date picture of the risk for making decisions.

Risk management in Leumi is based on three "lines of defense". The first line of defense - the lines of business, responsible for identifying, assessing, measuring, monitoring, mitigating and reporting on risks inherent in products, activities, processes and systems under their responsibility, as well as maintaining a proper control environment in the context of risk management. Supporting functions, such as: the management of information technology represents a part of the first line of defense; the second line is the Risk Management Division, which is an independent function, responsible for leading policy and risk restrictions, in conjunction with the business party and under the directives of the Board of Directors, and challenging the corporate divisions and supporting functions in important real-time decisions; the third line of defense is the Internal Audit Division, which conducts an independent review and challenges controls, processes and risk management systems in the banking corporation. The audit is conducted out retrospectively on the first and second lines. In addition to these three lines of defense, the Board of Directors is involved in determining the risk appetite, supervising and challenging the risk levels to which the Bank and the Group are exposed.

The Chief Risk Officer, who is a member of management in the Bank, and Head of the Risk Management Division, is responsible for leading the management of the main risks in the Bank and in the Group, with the management of legal risks and compliance risks under the authority of the Bank's Chief Legal Counsel and the management of reputational risks is under the responsibility of the Digital Banking Division.

Organizational structure of risk management in the Leumi Group

Reporting to the Chief Risk Officer are the heads of the sub-divisions for managing credit risks, market risks, operating risks, an overall risk-return section manager and the Head of the CRM Department, which deals with credit risks at the single transaction level. In each subsidiary in Israel and abroad, a chief risk officer is appointed, who reports administratively to the CEO of the subsidiary, and reports indirectly (dotted line) to the Chief Risk Officer of the Group.

Main risks inherent in the Bank's activity

The Group's main risk is the risk of credit, which represents the central core activity of the Bank and the Group, which is conducted in a number of business lines in a decentralized manner.

Credit risk is the Bank's risk of a loss as a result of the possibility that a counterparty does not meet its obligation vis-à-vis the banking corporation, as agreed.

This risk is in accordance with the Group's core business and is reflected in activity with corporate, commercial and retail customers, as well as *nostro* activity. The Bank's policy in Israel is to disperse the risk in activity vis-à-vis borrowers, set limits on exposures in the credit portfolio and assess the concentration risk in the portfolio. The Bank implements an overall policy for credit risk management, in accordance with the provisions of Proper Conduct of Banking Management Regulation no. 311.

For further information receivable credit risk and its management, see chapter "Credit risk".

Market risk, including liquidity risk, is an additional central risk in the Bank's activity. Market risk is the risk of a loss in balance sheet and off-balance sheet positions deriving from a change in the fair value of a financial instrument as the result of a change in market conditions (change in price levels in various markets, volatility in interest rates, exchange rates, inflation, share and commodity prices and other economic indices). The exposure to market risks is reflected in the operating results, in the fair value of assets and liabilities, in shareholders' equity and in cash flows.

The routine management of market risks is intended to support the achievement of business targets, while estimating the forecast profit against the damage likely to emanate from exposure to these risks. Exposures to market risk are managed dynamically as a part of the system of restrictions established by the Board of Directors and the risk committees at different levels which delineate the impact of market's exposure on the economic value, the accounting profit, capital reserve and liquidity position.

For further information regarding market risk and its management, see chapter "Market risk".

In the Bank's activity as a financial mediator there are operating risks, including, *inter alia*, information security and cyber, information technology risks, risk of embezzlement and fraud, legal risks, compliance risk, and business continuity. An operational risk is defined as the risk of a loss resulting from inadequate or failed internal processes, people and systems, or as a result of external events, including cyber incidents. This definition does not strategic risk and reputational risk.

Operational risk management is conducted in accordance with generally accepted ("best practice") standards in all parts of the Group, and whenever the risk environment changes, the Bank updates the tools for managing these risks. In recent years, as a result of the rapid development in technology, in general, and, as a corollary, in banking, and as a result of external changes to the Bank, information security and cyber risks, the technological risk and the risks of embezzlements and frauds have increased, and the Bank continues to take steps to strengthen the risk management in this area.

For details of operational risk and its management, see chapter, "Operating Risks".

Changes in the risk environment and their impact on the Group

In general, in the course of the year, there have been no significant changes in the risks and threats in essence, but there has been a tightening in the force. Risks related to regulations, to the macro-economic conditions, and to the attainment of an appropriate yield, as well as political developments in the European Union and around the entire world have been strengthened in the year. The concerns regarding operating risks have increased this year due to the significant increase in cyber incidents around the world. In addition, there has been a steep increase in the frequency and severity of the penalties in respect of inappropriate conduct imposed on banks.

The main risk areas which are expected to impact the Bank's activities in the coming year are as follows:

Tighter regulatory requirements

The tightening of the regulatory requirements, notably, the capital requirements, which affect the corporate model, profitability and the capital adequacy requirements of the Group. The risk derives from the instructions of the various regulatory authorities which can initiate a change in the Group's business environment.

In recent years, the demands on banks have become considerably stricter in Israel and around the world, against a backdrop of the conclusions that have been drawn from the financial crisis. The main changes, as reflected in the Basel III directives dealt mainly with a significant strengthening of capital and liquidity requirements of the banks in Israel and around the world. The impact of these requirements is substantial, both on the profitability and on the corporate model. Leumi is prepared to attain the capital targets required by the regulatory authorities.

Against the backdrop of potential regulations, such as the Interim Report of the Strum Committee, the proposed law on credit providers, the international draft on Basel IV, etc., the Bank is closely following the drafts, studying them and preparing accordingly.

Macro-economic risk

Macro-economic risk is risk to the Group's income and capital arising from a low interest environment around the world, low economic growth levels compared to the past, China and the emerging markets, stability in the Euro Area, geopolitical instability in countries of the world, in the Middle East, in particular. The Bank examines the level of risk to the macro-economic environment under systematic stress scenarios and monitors developments in the market in order to adapt its activity when required.

Information security and cyber risks

Cyber risks are not new and they have accompanied the Bank's activity in recent years. However, there has been a noticeable increase in the scope and impact of the threats around the entire world, including Israel, in particular.

The main risks in technological innovation relate to raising the risk level in the face of cyber attacks to the exposure of information on customers and the Bank and to impairment in the availability of services.

Leumi sees the Bank's data and its customers as a principal asset and invests great effort in implementing control and protection mechanisms and processes.

For further information regarding information and cyber security risks, see chapter "Operating risks".

Technological risk

In recent years, there have been significant changes in the banking and operational environment, arising, *inter alia*, from new demands on the part of customers regarding the way their activity is managed and the integration of advanced and innovative technologies. These technological environments relate, *inter alia*, to provision of services in digital channels, the use of mobile phones, cloud services, FinTech, and so forth.

In order to facilitate the aforementioned services, the Bank needs a suitable technological infrastructure.
Technological risks have a business aspect of providing a solution to the needs of the organization for its adaptation to the changing and evolving business and consumer environment, both from the aspect of remaining up-to date and innovative, and from the aspect of operations.

Internal Capital Adequacy Assessment Process (ICAAP)

The process of assessing capital adequacy serves to examine the capital required for supporting the various risks, both in the ordinary course of business, and under stress scenarios, to which the Group is exposed, in order to ensure that the Group's capital actually exceeds the said capital requirements at any time. As part of the process, the risk appetite and the risk-bearing capacity were defined, a comprehensive process of mapping and assessment of risks to which the Group is exposed was carried out, a comprehensive framework for analyzing stress scenarios was developed, and processes of managing the risks and the risk management structure in the Group were examined.

From the performance of the process, it appears that the Bank has adequate capital and liquidity for dealing with all of the risks identified, both in the ordinary course of business, and in the materialization of serious stress scenarios.

The results of the process were formally collated in the ICAAP document which was submitted to the Supervisor of Banks in December 2015. This process was examined by the Supervisor of Banks as part of the Supervisory Review Process (SREP).

Risk appetite of the Group

The risk appetite of the Group outlines the boundaries for business activity, both on a routine basis, and under a stress scenario. The risk appetite is adjusted from Leumi's strategy and to the boundaries of the business focus on which it has actually chosen to concentrate and from a forward-looking aspect. The risk appetite relates to the way in which Leumi conducts itself in identifying, measuring, controlling, managing and mitigating the risks, with this conduct having a direct impact on the Group's residual risk profile. The risk appetite limitations are approved at the level of the Board of Directors within the framework of the ICAAP process.

The risk appetite document represents a point of attribution to the specific policy documents in relation to each type of risk, and in which additional risk restrictions and risk management directives are set forth.

The declaration of the Group's risk appetite discusses the scope and types of aggregate risk which the Bank is interested to bear in order to achieve its corporate goals, indices in various areas, both quantitative and qualitative, are determined, based on foreseeable assumptions which reflect the declarations of the Group's aggregate risk appetite.

When the outline of the risk appetite is calculated on a routine basis, the risk capacity – the maximum level of risk which the Group can bear without breaching the restrictions on capital, leverage, liquidity, liability and other regulatory limits, including from the point of view of the shareholders and customers. The risk capacity is examined, *inter alia*, using stress scenarios.

Use of stress tests within the context of risk management

The performance of a uniform stress test is a generally accepted international standard in accordance with the recommendations of the Basel Committee, and contributes to an understanding of the risk focal points to which the banking system and a single bank is exposed. This process strengthens transparency in the banking system, facilitates the resistance of the banking corporations in a situation of the development of negative market conditions to be examined and compared. The process supports the improvement of the methodologies and an understanding of the risk factors in the banking corporations and in the Banking Supervision Department.

The effect of the most severe stress tests on the Group's capital planning is examined with the aim of checking that the Group complies with all of the regulatory and internal restrictions established under the scenario.

Since 2012, the Banking Supervision Department in the Bank of Israel has conducted a macro-economic stress test for the banking system based on a uniform scenario. Within this context, Bank Leumi, like all other banks, estimates the results of the test using a variety of models and methodologies that are also based on subjective "expert valuations".

At the basis of the uniform stress tests which are carried out once a year, banks have two macro-economic scenarios which were designed by the Bank of Israel – a basis scenario and a stress scenario, which varies from year to year. It is important to note that the scenarios that are taken into account should not be construed as a forecast, but rather hypothetical scenarios which are intended to examine the compliance of the banking corporations in a very severe macro-economic environment.

The Banking Supervision Department integrates the results of the uniform stress test as a complementary component in the supervisory assessment processes (SREP), including quantitative and qualitative consideration. At the same time, the banking corporations are required to combine the uniform stress test in an internal process for assessing the ICAAP in the banks.

Bank Leumi has carried out a uniform stress scenario for 2014-2015 (a global stress scenario) and in the first quarter of 2016, has calculated a uniform stress scenario for 2015-2016 (a local stress scenario), at the directive of the Bank of Israel.

In addition, Leumi Group performs a set of internal stress scenarios, which is routinely updated. This is in order to examine principal focal points of risk, in view of the various developments in the environment in which the Bank operates, such as changes in the business environment, regulatory requirements, etc. Leumi's set of scenarios include, *inter alia*, a global systemic scenario, a local systemic scenario, operating scenarios, etc.

Definition of severity of the risk factors

The methodology for classifying the degree of severity of exposures to the various risks, as outlined in the table of severity of risk factors, is based on a subjective estimate of the quantification of the impact of the materialization of various scenarios on the Group's capital, i.e., its stability. The degrees of severity defined below are based on the results of the realization of potential stress scenarios, assuming they will happen, and present the level of risk as divided into five levels. This is a function of the extent of impairment in relation to the Group's Tier 1 shareholders' equity adequacy in the event of the risk materializing. Risk at a "low" level of severity is defined as impairment of up to 0.5% in capital adequacy; "low-medium" as impairment in a range of 0.5%-1%, "medium" as impairment in a range of 1%-2%, "medium-high" as impairment of more than 2%, but without reducing the Tier 1 shareholders' equity adequacy ratio to below 6.5%. Impairment that will lead to a decrease in the Tier 1 shareholders' equity adequacy ratio to below 6.5% is defined below as risk of "high" severity. Beyond this, subjective opinions are activated regarding the risks which a difficult to quantify and assessments of the external risk environment and their potential impact on the capital are taken into account. These additional considerations can raise the assessment of the severity of the risks beyond that reflected in the quantitative assessment of the damage to the capital. Under this methodology, there may be losses or events which in absolute terms and in relation to the Bank's profit are not immaterial. However, in terms of the capital adequacy, they will still be classified as relatively low risk.

It is important to note that the said methodology for assessing the severity of the risk factors is also substantially based on subjective valuations by an expert from among the relevant factors in the Bank. When any qualitative index, according to our estimate, does not give sufficient expression to the severity of the risk factor, more weight is given to a qualitative assessment.

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

Details of the risks are as follows:

1. Credit risk

The risk of loss resulting from the possibility of a borrower not meeting its obligations. This refers to credit to the public, derivatives, bank deposits, investments in debentures, and holdings in equity. The severity of overall credit risk is medium.

For further details on risk management, see below in chapter "Credit Risk".

Details of sub-risks included in the definition of credit risk according to the Group mapping are as follows:

1.1 Risk in respect of the quality of borrowers and collateral: The risk of the entry of a counterparty into default, leading to failure to meet contractual monetary obligations. The risk includes:

- Entry into default of counterparty in derivatives;
- Residual risk in respect of inability to realize collateral;
- Country risk deriving from the exposure of borrowers operating in foreign countries;
- Credit risk in shares deriving from the exposure to default in respect of a holding of shares for investment purposes.

The level of severity was defined as medium.

1.2 Concentration risk: Credit risk in a significant exposure to borrowers with similar economic characteristics or who are engaged in similar activities or under the control and/or management of a certain factor, which may lead, in a situation of change in the economic situation, to a similar effect on the ability to meet debt repayments of those borrowers. Below are details of sub-risks included in the definition according to the Group mapping:

1.2.1 Large borrower and group of borrowers concentration risk: The severity of the risk level is defined as low;

1.3.1 Sectoral and segmental concentration risk: The severity of the risk is defined as medium;

The severity of the overall risk and sub-risks was examined in the framework of stress scenarios which reviewed what damage there was in respect of concentrations of credit in the portfolio as a result of a serious crisis occurring.

2. Market risk

Market risk is defined as a risk of exposure of Group assets due to uncertainty of changes in exchange rates, interest, inflation and shares, the correlation between them and their level of volatility. The level of severity of overall market risk is medium.

For further details on market risk management, see below in the chapter "Market Risk".

2.1 Basis risk: The severity of the risk is defined as low;

2.2 Interest risk: The severity of the risk is defined as low-medium;

2.3 Bond margin and share prices risk: The severity of the risk was defined as low-medium.

The severity of the general risk and sub-risks was evaluated in accordance with the most severe stress scenario in the set of scenarios for these risks.

3. Liquidity risk:

Uncertainty with regard to the possibility of raising funds and/or realizing assets, unexpectedly within a short timeframe, without causing material loss. This risk has been determined as low, since the Bank complies with the liquidity ratios that it sets for itself, including probability indices, and the subsidiaries also comply with the indices that they have set for themselves. Monetary damage in a very severe liquidity scenario is also low.

4. Operating risk

Operating risk is the risk of a loss resulting from inadequate or failed internal processes, people or systems, or external events. The evaluation of the level of severity relates to damage at a highly serious level and a review of historical events. The assessment of the operating risk relates, *inter alia*, to technological risks and to cyber risks. The level of severity of the risk is defined as medium.

For further information on management of operating risk, see chapter "Operating Risks".

5. **Regulatory risk**

The severity of legal / compliance / regulatory / and legislation risk is assessed as medium.

Regulatory risk is comprised of three inter-connected risks:

- Legal risk - The risk of loss resulting from the inability to legally enforce the performance of an agreement or contingent liability, including in respect of claims and demands from the Bank. The definition includes risks deriving from legislation, regulations, case law and authority directives, risks deriving from operations not backed by adequate agreements or without legal counseling or according to deficient legal counseling, and as a result of interpretation with regard to mutual employee rights by virtue of agreements between the Bank and its customers.
- **Compliance risk:** The risk that may derive from non-compliance with regulatory requirements and laws of the various authorities in Israel and abroad.
- **Regulatory and legislation risk** – The risk that future changes in the provisions of the law will adversely impact the Bank's business activity.

6. **Reputational risk**

The risk that the publication or public disclosure of a transaction or customer-related business practice, as well as business results and events pertaining to the Group, may have an adverse impact on the public's confidence in the Group or cause a decline in the customer base or result in high legal costs or a drop in income. The Group’s reputational risk is managed by fulfilling the various regulatory provisions, maintaining high levels of control, and orderly work procedures by the management and the Board of Directors and which guarantee their ability to monitor the ongoing operations. Leumi has a code of ethics governing conduct vis-à-vis employees, suppliers and the environment. Leumi Group ensures that the products and services it supplies are of the highest quality. The treatment of employees and customers is reflected in the minimal number of complaints. In addition, there are detailed contingency plans for dealing with reputational events. Reputational risk is likely to affect the Bank's decision as to whether to enter into certain transactions, preferring to preserve the Bank's goodwill over short-term income. The Bank has functions which deal with the Spokesperson's Department and Investors' Relations and Governance Relations whose role is to identify, manage and minimize image risks. The level of severity of reputational risk was defined as low-medium.

7. **Pension risk**

Pension risk is defined as all of the risks related to the pensions of the Bank's first-generation employees, including, changes in the actuarial parameters (e.g. life expectancy) and changes in interest rates and debenture margins which are likely to increase the extent of future obligations, and the effect of changes in interest rates, inflation, currency rates, credit margins and the prices of shares and funds on the revaluation of assets which the Bank has placed against the pension liabilities. The accounting principles on the subject of remeasurement of employee rights, which were recently applied, result in these effects having a greater weight than in the past in its effect on regulatory capital. The Bank is taking steps in order to hedge against the accounting fluctuations of the remeasurement of employee rights. The level of severity of pension risk of the Group is defined as low-medium.

8. **Global systemic risk**

Risks deriving from economic, political, and geopolitical events around the world that can jeopardize the Group's stability, such as a global economic crisis. The assessment of the risk is based on the total loss in a very severe global stress scenario of the Group including the occurrence of a number of risks together. The degree of severity of risk in Leumi was defined as medium-high.

9. **Local systemic risk**

Risks deriving from economic, political, and geopolitical events in Israel, which can jeopardize the Group's stability, and result in a local real estate crisis. The assessment of the risk is based on the total loss in a real estate stress scenario of the Group including the occurrence of a number of risks together. The degree of severity of risk in Leumi is defined as medium.

For further information, see Report on Risks on the Bank' website.

Credit risk

Credit is a central core activity of the Bank and the Group, which is conducted in a number of business lines in a decentralized manner.

Credit risk is the Bank's risk of a loss as a result of the possibility that a counterparty does not meet its obligation vis-à-vis the banking corporation, as agreed.

The Bank implements an overall policy for credit risk management, in accordance with the provisions of Proper Conduct of Banking Management Regulation no. 311.

Core activity in all the lines of business and the credit risk is managed respectively through three lines of defense. The central principles in the management of credit risk are laid out in the document "Credit Policy and Credit Risk" which is scanned each year and updated as necessary with the approval of the Bank management and the Board of Directors.

Control and management processes

In the area of credit management, the procedures for the control and supervision of risks have improved, *inter alia*, by the establishment of centers of expertise for the area of credit in the Retail Division, the merger of mortgage activity in the Banking Division and the intensification of the "segmentation" of corporate customers in the appropriate lines of business and in the framework of specialist branches. These processes provide a broad overall view of Leumi's liabilities and customer risk.

In addition to the treatment and control at the individual credit level, considerable resources are devoted to the management of credit portfolio as a whole, and segments within it, including monitoring and control of the relevant concentration focal points.

Reporting on credit risk

The Bank is meticulous in maintaining routine and up-to-date reporting to members of the Bank Management, the Board of Directors and the Banking Supervision Department.

The lines of reporting are defined and are maintained at the level of the individual borrowers and at the level of monitoring the credit portfolio in its entirety and segments thereof.

Tools for managing credit risk

In managing credit risk, use is also made of quantitative models for rating the risk of borrowers and for evaluating and monitoring the risk at portfolio level.

The internal rating is a central layer in the process of decision-making and credit pricing and in monitoring quality over the long term.

Two main tools are used by the Bank to estimate the internal rating of borrowers. One – a rating system intended for retail customers, based on the features of the customer's activity over the long term; and two – a rating system for borrowers - intended for corporate-commercial customers, based on structured expert questionnaires. The models according to which the rating is carried out in the abovementioned systems are routinely validated and monitored.

In combining with the rating system, there is a return on capital system which makes it possible to establish the relationship between the risk level and the return on capital, both at the customer level and at the level of the various profit centers. The system facilitates the pricing of transactions in relation to the return required in the various segments.

In addition, in analyzing risk at the total credit portfolio level, the Bank is assisted by an internal model, which is based on the rating of the borrowers, in order to assess the credit risk at the level of the total credit portfolio and at the various cross-sections.

Problem Credit Risk

	31 December 2015		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	**3,940**	**295**	**4,235**
Substandard credit risk	**1,413**	**235**	**1,648**
Special mention credit risk (b)	**2,995**	**886**	**3,881**
Total problem credit	**8,348**	**1,416**	**9,764**
Of which: unimpaired debts in arrears 90 days or more (b)	**942**	**-**	**-**
2. Non-performing assets:			
Impaired debts	**3,485**	**-**	**-**
Assets received in respect of loans repaid	**7**	**-**	**-**
Total non-performing assets	**3,492**	**-**	**-**

	31 December 2014		
	Balance sheet	Off-balance sheet	Total
	NIS millions		
1. Problem credit risk: (a)			
Impaired credit risk	4,816	375	5,191
Substandard credit risk	2,331	637	2,968
Special mention credit risk (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 loans repaid	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 indebtedness of a borrower and a group of borrowers.

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

(b) Including in respect of housing loans in respect of which there is an allowance according to the extent of arrears and in respect of housing loans in respect of which there is no allowance according to the extent of arrears which are in arrears of 90 days or more.

Details of Credit Risk Metrics

	31 December 2015	31 December 2014
	%	
Balance of impaired credit to the public as a percentage of the balance of credit to the public	**1.5**	1.9
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
Problem commercial credit risk in respect of the public as a percentage of total credit risk in respect of the public	**3.1**	4.0
Balance of the allowance for credit losses in respect of the public as a percentage of the average balance of credit to the public	**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	**(0.2)**	(0.1)

For further information regarding the provisions governing the measurement and disclosure of impaired debts, credit risk and credit loss allowance, see Chapter "Critical Accounting Policy, Provision for credit losses and classification of problem debts".

	31 December 2015
	NIS millions
Balance of impaired debts at the beginning of the period	**5,191**
Added to impaired debts during the period	**878**
Transferred from impaired to non-impaired during the period	**(294)**
Accounting write-offs	**(323)**
Collection of debts after acounting write-offs in previous years	**7**
Net accounting write offs	**(316)**
Payments in cash	**(1,224)**
Balance of impaired debts at the end of the period	**4,235**
Of which: in respect of off-balance sheet credit instruments	**295**

Disclosure, assessment, classification and rules for credit loss allowance

The Bank follows the instructions of the Supervisor of Banks regarding credit expenses in respect of credit losses and problem debts which came into force on 1 January 2011 and updates since then. The Bank's practice is to estimate, assess and update the amount of the allowance for credit losses for each calendar year, in accordance with economic forecasts, assessments regarding the various markets and past experience.

The allowance for credit losses in relation to the credit portfolio may be divided into an individual allowance and a collective allowance.

The total allowances for credit losses for 2015 amounted to NIS 199 million, representing a rate of 0.08% of the portfolio of credit to the public. The rate is influenced by a number of principal factors:

- An increase in the collective allowance, mainly in light of the implementation of the update to the Public Reporting Directives which were published on 19 January 2015.
- A low rate of individual allowances in light of the lack of allowances in respect of prominent customers.
- The significant amounts of collections, including in respect of debts written off.

For further information, see Note 13.

	31 December 2015	31 December 2014
	%	
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	**1.6**	1.7
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	**105.9**	93.6
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 with the addition of the balance of credit to the public in arrears of 90 days or more	**85.4**	78.2
Net write-offs in respect of credit to the public as a percentage of the balance of the allowance for credit losses in respect of credit to the public	**(12.8)**	(6.8)

For further information regarding the provisions governing the measurement and disclosure of impaired debts, credit risk and credit loss allowance, see chapter "Critical Accounting Policy, Provision for credit losses and classification of problem debts".

Credit concentration

Concentration risk is defined as a single exposure or group of exposures with a common denominator and a potential for causing significant losses. Concentration risk management is conducted by determining restrictions and monitoring and controlling compliance therewith. The aspect of concentration is also reflected in the pricing of credit which reflects the risk.

Dispersal of the credit portfolio among the various market sectors

The Bank's credit portfolio is split among the various market sectors in order to disperse the risk inherent in a situation of high concentration in one sector. In the market sectors characterized by a relatively low level of risk, we strive to achieve a high rate of financing from our share in the system.

The Bank's credit policy with regard to various operating segments and different market sectors varies from time to time in accordance with the business environment, the Bank's business focus, the Bank's risk appetite and the specific and general directives of the Bank of Israel.

In addition, to the sectoral dispersal limit imposed by the Bank of Israel with regard to the 20 main market sectors, the Bank defines internal limits for the dispersal of the credit as a part of its risk policy on the basis of the market sectors and sub-sectors, both as a percentage of the regulatory capital and as a percentage of the credit risk.

Overall credit risk to the public by sector of the economy

	31 December 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheet credit risk (excluding 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)									
Activities of borrowers in Israel										
Agriculture	**2,075**	**1,951**	**124**	**2,070**	**1,775**	**123**	**50**	**16**	**(8)**	**(40)**
Mining and quarrying	**713**	**713**	**-**	**583**	**501**	**-**	**-**	**(2)**	**-**	**-**
Industry	**24,498**	**22,852**	**1,646**	**24,066**	**15,669**	**1,646**	**577**	**1**	**(60)**	**(527)**
Construction and real estate - construction	**47,249**	**45,433**	**1,816**	**47,155**	**15,688**	**1,815**	**639**	**65**	**(15)**	**(348)**
Construction and real estate - real estate activity	**27,556**	**25,925**	**1,631**	**27,485**	**24,653**	**1,631**	**1,053**	**18**	**70**	**(582)**
Electricity and water	**4,985**	**4,925**	**60**	**4,735**	**3,162**	**60**	**-**	**(7)**	**-**	**(28)**
Commerce	**26,552**	**25,614**	**938**	**26,374**	**21,531**	**908**	**244**	**(42)**	**12**	**(306)**
Hotels, accomodation and food services	**3,030**	**2,840**	**190**	**3,037**	**2,666**	**190**	**138**	**4**	**3**	**(31)**
Transport and storage	**6,757**	**6,420**	**337**	**6,638**	**5,897**	**337**	**268**	**15**	**15**	**(39)**
Communications and computer services	**6,162**	**5,895**	**267**	**5,871**	**4,128**	**263**	**255**	**(82)**	**(7)**	**(81)**
Financial services	**20,758**	**20,683**	**75**	**14,709**	**9,570**	**75**	**62**	**(151)**	**(12)**	**(267)**
Other business services	**7,720**	**7,628**	**92**	**7,701**	**5,462**	**92**	**34**	**40**	**30**	**(92)**
Public and community services	**7,781**	**7,755**	**26**	**7,742**	**6,523**	**26**	**11**	**(4)**	**17**	**(44)**
Total commercial	**185,836**	**178,634**	**7,202**	**178,166**	**117,225**	**7,166**	**3,331**	**(129)**	**45**	**(2,385)**
Private individuals - housing loans	**83,292**	**82,513**	**779**	**83,292**	**80,633**	**779**	**-**	**14**	**10**	**(497)**
Private individuals - other	**65,815**	**65,363**	**452**	**65,807**	**36,991**	**452**	**63**	**309**	**245**	**(701)**
Total public - activity in Israel	**334,943**	**326,510**	**8,433**	**327,265**	**234,849**	**8,397**	**3,394**	**194**	**300**	**(3,583)**
Israeli banks	**7,048**	**7,048**	**-**	**3,347**	**2,146**	**-**	**-**	**2**	**-**	**(2)**
Government of Israel	**37,243**	**37,243**	**-**	**262**	**262**	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**379,234**	**370,801**	**8,433**	**330,874**	**237,257**	**8,397**	**3,394**	**196**	**300**	**(3,585)**

(a) Balance sheet credit risk 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 borrower debt limitations in the sum of NIS 237,258, 36,036, 1,764, 5,081, 99,095 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet 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 by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,014 million, which were extended to purchasing groups in the process of construction.

Overall risk of credit to the public by sector of the economy (contd.)

	31 December 2015									
	Overall credit risk (a)			Debts (b) and off-balance sheet credit risk (excluding 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)									
Activity of borrowers abroad										
Agriculture	**128**	**126**	**2**	**127**	**72**	**2**	**2**	**2**	**1**	**(2)**
Mining and quarrying	**77**	**77**	**-**	**38**	**29**	**-**	**-**	**-**	**-**	**-**
Industry	**8,295**	**7,965**	**330**	**7,041**	**4,638**	**330**	**98**	**(4)**	**27**	**(92)**
Construction and real estate - construction (g)	**13,503**	**12,866**	**637**	**12,973**	**9,783**	**637**	**434**	**10**	**79**	**(230)**
Electricity and water	**371**	**371**	**-**	**88**	**56**	**-**	**-**	**-**	**-**	**-**
Commerce	**7,818**	**7,786**	**32**	**7,729**	**5,123**	**32**	**31**	**(2)**	**85**	**(79)**
Hotels, accomodation and food services	**1,577**	**1,549**	**28**	**1,577**	**1,441**	**28**	**24**	**(1)**	**-**	**(10)**
Transport and storage	**241**	**155**	**86**	**223**	**198**	**86**	**86**	**(2)**	**9**	**(31)**
Communications and computer services	**2,093**	**2,093**	**-**	**1,782**	**677**	**-**	**-**	**(1)**	**-**	**(1)**
Financial services	**17,027**	**16,935**	**92**	**2,801**	**1,619**	**92**	**92**	**45**	**7**	**(68)**
Other business services	**5,630**	**5,579**	**51**	**5,560**	**4,613**	**51**	**2**	**(2)**	**(1)**	**(16)**
Public and community services	**516**	**515**	**1**	**504**	**391**	**1**	**1**	**(39)**	**14**	**(19)**
Total commercial	**57,276**	**56,017**	**1,259**	**40,443**	**28,640**	**1,259**	**770**	**6**	**221**	**(548)**
Private individuals - housing loans	**1,176**	**1,126**	**50**	**1,176**	**1,172**	**50**	**29**	**-**	**2**	**(16)**
Private individuals - other	**531**	**509**	**22**	**522**	**409**	**22**	**22**	**-**	**8**	**(6)**
Total public - activity abroad	**58,983**	**57,652**	**1,331**	**42,141**	**30,221**	**1,331**	**821**	**6**	**231**	**(570)**
Foreign banks	**22,269**	**22,269**	**-**	**10,119**	**8,170**	**-**	**-**	**(3)**	**-**	**(1)**
Foreign governments	**11,667**	**11,667**	**-**	**480**	**191**	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**92,919**	**91,588**	**1,331**	**52,740**	**38,582**	**1,331**	**821**	**3**	**231**	**(571)**
Total	**472,153**	**462,389**	**9,764**	**383,614**	**275,839**	**9,728**	**4,215**	**199**	**531**	**(4,156)**

(a) Balance sheet credit risk 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 borrower debt limitations in the sum of NIS 38,581, 30,120, -, 6,169, 18,049 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet 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 by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making new credit in accordance with the Bank's policy.

(g) Including housing loans, extended to certain purchasing groups in the process of construction.

Overall risk of credit to the public by sector of the economy (contd.)

	31 December 2014 (i)									
	Overall credit risk (a)			Debts (b) and off-balance sheet credit risk (excluding derivatives) (c)						
								Credit losses (d)		
					Of which:[1]			Expenses in respect of credit losses	Net accounting write-offs	Balance of allowance for credit losses
	Total	Credit performance rating	Problematic (e)	Total[1]	Debts (b)	Problematic (e)	Impaired			
	(NIS millions)									
Activities 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	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	27,095	25,388	1,707	26,849	22,144	1,680	318	75	99	(371)
Hotels, accomodation and food services	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)
Other business 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)
Israeli banks	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 credit risk 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 borrower debt limitations in the sum of–NIS 229,102, 23,569, 2,000, 8,283, 101,580 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks (in 2014 except for deposits in the Bank of Israel) and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitation, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet 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 by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making ne credit in accordance with the Bank's policy.

(g) In housing loans, extended to certain purchasing groups in the process of construction.

(h) The balance of commercial debts includes the balance of housing loans, amounting to NIS 1,216 million, which were extended to purchasing groups in the process of construction.

(i) Comparative figures have been restated as a result of a Bank of Israel circular from April 2014 regarding the adoption of the directives of the Central Statistical Bureau regarding the consistent classification of the sectors of the economy; 2011 – which replaces the classification established in 1993.

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Overall risk of credit to the public by sector of the economy (contd.)

	31 December 2014 (h)									
	Overall credit risk (a)			Debts (b) and off-balance sheet credit risk (excluding 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)									
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 - construction	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, accomodation and food services	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)
Other business 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)
Foreign banks	32,527	32,527	-	19,045	17,555	-	-	3	-	(4)
Foreign governments	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 credit risk 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 borrower debt limitations in the sum of NIS 47,030, 23,851, -, 8,625, 17,485 million, respectively.

(b) Credit risk to the public, credit to governments, deposits with banks and other debts, except for bonds and securities borrowed or purchased under agreements to resell.

(c) Credit risk of off-balance sheet financial instruments as calculated for the purpose of single borrower debt limitations, except in respect of derivative instruments.

(d) Including in respect of off-balance sheet credit instruments (shown in the balance sheet under "Other liabilities").

(e) Impaired, substandard, or special mention balance sheet 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 by extent of arrears that are in arrears of 90 days or more.

(f) Credit risk whose credit rating on the report date corresponds with the credit rating for making ne credit in accordance with the Bank's policy.

(g) In housing loans, extended to certain purchasing groups in the process of construction.

(h) Comparative figures have been restated as a result of a Bank of Israel circular from April 2014 regarding the adoption of the directives of the Central Statistical Bureau regarding the consistent classification of the sectors of the economy; 2011 – which replaces the classification established in 1993.

Activity and risk restrictions in the construction and real estate sector

The real estate area is the area of activity in which the Bank has the greatest exposure of all the market sectors. As with other market sectors, restrictions at sector level and sub-sector level are defined for the real estate sector as part of the credit and credit risk policy, and the methodology and parameters for financing transactions are also defined.

In addition, the emphasis given by Leumi to the financing of real estate is reflected in the fact that a significant part of the Bank's activity in the sector is concentrated in a separate system specially adapted for dealing with customers in this area.

The real estate sector is financed, ensuring a diversification of the credit portfolio, distinguishing between the various segments – development of housing construction, building contracting including performance contracting, infrastructure works, activities in non-housing real estate – rental properties, building products industry, trade in building products, and geographical areas in which the projects are located according to the relevant demands.

A significant part of the construction financing is done in a "closed project" (construction loan) format which is characterized by a periodic examination and a close review, relying on and with the assistance of external building supervisors.

The Bank has a special unit to handle complex transactions for financing investments in infrastructure projects (power stations, desalination facilities, toll roads, BOT (Build-Operate-Transfer) projects and the like). This unit examines the transactions and sets up the financing package, including possible cooperation with capital market entities in financing the transaction.

As a part of the Bank's strategy to finance its customers in all the places in which they operate, and with the aim of dispersing risks, the Bank also regularly participates in the financing of real estate abroad. The financing is effected on a selective basis, giving priority to customers with whom the Bank has positive experience, in a controlled fashion and after examining all of the customers' activity in Israel and abroad. The projects financed abroad are thoroughly examined, taking into consideration the country's political and economic risk – as a rule, the relevant overseas offices oversee the projects.

Below is the development of indebtedness to the construction and real estate sector (in Israel and abroad):

	31 December 2015	31 December 2014	Change	
	NIS millions		NIS millions	%
Balance sheet credit risk	**50,631**	47,650	2,981	6.3
Guarantees to apartment purchasers (a)	**8,379**	7,482	897	12.0
Other off-balance sheet credit risk	**29,298**	28,367	931	3.3
Total	**88,308**	83,499	4,809	5.8

(a) Weighted according to balance sheet value.

Total credit risk in the construction and real estate sector in Israel increased in 2015 by 4.48%. The credit risk of the construction and real estate sector in Israel constitutes 22.33% of total credit risk in Israel. However, in accordance with the rules laid down by the Bank of Israel for determining the rate of concentration sector of the economy, total indebtedness in the sector at the Bank amounts to some 18.92% of total indebtedness in Israel. In 2015 and 2014, there was no deviation from the concentration of indebtedness in the sector.

Below are additional data of total credit

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

Credit ceiling in NIS thousands		**31 December 2015** Percentage of total number of borrowers	Percentage of total balance sheet credit	Percentage of total off-balance sheet credit	31 December 2014 (i) Percentage of total number of borrowers		Percentage of total balance sheet credit	Percentage of total off-balance sheet credit
From	To	%			%			
-	80	**81.3**	**5.8**	**18.3**	80.7		6.3	20.6
80	600	**14.9**	**19.9**	**10.9**	16.1		21.1	11.0
600	1,200	**2.5**	**15.4**	**3.8**	2.2		13.4	2.9
1,200	2,000	**0.7**	**7.2**	**2.4**	0.6		5.9	1.9
2,000	8,000	**0.4**	**9.6**	**5.3**	0.4		8.8	4.5
8,000	20,000	**0.1**	**6.6**	**4.2**	0.1		6.7	4.6
20,000	40,000	**0.04**	**6.3**	**5.3**	0.04		6.6	5.5
40,000	200,000	**0.04**	**15.7**	**18.3**	0.03		14.4	17.9
200,000	800,000	**0.01**	**10.8**	**23.7**	0.01	(a)	11.5	21.6
Above 800,000		**0.001**	**2.7**	**7.8**	0.001	(b)	5.3	9.5
Total		**100.00**	**100.0**	**100.0**	100.01		100.0	100.0

a. In 2015 - 154 borrowers and 2014 – 153 borrowers

b. In 2015 - 18 borrowers and 2014 – 18 borrowers

For additional information on the allocation of credit by size – see Note 29C.

The following is a summary of balances of credit to the public and off-balance sheet credit whose scope to a single borrower exceeds NIS 800 million in a more detailed cut-off of the size of credit and in the cut-off of market sectors at 31 December 2015.

Credit risk by size of credit of the borrower:

Credit ceiling in NIS millions		**31 December 2015** Number of borrowers Total	Of which: Related parties	Balance sheet credit Total	Of which: Related parties	Off-balance sheet credit risk Total	Of which: Related parties
From	To	NIS millions					
800	1,200	**8**	**-**	**1,926**	**-**	**5,226**	**-**
1,200	1,600	**2**	**-**	**2,205**	**-**	**615**	**-**
1,600	2,000	**1**	**-**	**35**	**-**	**1,613**	**-**
2,000	2,185	**2**	**-**	**3,065**	**-**	**1,193**	**-**
Total		**13**	**-**	**7,231**	**-**	**8,647**	**-**

Credit ceiling in NIS millions		31 December 2014 (i) Number of borrowers Total	Of which: Related parties	Balance sheet credit Total	Of which: Related parties	Off-balance sheet credit risk 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	-

Groups of borrowers[1]

The Bank maintains a designated monitoring of the exposure of large groups of borrowers in all their components for the purposes of regular reporting to the Bank of Israel and for examining compliance of the scope of obligation with the regulatory limitations and for the purposes of internal monitoring. In addition, there is an internal process, in the framework of which a central official in the bank ("the Group head") is appointed for each of the large groups and there is coordination and information flow regarding the group components with the objective of reinforcing, as much as possible, the control on credit exposure and concentration risk deriving therefrom. This process occurs between the various units in Leumi and also includes the subsidiaries, and obliges the business entities involved with management of groups of borrowers to provide constant flow of relevant information relating to the requests made for credit and the ratio of risk to Group items.

Moreover, regarding the small number of the largest groups of borrowers, the head of the group is required, once a year, to provide the Board of Directors of the Bank with a comprehensive review of the group.

With regard to the management of the credit portfolio of the Bank as a whole, the Bank implements an internal process of estimating concentration risk inherent in the exposure to all the large groups of borrowers, and the effect of that risk on the overall risk level of the portfolio. The above process enables both the quantification of the allocation of adequate equity according to the Proper Conduct of Banking Business Directive, and the performance of follow-up and ongoing monitoring of trends within the concentration component as part of the development trends of the entire portfolio.

The Bank is prepared to meet all the requirements of the update of Proper Conduct of Banking Business Directive No. 313, an update which came into effect on 1 January 2016, and the main point of which is the transition to Tier 1 capital and gradually by 31 December 2018 in relation to which the restriction is defined.

Limits on indebtedness of a borrower or group of borrowers

1. As at 31 December 2015, the Group had no exposure to a group of borrowers whose indebtedness exceeds 15% of the Bank's capital (as defined in Proper Conduct of Banking Business Directive No. 313).
2. As of 31 December 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**.**

Geographic dispersal

Mapping of exposure data of the activity of borrowers to countries/regions:

Geographic dispersal is defined as one of the potential credit concentration risks in a portfolio (in addition to sector dispersal and exposure to large borrowers and to groups of borrowers). Geographic risk means: economic/political/security deterioration in countries to which the borrower is exposed is likely to lead to impairment in the financial position of the company and its ability to meet its liabilities.

As part of borrower rating questionnaires, which are used for estimating the internal rating of corporate borrowers, questions relating to geographic exposure, are included. This refers to the mix of revenues and/or the mix of the firm's cash flows, the location of the material assets being used to create its activity (assets used in generating revenue, such as plant, logistical center, warehouse, head offices, rental property, etc.), as well as assets used as collateral for the company's debts.

These data enable the Bank to conduct an examination from the perspective of the entire portfolio of the exposure of the borrowers to the various countries, for the purposes of monitoring and risk management.

[1] A group of borrowers is defined as all the following together: the borrower, a person controlling it or anyone controlled thereby. When a corporation is controlled by more than one individual, it is required to include in one group of borrowers those controllers for which the controlled corporation is material (e.g., from a capital perspective), including the controlled corporation and anyone controlled by them; an investee corporation which is material for a holder who has no control and anyone controlled by them; borrowers related in such a way that the impairment in the financial stability of any of them is likely to have implications for the financial stability of the other, or that those factors are likely to have implications for the financial stability of both of them.

Exposure to foreign countries

In accordance with the Directive of the Supervisor of Banks, exposure to foreign countries is shown on an end-risk basis, as follows:

1. 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 bearing the end risk, after the effect of guarantees, liquid collateral and credit derivatives.
2. 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.
3. 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 calculated for the purpose of single borrower debt limitations.

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

a. Third party guarantees - according to the country of residence of the guarantor.

b. Securities - the country of residence is that of the issuer of the security.

c. The directive makes it clear that real estate and debtors' balances do not represent collateral for purposes of determining end-risk.

d. For purposes of determining end-risk, only specific collateral was taken into account.

The exposure by country is divided as follows: United States 52%, Europe (Germany, France, Italy, Spain and the Benelux countries) 15%, United Kingdom 19%, and other countries, 14%.

Part A – Information on total exposure to foreign countries and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of total equity for the purpose of calculating capital ratios, whichever the lower.

	31 December 2015						
	Balance sheet exposure (a)						
	Cross-Border Balance Sheet Exposure				Balance sheet exposure of foreign offices of the banking corporation to local		
	To governments (c)	To banks	To others		Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Net balance sheet exposure after deducting local liabilities
	NIS millions						
Country							
United States	**9,652**	**2,577**	**10,748**	**-**	**22,020**	**11,310**	**10,710**
United Kingdom	**39**	**2,942**	**3,022**	**-**	**7,015**	**2,143**	**4,872**
France	**552**	**635**	**942**	**-**	**-**	**-**	**-**
Switzerland	**-**	**334**	**1,194**	**-**	**535**	**101**	**434**
Germany	**-**	**1,519**	**1,583**	**-**	**-**	**-**	**-**
Others	**389**	**4,001**	**5,218**	**-**	**1,272**	**651**	**621**
Total exposure to foreign countries	**10,632**	**12,008**	**22,707**	**-**	**30,842**	**14,205**	**16,637**
Total exposure to LDC countries	**212**	**943**	**719**	**-**	**1,180**	**647**	**533**
Total exposure to GIIPS countries (d)	**97**	**57**	**408**	**-**	**-**	**-**	**-**

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.

(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.

(c) Including governments, formal institutions and central banks.

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

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

	31 December 2015						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)			
						Cross-Border Balance Sheet Exposure	
						Repayment period	
	Total balance sheet exposure	Balance sheet problem credit risk	Of which: Balance of impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet problem credit risk	Up to one year	Over one year
	NIS millions						
Country							
United States	**33,687**	**733**	**299**	**6,153**	**-**	**6,941**	**16,036**
United Kingdom	**10,875**	**247**	**229**	**3,846**	**-**	**1,717**	**4,286**
France	**2,129**	**10**	**8**	**1,126**	**-**	**872**	**1,257**
Switzerland	**1,962**	**-**	**-**	**412**	**-**	**962**	**566**
Germany	**3,102**	**-**	**-**	**259**	**-**	**1,882**	**1,220**
Others	**10,229**	**294**	**282**	**3,068**	**-**	**2,389**	**7,219**
Total exposure to foreign countries	**61,984**	**1,284**	**818**	**14,864**	**-**	**14,763**	**30,584**
Total exposure to LDC countries	**2,407**	**210**	**199**	**2,128**	**-**	**521**	**1,353**
Total exposure to GIIPS countries (d)	**562**	**-**	**-**	**250**	**-**	**222**	**340**

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.

(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.

(c) Including governments, formal institutions and central banks.

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

Part A – Information on total exposure to foreign countries and on exposure to countries whose total individual exposure exceeds 1% of total assets or exceeds 20% of total 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		
	To governments (c)	To banks	To others		Balance sheet exposure before deducting local liabilities	Deduction for local liabilities	Net balance sheet exposure after deducting local liabilities
	NIS millions						
Country							
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	-	-	-	-
Others	781	6,974	5,409	-	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	-	-	-	-

(a) Balance sheet and off-balance sheet risk, problem commercial credit risk and impaired debts are stated before the effect of a credit loss allowance and before the effect of collateral permitted for deduction for the purpose of indebtedness of a borrower and a group of borrowers. Not including off-balance sheet risk components.

(b) Credit risk in off-balance sheet financial derivatives as computed for the purpose of the indebtedness of a borrower.

(c) Including governments, formal institutions and central banks.

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

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

	31 December 2014						
	Balance sheet exposure (a)			Off-balance sheet exposure (a) (b)			
						Cross-Border Balance Sheet Exposure	
						Repayment period	
	Total balance sheet exposure	Balance sheet problem credit risk	Of which: Balance of impaired debts	Total off-balance sheet exposure	Of which: Off-balance sheet problem credit risk	Up to one year	Over one year
	NIS millions						
Country							
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
Others	13,913	523	486	1,802	-	8,107	5,057
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

Notes:

(a) Balance sheet credit risk and off-balance sheet credit risk, problematic commercial credit risk and impaired debts are shown before the effect of the allowance for credit losses and before the effect of collateral deductible for purposes of single borrower and group borrower debt limitations. Does not include off-balance sheet risk components.

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

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

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

Part B – On 31 December 2015 and 31 December 2014, there was no aggregate amount of balance sheet exposure to foreign countries whose total individual exposure was between 0.75% and 1% of the total consolidated assets or between 15% and 20% of equity, whichever the lower.

Part C – The amount of exposure to foreign countries with liquidity problems as defined by the Bank of Israel (a country receiving financial aid from the IMF or whose obligations are rated with a credit rating of CCC or lower) amounts to NIS 722 million and relates to 11 countries (at 31 December 2014, this amounted to NIS 1,712 million and related to 15 countries).

The following table presents the exposure to countries according to the countries' credit rating as rated by the World Bank, in NIS millions, as at 31 December 2015:

	Balance sheet exposure	Off-balance sheet exposure	Total exposure	Percentage of exposure in relation to total	Of which problem commercial credit risk
High-income OECD countries	**55,715**	**12,628**	**68,343**	**88.9%**	**1,071**
High-income countries	**3,862**	**108**	**3,970**	**5.2%**	**3**
Mid-high income countries	**2,359**	**1,734**	**4,093**	**5.3%**	**206**
Mid-low income countries	**47**	**393**	**440**	**0.6%**	**4**
Low-income countries	**1**	**1**	**2**	**-**	**-**
Total	**61,984**	**14,864**	**76,848**	**100%**	**1,284**

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

High income - exceeding 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:

1. OECD countries:

USA, Italy, Australia, Austria, Ireland, Belgium, Canada, Czech Republic, Denmark, Finland, Israel, Hungary, France, United Kingdom, Japan, Spain, Switzerland, Luxembourg, Slovenia, the Netherlands, Sweden, Poland, Germany and South Korea.

2. Countries with high income:

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

3. Countries with mid-high income:

Argentina, Brazil, Bulgaria, Mexico, Panama, Romania, Russia, South Africa, Turkey, Venezuela, Uruguay, Columbia and Peru.

4. Countries with mid-low income:

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

5. Countries with low income:

Several African countries, Haiti and Nepal**.**

Credit exposure to foreign financial institutions

The following table sets out the credit exposure to overseas financial institutions[(a)]:

	31 December 2015		
	Balance sheet credit risk (b)	Current off-balance sheet credit risk (c)	Current credit exposure
	NIS millions		
External credit rating (e)			
AAA to AA-	**13,048**	**2,789**	**15,837**
A+ to A-	**2,323**	**54**	**2,377**
BBB+ to BBB-	**440**	**241**	**681**
BB+ to B-	**1**	**2**	**3**
Below B-	**35**	**-**	**35**
Unrated	**173**	**8**	**181**
Total current credit exposure to foreign financial institutions	**16,020**	**3,094**	**19,114**
Problem debt balances	**-**	**-**	**-**

	31 December 2014		
	Balance sheet credit risk (b)	Current off-balance sheet credit risk (c)	Current credit exposure
	NIS millions		
External credit rating (e)			
AAA to AA-	23,360	1,595	24,955
A+ to A-	2,167	1	2,168
BBB+ to BBB-	1,890	150	2,040
BB+ to B-	83	2	85
Below B-	-	1	1
Unrated	248	2	250
Total current credit exposure to foreign financial institutions	27,748	1,751	29,499
Problem debt balances	-	-	-

(a) Overseas 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 (resale) agreements and other assets in respect of derivatives (fair value of derivatives) and investments in debentures including subordinated bank debentures amounting to NIS 597 million as at 31 December 2015 and NIS 759 million as at 31 December 2014.
(c) Mainly guarantees and undertakings for the provision of credit (excluding off-balance sheet derivatives).
(d) The bank only uses the rating of Moody's and S&P credit rating agencies to rate the foreign financial institutions to which there is a credit exposure.

Notes:
1. Credit exposures do not include investments in asset-backed securities. (See Note 12)
2. Some of the banks have received government support of various types, including direct investment 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 derivatives *vis-à-vis* banks and broker/dealers (local and overseas), see Note 27B to the financial statements.

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

The exposure includes mainly deposits in overseas 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 worldwide, and makes frequent analyses of their financial stability. The Bank maintains a shortlist of quality banks with which the Bank and its overseas subsidiaries make deposits.

The management of exposure and credit lines to foreign financial institutions takes into consideration, *inter alia*, the following:

- Their size as reflected, *inter alia*, in the size of their shareholders' equity.
- Their strength, as reflected in capital adequacy ratios (especially Tier 1 capital), analysis of the quality of their assets, and the stability of their profitability.
- 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 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 insuring the stability of these banks and of 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 per risk.

Risks in the housing loan portfolio

The following table presents data on the performance of new loans provided and loans refinanced for the purchase of residential apartments, and mortgages of residential apartments in Israel:

	2015	2014	
	Annual total	Annual total	Change
	NIS millions		%
From Bank funds	**16,548**	14,681	12.7
From Ministry of Finance funds:			
Directed loans	**11**	26	(57.7)
Bullet loans	**10**	20	(50.0)
Total new loans	**16,569**	14,727	12.5
Refinanced loans	**5,107**	4,564	11.9
Total performance	**21,676**	19,291	12.4

Disclosure of housing loans

The following are data relating to the risk characteristics of housing loans, the developments in credit risk and how they are managed, including consideration of steps taken by the Bank to contend with these risk characteristics.

Development of credit balance for housing, net, in Israel:

	Balance of credit portfolio	Rate of growth
	NIS millions	%
December 2013	68,152	13.0
December 2014	73,919	8.5
December 2015	**79,905**	**8.1**

In recent years, there has been an increase in the volume of housing credit, arising from, *inter alia*, an increase in the demand for housing units and a rise in the prices of housing units. Most of this credit is for the purpose of acquiring residential apartments.

Development of credit balance, net by linkage basis:

	Unlinked	Percentage of credit portfolio	Index-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	2.4	73,919
December 2015	**43,938**	**55.0**	**34,511**	**43.2**	**1,456**	**1.8**	**79,905**

Development of balance of housing credit portfolio, at variable and fixed interest:

	Fixed		Variable			Total credit portfolio
	Unlinked	Index-linked	Unlinked	Index-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
December 2015	**12,351**	**12,477**	**31,587**	**22,034**	**1,456**	**79,905**

Development of new housing credit balance by interest track in Israel:

The development of new credit according to variable and fixed interest tracks (a variable interest loan is a loan where the interest that it bears is likely to change over the life of the loan) is as follows:

	2015				2014	2013
	Fourth quarter	Third quarter	Second quarter	First quarter	Annual average	Annual average
	Percentage of loans granted					
	%					
Fixed – linked	**9.7**	19.9	19.8	23.0	22.9	14.4
Variable every 5 years and above – index-linked	**15.7**	13.5	11.6	13.1	17.2	29.1
Variable up to 5 years – index-linked	**1.3**	1.5	1.0	1.2	2.0	2.4
Fixed – unlinked	**32.8**	30.5	35.8	28.9	21.5	13.4
Variable every 5 years and above – unlinked	**6.8**	5.4	5.5	6.6	6.6	9.8
Variable up to 5 years – unlinked	**33.3**	28.8	25.8	26.6	28.5	29.3
Variable – foreign currency	**0.4**	0.4	0.5	0.6	1.3	1.5

The percentage of new credit extended by the Bank in variable interest housing loans during 2015 stood at 49%, compared with 56% in 2014. The figures relate to all of the various interest paths and linkage segments, including loans in which the interest varies each period of five years and more. Excluding the effect of loans in which the rate of interest is variable, which varies each period of five years and more, which the directive of the Banking Supervision Department excludes from the definition of variable interest loans, the percentage of housing credit at variable interest which stood at 30% during 2015, compared with 32% in 2014.

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

	Balance of recorded debt	Amount in arrears	Percentage of amount in arrears
	NIS millions		%
December 2013	68,627	810	1.2
December 2014	74,410	800	1.1
December 2015	**80,402**	**768**	**1.0**

The allowance for credit losses as at 31 December 2015, including the collective allowance on housing loans (hereinafter: "the overall allowance") was NIS 497 million, representing 0.62% of the housing credit balance, compared with the balance of the allowance as at 31 December 2014, amounting to NIS 491 million, representing 0.66% of the housing credit balance.

Data relating to new housing credit:

In 2015, the Bank extended new housing loans amounting to NIS 16.5 billion of the Bank's funds.

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

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

	2015				2014	2013 (a)
	4th quarter	3rd quarter	2nd quarter	1st quarter	Annual average	Annual average
Rate of financing	%					
Between 60% and 70%	**18.6**	18.6	18.8	19.2	18.5	18.3
Between 70% and 80%	**14.6**	17.1	18.1	16.5	14.5	16.3
Above 80%	**0.4**	0.7	1.0	2.4	0.4	0.9

(a) The increase in the rate of financing above 80% in 2015 derives from the Treasury loans turnover campaign

Development of the rate of financing, balance of credit portfolio, in Israel:

The average rate of financing of the credit portfolio balance at 31 December 2015 was 47.1%, compared to 48.4% in 2014.

Development of new credit, in which the repayment ratio is lower than 2.5:

Loans made in 2015 in which the repayment ratio is lower that 2.5 to income-earners of NIS 10,000 and below, at the date of approval of the credit, stood at 0.3% of the total new extensions of new credit.

This calculation complies with the Bank of Israel directives for the purposes of reporting pursuant to Proper Conduct of Banking Business Management Regulation no. 876.

Development of new credit, in which the repayment dates extend beyond 25 years:

The percentage of the new credit of housing loans in 2015, in which repayment dates according to loan contracts longer than 25 years, stood on average at 30% of the total of new credit extended, compared to 29% in 2014 and 30% in 2013.

As a rule, the Bank does not extend new loans for new housing, the terms of which enable the borrower to make a payment which is lower than the interest accrued on the loan, except in extraordinary cases. The Bank does not extend loans secured by a second charge, except in exceptional cases.

According to the Bank's credit policy, the Bank extends new housing loans in which the information the Bank has on the borrower or on the collateral, at the time of granting the loan, is complete, updated and verified.

Developments in credit risks

Against a background of increasing demand for housing units, both for residential purposes and for the purpose of investment, and against a background of a rising trend in housing prices, in addition to the low interest environment, the extent of housing credit has increased.

As a result of these developments, and in the context of the risk management, it was decided to tighten the administrative limits, particularly for the following features: the rates of financing, monthly repayment ability, credit rating according to the Bank's internal statistical model.

As part of extending housing loans, individual loans were made to participants in a purchasing group. In the context of a purchasing group provides a solution to the market demand of the market of private organizations, associations, historical land-owners, etc. From the aspect of risk, the financing is provided to various populations in a geographical dispersal, and after each borrower has undergone a review of the ability to repay the loan.

The average loan extended by the Bank in 2015 was NIS 623 thousand, compared with NIS 585 thousand in 2014 and NIS 558 thousand in 2013.

Exposure of the Bank to leveraged finance

Proper Conduct of Banking Business Directive 311 provides that a bank's credit policy should relate, *inter alia*, to leveraged finance. The Bank operates according to unique principles in a credit policy for this segment. As of 31 December 2015, leveraged financing is defined by the Bank as financing in one of the following criteria:

1. Financing to purchase the means of control or against the means of control held (constitutes an expansion to that required pursuant to Proper Conduct of Banking Business Directive 323).

2. Financing "pure" holding companies, as defined in the Bank's policy.

3. Financing a borrower in the various segments of the defined industry sectors, characterized in significant exceptional values of certain parameters in relation to norms in the area of the relevant market sector, such as the ability to service an insufficient debt compared to norms established by the Bank, a low shareholders' equity to total assets ratio.

As of 31 December 2015, the total of aggregate credit balances (net balance sheet and off-balance sheet credit less allowances for credit losses and deductible collateral) to leveraged borrowers, to each of which the credit balance in the amount of 0.5% of the Bank's capital and above, stands at NIS 3.2 billion, a decrease of NIS 4.5 billion since the end of the previous year.

The following table presents the aggregate balances of credit to leveraged borrowers*, each of which has a balance of credit amounting to 0.5% of the Bank's capital, by sector of the economy:

	31 December	
	2015	2014
Market sector	NIS millions	
Real estate	**1,552**	3,059
Industry	**466**	2,683
Trade	**340**	881
Financial services	**273**	509
Communications	**-**	254
Transport and storage	**526**	250
Other corporate services	**-**	-
Total	**3,157**	7,636

* Net balance sheet and off-balance sheet credit, after deduction of allowances of credit losses and deductible collateral (and including the holding of debentures in nostro and irrevocable undertakings to grant credit).

The regulation provides quantitative limits on the balance of credit for acquiring the means of control, and the Bank complies with them.

In addition, the Bank has also established a quantitative internal limit relating leveraged finance, and as of the end of 2015, the Bank complies with this limit. In addition, we would point out that Regulation no. 323 defines credit for the purchase of the means of control and defines a quantitative limit with regard to this credit. As of 31 December 2015, there are no credit balances for financing the means of control in the amounts specified pursuant to Regulation no. 323

On 1 January 2016, an update to Regulation no. 323 came into effect (Limits on the financing of capital transactions), as well as a new Regulation no 327 (Management of leveraged loans) The Bank is prepared to comply with the requirements of these regulations.

Market Risk

Market risk is defined as the risk of a loss in off-balance sheet positions arising from changes in the fair value of a financial instrument as a result of a change in market conditions (a change in price levels in various markets, fluctuations in interest rates, exchange rate, inflation, the prices of shares and commodities and other economic indices). Exposure to market risks is reflected in the business results, the fair value of assets and liabilities, shareholders' equity and cash flows.

Market risks to which the Bank is exposed include interest risk, basis risk, tradable credit risk in the nostro portfolio and investment risk in shares and funds (For further information, see in the Report on Risks on the Bank's website).

The Bank applies the directives of the Supervisor of Banks on the subject of the Group's market and liquidity risk management, pursuant to which basic principles for the method of risk management and control are provided, including the responsibility of the management and the Board of Directors, the definition of the means of control and the tools for measuring the risks and the means of control and supervision of these risks., implementing corporate governance which includes the three "lines of defense".

The Capital Markets Division, which operates as a first line of defense and responsibility over the taking of the risk, while analyzing and understanding the term of the transaction and the maintenance of appropriate control mechanisms. The investment arm of Leumi, Leumi Partners, operates alongside the Capital Markets Division as a "first line".

The Risk Management Division, which operates as a security line of defense, and it is responsible for examining the market and liquidity risk management from an overall perspective, with involvement in the assessment of the risks in products and new activities, the formulation of risk policy and the risk restrictions with an overall view of the nostro portfolio, the Bank's non-banking investments and the pension portfolio.

The Internal Audit, which operates as a third line of defense, whose function is to examine retrospectively the accuracy and effectiveness of the risk management processes in the first and second line and reveal weaknesses in internal controls.

Market risk management is discussed in a number of administrative hierarchies, the most important of which are:

- The Assets, Liabilities and Financial Investments Committee (ALCO), headed by the Deputy President and CEO, is responsible for managing the assets and liabilities and financial investments pursuant to the resolutions of the Board of Directors and the management, giving emphasis to the structure of the balance sheet, transfer prices, the required liquidity and liquid reserve investments, capital structure and capital-raising policy and compliance with the restrictions and Group policy.
- The Upper Market Risks Management Committee, headed by the Chief Risk Officer, examines events and market trends which could have repercussions for the Bank, and it is responsible for discussing and approving risk policy and restrictions - prior to their being brought for discussion and the approval of the Board of Directors, monitor compliance with the aforementioned restrictions and approve the methodology for measuring exposure to market risks in Leumi Group.
- The Upper Risks Committee, headed by the President and CEO – which discusses material topics related to market risks after they have been discussed in the Upper Market Risks Committee.
- The Risk Management Committee of the Board of Directors – Once every quarter, the Risk Management Committee of the Board of Directors discusses the risk document of the Risk Management Division, including exposures to market risks and the change in risk focus points. The committee reports the position regarding compliance with the limits at Group level, and the damage that the Bank might incur from stress scenarios. In addition, any new activity in financial instruments that is significantly different from the current activity in financial instruments is presented for discussion and the approval of the committee within the context of a "new product" procedure. In addition, the policy for managing market risks is brought for discussion and the approval of the recommendations of the Board of Directors Risk Management Committee are presented for approval by the Board of Directors in plenum.

Market risk management policy

Market risk management reflects the Group's market risk strategy, This is alongside the existing procedures for detecting, measuring monitoring developing and controlling the market risks. The policy for managing market risks is intended, on the one hand, to support the achievement of business goals by assessing the risks and the prospects that can result from exposure to risks, in comparison with the forecast profit from them, and on the other hand, to reduce the level of risk deriving from the Bank's ongoing activity, including maintaining a high liquidity level. All this is after taking into account the volume of activity, limitations, and the costs of hedging activity, the changes occurring in the business environment in Israel and throughout the world, directives and requirements of the Bank of Israel, and developments occurring worldwide with regard to measurements and methods of managing risks and adapting them to the needs of the Group and the Bank.

The policy represents an important tool in defining the Bank's risk appetite in the *nostro* field, dealing rooms and market exposure, in the whole Bank Leumi Group. The policy defines the corporate governance, the allocation of organizational responsibility and escalation mechanisms. As part of the market risk management policy, restrictions of the Board of Directors have been determined for every material market risk factor. In addition, restrictions have been set at the level of the Chief Risk Officer and additional restrictions which complement these restrictions. These restrictions are intended to limit the damage that could be incurred as a result of unforeseen changes in the existing various risk factors in the markets, such as, interest rates, inflation, exchange rates, tradable credit margins and share prices.

Exposure to credit risk is routinely managed at the Group level. The overseas subsidiaries determine policy for the management of market risk corresponding to the Group policy and the risk framework approved therein. Information on the actual state of exposure according to the frameworks so determined is received from the subsidiaries and taken into account in the overall management of the Group exposure.

Management of market risks is handled by two main risk centers – the banking portfolio and the trading portfolio. Definition of the trading portfolio is derived from the Basel directives and includes the securities trading portfolio of the Bank and derivative transactions in trading activity. The banking portfolio includes transactions that are not included in the trading portfolio.

For further information regarding activity according to portfolio, see Report on Risks.

Commencing 1 January 2015, the Bank has implemented United States generally accepted accounting principles regarding employee rights, as stipulated by the Bank of Israel, chief of which is a change in the rate of financing of the pension liabilities. Market risk management in respect of the commitment to employees is executed partly within the framework of the banking portfolio and partly managed separately and independently as a part of the "plan assets", which are intended to carry a yield over the long-term, with the aim of servicing the liability value. The pension liability is the flow which is affected by changes in demographic parameters, such as inflation, the pension determining salary, etc. The actuarial commitment for employees has a long duration, and is significantly affected by changes in the capitalization interest. The impact 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 commitment, and it is effected by investing in diverse and dispersed assets, such as shares and debt assets. The investment is subject to regulatory restrictions and limitations set by the funds.

A. Interest risk

Interest risk is the 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 dates of changes in interest rates or the repayment date 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 potential erosion of economic value[1] and financing profit for the coming year. Exposure of the profit to interest is influenced by the activity in derivative transactions and the trading security portfolio.

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

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

The interest risk is actually measured and managed on the basis of various behavioral assumptions with regard to the repayment times of the assets and liabilities. In accordance with 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 are crucial in interest risk management, due to the significant increase in balances in recent years.

The measurement of exposure to changes in interest is carried out for both an increase and a decrease in interest rates in each linkage segment. This measurement is intended to examine the sensitivity of the existing asset and liability structure to changes in interest, and therefore, the computation is made without altering the asset and liability structure. In the event that interest rates are significantly negative, the structure of the assets and liabilities will essentially change.

The summary of exposures to unexpected changes in interest at Group level (before tax and in NIS millions)* - the potential change in economic value as a result of the scenario - is as follows:

	31 December 2015		31 December 2014	
Scenario	Increase of 1%	Decrease of 1%	Increase of 1%	Decrease of 1%
In Israeli currency:				
Banking portfolio	**(641)**	**708**	**(468)**	**517**
Trading portfolio	**(87)**	**111**	**(113)**	**123**
In foreign currency:				
Banking portfolio	**(32)**	**(74)**	**23**	**(84)**
Trading portfolio	**7**	**(33)**	**(108)**	**108**

	Potential erosion in annual profit	
	31 December 2015	31 December 2014
	Actual	
Total	106	379

* The extent of exposure does not take into account the existence of an interest rate floor of 0% on the deposits. The further the interest falls and approximates to zero, the higher the impairment in financial margin – as all of the interest reduction by the Bank of Israel is reflected only in the lowering of the interest rate on the credit and therefore, in the reduction of margins and the erosion of profits in the Bank.

The exposure of capital to an immediate increase/decrease in interest (before the effect of tax) is as follows:

	Exposure in Israeli currency		Exposure in foreign currency	
	31 December 2015			
	Increase of 1%	Decrease of 1%	Increase of 1%	Decrease of 1%
Exposure of capital to an immediate increase/decrease in interest*	**1,472**	**(1,895)**	**(292)**	**182**

* This exposure includes the exposure to an immediate change in the interest of the nostro portfolios which have been remeasured at market value and the actuarial commitment to employees. This does not include the effect of the sensitivity of the plan assets to changes in interest which is estimated as a decrease in the value of the assets amounting to NIS 120 million in the scenario of a 1% increase in interest. In addition, the measurement does not include the effects of the transitional provisions of the standard on employee rights, according to which the capital adequacy ratio is computed.

With the implementation of the standard on employee rights, and the actuarial commitment to employees according to market interest, the capital sensitivity to changes in interest increased. In order to minimize the fluctuations in capital, Leumi hedges some of this exposure.

During 2015, the Group complied with all of the interest exposure restrictions set by the Board of Directors.

For further information, see the Report on Risks on the Bank's website.

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 rates:

	31 December 2015					
	Israeli currency		Foreign currency, including Israeli currency linked to			
	Unlinked	CPI-linked	Dollar	Euro	Others	Total
	NIS millions					
Financial assets	**257,444**	**52,070**	**64,294**	**7,598**	**9,709**	**391,115**
Amounts receivable in respect of derivative financial and off-balance sheet instruments	**258,434**	**7,256**	**193,030**	**57,823**	**24,915**	**541,458**
Financial liabilities (a)	**211,447**	**59,362**	**87,666**	**13,889**	**9,199**	**381,563**
Amounts payable in respect of derivative financial and off-balance sheet instruments	**283,626**	**8,796**	**170,470**	**52,076**	**26,125**	**541,093**
Net fair value of financial instruments	**20,805**	**(8,832)**	**(812)**	**(544)**	**(700)**	**9,917**

(a) Including the fair value of the actuarial liabilities to employees and does not including the value of the plan assets.

	31 December 2014					
	Israeli currency		Foreign currency, including Israeli currency linked to			
	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 instruments	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 changes in interest rates on the net fair value* of financial instruments

	31 December 2015						
	Fair value, net, of financial instruments after the effect of changes in interest rates (a)						Change in fair value
	Israeli currency		Foreign currency, including Israeli currency linked to foreign currency				
	Unlinked	CPI-linked	Dollar(b)	Euro	Others	Total	Total
	NIS millions					NIS millions	%
Immediate corresponding increase of 1%	**19,963**	**(7,086)**	**(1,079)**	**(550)**	**(692)**	**639**	**6.44**
Immediate corresponding increase of 0.1%	**20,721**	**(8,657)**	**(839)**	**(545)**	**(699)**	**64**	**0.65**
Immediate corresponding decrease of 1%	**21,643**	**(11,061)**	**(675)**	**(537)**	**(708)**	**(1,255)**	**(12.66)**

(a) This exposure includes the exposure to an immediate change in the interest of the nostro portfolios which have been remeasured at market value and the actuarial commitment to employees. This does not include the effect of the sensitivity of the plan assets to changes in interest which is estimated as a decrease in the value of the assets amounting to NIS 120 million in the scenario of a 1% increase in interest. In addition, the measurement does not include the effects of the transitional provisions of the standard on employee rights, according to which the capital adequacy ratio is computed.

(b) Of this, the effect of compound financial assets: immediate corresponding increase of 1% - NIS (250) million, and an immediate corresponding decrease of 1% - NIS 144 million.

	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 million	%
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 estimate of the value of revenues in respect of commission for early repayment.

Exposure to interest rate fluctuations

	31 December 2015				
	On demand up to one month	Over one month to three months	Over three months to one year	Over one year to three years	Over three years to five years
	NIS millions				
Israeli currency - unlinked					
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments					
Financial assets (a)	**188,621**	**10,351**	**26,198**	**14,147**	**7,659**
Derivative financial instruments (excluding options)	**42,693**	**87,349**	**42,448**	**35,578**	**23,113**
Options (in terms of the underlying asset) (c)	**1,479**	**1,230**	**1,041**	**213**	**1,754**
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**
Total fair value	**232,793**	**98,930**	**69,687**	**49,938**	**32,526**
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments					
Financial liabilities (a)	**177,905**	**5,211**	**6,665**	**12,463**	**7,649**
Derivative financial instruments (excluding options)	**53,874**	**89,404**	**57,729**	**34,422**	**22,685**
Options (in terms of the underlying asset) (c)	**1,999**	**604**	**1,321**	**277**	**5**
Off-balance sheet financial instruments	**-**	**-**	**29**	**-**	**-**
Total fair value	**233,778**	**95,219**	**65,744**	**47,162**	**30,339**
Exposure to interest rate changes in the segment	**(985)**	**3,711**	**3,943**	**2,776**	**2,187**
Accumulated exposure in the sector	**(985)**	**2,726**	**6,669**	**9,445**	**11,632**
Israeli currency – linked to the CPI					
Financial assets, amounts receivable in respect of derivative instruments and off-balance sheet financial instruments					
Financial assets (a)	**1,229**	**2,712**	**11,134**	**16,592**	**11,011**
Derivative financial instruments (excluding options)	**402**	**604**	**1,183**	**2,321**	**1,084**
Options (in terms of the underlying asset) (c)	**-**	**-**	**-**	**-**	**-**
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**
Total fair value	**1,631**	**3,316**	**12,317**	**18,913**	**12,095**
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments					
Financial liabilities (a)	**800**	**2,230**	**10,170**	**13,074**	**10,138**
Derivative financial instruments (excluding options)	**684**	**802**	**1,508**	**2,444**	**1,377**
Options (in terms of the underlying asset) (c)	**-**	**-**	**-**	**-**	**-**
Off-balance sheet financial instruments	**-**	**-**	**125**	**-**	**-**
Total fair value	**1,484**	**3,032**	**11,803**	**15,518**	**11,515**
Financial instruments, net					
Exposure to interest rate changes in the segment	**147**	**284**	**514**	**3,395**	**580**
Accumulated exposure in the sector	**147**	**431**	**945**	**4,340**	**4,920**

Notes:

(a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments in the "without maturity period" column the non-discounted book balances are presented including balances whose repayment date has exceeded NIS 572 million.

(b) Weighted average according to fair value of effective duration.

(c) Duration less than 0.05 years.

Exposure to interest rate fluctuations (contd.)

							31 December 2014		
Over five years to ten years	Over ten years to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
					%	Years		%	Years
7,001	**2,417**	**694**	**356**	**257,444**	**2.87**	**0.70**	222,410	2.83	0.63
20,898	**520**	**48**	**-**	**252,647**	**-**	**1.44**	310,080	-	1.37
11	**59**	**-**	**-**	**5,787**	**-**	**-**	12,175	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
27,910	**2,996**	**742**	**356**	**515,878**	**2.87**	**1.06**	544,665	2.83	1.03
1,489	**65**	**-**	**-**	**211,447**	**0.93**	**0.41**	182,348	0.54	0.26
20,687	**444**	**24**	**-**	**279,269**	**-**	**1.35**	330,356	-	1.31
12	**110**	**-**	**-**	**4,328**	**-**	**-**	10,377	-	-
-	**-**	**-**	**-**	**29**	**-**	**0.50**	29	-	0.50
22,188	**619**	**24**	**-**	**495,073**	**0.93**	**0.94**	523,110	0.54	0.92
5,722	**2,377**	**718**	**-**	**-**	**-**	**-**	-	-	-
17,354	**19,731**	**20,449**	**-**	**-**	**-**	**-**	-	-	-
6,316	**2,541**	**524**	**11**	**52,070**	**2.00**	**3.29**	55,524	2.07	2.92
1,616	**46**	**-**	**-**	**7,256**	**-**	**3.05**	6,776	-	3.27
-	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
7,932	**2,587**	**524**	**11**	**59,326**	**2.00**	**3.26**	62,300	2.07	2.96
6,684	**894**	**-**	**-**	**43,990**	**0.67**	**3.06**	50,496	0.85	2.96
1,713	**143**	**-**	**-**	**8,671**	**-**	**2.93**	8,901	-	3.30
-	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
-	**-**	**-**	**-**	**125**	**-**	**-**	145	-	-
8,397	**1,037**	**-**	**-**	**52,786**	**0.67**	**3.03**	59,542	0.85	3.00
(465)	**1,550**	**524**							
4,455	**6,005**	**6,529**							

Exposure to interest rate fluctuations

	31 December 2015				
	On demand up to one month	Over one month to three months	Over three months to one year	Over one year to three years	Over three years to five 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)	**42,482**	**12,125**	**6,827**	**6,866**	**5,798**
Of which; compound financial instruments	**3,005**	**1,146**	**1,393**	**1,991**	**1,113**
Derivative financial instruments (excluding options)	**82,750**	**86,442**	**55,065**	**13,796**	**13,440**
Options (in terms of the underlying asset) (d)	**(822)**	**2,104**	**2,730**	**3,732**	**433**
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**
Total fair value	**124,410**	**100,671**	**64,622**	**24,394**	**19,671**
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments					
Financial liabilities (a)	**77,835**	**11,850**	**15,753**	**3,799**	**942**
Derivative financial instruments (excluding options)	**55,783**	**85,332**	**48,203**	**13,914**	**16,204**
Options (in terms of the underlying asset) (d)	**(1,736)**	**2,452**	**2,493**	**3,926**	**2,094**
Off-balance sheet financial instruments	**-**	**-**	**14**	**-**	**-**
Total fair value	**131,882**	**99,634**	**66,463**	**21,639**	**19,240**
Financial instruments, net					
Exposure to interest rate fluctuations	**(7,472)**	**1,037**	**(1,841)**	**2,755**	**431**
Accumulated exposure in the sector	**(7,472)**	**(6,435)**	**(8,276)**	**(5,521)**	**(5,090)**
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)	**232,332**	**25,188**	**44,159**	**37,605**	**24,468**
Derivative financial instruments (excluding options)	**125,845**	**174,395**	**98,696**	**51,695**	**37,637**
Options (in terms of the underlying asset) (d)	**657**	**3,334**	**3,771**	**3,945**	**2,187**
Off-balance sheet financial instruments	**-**	**-**	**-**	**-**	**-**
Total fair value	**358,834**	**202,917**	**146,626**	**93,245**	**64,292**
Financial liabilities, amounts payable in respect of derivative instruments and off-balance sheet financial instruments					
Financial liabilities (a) (c) (f)	**256,540**	**19,291**	**32,588**	**29,336**	**18,729**
Derivative financial instruments (excluding options)	**110,341**	**175,538**	**107,440**	**50,780**	**40,266**
Options (in terms of the underlying asset) (d)	**263**	**3,056**	**3,814**	**4,203**	**2,099**
Off-balance sheet financial instruments	**-**	**-**	**168**	**-**	**-**
Total fair value	**367,144**	**197,885**	**144,010**	**84,319**	**61,094**
Financial instruments, net					
Exposure to interest rate fluctuations	**(8,310)**	**5,032**	**2,616**	**8,926**	**3,198**
Accumulated exposure in the sector	**(8,310)**	**(3,278)**	**(662)**	**8,264**	**11,462**
In addition, exposure to interest rates in respect of liabilities for employee rights' gross - pension and severance pay	**47**	**93**	**419**	**1,143**	**1,234**

Notes:

(a) Except for book balances of derivative financial instruments, fair value of off-balance sheet financial instruments and fair value of compound financial instruments in the "without maturity period" column the non-discounted book balances are presented including balances whose repayment date has exceeded NIS 9 million.

(b) Weighted average according to fair value of effective duration.

(c) Including non-monetary items shown in the "Without maturity period" column.

(d) Duration less than 0.05 years.

(e) Including Israeli currency linked to foreign currency.

(f) Including fair value of actuarial liability to employees – not including the value of plan assets.

							31 December 2014		
Over five years to ten years	Over ten years to twenty years	Over twenty years	Without fixed maturity	Total fair value	Internal rate of return	Average effective duration (b)	Total fair value	Internal rate of return	Average effective duration (b)
					(%)	(Years)		(%)	(Years)
6,224	**767**	**297**	**215**	**81,601**	**1.81**	**1.32**	87,070	2.05	1.07
1,117	**551**	**1**	**-**	**10,317**	**2.71**	**2.62**	-	-	-
14,733	**582**	**4**	**-**	**266,812**	**-**	**1.00**	272,332	-	0.99
313	**466**	**-**	**-**	**8,956**	**-**	**-**	17,496	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
21,270	**1,815**	**301**	**215**	**357,369**	**1.81**	**1.05**	376,898	2.05	0.96
110	**50**	**1**	**22**	**110,362**	**0.99**	**0.28**	112,766	0.89	0.28
18,460	**673**	**125**	**-**	**238,694**	**-**	**1.30**	247,963	-	1.14
308	**426**	**-**	**-**	**9,963**	**-**	**-**	18,694	-	-
-	**-**	**-**	**-**	**14**	**-**	**0.50**	13	-	0.50
18,878	**1,149**	**126**	**22**	**359,033**	**0.99**	**0.95**	379,436	0.89	0.83
2,392	**666**	**175**							
(2,698)	**(2,032)**	**(1,857)**							
19,541	**5,725**	**1,515**	**4,703**	**395,236**	**2.31**	**1.17**	370,103	2.34	1.08
37,247	**1,148**	**52**	**918**	**527,633**	**-**	**1.24**	590,806	-	1.21
324	**525**	**-**	**-**	**14,743**	**-**	**-**	29,764	-	-
-	**-**	**-**	**-**	**-**	**-**	**-**	-	-	-
57,112	**7,398**	**1,567**	**5,621**	**937,612**	**2.31**	**1.19**	990,673	2.34	1.13
8,283	**1,009**	**1**	**870**	**366,647**	**0.80**	**0.69**	346,024	0.58	0.66
40,860	**1,260**	**149**	**1,299**	**527,933**	**-**	**1.36**	590,147	-	1.27
320	**536**	**-**	**-**	**14,291**	**-**	**-**	29,164	-	-
-	**-**	**-**	**179**	**347**	**-**	**0.08**	356	-	0.06
49,463	**2,805**	**150**	**2,348**	**909,218**	**0.80**	**1.06**	965,691	0.58	1.01
7,649	**4,593**	**1,417**							
19,111	**23,704**	**25,121**							
3,309	**5,105**	**4,415**	**-**	**15,764**	**2.63**	**15.76**			

General notes:

1. In this table, the data by periods represent the present value of future cash flows, discounted at the internal rate of return used for discounting to the fair value included in respect of the financial instrument, consistent with the assumptions used in calculating 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 32A in the Annual Financial Report.
2. 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.
3. 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.
4. The effect of hedging transactions is included in total assets or total liabilities, as applicable.
5. 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 reached 3.65 years, the duration of total liabilities reaches 3.07 years, and the gap in the internal rate of return (hereinafter – IRR) amounts to 1.07%. The change in fair value in total assets is a decrease of NIS 45 million and in total liabilities, an increase of NIS 10 million.
6. Further details of the exposure to interest rate fluctuations for each segment of financial assets and financial liabilities by the various balance sheet headings, will be supplied on request.

Exposure to interest rates 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.

	31 December 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)	**1.06**	**3.26**	**1.05**	1.03	2.96	0.96
Average duration of liabilities (a)	**0.94**	**3.03**	**0.95**	0.92	3.00	0.83
Duration gap in years	**0.12**	**0.23**	**0.10**	0.11	(0.04)	0.13
IRR gap (%)	**1.94**	**1.33**	**0.82**	2.29	1.22	1.16

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

In calculating the average duration of the liabilities in the index-linked segment, an estimate regarding early repayments and withdrawals at exit points in the savings programs is taken into account, in accordance with a model which estimates the expected early repayments on the basis of the savers' behavior. An average duration of the total liabilities according to the original cash flow of the savings programs is higher, reaching 3.07 years, and the internal rate of return gap (hereinafter "IRR") amounts to 1.07%.

Early repayments of index-linked mortgage loans are taken into account in the figures set forth above, in accordance with a statistical model, which estimates the expected repayments on the basis of the borrowers' behavior in the past. The average duration of the assets at the end of 2015, according to the original cash flow which does not take into account early repayments, is longer, reaching 3.65 years, and the IRR gap amounts to 1.07%.

The exposure to changes in interest rates presents current account balances according to the Bank of Israel directives on deposits with demand of up to a month. On the other hand, for the purpose of exposure to interest, a certain rate from the current account balances in shekels and foreign currency was spread for repayment periods up to 10 years. This is in accordance with the model of behavior, the basic assumptions of which are regularly updated. Taking these assumptions into account, the average duration of the liability is higher, reaching in unlinked shekels, 1.05 years, and in foreign currency, 1.01 years, and the difference in the IRR amounts to 1.80% and 0.56% respectively.

B. Basis/ exchange rate risk

According to accounting principles, capital is defined as an unlinked shekel source. Thus, an investment of capital in a segment other than the unlinked shekel segment is defined as basis exposure. Exposure to basis risk is measured as a percentage of the Group's exposed capital.

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

Exposure limits approved by the Board of Directors are decided in accordance with considerations of expected return and risk and are allocated among the trading rooms, ALM and subsidiary companies.

The subsidiaries abroad and in Israel generally maintain low levels of basis exposures, on the basis of policies which are anchored in resolutions of the Board of Directors, and in coordination with the Bank in Israel.

Changes in the exchange rate affect the effective tax rate, because the exchange rate differentials in respect of investments abroad are not taken into account in the income basis for calculating the provision for tax, unlike exchange rate differences in respect of sources of financing in respect thereof. The Bank makes hedging transactions against the tax exposure arising from exchange rate differences in respect of investments abroad which are defined as units whose functional currency is identical to the shekel.

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

	Actual position	
	31 December	
	2015	2014
	%	
Unlinked	**(19.3)**	(1.2)
CPI-linked *	**19.5**	3.9
Foreign currency	**(0.2)**	(2.7)

* The exposure does not take into account the effect of the index floor on the capital invested in the sector.

In 2015, the percentage of capital invested on average over the year in the index-linked segment was 20.7%. During the year, the percentage ranged from a surplus of 7.2% to 26.6% of the exposed capital. Capital was channeled to the foreign currency sector at a relatively low rate, and therefore, the effect of the change in exchange rate on profit was not material.

In 2015, the Group complied with all the basis exposure limits approved by the Board of Directors.

The following table presents sensitivity to changes in the exchange rate of the main foreign currencies as of 31 December 2015. The measurement relates to the effect of the changes in the Bank's capital and includes activity in balance sheet and off-balance sheet instruments:

	Dollar	Euro	Pound sterling	Swiss franc	Yen
	NIS millions				
Increase of 5% in exchange rate	**19**	**(7)**	**6**	**(3)**	**(4)**
Increase of 10% in exchange rate	**59**	**(11)**	**13**	**(7)**	**(8)**
Decrease of 5% in exchange rate	**(3)**	**6**	**(5)**	**4**	**4**
Decrease of 10% in exchange rate	**-**	**19**	**(10)**	**7**	**8**

C. Shares

The Bank has defined the Group's policy for investing including restrictions on the amount of the total investment and in a single company, the investment mix and the various levels of risk between the types of non-banking investments.

The main investment in shares is part of managing the non-banking investment portfolio in the Group.

Investment activity in shares in nostro is carried out through investment in indices or funds.

Defining the investment objectives in non-banking investments:

- Achieving a surplus higher than financial investment in the nostro
- Maximizing the value of the investment and achieving better investments terms by leveraging the reputation of the Leumi Group
- Expanding risk dispersion and varying the sources of income of the Group
- Flattening the volatility of the nostro portfolio (time gaps)

The portfolio structure is divided into 3 sub-groups:

- Strategic investments which the Bank plans to hold in the long term.
- Investments for the medium term.
- Investments in growth companies (start up companies)

Exposure to shares (according to value in the balance sheet) as of 31 December 2015 is as follows:

	31 December	
	2015	2014
	NIS million	
Marketable shares in the available-for-sale portfolio	**1,050**	1,596
Non-marketable shares in the available-for-sale portfolio	**1,653**	1,584
Total	**2,703**	3,180

For further information, see Report on Risks on the Bank's website.

Liquidity and Financing Risk

Liquidity risk

Liquidity risk is the risk created due to the uncertainty relating to the possibility of raising funds and/or unexpectedly realizing assets within a short period, without incurring any material loss. The policy of liquidity risk management constitutes an integral part of the strategic business management of Leumi Group which has been adjusted to the requirements of Proper Conduct of Banking Management Regulation no. 342 regarding liquidity risk management and the requirements Proper Conduct of Banking Management Regulation no. 221 regarding "Liquidity coverage ratio", which adopts the Basel III Committee's recommendations for calculating minimal liquidity ratio liquidity coverage ratio ("LCR"), while making adjustments to the Israeli economy. According to the directive, the LCR will not be less than a minimal level of 60% by end of 2015, 80% in 2016 and 100% from the beginning of 2017.

Leumi maintains a proper liquidity level by investing the nostro portfolio in quality and dispersed assets in shekels and foreign currencies which will enable it to meet all liquidity needs in a variety of stress scenarios, and by raising policy of diversified and stable sources with various period ranges with an emphasis on raising deposits from retailers and issuing long term debentures.

The management of exposure to liquidity risks is examined, controlled and discussed regularly and in a designated manner by forums and committees at Board of Directors, management and intermediate levels. Within this framework a routine review is made of cash flow forecasts, trends in various deposit segments, concentration of depositors and costs of raising funds. The exposure to liquidity risk is managed regularly at Group level and a group monitoring process is being established. The subsidiaries determine liquidity risk management policy and manage the liquidity independently in conformity with the Group policy and subject to the local regulatory instructions of each company. Also, credit lines to the subsidiaries, approved by the Board of Directors, has been determined, for case of stress scenarios that will require injecting moneys to the subsidiaries, subject to regulatory restrictions for transfer of monies.

Since 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, with 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. The limits for the internal model were determined at a number of management levels, headed by the 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 fourth quarter of the year, the average consolidated liquidity coverage ratio stood was 105%, compared to an average ratio of 104% and 106% in the second and third quarters, respectively. 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.

Liquidity management in foreign currency is also influenced by the activity in shekel-foreign currency derivatives which could create inter-currency volatility in the liquidity indices, and therefore, are closely monitored and managed.

The models are used as dynamic management tools, enable control, supervision and check on a routine daily on the liquidity situation level and their results are reported to all the relevant control and management factors.

The liquidity coverage ratio of the banking corporation is computed on the basis of the average daily observations and the consolidated liquidity coverage ratio is computed on the basis of the average monthly observations for the period.

	Three months ended 31 December
	2015
	%
a: In consolidated data	
Liquidity coverage ratio	**105%**
Minimum liquidity coverage ratio required by the Supervisor of Banks	**60%**
b. In data of the banking corporation	
Liquidity coverage ratio	**103%**
Minimum liquidity coverage ratio required by the Supervisor of Banks	**60%**

For further information regarding liquidity risk, see the Report on Risks on the Bank's website and Note 24B.

Financing Risk

For many years, the Bank has managed an extensive and diversified infrastructure of stable financing sources for different terms. The Bank's primary financing source is deposits from retail customers. In addition, the Bank finances its activity through deposits of commercial and business customers and by issuing notes. The management of sources is conducted on a daily basis separately in shekels and in foreign currency. Some 32.6% deposits are raised in foreign currency, of which some 24.8% abroad through the Bank's overseas offices. The sources from abroad are invested by the offices in credit and liquid assets, mainly in low-risk debentures. The Bank has a broad range of foreign currency sources from foreign resident customers, local retail, business and financial customers, and also severance pay deposits. In recent years, despite the increased exit of foreign currency deposits due to the implementation of regulatory changes in Israel and abroad and a declared money policy, the stability of the volume of deposits in this sector of the Bank has been maintained. The surplus of deposits over credit in foreign currency is invested in liquid assets and short time swap transactions.

As stated above, during 2015 there was a significant increase in shekel deposits. Due to low interest rates, the trend of growth in customers' current accounts balances continued. In order to maintain an infrastructure of stable and diversified financing sources, the Bank markets a variety of long-range attractive deposits including deposits with exit points.

The concentration of financing sources is managed and monitored by risk management indicators and models. The Bank performs a follow-up on the composition of sources under several categories: customer size and type, single depositor, duration of deposit and characteristic behavior over time. The routine management of the composition of sources includes delineating policy for diversification of sources and financing periods. The centralization of the sources is controlled and managed within the framework of the liquidity risks management in the Bank. Ongoing daily measuring of the liquidity indices, minimal coverage ratio and follow-up on warning lights enable dynamic managing and follow-up on stable and diversified sources, control and supervision of the liquidity status and development of trends.

Linkage Status, Repayment Periods and Liquidity Status

A. Linkage Status

In accordance with the policy for the management of assets and liabilities on a linkage basis, the available capital – which is defined as the total of capital sources and certain reserves, less investment in consolidated companies and fixed assets – is invested in unlinked shekel assets, CPI-linked assets and foreign currency and foreign currency-linked assets. The financing of all of the Bank's overseas investments from foreign currency sources, back-to-back, prevents basis exposure in respect thereof.

A summary of the linkage balance sheet position, as it appears in Note 30 to the financial statements, is as follows:

	As at 31 December 2015			As at 31 December 2014		
	Unlinked	CPI-linked	Foreign currency (b)	Unlinked	CPI-linked	Foreign currency (b)
	NIS millions					
Total assets (a)	**271,308**	**51,672**	**115,182**	237,185	54,203	123,611
Total liabilities (a)	**245,875**	**52,305**	**117,558**	210,400	59,148	127,649
Surplus (deficit) of assets in segment	**25,433**	**(633)**	**(2,376)** (c)	26,785	(4,945)	(4,038)(c)

(a) Includes future transactions and options.

(b) Includes foreign currency linked.

(c) The excess of liabilities in foreign currency derives mainly from a hedging transaction against the tax exposure in respect of investments in overseas units of the Bank, investment in shares and reserves classified as a noninterest-monetary item, and also in respect of hedging future income in foreign currency.

Day-to-day management and reporting of the exposure of the Bank to basis risks is conducted according to the economic approach including adjustments and additions to the accounting approach shown above. The basis exposure, calculated according to the economic approach, is detailed in the chapter, "Exposure to Risks and Methods of Risk Management".

In 2015, there was an increase of some NIS 22.9 billion in total deposits from the public (including subordinated notes and capital notes). In total credit to the public, there was an increase of NIS 8.9 billion. Investments in securities and debentures increased by some NIS 18.7 billion, and credit to banks increased by some NIS 2.6 billion.

The main changes that occurred in 2015 in the principal activity divided into linkage segments were as follows:

The unlinked shekel segment

The percentage of the financial assets in the unlinked shekel segment to total financial assets is some 65%.

Most of the activity in the segment is for short periods.

Total credit to the public increased by some NIS 13 billion, some 8.2%.

Total cash and deposits in banks, net, increased by NIS 8.9 billion, and the total investment in securities increased by some NIS 13.2 billion.

In 2015, total shekel deposits increased by NIS 30.1 billion, 17.6%. This increase includes a net increase of NIS 1.2 billion in subordinated notes.

Total net balance of derivative transactions in the segment as at 31 December 2015, was some NIS 22.5 billion, an increase of NIS 3.5 billion compared to December 2014.

The CPI-linked segment

In 2015, credit to the public fell by some NIS 2.0 billion, some 4%. Total investment in securities fell by NIS 0.4 billion.

Index-linked deposits, including subordinated notes, contracted by NIS 11.4 billion.

The net balance of derivative transactions in the segment as at 31 December 2015 amounted to some NIS 1.3 billion, a decrease of NIS 0.9 billion compared to December 2014.

Foreign currency and foreign currency linked segment

The percentage of financial assets in the foreign currency segment as a percentage of total financial assets was 28%.

Credit to the public, which constitutes only 37% of the total deposits of the public in the segment, decreased by NIS 2.1 billion or 1%. (Excluding exchange rate changes, the change was not material.)

Investments in securities in foreign currency amounted to NIS 31.9 billion, an increase of NIS 5.9 billion in comparison to December 2014.

Deposits in banks, net, decreased by some NIS 9.2 billion.

From the beginning of 2015, total deposits of the public in foreign currency fell by NIS 2 billion, 1.8%.

The balance of future transactions, net, in foreign currency against shekels amounted to some NIS 24.2 billion as of 31 December 2015, an increase of some NIS 1.7 billion, compared with December 2014.

B. Repayment periods

During 2015, as in recent years, the Bank was characterized by a high level of liquidity in shekels. This was partially as the result of a policy directed by the Bank to raise stable and varied sources of funds, by means of raising deposits from a large number of customers for various periods including long-term, and its share of an increase in liquidity surpluses in shekels in the banking system.

29.4% of the Bank's total assets are deposited for short periods in banks and invested in marketable securities, mainly in government debentures.

Total liquid assets in 2015 were significantly higher than total short-term liabilities and the Bank complied with all liquidity limits for the various scenarios. This was in accordance with the policy whose aim is to ensure stability also in extreme theoretical stress scenarios.

The future cash flow of the assets and liabilities according to repayment periods and according to basis of linkage (including derivative instruments and not including non-monetary items) is set forth below. (For further information, see Note 31 to the financial statements).

Pursuant to Bank of Israel directives, cash flows in respect of liabilities with a number of repayment dates were classified according to management's assessment at its discretion or the earliest forecast repayment date.

According to a Bank of Israel circular from September 2013, a banking corporation is required to present the cash flows in respect of assets and liabilities distinguishing between Israeli currency (including Israeli currency linked to foreign currency) and foreign currency. In addition, cash flows in respect of cleared derivative instruments, net, will be classified to Israeli currency or to foreign currency according to the currency in which the clearing was made. Off-balance sheet amounts of these derivative instruments should not be reported.

Excess of assets over liabilities:

	As at 31 December 2015		
	Israeli currency	Foreign currency	Total
	NIS millions		
Period remaining until maturity:			
Less than 1 month	**(85,457)**	**(48,488)**	**(133,945)**
1 month to 1 year	**3,901**	**6,971**	**10,872**
1 year to 5 years	**59,869**	**17,225**	**77,094**
5 years to 10 years	**36,433**	**12,126**	**48,559**
More than 10 years	**48,438**	**9,949**	**58,387**
No maturity date	**1,070**	**469**	**1,539**
Total	**64,254**	**(1,748)**	**62,506**

	As at 31 December 2014		
	Israeli currency	Foreign currency	Total
	NIS millions		
Period remaining until maturity:			
Less than 1 month	(70,535)	(37,865)	(108,400)
1 month to 1 year	9,889	1,355	11,244
1 year to 5 years	50,155	14,525	64,680
5 years to 10 years	24,656	8,488	33,144
More than 10 years	37,119	8,780	45,899
No maturity date	1,166	548	1,714
Total	52,450	(4,169)	48,281

* After offsetting surplus (deficit) balances in respect of derivatives.

For information regarding a description of the key points of the policy, the means of monitoring and implementing the policy, and the limits used in the management of market risks, including basis and liquidity risks, see chapter "Market Risk".

C. Liquidity Position and Funding

Liquidity position and raising funds by the Bank

The surplus liquidity of the Israel banking system continued to be high in 2015. In order to absorb the surpluses, each day, week and month, the Bank of Israel holds monetary tenders.

In 2015, the Bank of Israel purchased foreign currency in the amount of US$ 9 billion, of which US$ 2.6 billion was purchased as part of a program to offset the effect of gas royalties on the exchange rate.

The foreign currency purchases of the Bank of Israel have an extensive impact on liquid shekel surpluses in the banking system, as do the surplus redemptions on issues of short-term loans in 2015.

The composition 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 stable and diversified sources, while placing importance on the raising of deposits from a large number of customers, for varying periods, including for the long term.

Leumi monitors, on an ongoing basis, its liquidity status and the indices that are intended to warn of changes in the liquidity position, *inter alia*, by using the regulatory model, and an internal model that was developed at the Bank pursuant to a directive of the Bank of Israel. The various assumptions forming the basis of the internal model are examined and updated regularly according to developments in the major relevant parameters.

The total balances of the banking system (current accounts and monetary deposits) in the Bank of Israel at the end of December 2015 stood at NIS 171 billion, compared with NIS 146 billion at the end of 2014.

The total balances of Leumi (current accounts and monetary deposits) in the Bank of Israel at the end of December 2015 stood at NIS 47 billion, compared with NIS 39 billion at the end of 2014.

At 31 December 2015, the net balance of cash and deposits with banks amounted to some NIS 52.2 billion, compared with NIS 48.4 billion at the end of 2014, an increase of some 8%.

In addition, the Bank has a securities portfolio of some NIS 64 billion, invested mainly in Israeli government debentures, foreign government debentures, and debentures of banks overseas. This is in comparison to the balance as at 31 December 2014 amounting to NIS 44 billion.

During the period under review, the total off-balance sheet monetary assets of the customers fell by NIS 2 billion to NIS 595 billion.

The main regulatory restrictions on the transfer of liquid resources between the Group companies in Israel and abroad are:

1. The Bank of Israel does not restrict the placement of deposits by the Bank in the Group companies in Israel and abroad. However, it imposed restrictions on capital investments and notes by the Bank in overseas companies. The advance confirmation of the Bank of Israel is required for all investments.

2. Directives of authorities in the United States restrict local banks in the extent of exposures of any type vis-à-vis related companies. The maximum rate of exposure to a related company is 10% of the Bank's capital in the United States, and vis-à-vis the Group of which the Bank in the United States is part, the maximum rate is 20% of its capital.

3. Directives of authorities in the United Kingdom restrict local banks in the extent of exposures of any type vis-à-vis related companies. The maximum rate of exposure of the bank in the United Kingdom vis-à-vis the Group (except Bank Leumi le-Israel Ltd. and its subsidiary of Bank Leumi UK in Jersey) is 25% of the Bank's capital in the UK. Approval from the regulator in the UK (waiver) was renewed for an increase in the extent of exposure vis-à-vis Bank Leumi le-Israel and Bank Leumi Jersey, such that the maximum rate of exposure towards them is 100% of the Bank's capital in the UK.

The total deposits of the three largest groups of depositors at 31 December 2015 amounted to NIS 16,806 million.

Operational Risks

An operational risk is defined as the risk of a loss resulting from inadequate or failed internal processes, people, systems, or external events, including cyber incidents. The definition of this risk does not include legal risk, but not strategic risk and reputational risk.

Operational risks include, *inter alia*, information security and cyber, information technology risks, risks of embezzlement and frauds, legal risks, compliance risks and business continuity.

Operational risk management in Leumi Group is based on three lines of defense, similar to the other risks.

The Bank's policy in the area of operational risk

The Group's operational risk management policy is approved annually in the Board of Directors. The Group policy forms a basis and working framework for managing risk and minimizing losses, taking into account a risk tolerance and conservation of long-term operating stability.

The policy is adapted to the nature, size and complexity of each organizational unit in the Group and constitutes a process of identification, measurement, monitoring, reporting, control/mitigation of the material risks. As part of the policy, a methodology is determined for the management of risks in new / material projects and products.

In addition, procedures supporting the reporting of loss events and unrealized loss events are written and assimilated, the examination of effectiveness of the controls and material risks which are intended to examine the completeness and adaptation to the minimization of operational risk and the way they are executed.

Processes for management and mitigation of operational risk:

Operational risks survey – once every three years, an operational risks survey is conducted in all the Bank's units. As part of the survey the processes are charted including their inherent risks and required controls. In addition, the operational risks are assessed qualitatively and quantitatively. In the quantitative aspect, each risk is evaluated by typical damage, its frequency and exceptional damage. The main risk focuses are identified and risks mitigation plans are set according to the assessments obtained.

The survey is a primary tool in forming the operational risks map at unit level, as well as at Bank level.

A further means of risk management is the analysis of stress scenarios, which are assessed and monitored, and for which evaluation and reduction programs are established. Bank Leumi is continuing to strengthen its ability to continue business activity in the event of the materialization of broad operational scenarios, such as war and earthquake. The Bank, however, has computers which are protected against missiles and earthquake, an emergency program for the continuation of the Bank's activity in the event of scenarios of this type.

Accompanying new products from the initiation stage until their launch, in order to guarantee their high quality operation while examining the inherent risks and their effect on the risk profile. In addition, substantial projects are accompanied in the Bank, and business, technological and project risks are mapped and assessments are conducted with recommendations for mitigation plans.

Since the operational risks are cross-organization and activities, the Bank operates to establish a solid operational risks management culture including reporting on events and drawing of conclusions, among the Group's employees and managers. In this context, assimilation and training activities are performed through dedicated instruction sessions for managers and employees, integrating the subject in a variety of banking courses and building a dedicated portal for managing operational risk.

Tools for risk management

The methods and tools for managing operational risks in Leumi are examined and updated regularly while leveraging professional knowhow from Israel and abroad and following regulatory directives of Bank of Israel and additional controlling entities.

For purpose of supporting the risk management process, a dedicated operational risk management system has been implemented in the Bank supporting the documentation of the risks, controls and mitigation plans. The system also enables collecting and analyzing loss events and events in which a loss did not materialize. The collected data supports the decision making process regarding substantial risks management and prioritization of the action.

Major risk areas in operational risks

Information security and cyber risks

A cyber risk is defined as damage to a material asset of the Bank by an attack in cyberspace, including information exposure (leak), information availability (lockout), reliability and completeness of the information (disruption).

Cyber risks are not new and they have accompanied the Bank's activity in recent years. However, there has been a constant increase in the volume and intensity of the threats around the world, in general, and in Israel, in particular. These threats are the result of increase in the area of attack – many "external links", smartphones, outsourcing, and new technologies – all of which exist in the Bank, being an innovative and progressive bank.

The main risks of technological innovation relate to an increase in the risk level of cyber attacks to the exposure of information of the Bank's customers and to the impairment of the availability of the services.

Leumi considers the Bank's and its customers' information as a primary asset and invests efforts in implementation of control and protection mechanisms and processes.

The protection of the sensitive information is exercised on several levels: in information systems and, in particular, in data banks, in managing authorizations and providing access to systems in conformity to the definitions of sensitive information and employees in sensitive positions, diligent protection of information from aspects of physical security and assimilation of the subject and raising the awareness among all the employees.

Bank Leumi routinely identifies and maps out the details of the sensitive information in the business processes and their support systems, in order to determine and prioritize the Bank's most sensitive information which requires enhanced protection.

Technology risk

In recent years, there have been significant changes in the banking and operational environment, emanating, *inter alia*, from new customers demands regarding the way in which their activity is managed and the integration of advanced and innovative technologies. These technological environments relate, *inter alia*, to the provision of services in digital channels, the use of mobile phones, cloud services, the FinTech industry, and so forth.

In order to provide the aforementioned services, the Bank requires a suitable technological infrastructure.

Leumi's business activity depends, to a large extent, on information systems. The availability of the systems, the reliability of the data and protection of their confidentiality are crucial to proper business conduct and the maintenance of customers' privacy. The risk level to Leumi increases with the advancement of technology. As part of striving for progress and excellence, new technologies are integrated in the core banking conduct, as well as in Leumi's end systems and among our customers.

As mentioned above, technology risks have a business aspect of providing a solution to the needs of the organization, in order to adapt it to the changing and evolving business and consumer environment from aspects of staying current and innovative, and also from operational aspects.

In order to manage the aforesaid risks, a policy document is written and assimilated in the Bank, defining the principles for managing technology risks, including the organizational framework, the areas of activity and the responsibility of the different factors in the Bank and work processes required for information technology risk management.

Embezzlement and fraud

Embezzlement and fraud risks are managed in all units of the first line of defense, both in their day-to-day activity and in focused monitoring activities.

As part of the routine operations, controls are applied in these working processes, including, *inter alia*, segregation of duties, management of authorizations, administrative directives, automated blocks in the system, recording of conversations and voice identification system. In addition, designated monitoring centers operate in the first line of defense to prevent and detect fraudulent activity, which monitor and examine irregularities committed by the Bank's employees and outside factors.

Recently, a new concept was formulated to manage the risks of embezzlement and frauds, placing an emphasis *inter alia*, on the human factor. The concept includes structured activity to prevent, detect and deal with attempts to steal, disrupt information and monies, carried out by inside and outside factors.

As part of the concept, areas of responsibility of the three lines of defense were defined:

First line – Exercising control over the day-to-day activity of the units and the operation of the various monitoring centers.

Second line – Responsible for devising methodology and work-processes for the management of these risks, identifying and analyzing trends, detecting and revealing risk focal points, challenging activities of the first line and reporting on the risk profile.

Third line – The Internal Audit Division considers these risks within the routine audit carried out in the units of the Bank.

For further information regarding operational risks, see Report on Risks on the Bank's website.

Business continuity risks

Business continuity risk is the risk of damage to physical infrastructure following a serious incident, which may prevent the Bank from fulfilling its business obligations. Business continuity risks are risks that create substantial operational disruption – a disruption with serious ramifications for the regular business activity, impairing a large area and the public in which it is integrated from an economic perspective. Substantial operational disruption includes the destruction of or serious damage to the physical infrastructure and facilities, the loss or inaccessibility of personnel and limited accessibility to the affected area. Such disruption may occur as a result of natural disasters (such as an earthquake), or external factors (war, terror attack, vandalism).

The Bank's business continuity policy defines the procedures and officers who, in an emergency, are responsible for backing up the systems and their recovery within predetermined times. The Bank is also equipped for the continuation of the business decision-making process in an emergency.

Bank of Israel directives require the banks to take actions for guaranteeing business continuity in an emergency. The Bank's computer system is based on two computer centers and an additional backup site.

The Bank prepares itself for recovery from a disaster event and the continuation of its business activity. The activity comprises three pillars:

- Technological infrastructure;
- Corporate action plans, policies and procedures according to a three-year programs of drills, extending the contents and nature of the drills performed at the Bank, with the aim of improving its level of readiness and enabling conclusions to be drawn for identifying and minimizing gaps;
- Conducting drills.

Other Risks

Regulation and compliance risks

A. Compliance, prohibition of money laundering and the financing of terrorism

For the effective management of the subject, a compliance and enforcement department was set up in Leumi headed by the Chief Compliance Officer.

The Chief Compliance Officer is responsible for fulfilling the obligations pursuant to the legislative directives regarding the prohibition of money laundering and the financing of terrorism.

The Chief Compliance Officer is also in charge of enforcement in the area of securities law and as responsible officer in the area of FATCA, as outlined below.

The activity of the compliance department is performed by a professional team with extensive knowledge and understanding in the field of compliance, and based on work processes, control and automated systems.

In 2015 an organizational structure change was made and the compliance function was subordinated to the Chief Legal Counsel.

The complexity and development of the banking activity, requires the Bank to strictly comply with all duties applied to the banking corporation, relations with its customers, by virtue of primary legislation, bylaws, orders, permits and Bank of Israel's directives.

Proper Conduct of Banking Business Directive No. 308 "Compliance and Compliance Function in Banking Corporation" became effective on January 1, 2016. The new directive extends the area of responsibility of compliance formally and at the Group level. The directive extends the definition of compliance regulations beyond consumer regulations and stipulates that "compliance risk" is derived from laws, by-laws, directives, regulation, internal procedures, behavior rules and authority positions. The directive stipulates that it is required to assess the effectiveness of the compliance risk management, and find means for its measurement, while, as stated above, the compliance risk is derived from the overall legislation relevant to the Bank's activity.

The new directive stipulates that the compliance function will be responsible for at least the compliance risk derived from the core regulations (such as: the fairness of the Bank towards its customers, money laundering and the financing of terror, customer advice, a conflict of interests, privacy protection, aspects of taxation relevant to products or services to customers, and so forth). Where the risk is derived from the other regulations applicable to the banking corporation, it can be managed by other functions from the second line of defense.

As part of this framework, the Group policy document which was approved by the Board of Directors on December 30, 2015, has been updated. An organizational structure supporting the compliance risk management was formalized as part of the policy document, in accordance with the directive. In addition, corporate governance, including the responsibility of the management and Board of Directors for aspects of compliance aspects was anchored and a new methodology for risk assessment by regulatory directives (compliance directives as defined by the new regulation) was stipulated.

As part of adapting the work of the Compliance Department to the new directive, a multi-year risk-oriented work plan, including allocating time for tasks and activities, was established.

The Department is in regular contact with the Bank's subsidiaries in Israel and overseas, for the purpose of monitoring the implementation of compliance, including the prohibition of money laundering, the prohibition of financing terrorism, dealing with U.S. customers and other foreign residents.

Pursuant to the developing trends around the world, the Bank is prepared to deal with the question of "declared money" for tax purposes by customer, in accordance with the risk-based policy approved by the Board of Directors. In this context, policy and work processes have been established with the aim of preventing, as far as possible, the receipt of money undeclared by the customer to the relevant tax authorities in his country of origin.

B. Enforcement

In January 2011, the Efficiency of Enforcement Procedures in the Securities Authority Law (Legislative Amendments), 2011, was passed in the Knesset. The object of the law is the improvement of efficiency of enforcement over the legislative provisions in the area of securities laws. In the context of this legislation, it will be possible to impose various sanctions on a corporation, including officers and employees committing violations, and breaches of the relevant provisions.

Further to the law, the Securities Authority published a document of criteria for recognition of an internal enforcement program in the field of securities and investment management (hereinafter: "document of criteria").

In the document of criteria, the Securities Authority instructs the corporation to appoint an officer to be in charge of enforcement. His function, according to the document of criteria, is to be responsible for the implementation of the enforcement program.

The Chief Compliance Officer of the Group acts as the officer in charge of enforcement and coordinates the authorities and means to implement the legislative provisions relevant to these areas.

In October 2014, the Board of Directors approved the internal enforcement plan, after the plan had been validated by an outside specialist law firm, and after it had reviewed the main enforcement procedures.

C. Foreign Account Tax Compliance Act – FATCA

In March 2010, the Internal Revenue Code in the United States (the U.S. Income Tax Law) was amended, so as to bring into effect a reporting regime, which aims to compel foreign financial institutions (FFI) to transfer information regarding accounts held by U.S. customers.

Commencing 30 June 2014, the Bank's FATCA procedure was implemented, reflecting the implementation of the FATCA regulations, with all that it implied from the IGA agreement until the publication of local legislation and defines the work processes for the implementation of the regulations.

As of 31 December 2015, no local legislative provisions had been published. However, pursuant to the directives of the Supervisor of Banks for banks to prepare for the FATCA topic, as a part of the Bank's preparedness for implementing the law in Leumi Group, the Bank has taken steps to circulate procedures and circulars and in assimilating policy regarding the arrangement of the subject of identifying, detecting and dealing with U.S. customers. With effect from 30 June 2014, the Bank's FATCA procedure is being implemented, reflecting the application of the FATCA directives, as far it pertains to the IGA agreement until the publication of local legislation, and specifies the working processes for implementing the regulations.

In order to ensure the compliance of Leumi Group (hereinafter – Leumi) and individuals therein, with the provisions of the FATCA legislation, as adopted by the State of Israel in the inter-governmental agreement, and pursuant to a specific agreement between Leumi Group and the United States Department of Justice, the Bank is taking steps on a number of levels, the most important which are: the appointment of a compliance officer to assume the function of "responsible officer", the adoption of appropriate policy and work procedures, the development of automated tools supporting the working processes, the formulation of training and assimilation, inspection control and operation mechanisms which are required for complying with the directives and instructing the subsidiaries in the Group towards the appropriate preparedness.

Legal risks

The Legal Counsel, who is a member of management in the Bank and Head of the Legal Counsel Division, is responsible for leading the management of legal risks.

Areas of legal risk and their treatment

Legal risks derive from five main areas:

- Legislation risks - Risks attributable to the Bank's activity, if it does not comply with a primary or secondary legislative directive, a regulation of the Bank of Israel or a directive of other qualified authorities.
- Contractual communication risks - Risks attributable to the Bank's activity with customers, suppliers and other factors with whom the Bank contracts in various agreements, if it is not backed by an agreement fully regulating the Bank's rights, or that the agreement is not fully enforceable.
- Court ruling risks – Risks deriving from the Bank's activity if it does not comply with a precedential court ruling.
- Risks attributable to legal proceedings conducted against the Bank.
- Risks deriving from changes in enforcement policy.

Treatment of legal risks

The Group implements a program for managing legal risks, which aims to detect, prevent, manage and minimize the legal risks. The program includes policy documents and an interface between the Legal Division and units of the Bank, as well as internal procedures applicable to the Legal Division, the purpose of which is to ensure that legal counseling provided in the Bank is professional and up-to-date. The policy document has been updated periodically over the years, including in 2015.

With regard to the Bank’s subsidiaries in Israel and abroad, a general policy has been determined to manage legal risks in the framework of designated policy documents. Each subsidiary has prepared an internal procedure for managing legal risks that correspond with its activity and the Group policy on the subject. The internal procedures prepared by the subsidiaries as aforesaid, have been approved by the Legal Division and in the boards of the subsidiaries. According to the policy documents, the subsidiaries are required to refer certain subjects for appropriate legal advice. In addition, the companies send six-monthly reports to the Legal Risk Officer at the end of the second and fourth quarters each year, as well as immediate reports, as required in the policy documents. The reports were sent in a consistent format prepared in the Legal Division. In 2015, the document policy for legal risk management in the overseas units was updated and direct communication channels with the legal counsel of the overseas units were determined. In 2015, the policy document for managing the legal risks in subsidiaries in Israel was also updated.

The legal risk management program places emphasis on:

- Preventing and minimizing legal risks;
- Identifying sources of material legal risks and their treatment;
- Preparing appropriate agreements, guidelines and procedures;
- Examining statutory provisions (including case law) and regulatory directives, and their implications on the work of the Bank.
- Drawing conclusions on various matters and implementing of these conclusions drawn in legal documents used in the Bank, as well as disseminating opinions on these subjects to the relevant units in the Bank.

In order to conduct the legal risk management program, various officials and committees operate in the Legal Counsel Division, headed by the Chief Legal Counsel (who is the Legal Risk Officer), whose function is to locate and examine new legislation and legal rulings that have repercussions for the work of the Bank and coordinate the way in which they will be dealt with. New regulatory directives (primary legislation, secondary legislation, and directives from authorities) are identified and, if necessary, dealt with, even at the stage of being a proposed law or the relevant regulations.

The activity of each of the abovementioned officials and committees is organized in an internal work procedure of the Legal Division. The procedures stipulate, *inter alia*, the information flow among each of the abovementioned officials and the management of the division and the legal risk team which operates in the division.

General

There is general exposure, which cannot be assessed or quantified, deriving, *inter alia*, from the complexity of the services provided by the Bank and the consolidated companies to their customers. The complexity of these services conceals, *inter alia*, a potential for claims, interpretations and others, relating to several commercial and regulatory conditions. It is impossible to foresee all of the kinds of claims which may be raised in this area and the exposure deriving from these claims and others in connection with the services of the Bank and the consolidated companies which are raised, *inter alia*, via the procedural mechanism provided in the Law for class actions.

In addition, there is exposure due to regulatory changes and directives of the Banking Supervision Department. Engagements with customers are, in part, engagements which last many years, in the course of which changes in policy are likely to occur, in regulations and in trends in the law, including in court rulings. The Bank and the consolidated companies take steps by means of complex automated systems, which, in light of the changes as aforesaid, there is a need to adapt them on a regular basis. All these create an increased operating and legal exposure.

There is also a general exposure deriving from the fact that, from time to time, complaints against the Bank and the consolidated companies are made to the Banking Supervision Department, which, in certain circumstances, are liable to result in legal proceedings against the Bank. When this happens, it is not possible to assess whether there is exposure in respect of these complaints and it is not possible to assess whether a broad decision of the Banking Supervision Department on the matter of the abovementioned complaints and/or whether class or other actions will be brought as a result of such proceedings, and it is not possible to assess the potential exposure for the abovementioned complaints. Accordingly, no provision is included in respect of the said exposure.

The table of severity risk factors set forth below presents an assessment of the severity for each of the various risks, which is derived from an assessment of the impact of the realization of potential stress scenarios which defined on the Bank's capital adequacy. We would point out that none of the exposures to the risk is defined as high, and the distribution of the risks obtained corresponds with the risk appetite of the Group's goals.

For further information, regarding risk management, see chapter "Definition of severity of risk factors".

Table of severity of risk factors:

	Risk	Definition	Degree of severity *
1	Overall credit risk	Risk of a loss as a result of the possibility that a counterparty does not comply with its obligations. The reference is to credit to the public, derivatives, deposits in banks, investments in debentures and capital holdings.	Medium
1.1	Quality of borrower and securities risk	The amount of risk described by the likelihood of failure of borrowers, the loss given a failure, which is also affected by the collateral, and the exposure at a time of failure of individual borrowers.	Medium
1.2	Large borrower and group of borrowers concentration risk	Credit risk arising from the relative size of borrowers in the credit portfolio of the Bank.	Low
1.3	Industry and sector concentration risk	Credit risk arising from concentration of credit to borrowers in certain sectors and segments of the economy.	Medium
2	Overall market risk	Risk of exposure of the Group's assets to changes in exchange rates, interest, inflation and asset prices, the correlation between them and their volatility levels.	Medium
2.1	Base risk	Risk due to fluctuations of the exchange rate, including inflation (trading portfolio and banking portfolio).	Low
2.2	Interest risk	Risk due to fluctuation in interest rates (trading and banking portfolio)	Low-medium
2.3	Margin and share prices risk	Risk as a result of fluctuations in share and bond prices in the commercial portfolio and in the banking portfolio for assets remeasured at market price.	Low-medium
2.4	Liquidity risk	The risk of inability to withstand the uncertainty in relation to the possibility of raising funds and/or realizing assets, in an unexpected manner and within a short time-frame, without incurring a material loss.	Low
3	Operating risk	Risk of loss that can arise from weaknesses or failures in processes, large projects, people, systems, or external events, including cyber events.	Medium
4	Regulatory risk	The risk of regulations composed of the three interrelated legal risks, compliance risk and regulation and legislation risk	Medium
5	Reputational risk	The risk that negative publicity will lead to a decrease in customer base, a decrease in income, in liquidity or high legal costs.	Low-medium
6	Pension risk	All of the risks related to various obligations to employees	Low-medium
7	Global systemic risk	The risks caused as a result of global external events that could lead to the materialization of a number of risks simultaneously.	Medium-high
8	Local systemic risk	The risks caused as a result of local events that could lead to the materialization of a number of risks simultaneously.	Medium

* In relation to potential impairment in capital adequacy and the subjective assessment of the impact of risks that are difficult to quantify, the level of risk does not reflect the probability of its realization, but rather the impairment in the Bank if the scenario were to occur.

Accounting Policy on Critical Subjects

General

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

The estimates and assessments are generally based on economic forecasts, assessments regarding the various markets and past experience, while exercising discretion, which management believes to be reasonable at the time of signing of the financial statements.

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

The principal accounting policies applied in the Leumi Group are set out in detail in Note 1 to the financial statements.

Set out below is a brief description of the major critical accounting subjects which involve Management's estimates and assessments and which have been discussed by the Board of Directors, Management and the joint auditors:

Allowances for credit losses and classification of problem debts

Directives for the measurement and disclosure of impaired debts, credit risk and allowance for credit losses

Collective allowance

The collective allowance for credit losses is applied to large groups of relatively small and homogenous debts, and in respect of debts that have been reviewed individually and found to be unimpaired. The measurement of the credit losses is based on the Public Reporting Directive. The collective in respect of off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit, taking into account the rate of recovery for the expected credit of off-balance sheet credit risk.

The rate of realization for the credit of the off-balance sheet credit risk is calculated by the Bank based on conversion coefficients, as provided in the Proper Conduct of Banking Business no. 203, Measurement and Capital Adequacy – Credit Risk – the Standardized Approach, with certain adjustments in cases where the Bank has past experience indicating the rates of realization of the credit.

Pursuant to the Public Reporting Directive, which was updated in January 2015, the rates of collective allowance were determined by allocating according to the various market sectors (with one rate being determined in each sector for non-problematic credit, and a separate, higher, rate, for problem credit), on the basis of the average historical rates of loss for doubtful debts in each market sector (rates of allowances/accounting write-offs). In addition, the Bank takes into account relevant environmental factors, including developments in sectoral conditions, macro-economic and sectoral data, changes in credit volume and mix, other factors, including credit concentrations, and expert assessments of the risks and risk management in the Bank. On the basis of the relevant environmental factors, as mentioned above, the Bank determines an increment in the rate of collective allowance in respect of each market segment, in excess of the average of past losses. In accordance with the said revision to the Public Reporting Directive, published by the Bank of Israel on 19 January 2015, this increment in excess of the average with regard to credit to private individuals which is not problematic – must not be less than 0.75%, with effect from December 2014.

With regard to housing loans, a minimum allowance for doubtful debts is calculated according to the formula set by the Supervisor of Banks, taking into account, *inter alia*, the extent of arrears, such that the rates of allowance increase as the arrears deepen. The application of the calculation of the allowance according to the extent of arrears formula refers to all housing loans, except for loans which are not repaid in periodic installments and loans which finance activity of a business nature. In addition, a collective allowance is made on the balance of the housing loans in which there are no arrears, based on past statistics (subject to a minimum rate determined by the Supervisor of Banks).

The Bank examines the accuracy of the collective allowance each quarter based, *inter alia*, on the assessment or risks inherent in the credit portfolio and an examination of the trends and developments in the main segments, and from a forward-looking standpoint, as far as can be assessed, implementing the principles of Proper Conduct of Banking Management Regulation no. 314 "Fair assessment of credit risks and fair measurement of debts".

In addition, the Bank calculates a supplementary and general provision according to the policy for the doubtful debt provision before implementing the provisions regarding impaired debts, credit and credit loss allowance. This calculation acts as an indication with regard to the collective allowance, so that it is possible to ensure that the collective allowance is higher than the supplementary and general provision, at least compared to that required according to Bank of Israel directives.

Individual allowance

The Bank examines the credit portfolio on an ongoing basis and in accordance with procedures, for the purpose of identifying, as early as possible, those borrowers whose risk level and exposure have risen and who require special management attention and close monitoring, in light of the characteristics of the risk or as a result of the economic/market conditions that are likely to impact the borrowers' condition, so as to improve their position with regard to the corporate and commercial customers. An assessment of the extent of the problem is made while exercising business judgment by the business entities dealing with the borrower, by the credit risk management units in the Risk Management Division, as well as an objective evaluation, as far as possible, of the difficulties that have been identified, in order to determine their risk level.

In the Retail Division, customers with an obligo of more than NIS 1 million are individually identified and reviewed by authorized factors in the division, and the remainder is dealt with as a group of homogenous and relatively small debts, making a collective allowance.

As part of the measures used by the Bank to manage credit risk, there is a methodology for detecting and identifying problem debts, which is applied in all lines of business (in each, in accordance with its characteristics). The methodology includes a structured quarterly work process in the context of which a thorough review of the credit portfolio is carried out on the basis of a number of criteria that give advance warning of a debt becoming problematic, as part of a process of dealing with customers defined as "sensitive customers". In the Corporate and Commercial Division and in the International Credit and Real Estate Division, which deal with the larger customers of the Bank and medium-sized business corporations, a quarterly credit review process is carried out, in which borrowers whose risk rating is higher than that requiring inclusion in the customer population defined as sensitive. The methodology requires, *inter alia*, systematic examination of the appropriateness of the allowance for credit losses in respect of the debts which are classified as "impaired", on the basis of criteria established for the manner in which the allowances for credit losses are to be calculated. An examination of the accuracy of the allowance is made every quarter, when the credit risk management (CRM) units in the Risk Management Division (or the corporate credit branch in the Banking Division, depending on where the customer belongs) approve the examination of the appropriateness of the allowance which is carried out by the corporate units. In addition, an examination is made of the ability to service the debt of customers classified by other debt indicators (debt under special mention and substandard debt).

The process described above for classifying debts and estimating potential losses in the credit portfolio involves, *inter alia*, subjective assessments which have an implication for the classification of debts and on the extent of the credit loss allowance.

Pursuant to the revisions in the Proper Conduct of Banking Management, the Risk Management Division has overall responsibility for the fairness of the classifications and the allowances, in addition to discussions which are held in the managements of the corporate divisions and representatives of the Risk Management Division. Discussion also takes place each quarter in the Bank's Allowances Committee, headed by the President and Chief Executive Officer, with regard to the aggregate total of allowances required for that quarter, and in relation to the classification of specific allowances (in excess of the stipulated threshold amount).

Derivative instruments

In accordance with the directives regarding financial reporting of the Supervisor of Banks, the Bank applies Financial Accounting Standard nos. 133, 138, 149 and 157, all as amended, with regard to the treatment and presentation of derivatives.

Fair value is defined as an amount/price which would be received from the sale of an asset or would be paid for the transfer of a liability in a transaction between a willing buyer and a willing seller at the measurement date. Among other things, the standard requires for the purpose of the assessment of fair value to make maximum use of observable data and minimum use of unobservable data. Observable data represent information which is available in the market received from independent sources, while unobservable data reflect the banking corporation's assumptions.

FAS 157 outlines a hierarchy of measurement techniques which are based on the determination of whether the data employed for determining the fair value are observable or unobservable. These kinds of data create a scale of fair value as set forth below:

Level 1 data: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 data: quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or identical liabilities in inactive markets; prices derived from valuation models where all of the significant data is observable in a market or supported by observable market data.

Level 3 data: Unobservable data for the asset or the liability deriving from valuation models, where one or more of the significant figures are unobservable.

This hierarchy requires the use of observable market data, when this information exists. When this is possible, the Bank weighs relevant observable market information as part of its assessment. The scope and frequency of the transactions, the size of the gap between "bid" and "ask" prices and the size of the adjustment required when comparing similar transactions are all factors that are taken into account when establishing the liquidity level of markets and the relevant scope of observable prices in those markets.

The level in the fair value scale to which the fair value measurement of the financial instrument belongs will be determined on the basis of the lowest level of the data which is significant to the measurement of the fair value in its entirety.

The standard requires that the banking corporation reflects the credit risk and the risk of non-performance risk in measuring the fair value of the debt, including derivative instruments, which were issued by it and measured at fair value. Non-performance risk includes the credit risk of the banking corporation, but not solely limited to this risk.

Specific directives regarding the methodology and data to be used in calculating the fair value of derivative instruments have been determined. The Bank computes the allowance in respect of credit risk at customer level, using a credit quality index, based on internal models or on market data.

In May 2014, temporary approval was received the Supervisor of Banks to make the computation of the allowance as state without using complex models including various scenarios of potential exposure in order to measure the credit risk component included in the fair value of derivative instruments.

In the 2015 Annual Report, similar to the Annual Report for 2014, the computation of the credit risk allowance was made without using a complex model, including various scenarios of potential exposure.

The Bank is taking steps to implement a complex model, which includes various scenarios of potential exposure, in accordance with the requirements of the Supervisor of Banks.

In a few cases where the Bank does not have a mathematical model for revaluing a derivative, the fair value is determined on the basis of price quotations received from traders in such derivatives. Although these quotations are received from reliable brokers with whom the Bank has chosen to work, it is not certain that the price quoted reflects the price obtainable in an actual transaction in any amount, and especially a transaction in a large amount.

For further details with regard to the determination of fair value, see Note 1H.

Securities

Securities, other than debentures held to maturity, are presented in the balance sheet at fair value. Shares in respect of which the fair value is not available are presented at cost.

The fair value of Israeli securities is based primarily on prices quoted on the Tel Aviv Stock Exchange, and of overseas securities, on prices received from external sources. With regard to foreign securities, most of the portfolio is calculated on a daily basis by a reputable international body which is engaged in the business of calculating the fair value of financial assets for their disclosure in the financial statements. This organization is not dependent on the issuing houses or the marketing bodies. The calculation is based mainly on the transaction prices in active markets, and the revaluation of similar transactions. The calculation reflects the price that a willing buyer in the market would pay for securities, based on current information available in the market. Due to the fact that only a small part of the securities is traded worldwide on a daily basis, the organization makes use of two valuation methods:

a. Valuation at the level of asset group: Most of the securities are valued using rates of return (capitalization) relating to the group of assets with similar characteristics (by country, sector, asset type, rating etc.). This mainly includes, a weighting of the existing information in the market, usually in relation to the relevant index.

b. Valuation and quotations for specific securities: The rest of the securities are valued individually (valuation of the issuer and the individual security), on the basis of direct price quotations of the security or for a specific issuer. A small portion of the assets in this group is valued only on the basis of price quotations from very active markets (mainly government debentures, whose market-makers are active).

In non-tradable securities of companies in Israel, fair value is based on data received from the "Mirvach Hogen" company. The Bank has validated the model and ensured with a reasonable degree of security the accuracy of the fair value.

Sometimes, for reasons of prudence, when there are indicators, the Bank adjusts the model and/or market price in order to establish a more accurate value.

For further details, see the chapter, "Structure and Development of Assets and Liabilities, Securities", see below.
For further details with regard to the determination of the fair value, see Note 1H.

The Bank examines the necessity for recording a provision for impairment of securities that is not of a temporary nature. The examination is carried out when there are signs which indicate the possibility that the value of the securities has been impaired. The criteria for determination as to whether an impairment not of a permanent nature are based on considerations and tests as follows:

- An intention and an ability to strengthen the security until the predicted recovery of the full amount of the cost.
- The assets and collateral backing the security.
- The ratio of the impairment to the total cost of the security.
- The length of time for which the fair value has been lower than cost.
- An assessment of repayment ability.
- An adverse change in the situation of the issuer or in the situation of the entire market.

The Bank's policy is to recognize a decline in value as being non-temporary in nature if one or more of the following conditions are met:

1. A security that was sold before the date of the publication of the Report to the public.

2. A security that the Bank intends to sell, as of a time close to the date of the publication of the Report to the public, within a short time frame.

3. A debenture whose rating was significantly downgraded between the rating at the date of its purchase by the banking corporation and the rating at the date of the publication of the Report. Reduction of the rating below BBB- only is considered a significant downgrading for purposes of this section.

4. A debenture which, after its purchase, was classified as problematic by the Bank.

5. A debenture for which there was a credit failure that was not corrected within a short period of time.

6. A security, the fair value of which has been lower than the value at which it was purchased, for a period of at least nine months prior to the end of the reported period, and is lower, by 35% or more, than the cost at the end of the reported period, as well as at a date prior to the publication of the report (regarding debentures – the amortized cost).

Exceptions are allowed in such cases, if the Bank has objective and solid evidence and a cautious analysis of all relevant factors, which establishes, with a high degree of certainty that the decline in value is of a temporary nature. The objective evidence and relevant factors include parameters such as: a rise in value after the date of the financial statement, a high credit rating (group A or above), analysis of stability in stress scenarios by an external professional body or by the Bank, its backing including direct government investment in the equity for the purpose of ensuring the strength of the issuing bank.

These principles conform to the guideline issued by the Supervisor of Banks. The definitions of "significant downgrading" and "significant impairment" have been determined by the Bank.

Obligations regarding Employee Rights

The amounts of the obligations for pension and long-service grants are currently calculated according to actuarial models. The calculation of the Bank's act liability is made according to the capitalization rate based on the return of government debentures in Israel plus an international margin which is fixed according to the difference between the return to redemption, according to the period to redemption, on corporate debentures rated AA and above in the United States, and the rates of return to redemption for those periods to the repayment of U.S. government debentures.

In addition, the actuarial computations take into account the forecast real increase in pay on the basis of past experience, which varies according to the age of the employee.

Quantitative sensitivity analysis of the effect of main assumptions in the calculation of the actuarial liability is as follows:

A decrease of 1.0% in the rate of capitalization of the abovementioned liabilities will result in an increase of NIS 2.6 billion in total liabilities. A decrease of 1.0% in the increase of salary will result in a reduction of NIS 585 million in total liabilities. An increase of 5.0% in the life expectancy will result in an increase of NIS 248 million in total liabilities. All amounts are before the effect of tax.

The actuarial models include assumptions regarding life expectancy tables, disability rates, leaving rates, the rate of leaving with preferred conditions, the rate of utilization of pension rights, the rate of withdrawal of severance pay and provident fund monies, etc. Although the parameters have been determined with appropriate care and professional expertise, a change in any or some of the actuarial parameters and/or the capitalization rate and/or the rate of increase in pay will cause a change in the level of the Bank's obligations.

The actuary's valuation of the employees' rights may be found on the Israel Securities Authority's website: www.magna.isa.gov.il.

On 9 April 2014, the Banking Supervision Department published a circular regarding the adoption of United States accounting principles on the subject of employee rights. The circular updated the recognition, measurement and disclosure requirements on the subject of employee benefits in the Public Reporting Directives in accordance with accounting principles generally accepted in banks in the United States.

The circular provides that the amendments to the Public Reporting Directives will apply from 1 January 2015 when, on initial implementation, the Bank will retroactively amend the comparative figures for periods commencing 1 January 2013 and thereafter, in order to comply with the requirements of the principles, in accordance with the provisions of the circular.

On 11 January 2015, the Supervisor of Banks published a supplementary circular, which was published on 9 April 2014, which includes a format of disclosure on the subject of employee rights and on the subject of share-based payments. In addition, the circular updates other subjects, 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 and management.

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

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

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

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

It should be emphasized that according to the file of questions and answers, when there are changes significantly affecting the plan assets or the commitment in respect of the defined benefit plan, a banking corporation should remeasure both liabilities and assets. A banking corporation is entitled to adopt accounting policy according to which the assets and liabilities in respect of the plan will be remeasured in all interim periods, 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 31 December 2015, the balance of accumulated other comprehensive income in respect of employee benefits amounted to NIS 1,490 million, after the effect of tax, a decrease of NIS 414 million after the effect of tax compared with 31 December 2014.

The negative capital reserve created at the date of adoption was cancelled in the second quarter of 2015.

The balance of the liability for employee benefits as of 31 December 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 218 million less than the actual liability.

For further information regarding the impact of the standard at 31 December 2014, see Note 1D.1

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

Obligations in respect of legal claims

Among the Bank’s other obligations, there are provisions for various legal claims against the Bank, including applications for class actions. The provisions were determined in a conservative manner in accordance with Management’s assessments, based on legal opinions.

A quarterly discussion is held in the Bank's Allowance Committee, headed by the President and CEO, and in the Board of Directors in respect of provisions for claims above a certain amount that have been filed against the Bank.

To assess the risks in legal proceedings filed against the Bank, the Bank’s Management relies on the opinions of the outside counsel representing the Bank in these claims.

These opinions were given by the outside counsel in accordance with their most considered opinion on the basis of the facts presented to them by the Bank and on the basis of the known legal position (laws and case law) as at the date of the assessment, and which are often open to possible conflicting interpretations and claims.

The assessment of risks inherent in requests for the approval of class actions is complex, since this is a field, the legal doctrine relating to which, even on important matters of principle, is still being formed and not yet entirely settled. There are also claims in respect of which, due to the stage of the proceedings, counsel is unable to estimate their inherent risk, even under the above-mentioned limitations.

In light of the above, it is possible that the actual results of claims may differ from the provisions made.

Buildings and Equipment

The Bank's buildings and equipment are presented in the financial statements at cost, less accumulated depreciation and a provision for a decline in value.

Buildings offered for sale are presented at the lower of their book value or realization value as determined by assessors. The amount of the provision for impairment of assets offered for sale is affected by changes in the valuation of the asset.

The Bank classifies in this item the costs in respect of software assets purchased or cost which are capitalized as an asset in respect of programs developed internally for self-use.

Programs which have been purchased are measured at cost net of accumulated depreciation and losses from impairment.

Costs in connection with the development and adaptation of computer programs for self-use are capitalized only if the development costs may be reliably measured, the software is technically applicable, a future economic benefit is expected and the Bank has an intention and sufficient resources to complete the development and use the software. Capitalized costs include direct costs of materials, services and direct cost of labor. These costs are measured at cost, net of accumulated depreciation and losses from impairment. Other costs are charged to profit and loss as they arise.

Subsequent costs in respect of software are recognized as an asset, only when they increase the future economic benefits inherent in the asset for which they were incurred. All other costs are charged to the statement of profit and loss as they arise.

Depreciation is calculated on the basis of the cost, over the useful life, using the straight line method. Capitalized costs for investments are depreciated from the date of their operation according to an assessment of the period of their use, from the date on which the asset is ready for use.

From time to time, the management of the Bank examines the need for provisions for a decrease in value of the assets owned by the Bank. The test for a decrease in value of the assets is made by comparing the book value of the asset with its recoverable amount. Recoverable value is the higher of the realization price of the asset and its usage value (which is the present value of an estimate of the forecasted future cash flows from the use of the asset).

Intangible assets

Pursuant to the Public Reporting Directive of the Banking Supervision Department, regulations have been provided for implementing International Accounting Standard no. 38 "Intangible assets" in connection with the software costs for own use. On 2 June 2015, the Supervisor of Banks sent a letter to the Bank stating that in the audit conducted in a number of banking corporations, there arose deficiencies in the internal control over financial reporting on the process for the capitalization of software costs.

According to the directives of the Supervisor of Banks:

1. The Bank has determined a materiality threshold for each software development project in respect of which software costs amounting to NIS 750 thousand were capitalized.
2. The estimate of the life of the software costs so capitalized should not exceed 5 years.
3. Various regulations were provided regarding software development projects, the total of the costs which may be capitalized is lower that the abovementioned materiality threshold.

The Bank has treated these requirements as a change in accounting policy, including retroactive application of the accounting policy of comparative periods.

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

For further information regarding the effect of retroactive application of the directives of the Supervisor of Banks regarding the capitalization of software costs, see Note 1D.2.

Taxes on income

The Group has implemented the International Standard IAS 12, as provided in the Public Reporting Directive "Taxes on Income" with effect from 1 January 2012.

Current taxes and deferred taxes are charged to the statement of profit and loss, or carried directly to capital, if they derive from items that are recorded directly in capital.

The current tax is the amount of tax expected to be paid (or received) on taxable income for the tax year, calculated at the tax rates applicable according to the laws enacted up to the balance sheet date.

Deferred taxes

The recognition of deferred taxes receivable/payable is with regard to temporary differences between the book value of assets and liabilities for financial reporting purposes and their value for tax purposes. Deferred taxes are measured at the tax rates expected to be applicable to the temporary differences at the date they are realized, based on the laws enacted until the balance sheet date.

A deferred tax asset in respect of carryforward losses, tax benefits and temporary differences allowable is recognized in the books when it is more likely than not that, in the future, there will be taxable income against which it will be possible to utilize them.

The Group does not record deferred taxes in respect of profits from investments in investee companies which the Bank intends to hold and not realize, and also in respect of dividends that are not expected to be distributed by investee companies.

On 22 October 2015, a circular was published on implementation of US GAAP on "Taxes on Income". Pursuant to the circular, banking corporations will implement US GAAP in this matter and, inter alia, the rules for presentation, measurement and disclosure set out in the directives in Codification No. 740 on "Taxes on Income" and Codification Nos. 830-740 on "Issues in Foreign Currency Taxes on Income".

The instructions in the circular are to be implemented from 1 January 2017, including retroactive amendment of comparative figures. The Bank is reviewing the effect of adoption of the above rules on the financial statements.

Controls and Procedures regarding Disclosure in the Financial Statements

The directives of the Supervisor of Banks apply the requirements of Sections 302 and 404 of the SOX Act to banking corporations. With regard to these sections, the SEC and the Public Company Accounting Oversight Board have provided directives as to management’s responsibility for the determination and existence of controls and procedures with regard to disclosure and existence of internal control over financial reporting and the external auditors’ opinion with regard to the audit of the internal control over financial reporting.

The Supervisor’s directives provide that:

- Banking corporations shall apply the requirements of Sections 302 and 404 and also the SEC’s directives that were published by virtue thereof.
- Proper internal control requires the existence of a control system in accordance with a defined and recognized framework, and the COSO (Committee of Sponsoring Organizations of the Treadway Commission) 1992 model meets the requirements and can be used to assess the internal control.

The Bank implements the directives in the Leumi Group on a day-to-day basis and in the process of adopting the new COSO model.

In 2015, the Bank carried out a validation and update of material control processes and checks of the effectiveness of the entire internal control system on financial reporting.

Assessment of controls and procedures with regard to disclosure

The management of the Bank, together with the President and Chief Executive Officer, the Head of the Finance Division and the Chief Accounting Officer, has evaluated, as at the end of the period covered by this report, the effectiveness of the disclosure controls and procedures of the Bank. On the basis of this evaluation, the President and Chief Executive Officer of the Bank, the Head of the Finance Division and the Chief Accounting Officer have concluded that, as at the end of the said period, the disclosure controls and procedures of the Bank are effective for the recording, processing, summarizing and reporting of the information that the Bank is required to disclose in its financial statements, in accordance with the directives of the Supervisor of Banks on reporting to the public and at the time required in these directives.

Changes in internal control

During the quarter ended 31 December 2015, no material change to the internal control over financial reporting of the Bank occurred which had a material effect, or which could reasonably be expected to have a material effect, on the Bank’s internal control over the financial reporting.

Board of Directors

During 2015, the Board of Directors held 37 plenary meetings and 97 committee meetings.

At the Meeting of the Board of Directors that took place on 28 February 2016, it was decided to approve and publish the audited consolidated financial statements of the Group as at 31 December 2015 and for the period ended on that date.

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

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

28 February 2016

Certification

I, Rakefet Russak-Aminoach, certify that:

1. I have reviewed the Annual Report of Bank Leumi le-Israel B.M. (the "Bank") for the year 2015 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact 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 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 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 our conclusions regarding 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 the fourth 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, and the Audit 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.

28 February 2016

Rakefet Russak-Aminoach
President and Chief Executive Officer

Certification

I, Ron Fainaro, certify that:

1. I have reviewed the Annual Report of Bank Leumi le-Israel B.M. (the "Bank") for the year 2015 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact 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 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 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 our conclusions regarding 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 the fourth 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, and the Audit 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.

28 February 2016

Ron Fainaro
Executive Vice President,
Head of Finance Division

Certification

I, Shlomo Goldfarb, certify that:

1. I have reviewed the Annual Report of Bank Leumi le-Israel B.M. (the "Bank") for the year 2015 (the "Report").

2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact 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 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 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 our conclusions regarding 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 the fourth 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, and the Audit 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.

28 February 2016

Shlomo Goldfarb
Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Report of the Board of Directors and Management on Internal Control over Financial Reporting

The Board of Directors and Management of Bank Leumi le-Israel B.M. (henceforth: "the Bank"), are responsible for establishing and maintaining appropriate internal control over financial reporting (as defined in the Public Reporting Directives concerning "The Directors' Report"). The internal control system of the Bank has been designed to provide a reasonable level of confidence to the Board of Directors and Management of the Bank concerning the preparation and appropriate presentation of financial statements published in accordance with accepted accounting principles and the directives of the Supervisor of Banks and his instructions. Irrespective of the quality level of their design, all internal control systems have inherent limitations. Therefore even if it is determined that they are effective, they can only provide a reasonable level of confidence with reference to the preparing and presentation of a financial statement.

The Management, under the supervision of the Board of Directors, maintains a comprehensive internal control system designed to ensure that transactions are executed in accordance with the authorizations of Management, that assets are protected, and that accounting entries are reliable. Furthermore, Management, under the supervision of the Board of Directors, takes steps to ensure that channels of information and communication are effective and monitor performance, including performance of internal control procedures.

The Management of the Bank, under the supervision of the Board of Directors, has evaluated the effectiveness of internal control of the Bank over financial reporting as at 31 December 2015, based on the criteria determined in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, the Management believes that as at 31 December 2015, the Bank's internal control over financial reporting is effective.

The effectiveness of the Bank's internal control over financial reporting as at 31 December 2015 was audited by the Bank's Auditors, Kost Forer Gabbay & Kasierer and Somekh Chaikin, as stated in their Report on page ###, which includes an unqualified opinion regarding the effectiveness of the Bank's internal control over financial reporting as at 31 December 2015.

28 February 2016

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

Ron Fainaro
Executive Vice President
Head of Finance Division

Shlomo Goldfarb
Executive Vice President
Chief Accounting Officer
Head of Accounting Division

Report of the Joint Auditors to the Shareholders of Bank Leumi le-Israel B.M. in accordance with Public Reporting Directives of the Supervisor of Banks regarding Internal Control over Financial Reporting

We have audited the internal control of Bank Leumi le-Israel B.M. and subsidiaries (hereinafter together: "the Bank") over financial reporting as of 31 December 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's Board of Directors and Management are responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of the Board of Directors and Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) in the United States regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and with the directives and guidelines of the Supervisor of Banks. A bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and transfers of the assets of the company (including dispositions); (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in Israel (Israeli GAAP), and the directives and guidelines of the Supervisor of Banks, and that receipt and payment of funds of the Bank are being made only in accordance with authorizations of the Management and Board of Directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as at 31 December 2015, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with generally accepted auditing standards in Israel, and certain auditing standards, of which implementation in audit of banking institutions was required in directives and guidelines of the Supervisor of Banks, the consolidated balance sheets of the Bank and its subsidiaries as at 31 December 2015 and 2014, the consolidated statements of profit and loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated statements of cash flows for each of the three years ended 31 December 2015, and our report of 28 February 2016 included an unqualified opinion on those financial statements, as well as drawing attention to that stated in Notes 25C, paragraphs 2 and 4, and 25H, paragraph 1F.

Somekh Chaikin
Certified Public Accountants (Isr.)

Kost Forer Gabbay & Kasierer
Certified Public Accountants (Isr.)

Joint Auditors

28 February 2016

Report of the Joint Auditors to the Shareholders of Bank Leumi le-Israel B.M.
Annual Financial Statements

We have audited the accompanying consolidated balance sheets of Bank Leumi le-Israel B.M. ("the Bank") and its consolidated companies ("the Group") as at 31 December 2015 and 2014, and the related consolidated statements of profit and loss, statements of changes in shareholders' equity and the consolidated statements of cash flows for each of the three years, the last of which ended 31 December 2015. These financial statements are the responsibility of the Bank's Board of Directors and of its Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of the consolidated subsidiaries, whose assets constitute approximately 0.27% and 1.47% of the total consolidated assets as at 31 December 2015 and 2014, respectively, and whose net interest income before expenses for credit losses included in the consolidated statements of profit and loss constitutes about 0.07%, 0.63% and 0.75% of the total consolidated interest income before expenses for credit losses for the years ended 31 December 2015, 2014, and 2013, respectively. The financial statements of those subsidiaries were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to amounts included in respect of these companies, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards in Israel, including standards prescribed by the Auditors (Manner of Auditor's Performance) Regulations, 1973 and certain auditing standards implementation of which in audit of banking institutions was required in directives and guidelines of the Supervisor of Banks. Such standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and by Management of the Bank, as well as evaluating the appropriateness of the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as at 31 December 2015 and 2014, and the results of operations, changes in shareholders' equity and cash flows of the Bank for each of the three years the last of which ended 31 December 2015, in conformity with generally accepted accounting principles (Israeli GAAP). Furthermore, the above financial statements have, in our opinion, been prepared in accordance with the directives and guidelines of the Supervisor of Banks.

Without qualifying our above opinion, we draw attention to:

1. that stated in Note 25C, paragraphs 2 and 4, regarding claims made against the Bank including petitions for their approval as class actions.
2. that stated in Note 25H, paragraph 1F, regarding an investigation carried out against the Group by the USD Securities and Exchange Commission in connection with the Group's activity with US persons.

The Bank is unable to estimate the implications of the above-mentioned matters on the Bank, if any, on its financial position and operating results, and whether or not they will be material.

We have also audited, in accordance with the standards of the PCAOB (Public Company Accounting Oversight Board) in the United States regarding the audit of internal control over financial reporting, as adopted by the Institute of Certified Public Accountants in Israel, internal control over financial reporting of the Bank as of 31 December 2015, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report of 28 February 2016 included an unqualified opinion on the effectiveness of internal control on financial reporting by the Bank.

Somekh Chaikin
Certified Public Accountants (Isr.)

Kost Forer Gabbay & Kasierer
Certified Public Accountants (Isr.)

Joint Auditors

28 February 2016

Bank Leumi le-Israel B.M. and its Consolidated Companies
Consolidated Statement of Profit and Loss for the year ended 31 December 2015

	Note	2015	2014	2013
		NIS millions		
Interest income	**2**	**8,784**	10,012	12,134
Interest expenses	**2**	**1,666**	2,649	4,777
Interest income, net	**2**	**7,118**	7,363	7,357
Expenses in respect of credit losses	**13,29**	**199**	472	268
Net interest income after expenses in respect of credit losses		**6,919**	6,891	7,089
Non-interest income				
Non-interest financing income	**3**	**1,610**	795	1,127
Commissions	**4**	**4,092**	4,167	4,188
Other income	**5**	**595**	179 (a)	116 (a)
Total non-interest income		**6,297**	5,141	5,431
Operating and other expenses				
Salaries and related expenses	**6**	**5,448**	5,151 (a)	5,070 (a)
Building and equipment maintenance and depreciation	**16**	**1,702**	1,655 (a)	1,821 (a)
Amortization and impairment of intangible assets and goodwill	**17**	**5**	58	88
Other expenses	**7**	**1,681**	2,507	1,838
Total operating and other expenses		**8,836**	9,371	8,817
Profit before taxes		**4,380**	2,661	3,703
Provision for taxes on profit	**8**	**1,691**	1,278 (a)	1,380 (a)
Profit after taxes		**2,689**	1,383	2,323
Share of the banking corporation share in profits (losses) of companies included on equity basis, after tax	**15**	**177**	42	(293)
Net profit:				
Before attributing to non-controlling interests		**2,866**	1,425	2,030
Attributed to non-controlling interests		**(31)**	(12)	(42)
Attibuted to shareholders of the banking corporation		**2,835**	1,413	1,988
Basic and diluted earnings per share (in NIS):				
Net profit attibuted to shareholders of the banking corporation	**9**	**1.92**	0.96 (a)	1.35 (a)

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

The accompanying notes are an integral part of these consolidated financial statements.
For the condensed financial statements of the Bank only – see Note 34.

David Brodet
Chairman of the Board of Directors

Yoav Nardi
Director

Zipporah Samet
Director

Rakefet Russak-Aminoach
President and Chief Executive Officer

Ron Fainaro
Executive Vice President,
Head of Finance Division

Shlomo Goldfarb
Executive Vice President,
Chief Accounting Officer,
Head of Accounting Division

Date of approval of the financial statements: 28 February 2016

Bank Leumi le-Israel B.M. and its Consolidated Companies
Consolidated Statement of Comprehensive Income for the year ended 31 December 2015

	2015	2014 (c)	2013 (c)
	NIS millions		
Net profit before attribution to non-controlling interests	**2,866**	1,425	2,030
Net profit attributed to non-controlling interests	**31**	12	42
Net profit attributed to shareholders of the Bank	**2,835**	1,413	1,988
Other comprehensive income (loss), before taxes:			
Adjustments for showing securities available for sale at fair value, net	**(423)**	355	(518)
Adjustments for translation of financial statements, net (a), after the effect of tax and hedges (b)	**(9)**	192	(115)
Adjustments for liabilities in respect of employee benefits (d)	**683**	(1,384)	(483)
Share of the banking corporation in other comprehensive income of companies included on equity basis	**11**	(108)	(6)
Other comprehensive income (loss), before taxes	**262**	(945)	(1,122)
Relevant tax effect	**(161)**	447	335
Other comprehensive income (loss) before attribution to non-controlling interests, after taxes	**101**	(498)	(787)
Less other comprehensive income attributed to non-controlling interests	**-**	-	(3)
Other comprehensive income (loss) attributed to shareholders of the banking corporation, after taxes	**101**	(498)	(784)
Comprehensive income before attribution to non-controlling interests	**2,967**	927	1,243
Comprehensive income attributed to non-controlling interests	**31**	12	39
Comprehensive income attributed to shareholders of the Bank	**2,936**	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.D.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.D.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.

See also Note 10 on accumulated other comprehensive income.

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

Bank Leumi le-Israel B.M. and its Consolidated Companies
Consolidated Balance Sheet as at 31 December 2015

	Note	31 December 2015	31 December 2014	
		NIS millions		
Assets				
Cash and deposits with banks	**11,26**	**60,455**	60,615	
Securities	**12,26**	**69,475**	52,113	
Securities borrowed or purchased under agreements to resell		**1,764**	2,000	
Credit to the public	**13,29**	**265,070**	256,468	
Allowance for credit losses	**13,29**	**(3,671)**	(3,988)	
Credit to the public, net		**261,399**	252,480	
Credit to governments	**14**	**453**	528	
Investments in companies included on equity basis	**15**	**924**	2,216	
Buildings and equipment	**16**	**3,095**	3,162	(a)
Intangible assets and goodwill	**17**	**18**	43	
Assets in respect of derivative instruments	**27B**	**11,250**	16,909	
Other assets	**18**	**7,666**	6,918	(a)(e)
Total assets		**416,499**	396,984	
Liabilities and equity				
Deposits of the public	**19**	**328,693**	303,397	
Deposits from banks	**20**	**3,859**	4,556	
Deposits from governments		**750**	467	
Securities lent or sold under agreements to repurchase		**938**	1,238	
Debentures, bonds and subordinated notes	**21**	**21,308**	23,678	
Liabilities in respect of derivative instruments	**27B**	**11,098**	15,650	
Other liabilities	**22**	**20,746**	21,860	(a)(e)
Total liabilities		**387,392**	370,846	
Non-controlling interests		**340**	340	
Equity attributable to shareholders of the banking corporation	**24**	**28,767**	25,798	(a)
Total equity		**29,107**	26,138	
Total liabilities and equity		**416,499**	396,984	

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1, and retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.D.2.
(b) For details on amounts measured at fair value, see Note 32A.
(c) For details on securities pledged to lenders, see Note 12.
(d) Of which: allowance for credit losses in off-balance sheet credit instruments, NIS 482 million (31 December 2014 – NIS 494 million).
(e) Reclassified.

The accompanying notes are an integral part of these consolidated financial statements.
For the condensed financial statements of the Bank only – see Note 34.

Bank Leumi le-Israel B.M. and its Consolidated Companies
Statement of Changes in Equity for the year ended 31 December 2015

		Capital reserves		
	Share capital	Premium	Share-based payment transactions and others (a)	Total share capital and capital reserves
	NIS millions			
Balance as at 1 January 2013	7,059	1,129	23	8,211
Effect of first-time adoption of implementation of the rules for capitalizing software costs (b)	-	-	-	-
Effect of first-time adoption of US GAAP on employee rights (b)	-	-	-	-
Balance as at 1 January 2013 after initial implementation of the new rules	7,059	1,129	23	8,211
Net profit (b) (c)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Employee benefit from share-based payment transactions	-	-	10	10
Other comprehensive loss, net after the effect of tax	-	-	-	-
Loans to employees for purchase of the Bank's shares	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance as at 31 December 2013	7,059	1,129	33	8,221
Net profit (b)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Other comprehensive income, net after the effect of tax	-	-	-	-
Changes in non-controlling interests	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance as at 31 December 2014	7,059	1,129	33	8,221
Net profit (b)	-	-	-	-
Adjustments in respect of companies included on equity basis, net	-	-	-	-
Employee benefit from share-based payment transactions	-	-	**10**	**10**
Other comprehensive income, net after the effect of tax	-	-	-	-
Changes in non-controlling interests	-	-	-	-
Loans to employees for purchase of the Bank's shares	-	-	-	-
Dividend paid by consolidated companies	-	-	-	-
Balance as at 31 December 2015	**7,059**	**1,129**	**43**	**8,231**

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

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

(c) Including NIS 350 million not available for distribution as a dividend (31 December 2014 – NIS 353 million, 31 December 2013 – NIS 471 million). The balance of the amount for allocation is subject to Bank of Israel directives and the limitations set out in Proper Conduct of Banking Business Directives. See Note 24E.

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

Accumulated other comprehensive profit (loss)	Retained earnings (c)	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
-	35	-	35	-	35
-	-	-	10	-	10
(784)	-	-	(784)	(3)	(787)
-	-	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
-	**2,835**	-	**2,835**	**31**	**2,866**
-	**(19)**	-	**(19)**	-	**(19)**
-	-	-	**10**	-	**10**
101	-	-	**101**	-	**101**
-	-	-	-	**(21)**	**(21)**
-	-	**42**	**42**	-	**42**
-	-	-	-	**(10)**	**(10)**
(1,448)	**21,984**	-	**28,767**	**340**	**29,107**

Bank Leumi le-Israel B.M. and its Consolidated Companies
Consolidated Statement of Cash Flows
for the year ended 31 December 2015

	2015	2014	2013
	NIS millions		
Cash flows from operating activities			
Net profit for the year	**2,866**	1,425 (b)	2,030 (b)
Adjustments:			
Group share in undistributed losses (profits) of companies included on equity basis (a)	**666**	15	340
Depreciation of buildings and equipment (including impairment)	**655**	602 (b)	754 (b)
Amortization	**45**	58	88
Expenses in respect of credit losses	**199**	472	268
Losses (profits) from assets transferred to group ownership	**3**	(3)	1
Profit on sale of loan portfolios	**(11)**	(28)	(99)
Net profit on sale of available-for-sale securities (including impairment)	**(1,075)**	(659)	(754)
Realized and unrealized profit from adjustment to fair value of securities held for trading	**(62)**	(456)	(35)
Gain on realization of investments in companies included on equity basis	**(522)**	-	(15)
Gain on sale of buildings and equipment	**(485)**	(83)	(22)
Provision for impairment of shares available for sale	**283**	12	7
Expenses deriving from share-based payment transactions	**10**	-	10
Deferred taxes, net	**(278)**	(118) (b)	(138) (b)
Change in plan assets, net in respect of employee rights	**491**	58 (b)	15 (b)
Interest received (and not yet received) in excess of interest accrued in the period in respect of debentures available for sale	**118**	(67) (b)	(140) (b)
Unpaid (paid) interest in respect of debentures and subordinated notes	**(3)**	1,000	1,428
Effect of exchange rate differentials on cash and cash equivalents	**6**	(839)	653
Other, net	**13**	(195) (b)	- (b)
Net change in current assets:			
Deposits in banks	**2,773**	(1,215)	1,112
Credit to the public	**(9,307)**	(11,029)	(1,507)
Credit to governments	**76**	35	(118)
Securities borrowed or purchased under agreements to resell	**236**	(640)	75
Assets in respect of derivative instruments	**5,664**	(3,845)	(1,595)
Securities held for trading	**1,112**	(1,633)	652
Other assets	**(807)**	203 (b)	279
Net change in current liabilities:			
Deposits from banks	**(708)**	191	283
Deposits of the public	**24,931**	15,184	(1,986)
Deposits of the government	**275**	39	(38)
Securities lent or sold under agreements to repurchase	**(300)**	614	(381)
Liabilities in respect of derivative instruments	**(4,538)**	2,086	856
Other liabilities	**(869)**	525 (b)	1,166 (b)
Net cash from operating activities	**21,457**	1,709	3,189

(a) Less dividend received.

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

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
For the condensed financial statements of the Bank only – see Note 34.

Bank Leumi le-Israel B.M. and its Consolidated Companies
Consolidated Statement of Cash Flows (cont'd)
for the year ended 31 December 2015

	2015	2014	2013
	NIS millions		
Cash flows from investment activities			
Acquisition of available-for-sale securities	**(81,408)**	(33,427)	(61,350)
Proceeds from sale of available-for-sale securities	**33,513**	22,673	33,528
Proceeds from redemption from available-for-sale securities	**30,366**	26,347	19,785
Proceeds of sale of loan portfolios	**279**	344	713
Acquisition of shares in companies included on equity basis	**(20)**	(341)	(67)
Proceeds from realization of investment in companies included on equity basis	**711**	-	73
Acquisition of buildings and equipment	**(627)**	(683) (a)	(610) (a)
Proceeds from realization of buildings and equipment	**562**	94	39
Proceeds from realization of assets transferred to group ownership	**3**	3	3
Net cash from investment activities	**(16,621)**	15,010	(7,886)
Cash flows from financing activities			
Issue of debentures and subordinated notes	**3,315**	-	-
Redemption of debentures and subordinated notes	**(5,682)**	(2,763)	(3,512)
Dividend paid to minority shareholders in consolidated companies	**(10)**	(10)	(6)
Additional acquisition of shares in consolidated companies	**(41)**	(2)	-
Loans to employees for purchase of the Bank's shares	**42**	1	1
Net cash from financing activities	**(2,376)**	(2,774)	(3,517)
Increase (decrease) in cash and cash equivalents	**2,460**	13,945	(8,214)
Balance of cash and cash equivalents at beginning of year	**57,561**	42,777	51,644
Effect of exchange rate differences on balances of cash and cash equivalents	**(6)**	839	(653)
Balance of cash and cash equivalents at end of year	**60,015**	57,561	42,777

Interest and taxes paid and/or received and dividends received

	2015	2014	2013
	NIS millions		
Interest received	**9,830**	9,922	12,474
Interest paid	**(3,209)**	(3,455)	(5,360)
Dividends received	**1,013**	67	74
Taxes paid on income	**(1,419)**	(1,604)	(1,238)

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

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
For the condensed financial statements of the Bank only – see Note 34.

Appendix A – Non-cash investment and financing transactions in the reporting period:

2015:

1. During the year, fixed assets were acquired against liabilities to suppliers, in the amount of NIS 37 million.

2014:

1. During the year, fixed assets were acquired against liabilities to suppliers, in the amount of NIS 49 million.

2013:

1. During the year, assets were transferred from credit to the public to other assets, in the amount of NIS 2 million, in respect of loans that were repaid.

2. During the year, fixed assets were acquired against liabilities to suppliers, in the amount of NIS 24 million.

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
For the condensed financial statements of the Bank only – see Note 34.

Index to Notes

Note 1 – Significant Accounting Policies

A. General

The financial statements have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Supervisor of Banks relating to the preparation of annual financial statements of a banking corporation.

Publication of the financial statements is on the basis of the consolidated statements only. Condensed financial statements of the Bank on a single-entity basis appear in Note 34.

The financial statements were approved for publication by the Board of Directors of the Bank on 28 February 2016.

B. Definitions

In these financial statements -

The Group – the banking corporation and its subsidiaries.

Consolidated companies - companies of which the financial statements are fully consolidated, directly or indirectly, in the statements of the Bank.

Companies included on equity basis - companies, other than consolidated companies including a partnership or joint enterprise, in which the Bank's investment is included, directly or indirectly, in the financial statements on equity basis.

Investee companies - consolidated companies and companies included on equity basis.

Overseas units - representative offices, agencies, branches or consolidated companies of the Bank outside Israel.

Functional currency - the currency of the main economic environment in which the Bank generally operates. This is the currency of the environment where the corporation produces and spends most of its cash funds.

Reporting currency - the currency in which the financial statements are reported.

Related parties - as defined in Section 80 of the Public Reporting Directives.

Interested parties - as defined in Section 80 of the Public Reporting Directives.

Index - the Consumer Price Index in Israel published by the Central Bureau of Statistics.

Adjusted amount - historical nominal amount adjusted to the December 2003 CPI, in accordance with the provisions of Opinions 23 and 36 of the Institute of Certified Public Accountants in Israel.

Reported amount - amount adjusted to the transition date (31 December 2003) with the addition of amounts in nominal values that were added after the transition date and less amounts that were eliminated after the transition date.

Nominal financial reporting - financial reporting based on reported amounts.

Note 1 – Significant Accounting Policies (cont'd)

Adjusted financial reporting - financial reporting in values adjusted according to the changes in the general purchasing power of the Israeli currency in accordance with the provisions of the opinions of the Institute of Certified Public Accountants in Israel.

Cost – cost in reported amount.

Fair value - the amount that would be received from the sale of an asset or that would be paid to transfer a liability in a transaction between a willing seller and a willing buyer at the measurement date.

Recorded debt balance – the recorded debt balance is defined as the outstanding debt after deducting accounting write-offs, but before deducting an allowance for credit losses in respect of that debt. The recorded balance of debt does not include accumulated interest that was not recognized.

C. Basis for preparation of the financial statements

1. Reporting principles

The financial statements of the Bank have been prepared in accordance with generally accepted accounting principles in Israel (Israeli GAAP) and the directives and guidelines of the Supervisor of Banks. In most matters, these directives are based on US GAAP. In other subjects that are less material, the directives are based on certain International Financial Reporting Standards (IFRS), interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and Israeli GAAP.

When International Financial Reporting Standards (IFRS) allow a number of alternatives, or do not include a specific reference to a certain situation, specific instructions for implementation have been determined in the directives of the Supervisor of Banks that are based mainly on US GAAP.

For details of the international accounting standards, accounting standards updates and the directives of the Banking Supervision Department that were implemented for the first time see paragraph (D) below.

2. Functional currency and reporting currency

The financial statements are reported in new shekels rounded to the nearest million, unless stated otherwise.

The shekel is the currency representing the principal economic environment in which the Bank operates.

For information on the functional currency of banking units operating overseas, see paragraph (E) below.

3. Basis of measurement

3.1 General

The financial statements are shown in reported amounts in accordance with the accounting standards of the Israeli Accounting Standards Board and the directives of the Supervisor of Banks.

Amounts of non-monetary assets do not necessarily show realizable value or current economic value, but only the amounts reported for those assets.

3.2 Balance Sheet

- Non-monetary and equity items (mainly buildings and equipment; investments in non-quoted shares; amortizable expenses relating to issuance of debentures, bonds and subordinated notes, deferred taxes, assets and liabilities in respect of employee benefits and non-current assets held for sale) are shown in reported amounts.

- Monetary items are shown in the balance sheet at historical nominal values as at the balance sheet date, except for derivative financial instruments and other financial instruments that are measured at fair value.

- An investment in companies included on equity basis is determined based on the financial statements of these companies in reported amounts or translated to new Israeli shekels.

3.3 Profit and Loss Statement

- Income and expenses that arise from non-monetary items (for example, depreciation and amortization and prepaid income and expenses) or from provisions included in the balance sheet are derived from the difference between the reported amount of the opening balance and the reported amount of the closing balance.

- The Bank's share in the operating results of investee companies and the share of external shareholders in the results of consolidated companies are determined based on the financial statements in reported amounts of these companies.

- Other components of the profit and loss statement are shown at their nominal values (for example, net interest income, and commissions).

4. Use of estimates

When preparing the financial statements, in accordance with generally accepted accounting principles in Israel (Israeli GAAP) 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 actual results may differ from such estimates.

When formulating accounting estimates used in preparing the Bank's financial statements, Bank management has to make assumptions concerning circumstances and events which involve significant uncertainty. In its consideration of the estimates, Bank management bases itself on past experience, various facts, external factors, and on reasonable assumptions in accordance with circumstances appropriate to each estimate.

Changes in estimates

The estimates and the assumptions on which they are based are reviewed on a routine basis. Changes in accounting estimates are recognized in the period in which the estimates were amended and for each period affected in the future. Regarding a change in the estimate of the collective allowance, see Note (I) below – Implementation of the Directives of the Supervisor of Banks on "Collective Allowance in respect of Credit to Individual Persons".

D. 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 at the reporting date. 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 remaining 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 remeasurement for every interim 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

Note 1 – Significant Accounting Policies (cont'd)

with respect to examining the "intrinsic commitment" to give employees benefits in respect of increased compensation and / or early retirement.

Note 1 – Significant Accounting Policies (cont'd)

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 (Jubilee) 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

- Share-based payment transactions include transactions with employees that were settled with capital instruments.
- 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 the financial statements for the year 2015:

In the reports for the year 2015, disclosure was made of the effect of the circular on comparative periods for the years 2013-2014. In addition, disclosure was made of the effect of initial adoption as of 1 January 2013 on a separate line in the Statement of Changes in Equity and Note 10 on Accumulated Other Comprehensive Income.

In addition, disclosure was made in the framework of Note 23 on employee rights in accordance with the format determined by the Banking Supervision Department.

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 31 December 2015, accumulated other comprehensive income in respect of employee rights amounted to NIS 1,490 million after the effect of tax, a reduction of NIS 414 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 31 December 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 218 million lower 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.

Note 1 – Significant Accounting Policies (cont'd)

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 at 31 December 2015:

	As at 31 December 2014				As at 31 December 2013			
	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 on employee rights and capital-ization of software costs	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 on employee rights and capital-ization of software costs
	Unaudited				Audited			
	NIS millions							
Buildings and equipment	3,729	-	(567)	3,162	3,638	-	(610)	3,028
Other assets	5,501	1,207	210	6,918	5,182	647	227	6,056
Other liabilities	18,715	3,145	-	21,860	17,809	1,586	-	19,395
Retained earnings	19,559	(34)	(357)	19,168	17,982	81	(383)	17,680
Accumulated other comprehensive income	355	(1,904)	-	(1,549)	(31)	(1,020)	-	(1,051)
Capital attributed to shareholders of the Bank	28,093	(1,938)	(357)	25,798	26,129	(939)	(383)	24,807
Overall capital ratio (a)	14.01%	-	(0.11%)	13.90%	14.70%	-	(0.11%)	14.59%
Overall Tier 1 capital ratio (a)	9.21%	-	(0.12%)	9.09%	9.32%	-	(0.13%)	9.19%

(a) Capital adequacy ratio for 2014 is pursuant to the Basel III rules and for 2013 pursuant to Basel II rules.

Note 1 – Significant Accounting Policies (cont'd)

The effect of implementation for the year ended 31 December 2015:

	31 December2014				31 December2013			
	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	Effect of the new rules on capital-ization of software costs	Pursuant to the new rules
	Audited				Audited			
	NIS millions							
Profit and loss								
Other income	211	(32)	-	179	202	(86)	-	116
Salaries and related expenses	4,968	103	80	5,151	5,133	(147)	84	5,070
Maintenance and depreciation of buildings and equipment	1,778	-	(123)	1,655	1,833	-	(12)	1,821
Provision for taxes on the profit	1,281	(20)	17	1,278	1,397	19	(36)	1,380
Profit attributed to shareholders of the Bank	1,502	(115)	26	1,413	1,982	42	(36)	1,988
Basic and diluted profit per share	1.02	(0.08)	0.02	0.96	1.35	0.03	(0.02)	1.36
Other comprehensive income	-	-	-	-	-	-	-	-
Adjustments of liabilities in respect of employee benefits	-	(1,384)	-	(1,384)	-	(483)	-	(483)
Relevant tax effect	-	500	-	500	-	188	-	188
Comprehensive income (loss) after taxes	-	(884)	-	(884)	-	(295)	-	(295)

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". Pursuant to the directive, the Bank implements US GAAP on the classification as equity or as a liability of financial instruments including compound instruments.

At the same time as the publication of the said circular, an FAQ was published on the subject, in which it was explained that existing debt instruments with an element of contingent conversion to shares (which according to transitional directives meet the definition of a compound capital instrument or is included as a regulatory capital element pursuant to Basel III directives) is to be classified as a liability measured at amortized cost without separating en embedded derivative.

The Bank implements the directive as of 1 January 2015 retroactively. Implementing the directive had no material effect on the Bank.

Note 1 – Significant Accounting Policies (cont'd)

4. 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 on transactions of a banking corporation with related persons 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.

The Bank implements the requirements of the circular as of the report to the public for 2015. The retroactive statement if comparative figures is not required if the information is not available to the Bank. Implementation of the circular did not have any material effect on the Bank apart from the disclosure on related parties – see Note 33.

5. 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. Implementation of the directive did not have any material effect on the Bank.

6. Collective allowance for credit losses

On 19 January 2015, the Supervisor of Banks published a circular on "Collective Allowance in respect of Credit to Private Individuals", in the framework of which the Public Reporting Directives were amended.

Accordingly, the bank updated the method of calculating the measurement of rates of credit losses so that the collective allowance coefficient for each group of dents is calculated based on average rates of past losses in the range of the last 5 years, with the addition of an adjustment coefficient for qualitative factors reflecting, inter alia, trends in total; credit for each industry, sectoral conditions, changes in volume and trend of balances in arrears and impaired balance and so forth.

Furthermore, pursuant to the circular, it was decided that when determining an allowance for credit losses for private individuals, it must be verified that the rate of adjustments for environmental factors for chances of collection shall not be less than 0.75% of the balance of non-problem credit to private individuals. From this an exception was made for credit risk deriving from banking credit card debtors without charging interest.

During 2015, the Bank completed the development and validation of the model for quantifying the adjustment coefficient in respect of qualitative factors. Implementation of the new model was made by changing the estimate and charged directly to profit and loss. The effect of initial implementation amounted to an increase of about NIS 26 million before tax.

7. 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 amounted to an increase of NIS 14 million. Implementation of the directive was made prospectively from 1 July 2015.

8. Updating the structure of report to the public

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:

- 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".

- Publishing a separate report on the 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.

The Bank implements the provisions of the circular from the report to the public for the year 2015. Implementation of the circular had an effect only on presentation.

9. Regulatory operating segments and geographical areas

On 3 November 2014, a circular was published concerning the reporting on operating segments and an FAQ for implementation. On 10 September 2015, an update was published of the FAQ.

Note 1 – Significant Accounting Policies (cont'd)

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.

E. Foreign currency and linkage

Transactions in foreign currency

Assets and liabilities denominated in foreign currency or linked thereto are stated according to the representative rates of exchange published by Bank of Israel at the balance sheet date, or other appropriate date, as follows:

- Assets and liabilities denominated in foreign currency or linked thereto are translated to the functional currency at the rate of exchange prevailing on the reporting date.
- Non-monetary assets and liabilities in foreign currency or linked thereto that are measured at fair value, are translated into the functional currency at the rate of exchange prevailing on the date on which the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency or linked thereto and measured at historical cost, are translated at the rate of exchange prevailing on the date of the transaction.

Income and expenses in foreign currency are included in the statement of profit and loss at current representative exchange rates at the transaction dates and exchange rate differentials on the assets and liabilities in respect of which the above income and expenses arose.

Exchange rate differentials resulting from translation to the functional currency are recognized in profit and loss except for the following differences recognized in other comprehensive income resulting from the translation of:

- Equity financial instruments classified as available for sale (except in the event of impairment when the translation differences recognized in other comprehensive income are reclassified to profit and loss).
- Financial liabilities hedging investments in a foreign operation in respect of the effective part of the hedge.

The functional currency of offices operating overseas

The Bank applies IAS 21 – "The Effects of Changes in Foreign Exchange Rates" as of 1 January 2011, except for the provisions of the Standard with regard to the classification of banking offices operating overseas as foreign operations whose functional currency is not the shekel.

Until 1994 certain foreign banking offices were considered as a foreign operation whose functional currency is different from the shekel, and exchange rate differentials were charged directly to equity, as part of the translation reserve. From 1995, pursuant to the directives of the Supervisor of Banks, foreign banking offices were classified as a foreign operation whose functional currency is the same as the functional currency of the Bank.

On 14 February 2012, a circular was published by the Supervisor of Banks as to the manner of determining the functional currency of banking offices operating overseas. When determining the functional currency, the Bank is required to examine the range of criteria listed below, and document the results:

- If the primary environment in which the office generates and expends cash is a foreign currency and the activity of the office in shekels is marginal.
- If recruiting customers for the office is carried out independently, such that the activity of the office vis-à-vis the customers of the banking corporation or related parties is not significant.
- If the activity of the office vis-à-vis the banking corporation and related parties is not significant, and, inter alia, the office has no dependence on sources of funding from the banking corporation or its related parties.
- If the activity of the office is essentially independent and stands alone, and is not an extension of or supplementary to the local activity of the banking corporation.

When one of the said criteria is clearly not fulfilled (for example, the transactions of the office carried out with the banking corporation's customers are so significant that they represent most of the office's transactions), this indicates that the office is to be treated as a foreign operation whose functional currency is the shekel. In any other situation, the determination is to be made according to an examination of a range of criteria.

The Bank has reexamined the classification of its overseas banking offices in accordance with the new criteria, and has reclassified the banking offices in the US and Switzerland as foreign operations whose functional currency is other than the shekel.
The change in classification was dealt with prospectively as a change in the functional currency of the offices, so that exchange rate differences from translation are recognized from 1 January 2012 as other comprehensive income, and shown under "Adjustments for translation of foreign operations".

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments generated in an acquisition, have been translated to NIS at the exchange rate prevailing at the date of the transactions. Income and expenses of foreign operations have been translated to NIS at the exchange rates prevailing at the dates of the transactions.

Exchange rate differentials in respect of the translation are recognized in comprehensive income, and are shown in equity under "Adjustments for translation of financial statements".

On realization of a foreign operation leading to loss of control or substantial influence, the cumulative amount in the translation reserve resulting from the foreign operation is reclassified to profit and loss as part of the profit or loss on the realization.

In addition, when there are changes in the percentage of the Bank's holdings in a subsidiary company that includes foreign operations while retaining control of the subsidiary company, a proportionate part of the accumulated amount of exchange rate differences recognized in other comprehensive income is reattributed to non-controlling interests.

When the Group realizes part of the investment that is a subsidiary company that includes foreign operations while retaining material influence, the proportionate part of the accumulated amount of exchange rate differences is reclassified to profit and loss.

Hedging a net investment in a foreign operation

The Group applies hedge accounting in respect of exchange rate differences between the functional currency of a foreign operation and the functional currency of the Bank (NIS), whether the investment in a foreign operation is held directly by the Bank or through a holding company.

Exchange rate differences arising from translation of a financial liability hedging a net investment in a foreign operation are charged to other comprehensive income and shown as equity under "Adjustments for translation of foreign operations". The ineffective part is charged to profit and loss. When the investment for which the hedging was made is realized, the relevant amount accrued in "Adjustments for translation of financial statements" is transferred to profit and loss as part of the profit and loss from realization of the investment.

Index-linked assets and liabilities not measured at fair value

Assets and liabilities linked to the Consumer Price Index are included in accordance with the linkage terms determined for each balance.

Details of representative exchange rates and the CPI and the rate of change therein:

	31 December			Rate of change in		
	2015	2014	2013	**2015**	2014	2013
	NIS			%		
Exchange rate of:						
U.S. dollar	**3.902**	3.889	3.471	**0.3**	12.0	(7.0)
Euro	**4.247**	4.725	4.782	**(10.1)**	(1.2)	(2.8)
Pound Sterling	**5.784**	6.064	5.742	**(4.6)**	5.6	(4.9)
Swiss franc	**3.925**	3.929	3.897	**(0.1)**	0.8	(4.4)
Consumer Price Index:	(Points)					
November – known index	**106.4**	107.4	107.5	**(0.9)**	(0.1)	1.9
December – index for the month	**106.3**	107. 4	107.6	**(1.0)**	(0.2)	1.8

Note 1 – Significant Accounting Policies (cont'd)

F. Basis of consolidation

1. Business combinations

The Group applies the acquisition method with regard to all business combinations. The acquisition date is the date when the acquirer achieved control over the acquiree. The Group controls the acquiree when it is exposed, or has rights, to varying returns from its involvement in the acquiree, and it has the ability to influence these returns by means of its power of control in the acquire.

The Group recognizes goodwill at the acquisition date at the fair value of the proceeds paid, including amounts recognized in respect of any rights not conferring control over an acquiree, as well as the fair value at the acquisition date of equity rights in the acquiree that were held prior to then by the acquirer, after deducting the net amount attributable on acquisition to identifiable assets that were acquired and liabilities that were assumed.

The Bank recognizes a contingent liability assumed in a business combination at the date of acquisition if there is a liability at the date of acquisition deriving from past events whose fair value can be measured in a reliable manner.

In the event the Group carries out an acquisition at an advantageous price (an acquisition that includes negative goodwill), it recognizes the profit generated as a result in the profit and loss statement at the acquisition date, after carrying out an additional examination of the amounts attributed to the assets and liabilities of the entity acquired.

The proceeds transferred include the fair value of the assets transferred to the previous owners of the acquiree, liabilities assumed by the acquirer vis-à-vis the previous owners of the acquiree, and equity rights issued by the Group. In a business combination achieved in stages, the difference between the fair value at the date of acquisition of the equity rights in the acquiree held previously by the Group, and the book value at the same date, is charged to the statement of profit and loss under "Non-interest financing income – profits or losses from investment in shares" as part of activities not for trading purposes. Furthermore, the proceeds transferred include the fair value of the conditional proceeds. Subsequent to the date of acquisition, the Group recognizes changes in the fair value of the conditional proceeds classified as a financial liability in the statement of profit and loss, while the conditional proceeds classified as a capital instrument is not remeasured.

Costs of a transaction resulting from a business combination transaction are charged immediately to profit and loss.

Business combinations occurring prior to 1 January 2011

Pursuant to the instructions of the Supervisor of Banks, the Group adopted the relief provided in IFRS 1 – First-time Implementation of International Financial Reporting Standards. Accordingly, the Group does not implement IFRS 3 (2008) retroactively with regard to business combinations, acquisitions of companies included on equity basis, and acquisitions of non-controlling interests occurring prior to 1 January 2011. Thus, for the said acquisitions, goodwill recognized and surplus costs generated represent the amounts recognized in accordance with the Public Reporting Directives of the Supervisor of Banks.

Note 1 – Significant Accounting Policies (cont'd)

2. Subsidiary companies

Subsidiary companies are entities controlled by the Bank.

The consolidated financial statements include the financial statements of the Bank and of entities in which the Bank has control. The financial statements of subsidiary companies are included in the consolidated financial statements from the date control is obtained until the date control ceases. The accounting policy of subsidiary companies was amended as necessary in order to adapt it to the accounting policy adopted by the Bank, except in those cases when the Supervisor of Banks otherwise permitted.

Intercompany balances and transactions between consolidated companies are eliminated in the consolidated financial statements.

The financial statements of two wholly-owned real estate and service companies are consolidated in the financial statements of the Bank only.

Non-controlling interests

Non-controlling interests are the part of the equity of subsidiary companies, directly or indirectly, which are not attributable to the parent company. These rights, which grant the holder part of the net assets of the acquiree, are measured for fair value on the date of acquisition.

Profit or loss and any element of other comprehensive income are attributable to the shareholders of the Bank and to non-controlling interests. The amount of profit, loss, and other comprehensive income attributable to the owners of the Bank and to non-controlling interests even if, as a result of this, the balance of non-controlling interests would be negative.

Transactions with non-controlling interests, while maintaining control, are treated as equity transactions. Any difference between the proceeds paid or received in the change of non-controlling interests is charged to the owners' share of the Bank, directly to retained earnings.

The amount for which non-controlling interests are adjusted is calculated as follows:

- When the holding percentage increases, according to the relative part acquired from the balance of the non-controlling interests in the consolidated financial statements prior to the transaction.

- When the holding percentage decreases, it is calculated according to the relative part realized by the owners of the bank in net assets of the subsidiary company including goodwill.

- When there are changes in the holding percentage in a subsidiary company, while retaining control, the Bank reapportions the aggregate amounts recognized under other comprehensive income, between the owners and the non-controlling interests.

3. Companies included on equity basis

Companies included on equity basis are entities in which the Group has significant influence on financial and operational policy, without having achieved control over them. It is assumed that holding between 20% and 50% of an investee grants material influence. In addition, for purposes of determining material influence, qualitative criteria are examined which often supersede this quantitative assumption. When examining whether there is material influence, potential voting rights that are exercisable or immediately convertible to shares in the investee company, are to be taken into consideration.

The investment in shares of companies included on equity basis is dealt with according to the equity method and recognized initially at cost. The cost of the investment includes transaction costs. When the Bank achieves significant influence for the first time in an investment dealt with as an asset available for sale until the date significant influence is achieved, the equity method is applied retroactively.

Investments include goodwill calculated at the date of acquisition and shown after deducting accrued losses from impairment. The accounting policy of companies included on equity basis which is implemented by them is in accordance with generally accepted accounting principles in Israel or international accounting principles if the company included on equity basis is in a foreign country or is otherwise permitted by the Supervisor of Banks.

The financial statements of a company included on equity basis are prepared using a uniform accounting policy with the banking corporation with regard to similar transactions and events under similar circumstances; except for adjustments to accounting policy referring to subjects that are a core part of the banking business, that were implemented by a non-banking company included on equity basis.

The Bank’s share in the operating results of the said companies is shown after amortization of the cost generated on their acquisition. Excess cost attributed to the assets and liabilities is amortized over the useful life of the asset. Positive goodwill is not amortized and is included in the book value of the investment, and negative goodwill is recognized in profit and loss at the acquisition date with the approval of the Supervisor of Banks.

The statement of changes in shareholders' equity includes the Bank's share in "translation adjustments" of units held by companies included on equity basis, as units whose activity is in a functional currency differing from the functional currency of the Bank.

Profits or losses from the realization of companies included on equity basis are charged to profit and loss under "Non-interest financing income – profits or losses from investment in shares" as part of activities not for trading purposes.
When the Group share in losses exceeds the value of the rights of the Group in the company dealt with under the equity method, the book value of those rights is reduced to zero.

The Group does not recognize additional losses of the investee company unless the Group has an additional obligation to the investee company. When there is an increase in the percentage of the holding in the company included on equity basis that is being dealt with under the equity method while retaining significant influence, the acquisition method is applied only with respect to the additional percentages held, while the previous holding remains unchanged.

When there is a reduction in the percentage of the holding in the company included on equity basis that is being dealt with under the equity method while retaining significant influence, the Group reduces a relative portion of its investment and recognizes it in profit and loss on the sale. In addition, on the same date the relative portion of the amounts recognized in capital reserves through other comprehensive profit in reference to the said company included on equity basis, is reclassified to profit and loss or retained earnings.

When there is a loss of significant influence, the Group ceases to use the equity method as of the date it lost significant influence, and deals with the remaining investment as a financial asset. At this date it will recognize in other comprehensive income the difference between the fair value of the balance of the investment and the book value of the investment.

In addition, at the same date a relative part of the amounts recognized in capital reserves by way of other comprehensive income, with reference to that company included on equity basis, is reclassified to the statement of profit and loss or to retained earnings.

The Bank reviews, in each reporting period, the need to record impairment of its investment in companies included on equity basis - see paragraph U.3 below.

G. Basis of recognition of income and expenses

Income and expenses are included on an accrual basis, except for the following:

- Income and expenses from securities held for trading and derivative financial instruments are recognized according to the changes in fair value.

- Interest accruing on problematic debts that were classified as non-accrual loans is recognized on a cash basis when there is no doubt with regard to collection of the remaining recorded debt balance of an impaired debt. In these situations, an amount collected on account of the interest that is recognized as interest income, is limited to the amount that would be accumulated in the reporting period on the remaining recorded balance of the debt according to the contractual interest rate. Interest income on a cash basis is classified in the statement of profit and loss as interest income under the relevant heading. When there is doubt as to collection of the remaining recorded balance of debt, all payments collected serve to reduce the loan principal. In addition, interest on past-due amounts in respect of housing loans is recognized in the profit and loss statement on an actual collection basis.

- Credit origination commissions - Commissions charged for originating credit, excluding loans for a period up to three months, are not recognized immediately as income in the statement of profit and loss, but are deferred and recognized over the life of the loan as an adjustment of the return. Income from the said commissions will be charged under the effective interest rate method and reported as part of interest income.

- Early repayment commissions – Income from Commissions charged for early repayment, performed before 1 January 2014 and not yet amortized, are recognized over a period of three years or the remaining term of the loan, whichever is shorter. Commissions that were charged for early repayment performed after 1 January, 2014, are immediately recognized as part of interest income.

- Credit allocation commissions are accounted for in accordance with the likelihood of the realization of the obligation to provide credit. If this is remote, the commission is recognized on a straight line basis over the term of the commitment, or the Bank defers recognition of income from such commissions until the date of exercise of the commitment or the date of expiry, whichever the earlier. If the commitment fee is recognized then the commissions are recognized by way of adjusting the yield over the life of the loan as stated above. If the commitment expires unexercised, the commissions are recognized on the date of expiration and reported as part of income from commissions. For this purpose the Bank assumes that the probability of realizing the commitment is not remote.

- Change in the terms of a debt - In cases of refinancing or restructuring of debts that are not problematic, the Bank considers whether the loan terms were changed significantly, if the present value of cash flows under the new terms of the loan were changed by at least 10% of the present value of the remaining cash flows under the existing conditions, or if there was a change in the currency of the loan etc. In such cases all commissions not yet amortized and early repayment commissions collected from the customer due to change in credit terms are recognized in profit or loss, or the above commissions are included as part of the net investment in the new loan and recognized as adjustments to the return as stated above.

- Operating commissions for granting services are charged to profit and loss when the service is granted.

- In subsequent periods to an impairment which is other than of a temporary nature, interest income from investments in debt instruments will be recognized based on the excess of the amount of expected cash flows of the debt instrument.

H. Fair value of financial instruments

Effective 1 January 2011, the Bank implements the rules set out in FAS 157 (ASC 820) that defines fair value and establishes a consistent working framework for the measurement of fair value by defining fair value assessment techniques with regard to assets and liabilities, and by establishing a fair value hierarchy and detailed instructions for implementation. In addition, as of 1 January 2012, the Bank applies the directive of the Banking Supervision Department on Fair Value Measurement that integrates the principles set out in Accounting Standards Update ASU 2011-04 on Fair Value Measurement in the Public Reporting Directives.

The Standard requires, *inter alia*, for purposes of fair value valuation, making optimum use of observable inputs, and minimizing the use of unobservable inputs. Observable inputs provide information available to the market received from independent sources, whereas unobservable inputs reflect assumptions by the banking corporation.

FAS 157 stipulates a hierarchy of measurement techniques based on the determination if the inputs used for purposes of determining fair value are observable or unobservable. These types of input create a fair value hierarchy detailed as follows:

- Level 1 inputs: quoted prices (not adjusted) in active markets for identical assets or liabilities.

- Level 2 inputs: prices quoted for similar assets or liabilities in active markets; prices quoted for identical assets or liabilities in inactive markets; prices derived from evaluation methods in which all the significant inputs are observable in the market, or are supported by observable market data.

- Level 3 inputs: unobservable inputs for the asset or the liability deriving from evaluation model for which one or more of the significant inputs are not observable.

This hierarchy requires the use of observable market data, where such exist. When this is possible, the Bank considers relevant observable data in its evaluation, the scope and frequency of the transactions, the size of the bid-ask margin, and the size of adjustment required when comparing similar transactions, are all factors taken into account when determining the level of market liquidity and the degree of relevance of observable prices in those markets.

The level in the scale of fair value to which the fair value measurement of the financial instrument belongs is to be determined on the basis of the lowest level of the figure that is significant for the fair value measurement as a whole.

Methods of assessment implemented by the Bank for measuring fair value are evaluated taking into consideration the relevant circumstances for the various transactions, including prices of recent transactions in the market, indicative prices of assessment services, and the results of back-testing of similar types of transactions.

Note 1 – Significant Accounting Policies (cont'd)

Evaluation of credit risk and non-performance risk

The Standard requires the banking corporation to reflect credit risk and non-performance risk in the measurement of the fair value of debt, including derivative instruments, issued by the banking corporation and measured at fair value. Non-performance risk includes the credit risk of the banking corporation, but is not limited to this risk only.

For further details regarding the methods and main assumptions used for purposes of assessing the fair value of financial instruments, see Note 32.A below, under the subject of balances and fair value measurements of financial instruments.

Securities

The fair value of securities held for trading and securities available for sale is determined based on market prices quoted in the principal market. In those cases where a quoted market price is not available, the fair value is based on the best available information with maximum use of observable data and taking into account the risks inherent in the financial instrument. Fair value is determined using generally accepted pricing models, based on evaluations obtained from experts in valuing financial instruments or based on an independent system of the Bank. Evaluation methods include the use of various parameters, such as interest curves, currency rates and standard deviations, taking into account the risks inherent in the financial instrument (market risk, credit risk, non-marketability, etc.).

Most of the portfolio is calculated each month by a well-known international institution which is engaged in the calculation of fair value and is independent of the issuing entities and the marketing entities. The calculation is based mainly on the prices of transactions in active markets. The balance of the portfolio is revalued based on quotes from brokers or from the makers of the instruments, or based on the Bank's system.

Derivative financial instruments

The fair value of derivative financial instruments that have an active market is determined based on market prices quoted in a principal market.
In those cases where a quoted market price is not available, a fair value estimate is made by using models that take into account the risks inherent in the derivative instrument.

Non-derivative financial instruments

For most financial instruments in this category there is no active market in which they are traded. Accordingly, fair value is estimated using generally accepted pricing models, such as the present value of future cash flows discounted at an interest rate reflecting the level of risk inherent in the financial instrument. For this purpose, pursuant to Banking Supervision Department instructions, future cash flows for impaired debts and other debts have been calculated after deducting the effect of accounting write-offs and allowances for credit losses in respect of the debts.

The Fair Value Option for Financial Assets and Financial Liabilities

FAS 159 (ASC 825-10) allows a banking corporation to elect, on defined dates, to measure financial instruments and certain other items (the eligible items) at fair value, which under the Public Reporting Directives are not required to be measured at fair value. Unrealized profits and losses in respect of changes in the fair value of the items for which the fair value alternative is selected, shall be reported in the statement of profit and loss for each consecutive reporting period. In addition, prepaid costs and fees related to the items for which the fair value alternative is selected, shall be recognized in profit and loss on the date of creation, rather than deferred. The election to apply the fair value alternative, as noted above, shall be made instrument by instrument, and cannot be cancelled. In addition, FAS 159 establishes presentation and disclosure requirements aimed at facilitating comparisons between banking corporations that choose different bases for measurement of similar types of assets and liabilities.

Notwithstanding the above, it is clarified by the Banking Supervision Department that a banking corporation shall not elect the fair value alternative unless it has developed prior know-how, systems, procedures, and controls at a high level, which will enable it to measure the item to a high degree of reliability. Thus, a banking corporation shall not elect the fair value alternative with regard to any asset requiring classification as Level 2 or Level 3 of the fair value hierarchy, or with regard to any liability, unless it receives prior approval to do so from the Banking Supervision Department. The Bank did not designate financial instruments under the fair value option.

I. Impaired Debts, Credit Risk and Allowance for Credit Losses

The Bank applies the Directive of the Supervisor of Banks on Measurement and Disclosure of Impaired Debts, Credit Risk, and the Allowance for Credit Losses as of 1 January 2011.
In addition, the Bank implements the directives of the Banking Supervision Department on updating the disclosure on credit risk and on the allowance for credit losses as of 1 January 2012.

The Directive has been implemented with regard to all debt balances such as deposits in banks, bonds, securities borrowed or purchased under repurchase agreements, credit to the public, credit to the government, etc. Credit to the public and other debt balances for which no specific rules were made in the Public Reporting Directives regarding the measurement of the allowance for credit losses (such as credit to the government, deposits in banks, etc.) are reported in the books of the Bank according to the recorded debt balance. A recorded debt balance is defined as the balance of a debt after deducting accounting write offs but before deducting an allowance for credit losses in respect of that debt.

The Bank has decided on the procedures required to maintain an allowance for credit losses at a level appropriate to cover expected credit losses relating to its loan portfolio, including in respect of off-balance sheet credit risk. The allowance to cover expected credit losses in the loan portfolio is estimated in one of the following tracks:

- Individual allowance for credit losses – The allowance is made based on the measurement of the impairment of the debt, based on the present value of future expected cash flows, discounted at the effective rate of interest of the debt; or, when a debt is dependent on collateral or when an asset is expected to be seized, according to the fair value of the collateral pledged to secure such credit (less costs of sale). The need for an individual allowance is assessed for each debt whose contractual balance (without deducting: accounting write-offs not involving a legal waiver, interest not recognized, allowances for credit losses, and collateral) is NIS 1 million or more, and any other debt identified for individual assessment by the Bank. In some of the consolidated subsidiary companies, the assessment is made also for lower amounts. The individual allowance is calculated for each debt classified as impaired (see below).

- Collective allowance for credit losses – This is implemented for large groups of relatively small and homogeneous debts, and in respect of debts that have been assessed individually and found not to be impaired. Measurement of credit losses is based on the principles set out in FAS 5 (ASC 450) – Accounting for Contingencies and on the transitional directives set out below. The allowance assessed on a group basis for off-balance sheet credit instruments is based on the rates of allowance determined for balance sheet credit, taking into account the percentage of off-balance sheet credit risk expected to be realized. The credit realization percentage is calculated by the Bank based on credit conversion coefficients as set out in Proper Conduct of Banking Business Directive No. 203 – Measurement and Adequacy of Capital – Credit Risk – Standardized Approach, with certain adjustments in cases where the Bank has prior experience indicating percentages for the realization of credit.

  A temporary directive was issued for the years 2011-2012 (hereinafter: “the transitional period”), for calculating credit loss allowances on a collective basis. According to the temporary directive, the rate of allowances for credit losses on a collective basis will be determined for the transitional period based on the range of historical rates for provisions for doubtful debts during the years 2008-2010, segmented by sector of the economy, as well as on the actual rate of net accounting write-offs as of 1 January 2011. In addition to calculating the range of historical rates in the various sectors of the economy as mentioned above, the Bank, for purposes of determining the appropriate rate of the provision, takes into account other data, including conditions of the sector, macroeconomic data, a general assessment of the quality of credit to sectors of the economy, changes in volume and the trend of balances in arrears and impaired balances, and the effect of the changes on credit concentrations.

  The minimum provision for doubtful debts in respect of housing loans is calculated according to a formula determined by the Supervisor of Banks, taking into account the extent of arrears, whereby the rates of the provision increase as the arrears grow. The application of the calculation of the provision according to the formula of the extent of arrears refers to all housing loans, except for loans not payable in regular installments and loans financing activity of a business nature. Similarly, a provision is made on the balance of housing loans not in arrears based on past statistics.

  In addition, the Bank implemented the provisions of an update of Proper Conduct of Banking Business Directive 329 on "Restrictions on Granting Housing Loans". The Bank formulated a policy designed to ensure that it complies with the new requirements that, as of 31 March 2013, the balance of the collective allowance for credit losses for housing loans will not be less than 0.35% of the balance of the said loans at the reporting date.
  Regarding consumer credit to private individuals, the Bank implements the Directive of the Supervisor of Banks from 19 January 2015 on the matter of the "Collective Allowance in respect of Credit to Private Individuals". Pursuant to the Directive, when determining the allowance for credit losses, banking corporations and credit card companies are to take into account, inter alia, past losses, which will be calculated according to the average of past losses in the last five years with adjustments for qualitative factors at a percentage of not less than 0.75% of the balance of unimpaired consumer credit. From the aforesaid was excluded the credit risk deriving from receivables in respect of banking credit cards without interest charge.
  The directive was implemented in the financial statement for the year 2014 on a prospective basis.
  As a result of implementation, the allowance in 2014 in respect of consumer credit to private individuals was increased by NIS 208 million, before tax. The increase in the balances of the provision was charged to profit and loss.

  The Bank examines the overall appropriateness of the allowance for credit losses based on management's judgment, taking into account the risks inherent in the loan portfolio.

The Bank also calculates a supplementary and general provision under the policy for the provision for doubtful debts before the implementation of the directives on impaired debts, credit risk, and the allowance for credit losses.
These provisions are used only as an indicator for the collective allowance such that if the total collective allowance is less than the supplementary and general provision, the allowance is to be made using the higher of the two calculations.

Classification of troubled debts

The Bank determined procedures for identifying problem credit and classifying debts as impaired. In accordance with these procedures, the Bank classifies the balance of its various troubled debts as follows: special mention, substandard, or impaired.

Special mention credit
Special mention balance sheet credit is a debt which has potential weaknesses in respect of which special attention is required by the management of the corporation. Off-balance sheet credit is classified as special mention credit if realization of the liability contingent on this item is "possible", and if the debts which may be recognized as a result of the contingent realization are suitable for classification in this category.

Substandard credit
Substandard balance sheet credit is credit which is insufficiently protected by the current established value and the debtor’s repayment ability, or by the pledged collateral, if any. Balance sheet credit risk classified as such has a well-defined weakness or weaknesses that put the realization of the debt at risk. Credit for which an allowance for credit losses is recognized on a collective basis will be classified substandard when it becomes a debt with arrears of 90 days or more.

Impaired credit

Identifying and classifying impaired credit
Impaired debt is credit of which the banking corporation, based on current information and events, will probably not be able to collect the entire amount due (principal and interest), according to the contractual terms of the loan agreement. In particular, a debt is classified as impaired when its principal or interest is in arrears of more than 90 days, except if the debt is well secured or in collection proceedings. In addition, an impaired debt is also considered as a debt whose terms were changed due to troubled debt restructuring, unless prior to and after the restructuring a minimum allowance was made for credit allowance by extent of arrears.

Reversing an impaired debt back to non-impaired status
An impaired debt reverts to being classified as a non-impaired debt if one of the two following conditions is met:

1. There are no components of principal or interest in regard thereof repayment has become due but have not been paid, and the Bank expects repayment of the remaining principal and interest in full under the terms of the contract (including accounting write-offs or amounts that have been provided for).

2. When the debt has become well-secured debt and is in process of collection.

The rules for reversing an impaired debt will not apply to debts classified as impaired as a result of troubled debt restructuring.

Changing an impaired debt back to an impaired accrual status
A debt for which after restructuring there is reasonable certainty that it will be repaid in accordance with its new terms, is changed back for treatment as a debt accruing interest income under terms of restructuring, and any accounting write-off carried out in the debt is supported by an updated appraisal

as to the financial condition of the debtor, based on continuous repayments of at least six months and only after payments are received that significantly reduce (at least 20%) the recorded balance of debt determined after restructuring.

Note 1 – Significant Accounting Policies (cont'd)

Troubled debt restructuring
A debt which formally underwent a troubled debt restructuring is defined as a debt in respect of which, for economic or legal reasons related to the debtor's financial difficulties, the Bank granted a waiver by way of modification of the terms of debt, in order to alleviate the burden for the debtor of near-term cash payments or by way of receipt of other assets as payment of the debt. For purposes of determining whether a debt agreement executed by the Bank comprises a troubled debt restructuring, the Bank performs a qualitative examination of the totality of the terms of the arrangement and the circumstances under which it was made, in order to determine whether (1) the debtor is in financial difficulties and (2) the Bank granted a waiver under the arrangement to the debtor.

In order to determine whether the debtor is in financial difficulties, the Bank examines whether there are signs that point to the fact that the borrower is in difficulties at the time of the arrangement or the existence of a reasonable possibility that the borrower would get into financial difficulties if not for the arrangement.

The Bank examines, inter alia, the existence of one or more of the following circumstances:

- At the time of the debt arrangement the borrower is in default, including when any other debt of the borrower is in default;

- With regard to debts which at the time of the arrangement are not in arrears, the Bank estimates if according to the current repayment ability it is likely that in the foreseeable future the borrower will get into a default situation, and will not meet the original contractual terms of the debt;

- The debtor was declared bankrupt, is under receivership, or there are significant doubts as to the borrower's continued existence as a going concern;

- And that without changing the terms of the debt, the debtor will not be able to raise debt from other sources at market rates of interest for debtors not in default.

The debtor was granted a waiver, even if under the arrangement an increase was made in the contractual interest rate, if one or more of the following situations exist:

- As a result of restructuring, the Bank is not expected to collect all amounts outstanding (including accrued interest according to the contractual terms);

- The updated fair value of the collateral, in respect of debts conditional on collateral, does not cover the contractual balance of the debt and indicates the inability to collect all amounts due;

- The debtor has no possibility of raising resources at the rate prevailing in the market for a debt with terms and characteristics such as those of the debt granted under the arrangement.

In addition, the Bank will not classify debt as a restructured troubled debt if, under the arrangement, the debtor was granted a stay of payments that is not material, given the frequency of the payments in the contractual repayment period and the expected duration of the original debt. In this regard, if several arrangements were made involving changes in the terms of the debt, the Bank takes into account the cumulative effect of the previous arrangements for the purpose of determining whether the stay of payments is not material.

Restructured debts, including those that prior to the restructuring were examined on a group basis, will be classified as impaired debt and will be evaluated on an individual basis for purposes of making an allowance for credit losses, or an accounting write-off. Given that the debt, for which the troubled debt restructuring was carried out, will not be paid in accordance with its original contractual terms, the debt continues to be classified as impaired debt, even after the debtor returns to the repayment schedule in accordance with the new terms.

Recognition of income:

At the time the debt is classified as impaired, the Bank defines the debt as a debt not accruing interest income, and ceases accruing interest income on it, except that stated above regarding certain impaired debts after restructuring. In addition, at the time the debt is classified as impaired, the Bank cancels all the interest income accrued but not yet collected, which was recognized as income in profit and loss. The debt remains classified as a debt not accruing interest income, as long as the impaired debt classification is not canceled. A debt that underwent a formal troubled debt restructuring, and after the restructuring there is reasonable certainty that the debt will be repaid and will perform in accordance with its new terms, will be treated as an impaired debt accruing interest income. For details regarding recognition of income on a cash basis for debts classified as impaired, see paragraph G above.

Regarding debts assessed and provided for on a collective basis, which are in arrears of 90 days or more, the Bank continues to accrue interest income. These debts are subject to methods of evaluation for the allowance for credit losses that ensure that the profit of the Bank is not overstated. Late-payment commissions for these debts are included as income on the date the Bank becomes entitled to receive them from the customer, provided that collection is reasonably secured.

Accounting write-off

The Bank makes an accounting write-off in the cases set out below:

- Any debt or part thereof examined on an individual basis that is considered uncollectible, or a debt which the Bank has made efforts to collect over an extended period (defined generally as a period exceeding two years) to collect the debt and for which individual allowances for credit losses have been made.

- In the event of a debt whose collection in collateral-contingent, any part of a debt which exceeds the value of the collateral, which is identified as uncollectible will be written off immediately against the allowance for credit losses.

- Troubled debts in respect of which the allowance is measured based on a collective allowance for credit losses when the period of arrears exceeds 150 days.

It should be explained that accounting write-offs do not involve a legal waiver, and they reduce the reported balance of debt for accounting purposes only, while creating a new cost base for the debt in the Bank's books.

J. Securities

1. Securities in which the Bank invests may be classified in three portfolios as follows:

a. Debentures held to maturity

Debentures which the Bank intends and is able to hold until redemption date. Debentures held to maturity are stated at cost with the addition of accrued interest, linkage and foreign currency differences, taking into consideration the proportion of the premium or discount and less provision for impairment in their value which is not of a temporary nature.
The Bank did not classify debentures in the held to maturity portfolio.

b. Securities held for trading

Securities which were acquired and are held with the aim of selling them in the near future, and securities for which the banking corporation chose to make fair value measurement through the statement of profit and loss. Securities held for trading are stated at fair value at the reporting date. Realized and unrealized gains and losses are included in the statement of profit and loss.

c. Securities available for sale

Securities not classified as debentures held to redemption or as securities held for trading. Securities available for sale are stated in the balance sheet at their fair value on the reporting date, except for shares, options and venture capital funds in respect of which the fair value is not available, in which case they are stated at cost.

Differences between the fair value and the amortized cost, less a reserve for tax, are shown in a separate item within shareholders' equity, under other comprehensive profit. Impairment in value which is not of a temporary nature is charged to the profit and loss statement as detailed in paragraph 6 below.

Unrealized gains or losses from adjustments to fair value of securities available for sale designated as being hedged by fair value hedges, are charged to the statement of profit and loss over the period of hedging the hedged risk.

2. Dividend income, accumulated interest, linkage and price differences, amortization of premium or discount (in accordance with the effective interest method), as well as losses from impairment in value not of a temporary nature, are recorded to the profit and loss statement.

3. Interest income in respect of beneficial interests which have been acquired, such as asset-backed financial instruments, e.g., MBS, CLO, SCDO and CMO (except for high-quality loan instruments) is recognized using the prospective interest method (future interest that also anticipates future changes), adjusting the interest rate used for recognizing interest for changes in the estimate of future cash flows. High quality loan beneficial interests are beneficial interests issued under the guarantee of the United States government or agencies of the U.S. government, and asset-backed securities whose international credit rating is at least AA.

4. The Bank's investments in venture capital funds are dealt with according to cost less losses from impairment of a nature other than temporary. Profits from venture capital investments are credited to the profit and loss statement when the investment is realized.

5. Fair Value

With regard to the determination of fair value, see paragraph H above.

6. Impairment

The Bank examines the necessity, in each reporting period, for making a provision for impairment of securities, in the available for sale portfolio, which is not of a temporary nature. The examination is carried out if there are indications that the value of the securities might be impaired. The criteria for determining if the impairment is not of a temporary nature are based on the following considerations and tests:

- Intention and ability to hold the security until the forecasted recovery of the cost in full.

- The assets and collaterals backing up the security.
- The percentage of impairment from the cost of the security.
- Duration of period in which the fair value of the security is lower than cost.
- Evaluation of repayment ability and rating.
- An adverse change in the situation of the issuer or in the state of the market as a whole.

The Bank's policy is to recognize the impairment of a security as having a nature other than temporary, at least in respect of the impairment of any security that fulfils one or more of the following conditions:

- A security which was sold before the publication of the report to the public.
- A security which the Bank intended to sell within a short period of time before the publication of the report to the public.
- A debenture for which there was a significant rating decrease between the rating of the debenture at the date of acquisition by the Bank and the rating of the debenture at the date of publication of the report. Only a rating decrease below BBB- is considered a significant rating decrease for purposes of this paragraph.
- A debenture which was classified as problematic by the Bank after its acquisition.
- A debenture in respect of which there was a credit failure which was not rectified within a reasonable period of time.
- A security whose fair value was lower than the purchase value for a period of time of at least nine months before the end of the period of the financial statement, and at the end of the statement period as well as at a date shortly before publication of the report was lower by 35% or more than the cost (in the case of a debenture – the depreciated cost). In this matter an exception is possible if the Bank has concrete objective evidence and a conservative analysis of all the relevant factors, to show with a high degree of certainty that the impairment is of a temporary nature. The objective evidence and the relevant factors include parameters such as: an increase in value after the date of the financial report, a high credit rating (group A or above), an analysis of stability in stress scenarios carried out by an independent external party or by the Bank, backing and direct government investment in shareholders' equity for purposes of ensuring the strength of the issuer.

These principles are in accordance with the guideline issued by the Supervisor of Banks, except for the definitions of "significant rating" and "significant impairment" which were determined by the Bank.

When impairment in value occurs not of a temporary nature, the cost of the security is reduced to the fair value and serves as a new cost basis. Losses from securities which are not of a temporary nature are charged to the statement of profit and loss. Increases in value over the new cost basis in subsequent reporting periods, are included in a separate item in shareholders' equity under total other accumulated profit and is not charged to profit and loss.

K. Derivative financial instruments including hedge accounting

The Bank holds derivative financial instruments for purposes of hedging foreign currency risks and interest rate risks, and also carries out activity in derivatives not for hedging purposes, including embedded derivatives that have been separated.

Hedge accounting

The Bank, at the date the hedge is made, formally documents the hedging relationships between the hedging instrument and the hedged item, including the purpose of risk management and the Bank's strategy in creating the hedging transaction, and the manner in which the Bank will evaluate the effectiveness of hedging relationships. The Bank evaluates the effectiveness of hedging relationships both at the beginning of the hedge and also on an ongoing basis. In addition, the Bank applies hedge accounting in the "shortened" version which assumes full effectiveness in accordance with the provisions of the standard.

1. **Fair value hedging**

   Changes in the fair value of derivative financial instruments designated to hedge fair value are charged to the profit and loss statement. The hedged item is also shown at fair value with reference to the risks hedged, and changes in fair value are charged to the profit and loss statement.

   If the hedging instrument no longer fulfills the criteria of an accounting hedge, or expires, is sold, cancelled or realized, or the Bank cancels the designation of a fair value hedge, the Bank ceases utilization of hedge accounting. When a hedged firm commitment no longer fulfills the definition of a firm commitment, any asset or liability recorded in accordance with recognition of the firm commitment will be cancelled and recognized immediately and on a current basis in the statement of profit and loss.

   Hedging a net investment in a foreign operation – see paragraph E below.

2. **Assets and liabilities**

   Hedge accounting is not applied with regard to derivative instruments serving as part of the Bank's asset and liability management system (ALM). Changes in the fair value of these derivatives are recognized in the statement of profit and loss when incurred.

3. **Other derivatives**

   Changes in the fair value of derivatives not used for hedging or covering exposures are charged immediately to profit and loss.

4. **Embedded derivatives**

   Embedded derivative instruments are separated from the host contract and dealt with separately if: (a) there is no clear and close relationship between the economic characteristics and risks of the host contract and of the embedded derivative instrument, including credit risks attributable to certain embedded credit derivatives; (b) a separate instrument with the same conditions as the embedded derivative instrument would fulfill the definition of a derivative; and (c) the hybrid instrument is not measured according to fair value through profit and loss.

   An embedded derivative that was separated is included in the balance sheet together with the host contract, and changes in fair value of separated embedded derivatives are charged on a current basis to profit and loss.

In certain cases (such as in cases when the Bank is not able to separate the embedded derivative from the host contract), pursuant to US Accounting Standard FAS 155 (ASC 815-15), Accounting Treatment of Certain Hybrid Financial Instruments, the Bank elects not to separate the embedded derivative and to measure the hybrid instrument as a whole for fair value while reporting on changes in the fair value in the statement of profit and loss when they occur. The above election is made at the date of purchase of the hybrid instrument or on the occurrence of certain events when the instrument is subject to re-measurement (a re-measurement event), such as a result of business combinations or material changes in the debt instrument. Such fair value election is irrevocable.

5. Fair value

With regard to the determination of fair value, see paragraph H above.

L. Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

The Bank applies the measurement and disclosure principles prescribed in US Accounting Standard FAS 140 (ASC 860-10) - Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, amended by FAS 166 (ASC 860-10) - Transfers and Servicing of Financial Assets, for the purpose of dealing with transfers of financial assets and extinguishment of liabilities. In accordance with these principles, the transfer of a financial asset will be accounted for as a sale, if and only if, all of the following conditions are fulfilled: (1) the transferred financial asset has been isolated from the transferor, both in a state of bankruptcy or other receivership; (2) any recipient (or, if the recipient is an entity whose sole purpose is to engage in securitization or asset-backed financing activities and that entity is constrained from pledging or exchanging the financial assets it receives, each third-party holder of its beneficial interests) can pledge or exchange the assets (or beneficial interests) it received, and no condition exists that also constrains the recipient (or a third-party of its beneficial interests) from taking advantage of its right to pledge or exchange and provides the transferor with more than a trivial benefit; (3) the transferor or consolidated companies included in its financial statements or its agents do not maintain effective control over the financial assets or beneficial interests relating to the transferred financial assets.

As of 1 January 2012, the Bank applies Accounting Standards Update ASU 2011-03 – "Reconsideration of Effective Control for Repurchase Agreements".

In contracts for the transfer of financial assets, the Bank determines that effective control of the assets transferred remains with the transferor if the following conditions are met:

- The assets to be repurchased or redeemed are the same or substantially the same as those transferred;
- The agreement is to repurchase or redeem them before maturity, at a fixed or determinable price;
- The agreement is entered into contemporaneously with the transfer.

Note 1 – Significant Accounting Policies (cont'd)

In addition, in order for the transfer of some of the financial asset to be considered a sale, the part transferred must comply with the definition of participating interests. Participating interests must comply with the following criteria: the interest must represent a proportionate interest in relation to an entire financial asset; all cash flows received from the assets are divided proportionately among the participating interest holders in an amount equal to their share of ownership; the rights are not subordinated rights in relation to other rights; there is no right of recourse to the transferor or to other holders in participating interests (other than in the event of a breach of representations or warranties, ongoing contractual obligations to service the entire financial asset and administer the transfer contract, and contractual obligations to share in any set-off benefits received by any holder of participating interests); and neither the transferor, nor the participating interest holder has the right to pledge or exchange the entire financial asset, unless all participating interest holders agree to pledge or exchange the entire financial asset.

If the transaction meets the conditions for treating a transaction as a sale, the transferred financial assets are deducted from the Bank's balance sheet. If the sale conditions are not fulfilled, the transfer is considered a secured debt. A sale of part of a financial asset which is not a participating interest as defined below is treated as a secured debt, i.e., the transferred assets continue to be recorded in the Bank's balance sheet and the proceeds from the sale will be recognized as a liability of the Bank.

Securities sold under conditions of repurchase or purchased under conditions of resale, securities borrowed or lent, and other financial instruments transferred or received by the Bank, in which the Bank did not lose control over the transferred asset or did not acquire control in the asset received, are treated as secured debt. Financial instruments transferred in transactions such as the above, are measured in accordance with the same principles applied before their transfer.

Securities sold as mentioned above are not deducted from the balance sheet and are shown under "Securities", and as opposed to these, the deposit, for which those securities were pledged to ensure its repayment, is shown under "Securities lent or sold under agreements to repurchase".

Securities purchased are recorded according to their value on the day the transaction was made under "Securities borrowed or purchased under agreements to resell".

The Bank monitors the fair value of securities borrowed and lent as well as securities transferred under purchase and resale agreements on a daily basis, and a demand for collateral is made in appropriate cases. Interest received or paid in respect of the said securities is reported under net interest income (expense).

Pursuant to the directives of the Supervisor, securities lending transactions executed as "ordinary" credit transactions, in which the Bank lends securities against the collateral portfolio, and the borrower does not provide the banking corporation with a security margin relating specifically to the securities lending transaction, are shown as credit to the public according to market value and are added to the debt of the borrower. Changes in the value of the above securities on an accrual basis are shown in the profit and loss statement under interest income from credit to the public, and the adjustment to market value is shown under adjustments in respect of securities available for sale according to fair value.

The Bank deducts a liability if and only if the liability is repaid, i.e. one of the following conditions exist: (a) the Bank paid the lender and was released from its obligation under the liability, or (b) the Bank was legally released, by legal proceedings or by agreement of the lender, from being the principal debtor under the liability.

Note 1 – Significant Accounting Policies (cont'd)

M. Offsetting assets and liabilities

The Bank implements the rules set out in the circular of the Supervisor of Banks dated 12 December 2012, updating the Public Reporting Directives of the Supervisor of Banks regarding offsetting assets and liabilities.

The Bank offsets assets and liabilities arising from the same counterparty and reports their net balance in the balance sheet, if the following cumulative conditions are met:

- In respect of those liabilities, there is a legally enforceable right to offset the liabilities from the assets.
- There is an intention to repay the liabilities and realize the assets on a net basis or simultaneously.
- Both the Bank and the counterparty owe each other determinable amounts.

The Bank offsets assets and liabilities with two different counterparties and reports a net balance in the balance sheet if the above three cumulative conditions are met, and provided that there is an agreement between the three parties that clearly defines the Bank's right of offset in respect of those liabilities.

The Bank offsets deposits whose repayment to the depositor is contingent on the extent of collection of the credit and the credit that was granted from these deposits, with the Bank having no risk of loss from the credit. The margin on this activity is included under "Commissions".

For purposes of calculating customer indebtedness reported in the various Notes, the Bank offsets between derivative instruments made with the same counterparty which is subject to a master netting arrangement.

N. Buildings and equipment

Recognition and measurement

Buildings and equipment are shown at cost less accumulated depreciation and losses from impairment in value. Cost includes expenses which can be directly attributed to acquisition of the asset. The cost of purchase of software, that constitutes an integral part of operating the related equipment, is recognized as part of the cost of that equipment.

When significant parts of fixed assets have a different life span they are dealt with as separate items of fixed assets.

Buildings earmarked for sale are shown at the lower of their book value or realizable value.

Profit or loss on the sale of fixed assets is included under "Other income" in the statement of profit and loss.

Subsequent costs

The cost of replacement of part of an item of fixed assets is recognized as part of the book value of that item if it is expected that the future economic advantages inherent in the part replaced will come to the Bank, and if its cost can be measured accurately. The book value of the part replaced is deducted in the books.
Ongoing maintenance costs of fixed asset items are charged to the profit and loss statement when incurred.

Costs of software

Pursuant to the Public Reporting Directives, the Bank classifies under this section the costs in respect of software assets acquired or costs capitalized as an asset in respect of software developed internally for its own use.

Software purchased is measured by cost less accumulated depreciation and losses from impairment in value.

Costs in connection with the development and adaptation of computer software intended for internal use are capitalized only if development costs can be measured reliably, the software can be implemented from a technical point of view, a future economic advantage is expected and the Bank has both an intention and sources of funds to complete the development and use the software. Capitalized costs include direct costs of materials, services and direct labor cost for employees. These costs are measured by cost less accumulated depreciation and losses from impairment in value. Other costs are charged to profit and loss when incurred. See paragraph D.2 above.

Subsequent costs of software are recognized as an asset only if they increase the future economic advantages inherent in the asset for which they were expended. Other costs are charged to profit and loss when incurred.

Depreciation and amortization

Depreciation is calculated on the cost, in accordance with estimated useful life, on a straight line basis from the date the asset is ready for use. The Bank depreciates separately each part of a fixed asset for which a different useful life has been determined. Leasehold improvements are amortized over the leasing period, including an option which is likely to be exercised, or over its useful life, whichever is shorter. An asset is amortized when it is available for use.
The estimates regarding useful life and residual value are examined periodically, and at least at the end of each financial year, and adjusted if necessary.

In connection with impairment of non-monetary assets, see paragraph V. below.

Leases

Leases, including leases of land from the Israel Land Authority or other third parties, where the Group materially bears all the risks and returns from the property, are classified as financing leases. At the time of initial recognition, leased assets are recognized and a liability is recognized at an amount equal to the lower of fair value and the present value of future minimum lease payments. Future payments for exercising an option to extend the period of the lease with the Israel Land Authority are not recognized as part of the asset and related liability to the extent their amount is derived from the fair value of the land at future renewal dates of the lease agreement. After initial recognition, the asset is dealt with in accordance with accepted accounting policy regarding this asset.

The period of the lease is the period which cannot be canceled, for which the lessor made a contractual agreement for the lease of the asset together with any additional periods for which the lessee has the option of continuing to lease the asset, for an extra payment or for no extra payment, when it is reasonably certain at the date of the leasing commitment that the lessee will exercise the option.

The other leases are classified as operating leases, and the leased assets in these cases are not recognized in the balance sheet.

Lease payments made in advance to the Israel Lands Administration in respect of operating leases are shown in the balance sheet as prepaid expenses and are charged to profit and loss on a straight line basis over the period of the lease.

Investment Property

Investment property is real estate (land or buildings – or part of the same – or both) held by the Bank (as owners or a lessee under a financial lease) for purposes of generating rental income or for an increase in equity value or both, and not for the purposes of:

1. Use for production or supply of goods or services for administrative purposes; or

2. Sale in the normal course of business.

Investment property is measured initially at purchase cost plus transaction costs. In subsequent periods, investment property is measured at cost less accumulated amortization and losses from impairment.

O. Issue expenses

Expenses of issue of debentures, bonds and subordinated notes are amortized by the effective interest method over the expected life of the instrument issued.

P. Assets transferred to Group ownership following the settlement of troubled debts

Assets that were transferred to Group ownership following the settlement of troubled debts and are included in other assets are stated according to the lower of the asset's fair value on the date they were transferred or fair value as at balance sheet date. Decreases in value are charged to operating and other expenses.

Q. Contingent liabilities

Appropriate provisions have been made for claims which, in the opinion of Bank Management and the Managements of its consolidated companies, based on the opinions of legal counsel, will not be dismissed or canceled, notwithstanding the fact that such claims are refuted by the Bank. In addition, there are legal proceedings whose chances and/or results cannot be estimated at this stage and therefore no provision was recorded in respect thereof.

Claims made against the Bank are classified in three categories, according to the probability of realization of the risk exposure as follows:

- Probable risk – probability of realization of the risk exposure exceeding 70%. For claims included in this risk group, appropriate provisions are included in the financial statements.

- Reasonably possible risk – probability of realization of the risk exposure between 20% and 70%. For claims included in this risk group, provisions are not included in the financial statements but only disclosure is made.

Note 1 – Significant Accounting Policies (cont'd)

- Remote risk – probability of realization of the risk exposure less than or equal to 20%. For claims included in this risk group, provisions are not included in the financial statements and no disclosure is made.

In rare cases where the Bank determines that, in the view of Bank Management, with reliance on its legal advisors, it is not possible to evaluate the likelihood of realization of the risk exposure with regard to a normal claim and a claim approved as a class action, no provision is made.

In addition, the Group is exposed to legal claims that have not yet been made / submitted, inter alia, in the event of doubt in the interpretation of an agreement and/or the provision of a law, and/or the method of their implementation. This exposure is brought to the Group's attention in a number of ways. In assessing the risk arising from the demands / claims not yet submitted, the Group relies on internal assessments of the officials dealing with the issues and the management, who weigh the assessment of the risk for submitting a claim, the chance of the claim's success, if it is submitted, and payment in a compromise, if there be any. The assessment is based on accumulated experience in relation to the submission of claims and on an analysis of claims in their own right. In the nature of things, in light of the preliminary stage of clarification of the legal claim, the actual result could be different from the assessment made at a stage prior to the claim being submitted.

In Note 25, details are shown of the amount of the additional exposure in respect of contingent claims whose amount exceeds NIS 2 million and whose realization is not remote, as well as a disclosure of material legal proceedings against the Bank and the consolidated companies in which the amount claimed exceeds 0.5% of the equity of the bank at 31 December 2015.

R. Tax expenses on income

Taxes on income include current and deferred taxes. Current and deferred taxes are charged to the statement of profit and loss, unless the taxes derive from business combinations, or are charged directly to equity if they derive from items recognized directly in equity.

Current taxes

Current tax is the amount of tax expected to be paid (or received) on income liable to tax for the year calculated at the applicable tax rates under laws that have been enacted or substantively enacted at the reporting date, including changes in tax payments relating to previous years.

The provision for taxes on the income of the Bank and its consolidated companies that are financial institutions for Value Added Tax purposes, include profit tax levied on the income according to the Value Added Tax Law. Value Added Tax Law levied on salaries in financial institutions is included in the statement of profit and loss under “Salaries and related expenses”.

Deferred taxes

The recognition of deferred tax relates to temporary differences between the Book value of assets and liabilities for financial reporting purposes and their value for tax purposes. However, the Group does not recognize deferred taxes for the following temporary differences:

- Initial recognition of goodwill

- The initial recognition of assets and liabilities in a transaction that is not a business combination and that does not affect the accounting income and profit for tax purposes.

- Differences resulting from investments in subsidiaries and companies included on equity basis, if the Group has control when the difference is reversed, and it is expected that they will not be reversed in the foreseeable future, whether by way of realization of the investment or by way of distribution of dividends in respect of the investment.

The measurement of deferred taxes reflects the tax consequences that will result from the way in which the Group expects, at the end of the reporting period, to reinstate or dispose of the book value of assets and liabilities.

Deferred taxes are measured at the tax rates expected to apply to the temporary differences at the date they are realized, based on the laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax asset for losses carried forward, unutilized tax credits, tax benefits and deductible temporary differences recognized in the books when it is more likely than not that it will be taxable income which can be utilized in the future. Deferred tax assets are reviewed at each reporting date and, if it is not expected that the related tax benefits will be realized, they are reduced.

In order to determine that it is possible to recognize a deferred tax asset, the Group takes into account all the available evidence - both positive evidence supporting the recognition of a deferred tax asset and negative evidence negating recognition as a deferred tax asset.

Offsetting deferred tax assets and liabilities

The Bank offsets deferred tax assets and liabilities if there is a legally enforceable right to offset current tax assets and liabilities, and they are attributable to the same taxable income taxed by the same tax authority in respect of the same entity that is assessed, or various companies in the Group that intend to settle current tax assets and liabilities on a net basis or the tax assets and liabilities are settled simultaneously.

Additional tax on the distribution of dividends

The Group may be liable for additional tax in the event of distribution of dividends by Group companies. This additional tax is not included in the financial statements when the Group company policy is not to bring about the distribution of a dividend involving additional tax to the recipient company in the foreseeable future. In cases where the investee company is expected to distribute a dividend involving additional tax for the company, the Group creates a provision for tax in respect of the tax increment that the Group may incur in respect of the dividend distribution.

Additional taxes on income arising from the distribution of dividends by the Bank are charged to profit and loss at the date the liability to pay the related dividend is recognized.

Intercompany transactions

Deferred tax in respect of intercompany transactions in the consolidated accounts is recorded at the rate of tax of the acquiring company.

Uncertain tax positions

The Bank recognizes the effect of tax positions only if it is more likely than not that the positions will be accepted by the tax authorities or the Court. Recognized tax positions are measured at the maximum sum whose probability of realization exceeds 50%. Changes in recognition or measurement are reflected in the period in which changes occur in the circumstances that led to a change in judgment. The Bank inplements the rules of recognition and measurement set out in the framework of FIN48.

Note 1 – Significant Accounting Policies (cont'd)

S. Earnings per share

The Bank reports basic and diluted earnings per share with regard to its ordinary share capital. Basic earnings per share are calculated by dividing the profit or loss attributed to the ordinary shareholders of the Bank by the weighted average number of ordinary shares that were in circulation during the period. Diluted earnings per share is determined by adjusting the profit or loss relating to the ordinary shareholders, and adjusting the weighted average of ordinary shares in circulation, for the effect of all the potential dilutive ordinary shares.

T. Transactions with controlling owners

The Bank implements US GAAP for the accounting treatment of transactions between a banking corporation and its controlling owner and a company controlled by the Bank. In those situations where the said principles do not refer to the manner of treatment, the Bank implements the principles set out in Standard No. 23 of the Israel Accounting Standards Board on the matter.
Assets and liabilities regarding which a transaction was carried out with a controlling owner are measured for fair value at the date of the transaction. Due to the fact that this is an equity-type transaction, the Group charges the difference between the fair value and the transaction proceeds to equity.

U. Impairment in value of non-monetary assets

1. The Bank examines the necessity, for every reporting period, of recording a provision for the impairment of non-monetary assets (such as: buildings and equipment, investments in companies included on equity basis, intangible assets including goodwill) when there are signs, resulting from events or changes in circumstances, which indicate that its assets in the balance sheet are shown at an amount which is in excess of their recoverable value.

The recoverable amount of an asset or a cash-generating unit is the higher of the net selling price and the value-in-use. The value-in-use is the present value of the estimated future cash flows, discounted by the pre-tax rate of interest, which are expected to be derived from use and realization of the asset. For the purpose of examining impairment, assets which cannot be examined individually are grouped together into the smallest group generating cash flows from continued use, which is largely independent of assets in other groups ("cash-generating unit"). For the purpose of examining impairment of goodwill recognized in the framework of a business combination, cash-generating units to which goodwill has been allocated are grouped so that the level at which impairment is examined represents the lowest level at which goodwill can be monitored for purposes of internal reporting, but will not be larger than an operational segment. When there is a change in the composition of one or more cash-generating units to which the goodwill was allocated, the goodwill is to be reallocated to those units affected.

Assets of the head office of the Bank do not produce separate cash flows. If there are indications that impairment has occurred in an asset belonging to the Bank's headquarters, a recoverable value is determined for the group of cash producing units served by the headquarters.

When the value of the asset is higher than its recoverable value, the Bank recognizes a loss from the impairment in value in the amount of the difference between the book value of the asset and its recoverable value. The loss thus recognized will be cancelled in the event of changes occurring in the estimates that were used to determine the recoverable value of the asset after the date on which the most recent loss from the impairment was recognized, and provided that the book value after cancelling the loss from impairment does not exceed the book value after deducting depreciation or amortization, that would have been determined if the loss from impairment had not been recognized. This is except for impairment of goodwill, which is not cancelled.

2. Impairment with regard to costs of in-house software development

Examination for impairment with regard to costs of in-house software development is to be carried out in addition to indicators for examining the existence of impairment set forth in IAS 36, even if the indicators stated in US GAAP SOP 98-1 exist:

a. It is not expected that the software will provide any significant potential uses;

b. A material change has occurred in the manner or scope of use of the software or of the expected use of the software;

c. A material change has been made or will be made to the software;

d. Costs for developing or adapting the software designated for in-house use deviate significantly from the sums projected in advance;

e. It is no longer expected that the software will be completed and utilized.

If one or more of the indicators stated above exist, it is required to make an examination for impairment in accordance with the principles set out in IAS 36 – Impairment of Assets.

3. Impairment of investments in companies included on equity basis reported according to the equity basis method

An investment in a company included on equity basis is examined for impairment when there is objective evidence indicative of impairment in accordance with IAS 39 – Recognition and Measurement of Financial Instruments and pursuant to Decision 1-4 of the Israel Securities Authority, Guidelines for Examining the Need for Amortizing Fixed Investments.

Impairment is examined with relation to the investment as a whole. Goodwill representing part of the investment account in a company included on equity basis is not recognized separately, and is therefore not examined separately in the test for impairment. If there is objective evidence indicative that there may be impairment of the investment, the Group makes an evaluation of the amount refundable of the investment which is the higher of the useful value and its net sale price.

When determining the usage value of an investment in a company included on equity basis, the Group assesses its share in the present value of estimated future cash flows, which are forecast to be generated by the company included on equity basis, including cash flows from activities of the company included on equity basis and the consideration from the final realization of the investment, or the present value of estimated future cash flows that are forecast to stem from dividends received and the final realization.

A loss from impairment is recognized when the book value of the investment, after applying the equity base method, exceeds the recoverable amount, and is recognized under the "share of the banking corporation in operating gains or losses of companies included on equity basis, after taxes" in the profit and loss statement. A loss from impairment is not allocated to any asset, including goodwill comprising part of the investment account in the company included on equity basis. A loss from impairment will be canceled only if changes have taken place in assessments used in determining the recoverable amount of the investment from the date the loss from impairment was last recognized. The book value of the investment, after canceling the loss from impairment, shall not exceed the book value of the investment that would have been determined according to the equity base method if the loss from impairment had not been recognized. Cancelation of the loss from impairment will be recognized under the "share of the corporation in profits of companies included on equity basis, after taxes".

4. Non-current assets held for sale

Non-current assets held for sale are measured at the lower of book value and fair value after deducting selling costs.

V. New Accounting Standards and New Directives of the Supervisor of Banks in the period prior to their implementation

1. 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, which adopts in US GAAP a new Standard on 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.

Pursuant to the transitional directives for the year 2015, adoption of the Standard was deferred until 1 January 2018

In accordance with the transitional provisions, determined for purposes of 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. In particular, 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.

2. 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".

Note 1 – Significant Accounting Policies (cont'd)

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 consolidation of financial statements.
- 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."
- Pursuant to the transitional directives, it is permitted in the years 2016-2017 not to carry out adjustments to the accounting policy adopted by a non-banking company included on equity basis that prepares its financial statements according to IFRS.

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.

The Bank applies the directive as of 1 January 2016 by way of retroactive implementation. Implementation of the directive had no material effect on the financial statements.

3. 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 Bank applies the directive as of 1 January 2016, by way of retroactive implementation.

Implementation of the directive had no material effect on the financial statements.

4. 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 – Interest income and expenses

	2015	2014	2013
	NIS millions		
A. Interest income (a)			
Credit to the public	**8,170**	9,053	10,678
Credit to governments	**15**	18	23
Deposits with banks	**70**	82	75
Deposits with Bank of Israel and cash	**39**	146	316
Bonds (b)	**487**	702	1,022
Interest income from securities borrowed or purchased under agreements to resell	**3**	11	20
Total interest income	**8,784**	10,012	12,134
B. Interest expenses (a)			
Deposits of the public	**(945)**	(1,585)	(3,149)
Deposits from governments	**(4)**	(6)	(8)
Deposits from banks	**(14)**	(46)	(37)
Interest expense from securities loaned or sold under agreements to repurchase	**(3)**	(9)	(14)
Debentures, bonds and subordinated notes	**(700)**	(1,003)	(1,569)
Total interest expenses	**(1,666)**	(2,649)	(4,777)
Total interest income, net	**7,118**	7,363	7,357
C. Details of the net effect of hedging derivative financial instruments on interest income and expenses (c)			
Interest income	**(46)**	(45)	(49)
D. Details of interest income on accrual basis from bonds			
Available for sale	**399**	593	814
Held for trading	**88**	109	208
Total included in interest income	**487**	702	1,022

(a) Including effective component of hedge relationships.

(b) Including interest in respect of mortgage-backed bonds (MBS) in the amount of NIS 174 million (2014 - NIS 77 million, 2013 – NIS 125 million).

(c) Details of effect of hedging derivative instruments in sub-paragraphs A. and B.

Note 3 – Non-interest financing income

	2015	2014	2013
	NIS millions		
A. Non-interest financing income from activities not for trading purposes			
A.1 From activities in derivative instruments			
Non-effective part of hedging relationships (a)	**-**	10	12
Net income (expenses) in respect of ALM derivative instruments (b)	**(254)**	1,909	(1,392)
Total from activities in derivative instruments	**(254)**	1,919	(1,380)
A.2 From investment in bonds			
Gains on sale of debentures available for sale (i)	**201**	208	225
Losses on sale of debentures available for sale (g) (i)	**(20)**	(3)	(16)
Total from investment in debentures	**181**	205	209
A.3 Exchange rate differentials, net	**310**	(2,252)	1,580
A.4 Gains (losses) on investment in shares			
Gains from sale of shares available for sale (d) (i)	**1,048**	497	616
Losses on sale of shares available for sale (h) (i)	**(437)**	(55)	(78)
Gain from sale of shares in companies included on equity basis	**522**	-	18
Dividend from shares available for sale	**170**	10	27
Loss on sale of shares in companies included on equity basis	**-**	-	(3)
Total from investment in shares	**1,303**	452	580
A.5 Gains (losses), net in respect of loans sold (c)	**11**	28	99
Total non-interest financing income in respect of activities not for trading purposes	**1,551**	352	1,088
B. Non-interest financing income from activities for trading purposes			
Net income in respect of other derivative instruments	**(3)**	(13)	4
Realized and unrealized profits (losses) from fair value adjustment of bonds for trading, net (e)	**67**	423	(54)
Realized and unrealized profits from fair value adjustment of shares for trading, net (f)	**(5)**	33	89
Dividend received from shares held for trading	**-**	-	-
Total from trading activities	**59**	443	39
Total non-interest financing income in respect of activities not for trading purposes	**1,610**	795	1,127

(a) Excluding effective component of hedging relationships.

(b) Derivative instruments which constitute part of the Bank's assets and liability management system and were not designated for hedging relationships.

(c) During 2015 loans were sold in the amount of NIS 268 million (2014 – NIS 344 million).

(d) Including mainly profit on the sale of the Israel Corporation, Mobileye, Safra Fund, and Route 6 in the amounts of NIS 289 million, NIS 288 million, NIS 52 million, and NIS 100 million respectively, before the effect of tax (2014 - Tower, Mobileye, Partner, and Otzar Hityashvet Hayehudit in the amounts of NIS 150 million, NIS 144 million, NIS 70 million, and NIS 30 million, respectively; 2013 - Migdal and Caesarstone in the amounts of NIS 358 million, and NIS 86 million, respectively).

(e) Of which part of the profits (losses) of NIS 36 million (2014 – NIS 33 million, 2013 - NIS 26 million), relating to bonds held for trading still held as of balance sheet date.

(f) Of which part of the profits (losses) of NIS 62 million (2014 – NIS 58 million, 2013 - NIS 76 million)), relating to shares held for trading still held as of balance sheet date.

(g) Including provisions for impairment relating to bonds available for sale in the amount of NIS 1 million (2014 – NIS 1 million, 2013 – NIS 11 million).

(h) Including provisions for impairment relating to shares available for sale in the amount of NIS 283 million (2014 – NIS 12 million; 2013 - NIS 7 million).

(i) Classified to accumulated other comprehensive income.

(j) For interest income from investment in bonds for trading, see Note 2.

Note 4 – Commissions

	2015	2014	2013
	NIS millions		
Ledger fees	**762**	821	833
Conversion differences	**325**	318	289
Handling of credit	**200**	196	332
Commissions for distribution of financial products (a)	**258**	244	202
Foreign trade activities	**126**	117	122
Income from transactions in securities and certain derivative instruments	**675**	816	817
Credit cards	**963**	939	907
Management fees and commission on life insurance and home insurance	**48**	42	47
Net income from servicing credit portfolios	**22**	30	31
Management, operations, and custody for institutional entities (b)	**56**	50	57
Commissions on financing transactions	**542**	487	450
Other commissions	**115**	107	101
Total operating commissions	**4,092**	4,167	4,188

(a) Mainly distribution fees of mutual funds.
(b) Mainly operations of provident funds.

Note 5 - Other Income

	2015	2014	2013
	NIS millions		
Profit from the realization of assets received for settlement of loans	**-**	1	1
Profits from severance pay funds	**35**	39 (a)	43 (a)
Capital gain from sale of buildings and equipment	**523**	85 (b)	35
Capital loss from sale of buildings and equipment	**(4)**	(1)	(4)
Other, net	**41**	55	41
Total other income	**595**	179	116

(a) Restated pursuant to a change in accounting method for accumulating employee rights, see Note 1.D.1.
(b) Including gain on the sale of the building of the US subsidiary in the amount of about NIS 380 million.

Note 6 - Salaries and Related Expenses

	2015	2014 (a)	2013 (a)
	NIS millions		
Salaries	**3,573**	3,072	3,286
Expense deriving from share-based payment transactions	**10**	(1)	10
Other related expenses including supplementary training fund, vacation and sickness	**325**	303	321
Long-term - Jubilee benefits	**(371)**	87	61
National Insurance and VAT on salaries	**815**	720	754
Expenses in respect of pension (including severannce pay and provident funds)	**-**	-	-
Defined benefit	**777**	734	380
Defined deposit	**172**	171	162
Other	-	-	-
Other post-employment benefits and non-pension post-retirement benefits	**126**	16	20
Special benefits in respect of dismissal (b)	**9**	48	75
Expenses in respect of other benefits to employees	**12**	1	1
Total salaries and related expenses	**5,448**	5,151	5,070
Of which: salaries and related expenses abroad	**632**	685	525

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

(b) Expenses related to early retirement of employees as part of the plan for structural change in the Bank.

Note 7 - Other Expenses

	2015	2014	2013
	NIS millions		
Marketing and advertising	**267**	280	274
Legal, audit and professional consultants	**311**	294	285
Communications - postage, telephone, delivery services, etc.	**161**	159	171
Computers (a)	**207**	197	240
Office expenses	**68**	75	74
Insurance	**16**	29	26
Training	**22**	22	22
Commissions	**180**	187	164
Loss in respect of assets received in settlement of loans	**3**	(1)	3
Other (b) (c)	**446**	1,265	579
Total other expenses	**1,681**	2,507	1,838

(a) The item includes outsourcing expenses and does not include the Bank's computer expenses as the Operations Division is a part of the Bank and its expenses are recorded and classified under the various expense headings.

(b) Regarding directors' fees of the Bank included in this item, see Note 33.C.

(c) Including expenses in respect of the investigation by US authorities, of about NIS 59 million (2014 - NIS 1,026 million, 2013 - NIS 236 million) – see Note 25.J.1.a.

Note 8 – Provision for taxes on profit

A. Composition

	2015	2014	2013
	NIS millions		
Current taxes:			
In respect of current year	**1,962**	1,506	1,419
In respect of prior years	**7**	(54)	99
Total current taxes	**1,969**	1,452	1,518
Add (less) changes in deferred taxes			
In respect of accounting year	**(327)**	(174)(a)	8 (a)
In respect of prior years	**49**	-	(146)
Total changes in deferred taxes	**(278)**	(174)	(138)
Provision for taxes on income	**1,691**	1,278	1,380
Of which: provision for taxes abroad	**219**	13	61
Deferred taxes:			
Creation and reversal of temporary differences	**(327)**	(174) (a)	8 (a)
Change in tax rate	**49**	-	(146)
Total deferred taxes	**(278)**	(174)	(138)

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

B. Reconciliation between the theoretical amount of tax applicable if the profit were liable for tax at the statutory rate of tax in Israel, and the provision for taxes on the profit appearing in the statement of profit and loss:

	2015	2014	2013
	37.6%	37.7%	36.2%
	NIS millions		
Statutory tax rate applying to a banking corporation			
Tax at the statutory tax rate	**1,646**	1,003 (a)	1,341 (a)
Tax (tax saving) resulting from:			
Income of foreign consolidated companies	**68**	(18) (a)	33 (a)
Income exempt and at restricted tax rates	**(18)**	(40)	(19)
Depreciation differences, depreciation adjustment and capital gain	**(109)**	(6)	25
Other non-deductible expenses	**33**	473 (a)	76 (a)
Timing differences for which there are no deferred taxes	**50**	(53)	(42)
Income of Israeli consolidated companies	**(76)**	(66)	(33)
Change in deferred taxes due to change in tax rates	**49**	-	(146)
Taxes in respect of prior years	**7**	(54)	99
Other	**41**	39	46
Provision for taxes on profit	**1,691**	1,278	1,380

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

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Note 8 – Provision for taxes on profit (cont'd)

Changes in tax legislation

Companies Tax, Payroll Tax, and Profits Tax

The relevant rates of Companies Tax for the Bank in the year 2013-2015 are as follows:

2013 – 25.0%

2014 – 26.5%

2015 – 26.5%

On 5 January 2016, the Amendment to the Income Tax Ordinance (No. 216) Law, 2016 was published, reducing the rate of Companies Tax from 26.5% to 25.0%, with effect from 2016 and thereafter.

The said change in the rate of Companies Tax and the change in the Profits Tax as explained below, will reduce the statutory tax rate applying to financial institutions from a rate of 37.71% in 2014 to a rate of 37.58% in 2015 and a rate of 35.9% in 2016 and thereafter.

The change in the rate of Companies Tax tax is expected to result in a decrease in the balances of deferred taxes receivable of about NIS 145 million in the first quarter of 2016. The decrease in balances of deferred taxes will be recognized against deferred taxes in the sum of about NIS 117 million and against equity in the sum of about NIS 28 million.

On 2 June 2013, the Value Added Tax Order (Rate of Tax on Non-Profit Associations and Financial Institutions (Amendment), 2013, was published in the Official Gazette (*Reshumot*), updating the rate of Payroll Tax and Profits Tax to 18% commencing on 2 June 2013.
As a result of the said change, the statutory tax rate which applied to financial institutions rose in 2013 to 36.21%, and in 2014 and thereafter the rate rose to 37.71%.

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% to 37.58% and in 2015 to 35.91% 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 resulted in a decrease in the balance of deferred taxes receivable, net, amounting to NIS 61 million in the fourth quarter of 2015. The decrease in the balances of deferred taxes will be recognized against deferred tax expenses in the amount of NIS 49 million and against equity in the amount of NIS 12 million.

Note 8 – Provision for taxes on profit (cont'd)

On 13 August 2012, the Deficit Reduction and Change in Tax Burden Law (Legislative Amendment), 2012 (hereinafter: "the Law") was published. Pursuant to the Law, with effect from January 2013, the rate of National Insurance premiums collected from employers in respect of the part of the salary exceeding 60% of the average salary in the market increased from 5.9% to 6.5%. In addition, this rate will increase in January 2014 and January 2015 to 7% and 7.5%, respectively. In addition, on 27 January 2014, the Reliefs and Encouraging of Activity in the Capital Market (Legislative Amendments) Law, 2014 was published, pursuant to which the rate of insurance collected from employers in respect of the part of the salary exceeding 60% of the average salary in the economy will increase in January 2014, January 2015, and January 2016 to 6.75%, 7.25%, and 7.5%, respectively.

Current taxes for the periods reported in these financial statements are calculated in accordance with the tax rates stipulated in the laws mentioned above.

The balances of deferred taxes at 31 December 2015 were calculated at the tax rates as stipulated in the laws mentioned above, and that were published up to 31 December 2015, in accordance with the rate of tax expected at the date of reversal. The statutory rate of tax expected at the date of reversal in the years 2016 and thereafter which will apply to financial institutions, according to which deferred taxes were calculated, is 37.18%, which incorporates a Companies Tax rate of 26.5% and a Profits Tax rate of 17%, under the laws applicable at 31 December 2015.

C. On 26 February 2008, the Amendment to the Income Tax (Adjustments for Inflation) Law, 1985 (hereinafter – the Adjustments Law) was passed by the Knesset. The Amendment limits the application of the Law to the years 1985-2007 and determined transition instructions regarding the end of its applicability.

D. Amendment 11 to the Income Tax (Inflationary Adjustments) Law states, *inter alia*, that all taxpayers subject to the said Amendment are required to pay tax on profits from securities traded on a stock exchange as at the date of their realization. The Amendment is effective for the years 1999-2007.

In the opinion of the tax authorities and the banks, taxation of securities on the basis of their realization is not appropriate for the activity of financial institutions.

In view of this, on 6 June 1999 the tax authorities submitted to the banks a draft proposed amendment to Article 6 of the said Law, according to which financial institutions will be taxed on the basis of the increase in value of the securities in accordance with the manner of presentation of the securities in the financial statements of the financial institutions.

Notwithstanding the limitation of the application of the Income Tax (Inflationary Adjustments) Law as described above, the Bank, in coordination with the tax authorities, is continuing to act on the basis of the proposed Law and its tax provisions are made accordingly.

E. Final assessments have been issued to the Bank and the principal consolidated companies for all years up to and including the tax year 2011.

F. Certain consolidated companies have losses and other deductions which were claimed for tax purposes and in respect of which no future tax saving was included in the balance sheet, amounting in the consolidated companies to some NIS 110 million (31 December 2014 – about NIS 95 million). Utilization of these amounts in the future will be possible if the consolidated companies for which the amounts are recorded have taxable income. Deferred taxes are not recognized in respect of these items since in the opinion of the Group, no taxable income is expected in the future against which tax benefits can be utilized.

Note 8 – Provision for taxes on profit (cont'd)

G. 1. Components of deferred tax assets and the deferred tax reserve are as follows:

	2015	2014	2015	2014
	NIS millions		Average tax rate in percent	
Deferred tax assets				
From allowance for credit losses	**1,264**	1,197	37%	38%
From provision for vacation and bonuses	**298**	396 (b)	37%	38%
From surplus provision for severance pay and pension over funds allocated (a)	**2,982**	2,995 (b)	37%	38%
From interest not credited to current income	**46**	61	40%	41%
From tax deductions carried forward	**6**	21	16%	25%
From activity abroad	**4**	6	37%	38%
From adjustment of depreciable non-monetary assets	**8**	53 (b)	21%	24% (b)
Other - from non-monetary items	**70**	85	21%	24%
Total	**4,678**	4,814		
Deferred tax reserve				
From securities	**(35)**	(69)	43%	24%
In respect of investments in investee companies	**(15)**	(181)	11%	22%
From adjustments of non-monetary depreciable assets	**(126)**	(99) (b)	29%	28% (b)
Other - from monetary items	**(22)**	(24)	37%	38%
Other - from non-monetary items	**(33)**	(49)	25%	26%
Total	**(231)**	(422)		
Deferred taxes receivable, net	**4,447**	4,392		
Deferred taxes included: (a)				
In "Other assets"	**4,570**	4,612 (b)		
In "Other liabilities"	**(123)**	(220)		
Deferred tax assets, net	**4,447**	4,392		

(a) The balances of deferred taxes are shown in the consolidated balance sheet in accordance with the classification of the net balance in the books of the Bank and its consolidated companies.

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

Note 8 – Provision for taxes on profit (cont'd)

G. 2. Movement in deferred tax assets and liabilities relating to the following items:

For the period ended 31 December 2015	Allowance for credit losses	Provision for vacation and bonuses	Surplus of funds over reserve for severance pay and pension	Interest not charged to income this year
	NIS millions			
Balance of deferred tax asset (liability) at 1 January 2015	**1,197**	**396**	**2,995**	**61**
Changes charged to profit and loss	**83**	**(94)**	**284**	**(15)**
Changes charged to equity	**-**	**-**	**(257)**	**-**
Adjustments from translation of financial statements	**(16)**	**(4)**	**(28)**	**-**
Effect of the change in the rate of tax charged against equity	**-**	**-**	**(12)**	**-**
Balance of deferred tax asset (liability) at 31 December 2015	**1,264**	**298**	**2,982**	**46**
Deferred tax asset	**1,264**	**298**	**2,982**	**46**
Balances available for offsetting				
Deferred tax asset at 31 December 2015				
Deferred tax liability	**-**	**-**	**-**	**-**
Balances available for offsetting				
Deferred tax liability at 31 December 2015				

For the period ended 31 December 2014	Allowance for credit losses	Provision for vacation and bonuses (a)	Surplus of funds over reserve for severance pay and pension (a)	Interest not charged to income this year
	NIS millions			
Balance of deferred tax asset (liability) at 1 January 2014	1,077	377	2,308	72
Changes charged to profit and loss	120	19	187	(11)
Changes charged to equity	-	-	500	-
Adjustments from translation of financial statements	-	-	-	-
Balance of deferred tax asset (liability) at 31 December 2014	1,197	396	2,995	61
Deferred tax asset	1,197	396	2,995	61
Balances available for offsetting				
Deferred tax asset at 31 December 2014				
Deferred tax liability	-	-	-	-
Balances available for offsetting				
Deferred tax liability at 31 December 2014				

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

Deductions carried forward for tax purposes	Foreign operations	Securities	Investments in investee companies	Adjustments of depreciable non-monetary assets	Other monetary items	Other non-monetary items	Total
21	**6**	**(69)**	**(181)**	**(46)**	**(24)**	**36**	**4,392**
(15)	**(2)**	**(61)**	**166**	**(72)**	**2**	**1**	**277**
-	**-**	**96**	**-**	**-**	**-**	**-**	**(161)**
-	**-**	**(1)**	**-**	**-**	**-**	**-**	**(49)**
-	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**
6	**4**	**(35)**	**(15)**	**(118)**	**(22)**	**37**	**4,447**
6	**4**	**-**	**-**	**8**	**-**	**70**	**4,678**
							(108)
							4,570
-	**-**	**(35)**	**(15)**	**(126)**	**(22)**	**(33)**	**(231)**
							(108)
							(123)

Deductions carried forward for tax purposes	Foreign operations	Securities	Investments in investee companies	Adjustments of depreciable non-monetary assets	Other monetary items	Other non-monetary items	Total
55	7	30	(106)	(32)	(22)	5	3,771
(34)	65	41	(186)	(14)	(2)	31	216
-	(41)	(140)	111	-	-	-	430
-	(25)	-	-	-	-	-	(25)
21	6	(69)	(181)	(46)	(24)	36	4,392
21	6	-	-	53	-	85	4,814
							(202)
							4,612
-	-	(69)	(181)	(99)	(24)	(49)	(422)
							(202)
							(220)

Note 8 – Provision for taxes on profit (cont'd)

G. 3. Taxes on income recognized directly in equity:

	2015			2014			2013		
	Before tax	Tax expense (benefit)	Net of tax	Before tax	Tax expense (benefit)	Net of tax	Before tax	Tax expense (benefit)	Net of tax
	NIS millions								
Translation adjustments of financial statements	**9**	**-**	**9**	459	41	418	(318)	(23)	(295)
Profits (losses) net in respect of net hedges of investments in foreign currency	**(18)**	**(7)**	**(11)**	(267)	(98)	(169)	203	73	130
Financial assets available for sale	**(423)**	**(96)**	**(327)**	355	140	215	(518)	(203)	(315)
Other comprehensive income in respect of companies included on equity basis	**11**	**(5)**	**16**	(108)	(30)	(78)	(6)	6	(12)
Retained earnings in respect of companies included on equity basis	**(6)**	**12**	**(18)**	92	17	75	26	(9)	35
Effect of initial implementation of rules for capitalization of software costs	**-**	**-**	**-**	-	-	-	(537) (a)	(191) (a)	(346)
Adjustments in respect of employee benefits - initial implementation	**-**	**-**	**-**	-	-	-	(1,060) (a)	(373) (a)	(687)
Adjustments in respect of employee benefits	**683**	**269**	**414**	(1,384)	(500)	(884)	(483) (a)	(188) (a)	(295)
Total taxes recognized in equity	**256**	**173**	**83**	(853)	(430)	(423)	(2,693)	(908)	(1,785)

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

Note 8 – Provision for taxes on profit (cont'd)

H. Deferred taxes are measured at the tax rates expected to apply to temporary differences at the date when they will be realized, based on laws passed or effectively passed at the balance sheet date.

I. Under an arrangement with the tax authorities from 14 April 2005, the Bank is entitled as from 2004 to offset, against the tax liability in Israel in respect of income of a subsidiary abroad, a cumulative amount of up to US$ 67 million or the tax liability in Israel, whichever the lower. Under a further letter for the arrangement on 29 June 2014, the Bank is permitted commencing in the 2011 tax year to offset US$ 54 million but no more than US$ 3 million per year or the tax liability in Israel, whichever the lower. If the offset amount is less than US$ 3 million in a specific year, the difference between the offset amount and US$ 3 million may be carried forward and offset in future years, so that the offset amount in the year will be up to US$ 5 million of the tax liability in Israel, whichever the lower. The amounts not yet offset from the tax liability and in respect of which a future tax saving was not recorded in the balance sheet as of 31 December 2015 are about US$ 40 million. Utilization of these amounts in the future will be possible if the total tax rate applicable to the Bank on its income in Israel is higher than the tax rate to applicable to the foreign subsidiaries.

J. As stated in the chapter on Credit Cards - Leumi Card in the Report of the Board of Directors regarding the Interim Report of the Strum Committee published on 14 December 2015, and the further version of the Draft Version of the Report for Comments by the Public, there is currently no prosed law or legislation requiring the sale of credit card companies by the banks. Accordingly, at this stage, it is not possible to evaluate if in the future the banks will be required to sell the holdings, and if such a requirement will be imposed, what will be the contents of the requirement. Until legislation requires a sale, the bank has no intention of selling Leumi Card.

In addition, conditions do not yet exist for recognizing the provision for tax.

The effect of tax expected to apply, if and when the Bank sells Leumi Card at its balance sheet value in the books, is estimated at about NIS 85 million.

Note 9 – Earnings per ordinary share

	2015	2014	2013
	NIS millions		
Basic earnings			
Net profit attributed to the ordinary shareholders of the banking corporation	**2,835**	1,413(a)	1,988(a)
Diluted earnings			
Net profit attributed to the ordinary shareholders of the banking corporation	**1.92**	0.96	1.35

	2015	2014	2013
Weighted average of the number of shares			
Weighted average of the number of ordinary shares used for calculating basic earnings			
Weighted average of the number of ordinary shares used for calculating diluted earnings	**1,473,798**	1,473,551	1,473,551
Weighted average of the number of ordinary shares fully diluted	**1,474,273**	1,474,273	1,474,273

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

Note 10 – Accumulated Other Comprehensive Income (Loss)

A. Changes in accumulated other comprehensive income (loss), after the effect of tax

	For the year ended 31 December 2015						
	Other comprehensive income before attribution to non-controlling interests						
	Adjustments for presentation of securities available for sale at fair value	Translation adjustments (a), net after effect of hedges (b)	Banking corporation's share in other compre-income of investee companies dealt with under the equity method	Adjustments in respect of employee benefits	Total	Other compre-hensive income attributed to non-controlling interests	Other compre-hensive income attributed to shareholders of the Bank
	NIS millions						
Balance at 1 January 2013	494	(149)	112	-	457	(1)	458
Effect of initial implementation of US GAAP on employee rights	-	-	-	(725)	(725)	-	(725)
Balance at 1 January 2013 after initial implementation of the new accounting rules	494	(149)	112	(725)	(268)	(1)	(267)
Net change during the year	(315)	(165)	(12)	(295)	(787)	(3)	(784)
Balance at 31 December 2013	179	(314)	100	(1,020)	(1,055)	(4)	(1,051)
Net change during the year	215	249	(78)	(884)	(498)	-	(498)
Balance at 31 December 2014	**394**	**(65)**	**22**	**(1,904)**	**(1,553)**	**(4)**	**(1,549)**
Net change during the year	**(327)**	**(2)**	**16**	**414**	**101**	-	**101**
Balance at 31 December 2015	**67**	**(67)**	**38**	**(1,490)**	**(1,452)**	**(4)**	**(1,448)**

(a) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments in respect of companies included on equity basis.
(b) Profit (loss) in respect of hedging net investment in foreign currency.
(c) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.D.2.

Note 10 – Accumulated Other Comprehensive Income (Loss) (cont'd)

B. Changes in components of accumulated other comprehensive income (loss), before and after the effect of tax

	2015			2014			2013		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
	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	**369**	**(203)**	**166**	1,002	(273)	729	229	2	231
(Profits) losses in respect of securities available for sale reclassified to the statement of profit and loss (a)	**(792)**	**299**	**(493)**	(647)	133	(514)	(747)	201	(546)
Net change in the period	**(423)**	**96**	**(327)**	355	(140)	215	(518)	203	(315)
Translation adjustments (b):									
Adjustments for translation of financial statements	**9**	**-**	**9**	459	(41)	418	(318)	23	(295)
Hedges (c)	**(18)**	**7**	**(11)**	(267)	98	(169)	203	(73)	130
Net change in the period	**(9)**	**7**	**(2)**	192	57	249	(115)	(50)	(165)
Banking corporation's share in other comprehensive income of investee companies dealt with under the equity base method	**11**	**5**	**16**	(108)	30	(78)	(6)	(6)	(12)
Net change in the period	**11**	**5**	**16**	(108)	30	(78)	(6)	(6)	(12)
Employee benefits (d):									
Actuarial gain (loss) this year	**464**	**(190)**	**274**	(1,439)	521	(918)	(499)	194	(305)
Credit (cost) of service prior to this year	**219**	**(79)**	**140**	55	(21)	34	16	(6)	10
Net change in the period	**683**	**(269)**	**414**	(1,384)	500	(884)	(483)	188	(295)
Total net change in the period	**262**	**(161)**	**101**	(945)	447	(498)	(1,122)	335	(787)
Changes in components of other comprehensive income attributed to non-controlling interests:									
Total net change in the period	**-**	**-**	**-**	-	-	-	(3)	-	(3)
Changes in components of other comprehensive income (loss) attributed to shareholders of the banking corporation:									
Total net change in the period	**262**	**(161)**	**101**	(945)	447	(498)	(1,119)	335	(784)

(a) The amount before tax in the statement of profit and loss under non-interest financing income, see Note 3 – Non-interest financing income.

(b) Adjustments from translation of financial statements of foreign operations whose functional currency differs from the functional currency of the banking corporation, including adjustments in respect of companies included on equity basis. If material, separate disclosure is to be made of the amount of adjustments in respect of companies included on equity basis.

(c) Profit (loss) in respect of hedging net investment in foreign currency.

(d) Commencing 1 January 2015, the Bank implements US GAAP on the accounting treatment of employee rights. The new rules were implemented retroactively commencing 1 January 2013. Comparative figures for prior periods have been restated. See Note 1.D.1.

(e) The amount before tax in the statement of profit and loss under salaries and related expenses. For further details, see Note 23 – Employee rights.

Note 11 – Cash and deposits in banks

	31 December 2015	31 December 2014
	NIS millions	
Cash and deposits incentral banks	**55,116**	46,385
Deposits in commercial banks (a)	**5,339**	14,230
Total (b)	**60,455**	60,615
Of which: cash and deposits in central and commercial banks for original periods not exceeding three months	**60,015**	57,561

(a) Net of the allowance for credit losses.

(b) Of which pledged cash in the amount of NIS 850 thousand (31 December 2013 – NIS 1,646 thousand).

Note: For liens – See Note 26.

Note 12 – Securities

	31 December 2015					31 December 2014				
			Other comprehensive accumulated profit (loss)					Other comprehensive accumulated profit (loss)		
	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value (a)	Book value	Amortized cost (for shares - cost)	Profits	Losses	Fair value (a)
	NIS millions									
1. Securities available for sale: Bonds -										
Government of Israel	**28,553**	**28,359**	**201**	**(7)**	**28,553**	14,290	14,033	260	(3)	14,290
Foreign governments	**8,128**	**8,127**	**5**	**(4)**	**8,128**	4,715	4,708	10	(3)	4,715
Financial institutions in Israel	**35**	**33**	**2**	**-**	**35**	65	60	5	-	65
Financial institutions abroad	**6,262**	**6,257**	**31**	**(26)**	**6,262**	5,676	5,611	80	(15)	5,676
Asset-backed (ABS) or mortgage-backed securities (MBS)	**9,566**	**9,630**	**24**	**(88)**	**9,566**	7,687	7,722	40	(75)	7,687
Others in Israel	**586**	**562**	**25**	**(1)**	**586**	907	881	30	(4)	907
Others abroad	**1,694**	**1,706**	**12**	**(24)**	**1,694**	2,602	2,594	29	(21)	2,602
	54,824	**54,674**	**300**	**(150)**	**54,824**	35,942	35,609	454	(121)	35,942
Shares and mutual funds (b)	**2,703**	**2,559**	**158**	**(14)**	**2,703**	3,180	2,801	390	(11)	3,180
Total securities available for sale	**57,527**	**57,233**	**458** (c)	**(164)** (c)	**57,527**	39,122	38,410	844 (c)	(132)(c)	39,122

See notes on next page.

Note 12 – Securities (cont'd)

	31 December 2015					31 December 2014				
	Book value	Amortized cost (for shares - cost)	profits from adjustments to fair	losses from adjustments to fair	Fair value (a)	Book value	Amortized cost (for shares - cost)	profits from adjustments to fair	losses from adjustments to fair	Fair value (a)
	NIS millions									
2. Securities held for trading: Bonds -										
Government of Israel	**6,664**	**6,657**	**17**	**(10)**	**6,664**	7,915	7,888	33	(6)	7,915
Foreign governments	**3,058**	**3,087**	**-**	**(29)**	**3,058**	505	504	1	-	505
Financial institutions in Israel	**238**	**238**	**1**	**(1)**	**238**	374	374	1	(1)	374
Financial institutions abroad	**148**	**149**	**-**	**(1)**	**148**	266	262	5	(1)	266
Asset-backed (ABS) or mortgage-backed securities (MBS)	**751**	**754**	**4**	**(7)**	**751**	1,438	1,435	8	(5)	1,438
Others in Israel	**152**	**150**	**2**	**-**	**152**	319	318	3	(2)	319
Others abroad	**320**	**326**	**1**	**(7)**	**320**	660	658	11	(9)	660
	11,331	**11,361**	**25**	**(55)**	**11,331**	11,477	11,439	62	(24)	11,477
Shares and mutual funds	**617**	**687**	**10**	**(80)**	**617**	1,514	1,400	141	(27)	1,514
Total securities for trading	**11,948**	**12,048**	**35** (d)	**(135)** (d)	**11,948**	12,991	12,839	203 (d)	(51) (d)	12,991
Total securities (e)(f)	**69,475**	**69,281**	**493**	**(299)**	**69,475**	52,113	51,249	1,047	(183)	52,113

(a) Fair value data are generally based on stock exchange prices, which do not necessarily reflect the price which will be obtained upon sale of securities in large volumes.
(b) Includes shares which have no readily available fair value, which are shown at cost, amounting to NIS 1,050 million (31 December 2014 - NIS 1,596 million).
(c) Unrealized profits (losses) are included in equity in the item "other comprehensive income (loss), net after the effect of tax", except for securities hedged in a fair value hedge.
(d) Charged to the profit and loss statement but not yet realized.
(e) Of which: book value at 31 December 2014 of NIS 10 million) in respect of bonds of companies included on equity basis.
(g) Including impaired bonds in the amount of NIS 16 million (31 December 2014 – NIS 19 million).

General comments:
Securities lent amounting to NIS 111 million (31 December 2014 – NIS 196 million) are shown under credit to the public.
Securities pledged to lenders amounted to NIS 3,131 million (31 December 2014 – NIS 2,109 million).
For details of results of investment activities in bonds and in shares and mutual funds – see Notes 2 and 3.
The distinction between Israeli and foreign bonds is made in accordance with the country of residence of the issuing entity.

Note 12 – Securities (cont'd)

Additional details of fair value and unrealized losses by maturity and rate of impairment of securities available for sale that are in an unrealized loss position

	31 December 2015									
	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	**15,057**	**7**	**-**	**-**	**7**	**-**	**-**	**-**	**-**	**-**
Foreign governments	**5,730**	**4**	**-**	**-**	**4**	**-**	**-**	**-**	**-**	**-**
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	**3,961**	**23**	**-**	**-**	**23**	**34**	**3**	**-**	**-**	**3**
Asset-backed securities (ABS) or mortgage-backed securities (MBS)	**6,863**	**63**	**-**	**-**	**63**	**742**	**25**	**-**	**-**	**25**
Others in Israel	**126**	**1**	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**
Others abroad	**778**	**15**	**9**	**-**	**24**	**39**	**-**	**-**	**-**	**-**
Shares and mutual funds	**136**	**8**	**-**	**-**	**8**	**91**	**6**	**-**	**-**	**6**
Total securities available for sale	**32,651**	**121**	**9**	**-**	**130**	**906**	**34**	**-**	**-**	**34**

	31 December 2014									
	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 and mutual funds	1	-	-	-	-	196	11	-	-	11
Total securities available for sale	14,068	27	-	-	27	4,973	103	-	2	105

(-) Losses less then NIS 1 million.

Note 12 – Securities (cont'd)

Additional details of mortgage-backed and asset-backed securities that are in an unrealized loss position

	31 December 2015					
	Less than 12 months		More than 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)	**1,860**	**(25)**	**87**	**(2)**	**1,947**	**(27)**
Other mortgage-backed securities (including REMIC, CMO and STRIPPED MBS)	**3,321**	**(22)**	**558**	**(21)**	**3,879**	**(43)**
Asset-backed securities (ABS)	**1,682**	**(16)**	**97**	**(2)**	**1,779**	**(18)**
Total	**6,863**	**(63)**	**742**	**(25)**	**7,605**	**(88)**

	31 December 2014					
	Less than 12 months		More than 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)	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 then NIS 1 million.

Note 12 – Securities (cont'd)

Additional details on consolidated basis of mortgage-backed and asset-backed securities available for sale

	31 December 2015				31 December 2014			
		Other comprehensive accumulated profit (loss) (a)				Other comprehensive accumulated profit (loss) (a)		
	Amortized cost	Profits	Losses	Fair value	Amortized cost	Profits	Losses	Fair value
	(NIS millions)							
1. Bonds available for sale								
Pass-through securities:								
Securities guaranteed by GNMA	**11**	**-**	**-**	**11**	18	-	-	18
Securities issued by FNMA and FHLMC	**1,245**	**-**	**(21)**	**1,224**	1,577	1	(18)	1,560
Other securities	**796**	**-**	**(6)**	**790**	-	-	-	-
Total mortgage-backed pass-through securities	**2,052**	**-**	**(27)**	**2,025**	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	**4,987**	**5**	**(42)**	**4,950**	3,298	6	(41)	3,263
Other mortgage-backed securities	**494**	**1**	**(1)**	**494**	741	5	(2)	744
Total other mortgage-backed securities	**5,481**	**6**	**(43)**	**5,444**	4,039	11	(43)	4,007
Total mortgage-backed securities (MBS)	**7,533**	**6**	**(70)**	**7,469**	5,634	12	(61)	5,585
Asset-backed securities (ABS)	**-**	**-**	**-**	**-**	-	-	-	-
Credit card receivables	**94**	**-**	**(2)**	**92**	93	-	(2)	91
Lines of credit for any purpose secured by dwelling	**-**	**-**	**-**	**-**	2	-	-	2
Other credit to private persons	**4**	**-**	**-**	**4**	4	-	-	4
Credit not to private persons	**1**	**-**	**-**	**1**	1	-	-	1
CLO debentures	**1,998**	**18**	**(16)**	**2,000**	1,988	28	(12)	2,004
Total asset-backed securities	**2,097**	**18**	**(18)**	**2,097**	2,088	28	(14)	2,102
Total mortgage-backed and asset-backed securities available for sale	**9,630**	**24**	**(88)**	**9,566**	7,722	40	(75)	7,687

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

Note 12 – Securities (cont'd)

Additional details on consolidated basis of mortgage-backed and asset-backed securities for trading

	31 December 2015				31 December 2014			
	Amorized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value	Amorized cost	Unrealized profits from adjustments to fair value (a)	Unrealized losses from adjustments to fair value (a)	Fair value
	(NIS millions)							
2. Bonds for trading **Pass-through securities:**								
Securities issued by FNMA and FHLMC	**8**	**-**	**-**	**8**	248	-	-	248
Other securities	**-**	**-**	**-**	**-**	-	-	-	-
Total mortgage-backed pass-through securities	**8**	**-**	**-**	**8**	248	-	-	248
Other mortgage-backed securities (including CMO and STRIPPED MBS)	**-**	**-**	**-**	**-**	-	-	-	-
Securities issued by FNMA, FHLMC, or GNMA, or guaranteed by these entities	**410**	**1**	**(3)**	**408**	776	3	(4)	775
Other mortgage-backed securities	**92**	**1**	**-**	**93**	116	2	(1)	117
Total other mortgage-backed securities	**502**	**2**	**(3)**	**501**	892	5	(5)	892
Total mortgage-backed securities (MBS)	**510**	**2**	**(3)**	**509**	1,140	5	(5)	1,140
Asset-backed securities (ABS)	**-**	**-**	**-**	**-**	-	-	-	-
Credit card receivables	**12**	**-**	**-**	**12**	19	-	-	19
Lines of credit for any purpose secured by dwelling	**1**	**-**	**-**	**1**	1	-	-	1
Credit for purchase of vehicles	**68**	**-**	**(1)**	**67**	78	1	-	79
Other credit to private persons	**14**	**-**	**-**	**14**	16	-	-	16
Credit not to private persons	**-**	**-**	**-**	**-**	47	-	-	47
Others	**149**	**2**	**(3)**	**148**	134	2	-	136
Total asset-backed securities	**244**	**2**	**(4)**	**242**	295	3	-	298
Total mortgage-backed and asset-backed securities for trading	**754**	**4**	**(7)**	**751**	1,435	8	(5)	1,438

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

Note 13 – Credit Risk, Credit to the Public and the Allowance for Credit Losses

A. Debts[(a)], credit to the public and the allowance for credit losses

	31 December 2015					
	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	**107,768**	**45**	**852**	**108,665**	**7,515**	**116,180**
Examined on a collective basis[1]	**38,097**	**81,760**	**36,548**	**156,405**	**3,254**	**159,659**
[1]Of which: the allowance was calculated by extent of arrears	**1,014** (c)	**80,616**	**-**	**81,630**	**-**	**81,630**
Total debts(a)[2]	**145,865**	**81,805**	**37,400**	**265,070**	**10,769**	**275,839**
[2]Of which:						
Debts under restructuring	**2,192**	**-**	**86**	**2,278**	**-**	**2,278**
Other impaired debts	**1,617**	**-**	**26**	**1,643**	**-**	**1,643**
Total impaired debts	**3,809**	**-**	**112**	**3,921**	**-**	**3,921**
Debts in arrears of 90 days or more	**67**	**770**	**105**	**942**	**-**	**942**
Other problem debts	**6,960**	**11**	**411**	**7,382**	**-**	**7,382**
Total impaired debts	**7,027**	**781**	**516**	**8,324**	**-**	**8,324**
Allowance for credit losses for debts[a]:						
Examined on an individual basis	**2,177**	**15**	**93**	**2,285**	**3**	**2,288**
Examined on a collective basis[3]	**307**	**498**	**581**	**1,386**	**-**	**1,386**
[3]Of which the allowance was calculated by extent of arrears (b)	**1**	**497**	**-**	**498**	**-**	**498**
Total allowance for credit losses[3]	**2,484**	**513**	**674**	**3,671**	**3**	**3,674**
[3]Of which in respect of impaired debts	**496**	**-**	**100**	**596**	**-**	**596**

(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 balance of allowance in excess of that required by the extent of arrears method calculated on a collective basis in the amount of NIS 310 million.

(c) Including housing loans granted to purchasing groups under construction.

Note 13 – Credit Risk, Credit to the Public and the Allowance for Credit Losses (cont'd)

A. Debts[(a)], credit to the public and the allowance for credit losses (cont'd)

	31 December 2014					
	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[1]	35,194	75,811 (d)	33,808	144,813	1,364	146,177
[1]Of which: the allowance was calculated by extent of arrears	1,216 (c) (d)	73,023 (d)	-	74,239	-	74,239
Total debts (a)[2]	145,244	75,863	35,361	256,468	19,664	276,132
[2]Of which:						
Debts under restructuring	2,605	-	97	2,702	-	2,702
Other impaired debts	2,021	-	68	2,089	-	2,089
Total impaired debts	4,626	-	165	4,791	-	4,791
Debts in arrears of 90 days or more	57	775	109	941	-	941
Other problem debts	8,800	-	411	9,211	-	9,211
Total impaired debts	8,857	775	520	10,152	-	10,152
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[3]	430	496	541	1,467	-	1,467
[3]Of which the allowance was calculated by extent of arrears (b)	-	495	-	495	-	495
Total allowance for credit losses[3]	2,871	512	605	3,988	4	3,992
[3]Of which in respect of impaired debts	712	-	68	780	-	780

(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 balance of 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 housing loans granted to purchasing groups under construction.

(d) Restated.

Note 13 – Credit Risk, Credit to the Public and the Allowance for Credit Losses (cont'd)

B. Change in balance of credit loss allowance

	31 December 2015					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	**3,317**	**513**	**652**	**4,482**	**4**	**4,486**
Other changes in the allowance for credit losses	**-**	**-**	**-**	**-**	**-**	
Expenses (income) in respect of credit losses	**(123)**	**14**	**309**	**200**	**(1)**	**199**
Accounting write-offs	**(676)**	**(12)**	**(614)**	**(1,302)**	**-**	**(1,302)**
Collection of debts written off in previous years	**410**	**-**	**361**	**771**	**-**	**771**
Net accounting write-offs	**(266)**	**(12)**	**(253)**	**(531)**	**-**	**(531)**
Adjustments from translation of financial statements	**5**	**(2)**	**(1)**	**2**	**-**	**2**
Balance of allowance for credit losses at end of year[1]	**2,933**	**513**	**707**	**4,153**	**3**	**4,156**
[1]Of which: in respect of off-balance sheet credit instruments	**449**	**-**	**33**	**482**	**-**	**482**

	31 December 2014					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	3,301	498	496	4,295	2	4,297
Expenses in respect of credit losses	90	24	356	470	2	472
Accounting write-offs	(578) (a)	(10)	(560)	(1,148)	-	(1,148)
previous years	479 (a)	-	364	843	-	843
Net accounting write-offs	(99)	(10)	(196)	(305)	-	(305)
Adjustments from translation of financial statements	25	1	(4)	22	-	22
Balance of allowance for credit losses at end of year[1]	3,317	513	652	4,482	4	4,486
[1]Of which: in respect of off-balance sheet credit instruments	446	1	47	494	-	494

(a) Reclassified.

Note 13 – Credit Risk, Credit to the Public and the Allowance for Credit Losses (cont'd)

B. Change in balance of credit loss allowance (cont'd)

	31 December 2013					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	3,691	475	395	4,561	4	4,565
Expenses in respect of credit losses	30	53	182	265	3	268
Accounting write-offs	(846)	(29)	(477)	(1,352)	(5)	(1,357)
Collection of debts written off in previous years	441	-	397	838	-	838
Net accounting write-offs	(405)	(29)	(80)	(514)	(5)	(519)
Adjustments from translation of financial statements	(15)	(1)	(1)	(17)	-	(17)
Balance of allowance for credit losses at end of year[1]	3,301	498	496	4,295	2	4,297
[1]Of which: in respect of off-balance sheet credit instruments	373	-	39	412	-	412

Note 14 – Credit to Governments

	31 December 2015	31 December 2014
	(NIS millions)	
Credit to the government	**262**	294
Credit to foreign governments	**191**	234
Total credit to governments	**453**	528

Note 15 - Investments in and Details of Investee Companies

A. Composition

	31 December 2015	31 December 2014
	Companies included on equity basis	
	NIS millions	
Total investments in shares on equity basis (including other assets and goodwill)	**924**	2,216
Of which: post-acquisition profits	**411**	1,031
Post-acquisition items accrued in equity:		
Adjustments in respect of companies included on equity basis	**(1)**	15
Details regarding goodwill and other intangible assets:		
Amortization period	**0-20 years**	0-20 years
Original amount, net	**262**	228(a)
Unamortized balance	**256**	146

(a) As of the date of approval of the financial statements, the subsidiary had not yet completed attributing the cost of acquisition to the acquired assets and liabilities.

Details of book value and market value of quoted investments:

	31 December 2014	
	Book value	Market value
	NIS millions	
The Israel Corporation Ltd. (a)	1,318	2,566

(a) During the year the Bank realized part of its investment in the Israel Corporation and the agreement with the shareholders of the Israel Corporation was cancelled. At 31 December 2015, the investment is shown in the available for sale portfolio.

B. Group's equity in profits or losses of companies included on equity basis:

	For the year ended 31 December		
	2015	2014	2013
	NIS millions		
Group's equity in profits of companies included on equity basis	**223**	88	(313)
Provision for deferred taxes	**(46)**	(46)	20
Group's equity in after-tax profits of companies included on equity basis	**177**	42	(293)

Note 15 - Investments in and Details of Investee Companies (cont'd)

C. Details regarding investee companies

1. Holdings in Non-banking Holding Corporations (Conglomerates)

The Bank's holdings in non-banking corporations are subject to restrictions prescribed in the Banking (Licensing) Law, 1981 (the "Banking Law"). The Banking Law prescribes, *inter alia*, in Section 24A of the Law, that a banking corporation may hold more than 1% of the means of control in only one conglomerate (a corporation whose capital is more than some NIS 2,000 million and that operates in more than three branches of the economy). The Bank holds one conglomerate - The Israel Corporation.
Pursuant to the letter of the Supervisor of Banks from 4 March 2015, the Bank is to act as soon as possible to discontinue its significant influence on the Israel Corporation, including by way of a permanent waiver on the Bank's representation in the Board of Directors of the Israel Corporation and on its right to appoint directors to it.
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 as a significant non-banking corporation under the Banking (Licensing) Law, as amended by the Concentrations Law on 11 December 2013.

It should be noted that under the legislation passed pursuant to the capital market reform, a Bank is allowed to hold five percent of the capital of an insurance company and ten percent of the capital of a corporation controlling an insurance company. In addition, under the amendment to the Banking (Licensing) Law in March 2010, a Bank is allowed to hold only one insurance company whose shareholders' equity under Section 35 of the Financial Services Supervision Law (Insurance), 1981, exceeds NIS 2,000 million.

2. Details of impairment of securities

In light of the change in regulations in the international private banking field worldwide, and in Switzerland in particular, which increase the cost of service, and in light of the effect anticipated from these changes also on Leumi Private Bank (formerly Bank Leumi Switzerland), the Bank depreciated the balance of goodwill by NIS 25 million (in 2014 - NIS 45 million).

Note 15 - Investments in and Details of Investee Companies (cont'd)

D. Details concerning principal investee companies

1. Consolidated subsidiaries[a]

Name of company	Details of the company	Percentage of equity granting a right to profits 31 December 2015	2014	Percentage of voting rights 31 December 2015	2014	Investment in shares - net asset value 31 December 2015	2014
		(%)				(NIS millions)	
In Israel							
Arab-Israel Bank Ltd. (j)	General banking services	**100.0**	99.7	**100.0**	99.7	**716**	(i) 615
Leumi Agricultural Development Ltd.		**100.0**	100.0	**100.0**	100.0	**57**	57
Leumi Industrial Development Ltd.		**99.6**	99.6	**99.8**	99.8	**104**	104
Leumi Partners Ltd. (d)	Business and financial services	**100.0**	100.0	**100.0**	100.0	**1,289**	1,131
Leumi Tech Ltd. (e)	Comprehensive financing for high tech companies	**99.6**	99.5	**99.8**	99.8	**995**	994
Leumi Finance Company Ltd. (f)	Raising funds through bond issues	-	100.0	-	100.0	-	168
Leumi Card Ltd.	Provision of credit card services	**80.0**	80.0	**80.0**	80.0	**1,329**	(i) 1,225
Leumi Securities and Investments Ltd.		**100.0**	100.0	**100.0**	100.0	**25**	23
Leumi Capital Market Services Ltd.	Operating services to provident and mutual funds	**100.0**	100.0	**100.0**	100.0	**45**	42
Leumi Financial Holdings Ltd.	Financial holdings	**100.0**	100.0	**100.0**	100.0	**586**	545
Abroad							
Bank Leumi le-Israel Corporation	Holding company - registered in the U.S.	**100.0**	100.0	**100.0**	100.0	**374**	371
Bank Leumi USA (g)	General banking services - registered in the U.S.	**99.9**	99.9	**99.9**	99.9	**2,418**	2,106
Bank Leumi (UK) plc	General banking services - registered in the U.K.	**100.0**	100.0	**100.0**	100.0	**845**	800
Leumi Switzerland (a)	General banking services - registered in Switzerland	**99.8**	94.8	**99.8**	98.6	**290**	399
Leumi Re Ltd.	Insurance	**99.9**	99.9	**5,428.0**	4,827.0	**-**	-
Bank Leumi (Luxembourg) SA (l)	- registered in Luxembourg	**100.0**	100.0	**100.0**	100.0	**103**	145
Bank Leumi Romania S.A.	General banking services - registered in Romania	**99.9**	99.9	**99.9**	99.9	**148**	190
Companies held by Bank Leumi USA							
Leumi Financial Corporation (h)		**99.9**	99.9	**99.9**	99.9	**5,461**	5,428

(a) Data regarding consolidated companies reflecting the Bank's investment therein less investments of each company in other companies in the Bank Group, and the Bank's share in their results less each company's share in the results of other companies in the Bank Group in respect of the abovementioned investments.

(b) Other equity investments include capital notes and shareholders' loans.

(c) Including adjustments in respect of presentation of the securities available for sale of consolidated companies by fair value.

(d) The Bank's share in a capital reserve in respect of the benefit in controlling shareholders' loans is NIS 152 million (2014 – NIS 148 million).

Balance of goodwill and intangible assets 31 December 2015	Balance of goodwill and intangible assets 31 December 2014	Other equity investments (b) 31 December 2015	Other equity investments (b) 31 December 2014	Contribution to net profit attributed to shareholders of the banking corporation 31 December 2015	Contribution to net profit attributed to shareholders of the banking corporation 31 December 2014	Loss on impairment 31 December 2015	Loss on impairment 31 December 2014	Dividend recorded 31 December 2015	Dividend recorded 31 December 2014	Other items in accumulated shareholders' equity (c) 31 December 2015	Other items in accumulated shareholders' equity (c) 31 December 2014	Guarantees for the company in favour of parties outside the Group 31 December 2015	Guarantees for the company in favour of parties outside the Group 31 December 2014
-	-	-	103	86	94(i)	-	-	-	-	8	-	-	-
-	-	-	-	-	-	-	-	-	1	-	-	-	-
-	-	-	-	1	1	-	-	1	1	-	-	-	-
-	-	1,139	1,126	403	286	-	-	-	-	(245)	169	487	523
-	-	-	-	1	9	-	-	-	-	-	(1)	-	5
-	-	-	-	-	11	-	-	-	-	-	-	-	-
-	-	-	-	144	157(i)	-	-	-	-	-	-	-	-
-	-	-	-	2	2	-	-	-	-	-	-	-	-
-	-	-	-	4	4	-	-	-	-	-	-	-	-
-	-	-	-	1	2	-	-	-	-	-	-	-	-
-	-	-	-	1	1	-	-	-	-	2	61	-	-
-	-	-	-	239	(185)(i)	-	-	-	-	73	239	-	58
-	-	484	507	45	83(i)	-	-	-	-	29	-	-	-
-	25	197	188	(134)	(554)(i)	-	-	-	-	(4)	(4)	-	-
-	-	-	-	(24)	15	-	-	-	-	-	-	-	-
-	-	25	34	(39)	(20)	-	-	-	-	(2)	-	21	30
-	-	-	-	(41)	(57)	-	-	-	-	(1)	-	-	-
-	-	-	-	33	601	-	-	-	-	-	-	-	-

(e) The Bank's share in a capital reserve in respect of the benefit in controlling shareholders' loans is NIS 82 million, formerly Leumi Leasing and Investments Ltd. (2014 – NIS 82 million).

(f) On 31 December 2013, the activity of Leumi Finance was merged with Leumi.

(g) The investment in the company was made by Bank Leumi Le-Israel Corporation.

(h) Property companies established by Bank Leumi U.S.A. and consolidated in their financial statements. The companies have shareholders' equity against credit transferred from Bank Leumi U.S.A. As a result of adjustment of the financial statements and translation thereof into shekels, income (losses) was generated on the consolidated capital, which are offset from Bank Leumi U.S.A.

(i) Restated pursuant to a change in the method of accounting for accumulating employee rights, see Note 1.D.1. , and retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.D.2.

(j) In November 2015, 0.3% of minority shares were purchased. On 31 December 2015, a merger took place between the Bank and Arab Israel Bank.

(k) During 2015, most of Leumi Switzerland's (formerly Leumi Private Bank) customers were transferred to Julius Baer. The office is being closed.

(l) For details on the continued operations of Bank Leumi (Luxembourg S.A., see Note 35.

Note 15 - Investments in and Details of Investee Companies (cont'd)

D. Details concerning principal investee companies (cont'd)

2. Companies included on equity basis

		31 December								
		2014								
Name of company	Details of the company	Percentage of equity granting a right to profits	Percentage of voting rights	Balance of goodwill and intangible assets	Investments in shares at book value	Investments in shares at market value	Contribution to net profit attributed to shareholders of the banking corporation	Dividend recorded	Other items in accumulated shareholders' equity (c)	Guarantees for the company in favour of parties outside the Group
		(%)	(%)	NIS millions						
The Israel Corporation Ltd. (a)	Holding company	18.1	18.1	26	1,318	2,566	(8)	-	114	17

(a) During the year, the Bank realized its investment in the Israel Corporation, and the agreement was cancelled with the shareholders in the Israel Corporation. At 31 December 2015, the investment is shown in the portfolio of securities available for sale.

(b) The balance of goodwill less accumulated losses and impairment of goodwill.

(c) Includes translation adjustment reserves and other funds accumulated in retained earnings.

Note 16 – Buildings and Equipment

A. Composition

	Buildings and real estate (a)	Equipment, furniture and vehicles	Software costs	Total
	NIS millions			
Cost				
As at 31 December 2013	3,422	3,358	4,404 (b)	11,184
Additions	127	146	459 (b)	732
Disposals	(38)	(68)	(20)	(126)
Adjustments from translation differences	6	9	0	15
As at 31 December 2014	3,517	3,445	4,843	11,805
Additions	**55**	**156**	**452**	**663**
Disposals	**(198)**	**(135)**	**(1,241)**	**(1,574)**
Adjustments from translation differences	**-**	**1**	**-**	**1**
As at 31 December 2015	**3,374**	**3,467**	**4,054**	**10,895**
Accumulated depreciation and losses from impairment				
As at 31 December 2013	1,881	2,693	3,582	8,156
Depreciation for the year	85	160	358 (b)	603
Cancellation of loss from impairment	(1)	-	-	(1)
Disposals	(30)	(65)	(20)	(115)
As at 31 December 2014	1,935	2,788	3,920	8,643
Provision in the reporting year	**93**	**170**	**390**	**653**
Cancellation of loss from impairment	**2**	**-**	**-**	**2**
Disposals	**(136)**	**(132)**	**(1,230)**	**(1,498)**
As at 31 December 2015	**1,894**	**2,826**	**3,080**	**7,800**
Amortized balance as at 31 December 2015	**1,480**	**641**	**974**	**3,095**
Amortized balance as at 31 December 2014	1,582	657	923 (b)	3,162
Amortized balance as at 31 December 2013	1,541	665	822 (b)	3,028

(a) Including leasehold installations and improvements.

(b) Reclassified pursuant to retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development – see Note 1.D.2.

B. Average rate of depreciation:

	31 December 2015	31 December 2014
Buildings and real estate -	**4.57%**	3.48%
Equipment, furniture and vehicles -	**13.75%**	15.32%
Software	**28.19%**	28.57%

Note 16 – Buildings and Equipment (cont'd)

C. The Group has rental or leasing rights on real estate and equipment for a period of 1 to 99 years from the balance sheet date in an amount (net of depreciation) of NIS 129 million (31 December 2014 – NIS 132 million). The balance of the period of the discounted lease is 81 years.

D. Investment property - buildings and real estate not used by the Group, mainly rental buildings, amount to NIS 45 million in the balance sheet (31 December 2014 – NIS 26 million).

E. The item "Buildings and equipment" includes improvements and leasehold rights, including payments on account. Some of the buildings are on leased land. Assets in the amount of NIS 147 million (31 December 2014 – NIS 177 million) in the balance sheet have not yet been registered in the name of the Bank at the Land Registry Office. The principal reasons for the non-registration are the absence of a land registry arrangement in the area ("parcellation"), and non-registration of the project as a condominium building by the contractor/developer.

F. Buildings earmarked for sale, in the amount of NIS 77 million (31 December 2014 – NIS 74 million) are shown net of a provision for anticipated losses. The fair value of the assets earmarked for sale at 31 December 2015 was NIS 106 million (31 December 2014 - NIS 154 million). No loss is anticipated from the realization of buildings and equipment available for sale, in addition to provisions in their respect.

G. The balance of software includes costs capitalized during the year relating to the development of computer software in the amount of NIS 273 million (31 December 2014 – NIS 274 million).

Note 17 – Intangible Assets and Goodwill

	Goodwill	Customer securities portfolios	Total
	NIS millions		
Cost			
As at 31 December 2013	274	83	357
Additions	1	-	1
As at 31 December 2014	275	83	358
Additions	20	-	20
As at 31 December 2015	**295**	**83**	**378**
Amortization and losses from impairment			
As at 31 December 2013	232	26	258
Amortization for the year	-	12	12
Amortization and losses from impairment	-	45	45
As at 31 December 2014	232	83	315
Loss from impairment	25	-	25
As at 31 December 2015	**257**	**83**	**340**
Amortized balance at 31 December 2015	**18**	**-**	**18**
Book value			
As at 31 December 2013	42	57	99
As at 31 December 2014	43	-	43
As at 31 December 2015	**18**	**-**	**18**

Note 18 – Other Assets

	31 December 2015	31 December 2014
	NIS millions	
Deferred tax asset, net - see Note 8.G.	**4,570**	4,612 (b)
Excess of plan funds over liabilities in respect og employee benefits – see Note 23.C	**1,144**	1,166 (b)
Assets transferred to ownership of the Group as a result of settlement of problem loans	**4**	6
Value of insurance policies in foreign branch	**440**	432
Excess of advance tax payments over current provisions	**73**	46 (b)
Expenses to be amortized on issuance of debentures, bonds and subordinated notes	**37**	31
Accrued income	**157**	145
Prepaid expenses	**189**	181
Other receivables and prepayments	**1,052**	299 (b)
Total other assets	**7,666**	6,918

(a) Including customers activity with the Maof Clearing House (shown at fair value) in the amount of NIS 548 million (2014 – NIS 187 million).
(b) Restated pursuant to a change in the method of accounting for accumulating employee rights, see Note 1.D.1. , and retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.D.2.

Note 19 - Deposits of the public

A. Types of deposits by location raised and type of depositor

	31 December 2015	31 December 2014
	NIS millions	
In Israel		
On demand		
Non-interest bearing	**72,060**	54,937
Interest bearing	**80,521**	55,823
Total on demand	**152,581**	110,760
Fixed term	**149,697**	161,900
Total deposits in Israel[1]	**302,278**	272,660
Outside Israel		
On demand		
Non-interest bearing	**9,872**	13,945
Interest bearing	**3,693**	2,919
Total on demand	**13,565**	16,864
Fixed term	**12,850**	13,873
Total deposits outside Israel	**26,415**	30,737
Total deposits of the public	**328,693**	303,397
[1]Of which:		
Deposits of private persons	**135,595**	121,943
Deposits of institutional entities	**57,090**	54,051 (a)
Deposits of corporations and others	**109,593**	96,666 (a)

(a) Reclassified

Note 19 - Deposits of the public (cont'd)

B. Deposits of the public by size on consolidated basis

	31 December 2015	31 December 2014
	NIS millions	
Up to 1	**95,789**	86,042
From 1 to 10	**83,813**	78,995
From 10 to 100	**58,268**	52,543
From 100 to 500	**30,868**	30,537
Above 500	**59,955**	55,280
Total	**328,693**	303,397

Note 20 - Deposits from banks

	31 December 2015	31 December 2014
	NIS millions	
In Israel		
Commercial banks:		
Demand deposits	**2,754**	3,099
Time deposits	**545**	793
Acceptances	**459**	526
Outside Israel		
Commercial banks:		
Demand deposits	**16**	47
Time deposits	**1**	2
Acceptances	**84**	89
Total deposits from banks	**3,859**	4,556

Note 21 – Debentures, Bonds and Subordinated Notes

	Duration (a)	Internal rate of return (a)	**31 December 2015**	31 December 2014
	Years	%	NIS millions	
Debentures and notes (b):				
In Israeli currency linked to the CPI	**3.8**	**0.7**	**2,023**	652
In unlinked Israeli currency	**6.2**	**2.9**	**1,159**	-
Subordinated notes (b) (e) (f):				
Unlinked Israeli currency	**3.7** (c)	**3.4**	**4,545**	4,547
In Israeli currency linked to the CPI (d)	**3.0** (c)	**3.7**	**13,581**	18,469
In Swiss Francs	**-** (c)	**-**	**-**	10
Total debentures, notes and subordinated notes			**21,308**	23,678

(a) The average duration is the average of the payment periods, weighted according to the payment flow discounted at the internal rate of return. The internal rate of return is the rate of interest discounting the value of the anticipated future flow of payments to the amount included in the balance sheet.

(b) The unamortized balance of the discount less the premium on debentures and on subordinated notes not yet charged to profit and loss has been deducted from the amount of the debentures.

(c) The average duration as of the date of change in interest is based on a calculation of the effective average duration as calculated for purposes of the exposure to changes in interest rates. In unlinked subordinated notes it is 0.5 years, in those linked to the CPI it is 2.7 years and in subordinated notes in Swiss Francs is 0 years.

(d) Of which: subordinated notes (unquoted) deemed Tier 2 capital in the amount of NIS 514 million (31 December 2014 – NIS 519 million) that in certain circumstances may be converted into shares.

(e) Of which: listed for trading on the Tel Aviv Stock Exchange an amount of NIS 10,915 million linked to the CPI and an amount of NIS 4,499 million unlinked (31 December 2014 – NIS 14,832 million linked and NIS 4,499 million unlinked).

(f) Tier 2 equity pursuant to the Basel III transitional provisions.

(g) For further information see Note 35G.

Note 22 - Other Liabilities

	31 December 2015	31 December 2014
	NIS millions	
Deferred tax liability, net – see Note 8(G)	**123**	220
Excess of current provisions for income tax over advance payments	**619**	86 (b)
Excess of liabilities in respect of employee benefits over plan assets - see Note 23.C.	**9,032**	9,246 (a)
Provision for vacations	**227**	115 (a)
Provision for long service bonuses	**524**	942
Allowance for credit losses in respect of off-balance sheet items	**454**	685
Accrued expenses in respect of salaries and related expenses	**746**	316
Payables in respect of credit cards	**5,686**	6,363
Accrued expenses	**373**	385
Market value of securities sold short	**815**	758
Other payables and credit balances	**1,323**	1,847 (a)
Other provisions in respect of employee rights	**342**	403
Provision for doubtful debts in respect of off-balance sheet items	**482**	494
Total other liabilities	**20,746**	21,860

(a) Restated pursuant to a change in the method of accounting for accumulating employee rights, see Note 1.D.1. , and retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development – see Note 1.D.2.

(b) Reclassified.

Note 23 – Employee Rights

A. Signing of collective labor agreement

On 21 January 2015, the Bank announced that the Bank's management and the Bank's employee organization reached agreements on a special collective agreement (hereinafter: the "Collective Agreement"), which were approved by the Board of Directors and by the Employees Council. The agreements regarding the collective agreement were reached after the first collective bargaining agreement in 2010 ended in December 2014. The collective agreement is for a period of four years, i.e. until 31 December 2018.

The main changes included in the collective agreement, in relation to the previous collective agreement:

The annual salary update mechanism for all employees, at an average rate of 5%, was modified and will be as follows:

In 2015 – 4.0%
In 2016 – 4.0%
In 2017 - 3.5%
In 2018 - 3.5%

The Bank paid employees covered by the collective agreement a one-time grant of one salary ("one-time bonus").

The Bank carried out early implementation of an update of the minimum wage amount specified in the decision by the Government, so that the update of the minimum wage to NIS 5,000 will be carried out in a single stage (rather than gradually as decided by the Government), for all employees earning minimum wage.

Additional provisions were stipulated relating to the reduction of long-service amounts (bonuses and vacations) by about 40% in bonuses and about 50% in vacations. The rate of employer provisions to provident funds for employees eligible for "contributory pension" benefits was updated, such that the provision will be at the rate of 7.5% instead of a provision at the rate of 5%; encouraging employees not taking advantage of sick leave days, changing of contract workers to employees of the Bank; and updating the maximum period for receiving seniority increments, so as to be up to 38 years' seniority, instead of 37 years' seniority in the agreement ended.

Signing the agreement led to a reduction in actuarial liabilities recorded in the books of the Bank in respect of employee rights, mainly due to the effect of reducing the wage adjustment mechanisms. The effect after a one-time bonus, ignoring additional effects that occurred, amounted to about NIS 600 million to NIS 700 million.

The main effect is in respect of a reduction in the salary update mechanism in calculating pension liabilities to be charged to other comprehensive income and spread in subsequent periods in the statement of profit and loss.

It should be clarified that the collective agreement applies only to Bank staff employed under the collective agreement and therefore is not relevant to employees under the Bank's remuneration plan.

Note 23 – Employee Rights (cont'd)

On 17 February 2016, a special collective agreement was signed by the representatives of the Bank's employees and the Bank, under which the rights set out below that accrued in favor of the Bank's employees, will be converted into shares of the Bank to be issued to employees for the same amount as the rights, based on the amount in which those rights are recorded in the books of the Bank, and as described below.

Entering into an undertaking in the special collective agreement was made after receiving the approval of the Remuneration Committee and the Board of Directors of the Bank. The special collective agreement requires the signature of the New Histadrut Labor Organization.

The issuance of the shares will be at the market price of the shares on the date of publication of an outline plan (or another date to be determined in the outline plan), which will be required for purposes of carrying out the issuance. The issuance of the shares will be carried out in exchange for a waiver by the employees on the rights that are converted that are recorded in the books of the Bank, for an amount of the value of the shares to be issued. The shares to be issued will be blocked for two years.

The rights to be converted into shares:

1.1 Annual bonus for the year 2015, insofar as it will be approved. This conversion will apply for all the employees.

1.2 Voluntary conversion of up to 25% of pension rights ("defined-benefit pension"), accumulating in favor of the employees entitled to the same, to shares of the Bank, in exchange for a waiver of rights to that amount, as the rights are recorded in favor of the employee in the books of the Bank, as at 31 December 2015, except for utilizing a discount rate of 3.5%, instead of a discount rate of about 2.68%, which was utilized pursuant to the directives of the Bank of Israel. Every employee under a "first generation" arrangement, who is entitled to a "defined-benefit pension", will be entitled to choose the percentage of the rights to be converted into the shares of the bank. Employees whose salary for purposes of social contributions does not exceed NIS 10,000 for the month of December 2015, will not be entitled to convert the aforementioned rights.

1.3 The conversion of the eligibility recorded in the books of the Bank to "Jubilee" bonuses and "Jubilee" vacations that accrued in favor of the employees to "Jubilee" bonuses, will apply to "Jubilee" bonuses whose date of payment of from 1 January 2017. This conversion is to be carried out for all the employees eligible for "Jubilee" bonuses, as the rights in favor of the employee appear in the Bank's books, as at 31 December 2015, except for using a discount rate of 3.5%, instead of 2.68% which was used pursuant to Bank of Israel directives.

Insofar as the total amount of the rights available for conversion exceed NIS 1.15 billion (henceforth: "the target amount for conversion"), a partial conversion will be carried out (or no conversion will be carried out) of the rights to "Jubilee" bonuses and "Jubilee" vacations, unless a separate agreement will be reached with the representatives of the employees.

The Bank intends to apply the conversion of the relevant rights also to managers employed by the Bank under personal contracts.

On 18 February 2016, the Bank published an outline plan for issuance of shares to the employees, to carry out that stated in the special collective agreement. Pursuant to the outline plan, employees will be able to convert rights as set out in paragraph 1.2 above from 8 March 2016 and at the end of the response period determined, the issuance of shares is expected to take place.

Note 23 – Employee Rights (cont'd)

B. Severance pay and pensions

1. General

For employees that 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 signing date of the special collective bargaining agreement in 2000 covering a special pension arrangement, current deposits are made to a pension fund. The pension plan is a comprehensive cumulative pension plan with additional insurance for 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.

Employees, who began working with the Bank before 1 January 1999 (hereinafter: ("1st generation employees") and received permanent employment status before the date of signing 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 plus their accumulated provident fund, or the right to receive a pension in which case they relinquish their right to the severance pay and provident fund, subject to the provisions of the law. The entitlement to a pension is calculated at a pension rate of 40% for the first 15 years of employment, i.e. 2.67% per annum, and of 1.5% for each additional year, up to a maximum rate of 70%.

Provisions for pensions are based on an actuarial calculation that takes the retirement age into account according to the Retirement Age Law, 2004. The actuarial calculation was made according to the accrued benefits valuation method, taking into account various parameters including the probability, based on past experience, of the rate of utilization of the pension benefits and the rate of withdrawal of severance and remuneration benefits (current utilization rate of pension rights is about 76%, while the remainder choose severance pay and provident funds), and past experience regarding disability, etc.
The accumulation of liability is on a straight-line basis up to the earliest retirement age (an average of retirement ages in practice of 1st generation employees in recent years, for men and women). After this date, additional benefits are attributed for subsequent years based on the formula of the benefit plan of 1st generation employees.

The actuarial calculation is based on the updated provisions of the Chief Actuary in the Ministry of Finance with respect to mortality rates from March 2013, which were determined by the Commissioner of the Capital Market, Insurance and Savings for insurance companies and that were adopted for the population of the Bank's employees.

Calculation of the Bank's actuarial liability for pension payments is made using the government bonds yield in Israel plus an average margin on corporate bonds with an international rating of AA and above at the reporting date. For practical reasons, it was decided that the calculation of the margin will be based on US corporate bond margins. In addition, a calculation is made on the assumption of a real increase in salary based on past experience and varying in accordance with the age of the employee.

The calculation is made under a comprehensive pension plan, which includes old age, disability and survivor pensions and also takes into account employees who have not yet completed the period required for receipt of pension benefits (15 years of service).

Note 23 – Employee Rights (cont'd)

The Bank's pension liability for employees who have left and have opted for pension benefits, as well as that stated in (3) below, is covered by the pension provision, which is calculated based on the present value of the liability calculated by an actuary, as noted above.

2. Benefits to "Leumi Alumni"

"Leumi Alumni" are entitled to receive, in addition to their individual choice of a pension and/or severance payments, 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.

"Leumi Alumni" – persons who, regardless of their age, have concluded working with the Bank after 25 years of employment, or have concluded working with the Bank at the legal retirement age after at least 15 years of employment.

The accumulated amount at 31 December 2015 for expected costs in respect of the above entitlements in the period following the employment period, according to actuarial calculation, amounts to some NIS 233 million (31 December 2014 - NIS 222 million).

3. Early retirement for employees under personal employment contracts

a. Ms. Rakefet Russak-Aminoach serves in the position of President and CEO of the Bank as of 1 May 2012. The monthly salary of the President and CEO is NIS 195,400 (linked to the CPI). The President and CEO, who had a first generation employment agreement, transferred to the employment conditions of a second generation agreement as of 2013, as follows: the rights of the President and CEO to a defined-benefit pension from the Bank pursuant to her rights as stated below will only be in respect of the frozen salary level (the salary of the President and CEO at the date of transfer from first generation to second generation plus linkage to the CPI), whereas her rights regarding salary increments above the frozen salary level will be pursuant to second generation conditions (provident fund and severance fund contributions without defined-benefit pension rights from the Bank).

Pursuant to her terms of office and employment in the Bank, and in accordance with the update approved by the General Meeting of the Bank on 11 February 2014 (after approval of the Remuneration Committee and the Board of Directors) the President and CEO is entitled, in the event of termination of the employee-employer relationship between her and the Bank, to choose between (a) severance pay in the amount equivalent to 200% of her last monthly salary, multiplied by the number of years of her employment in the Bank, with the addition of provident fund contributions; and (b) an immediate retirement pension from the Bank pursuant to conditions of first generation that transferred to second generation. The rate of retirement pension to the President and CEO is as set out in sub-paragraph c. below concerning members of management. The definition of "dismissal" regarding the President and CEO includes resignation following deterioration in working conditions, including resignation as a consequence of changes that took place in the Bank and that do not allow the President and CEO to continue functioning as President and CEO, in the opinion of the President and CEO with approval of the Remuneration Committee or the Board of Directors.

Note 23 – Employee Rights (cont'd)

The Bank and the President and CEO are each entitled to terminate the working relationship by giving advance notice of six months.

The Remuneration Committee, the Board of Directors, and the General Meeting confirmed (on 11 February 2014) that the President and CEO is entitled to an annual performance-contingent bonus and a fixed annual bonus, pursuant to and subject to the provisions of the remuneration policy for office holders in the Bank as set forth in Section F. below, for each of the years 2013, 2014, 2015, and 2016.

b. Members of the Management of the Bank who have a first generation employment agreement, were transferred to second generation employment conditions as of 2013, as follows: their rights to a defined-benefit pension from the Bank pursuant to the rights stated below will only be in respect of the frozen salary level (the salary at the date of transfer from first generation to second generation plus linkage to the CPI), whereas rights regarding salary increments above the frozen salary level will be pursuant to second generation conditions (provident fund and severance fund contributions without defined-benefit pension rights from the Bank).

Employees with personal employment agreements with the Bank (that are not members of Management), who have a first generation employment agreement with the Bank, were transferred to second generation employment conditions as of 2014, as follows: their rights to a defined-benefit pension from the Bank pursuant to their first generation rights will only be in respect of the frozen salary level (the salary at the date of transfer from first generation to second generation plus linkage to the CPI), whereas rights regarding salary increments above the frozen salary level will be pursuant to second generation conditions (provident fund and severance fund contributions without defined-benefit pension rights from the Bank).

c. In accordance with first generation terms of employment, members of Management of the Bank (subject to that stated in sub-paragraph b. above) and a group of senior executives of the Bank (executive vice presidents, senior assistants to the CEO, and assistants to the CEO), are entitled, in the event of dismissal, to an immediate pension, if the numerical total of their age plus the number of years of employment with the Bank amounts to 75 or 80 under the new personal contracts. The years of service of a member of Management (if the employee served at least 7 years as a member of Management) will be counted as additional years of seniority for purposes of the said aggregate years of service.
The pension for members of Management will be calculated at the rate of 40% for the first 15 years of employment, i.e. 2.67% per annum, and 1.5% for each additional year until signing a personal contract, 2% for each year under a personal contract, and 2.5% for each year of service as a member of Management, up to a maximum rate of 70%. The pension for senior executives is calculated at the rate of 40% for the first 15 years of employment, i.e. 2.67% per annum, 1.5% for each additional year until signing a personal contract, and 2% for each year thereafter, up to a maximum rate of 70%. Alternatively, the said employees are entitled to choose, in the event of dismissal, severance pay at the rate of 200% (and 250% if their age plus the number of years of employment with the Bank does not amount to 75, or 80 as mentioned) of their latest monthly salary multiplied by the number of years of employment, plus the amounts accumulated to their credit in the provident fund. In such case, the employees are not entitled to a pension.

An employee who voluntarily resigns will be entitled to severance pay at the rate of 100%, plus the funds accumulated to his credit in the provident fund.

Note 23 – Employee Rights (cont'd)

The Bank and the said employees are entitled to terminate the employee-employer relationship by giving advance notice of six months.

Personal employment contracts of members of Management of the Bank provide, inter alia, as follows: an employee who retires voluntarily at the age of 62 years or more will be entitled, upon fulfillment of a number of conditions, to severance pay at a rate of 200% plus accrued amounts in his provident. An employee who, upon termination of the employee-employer relationship did not utilize his special jubilee vacation will be entitled to an additional month of advance notice. In the cooling-off period, which does not coincide with the period of advance notice, the employee will be entitled to a salary and to related benefits.

According to the personal contracts with members of the management of the Bank, who are not 1st generation or 2nd generation in the Bank, in the event of dismissal, these members of Management will not be entitled to a pension from the Bank, but to compensation amounting to 250% of the last monthly salary for each year of employment in the Bank, with the addition of monies accrued in the provident fund from which are deducted the amounts accrued in the severance pay fund. Any employee, as aforesaid, who voluntarily resigns will be entitled to 100% of severance pay, plus the monies in the provident fund after deduction of the amounts accrued in the severance pay fund.

The Bank approved personal employment contracts for a group of senior managers from among the 2nd generation in the Bank, who are entitled to a pension plan as stated in the first paragraph of Note 23.B (1) above. These managers are not entitled to a first generation pension from the Bank. It was therefore stipulated in these personal contracts that the Bank undertook, in the event of dismissal, to pay compensation at the rate of 250% of the last monthly salary for each year of work in the Bank, together with provident fund allocations, after deduction of the amounts accrued in the severance pay fund.

If a manager is dismissed whose age is 55 or above, and whose period of service in the Bank is 25 years or more, the manager will be entitled to chose, on dismissal, between compensation at the rate of 200% of the last monthly salary for each year of work in the Bank, together with provident fund allocations, after deduction of the amounts accrued in the severance pay fund; or alternatively, to receive all the funds and rights in the compensation and provident fund, when until the date he will be entitled to receive them, under the terms of the rules of the fund and the provisions of the law, he will be entitled to receive a pension from the Bank.

The maximum additional expense that the Bank may incur in the event of the employees mentioned in the above paragraph being immediately dismissed, amounts to NIS 380 million (including salary tax payable on the pension) (2014 – NIS 372 million). Since it is not likely that all the above mentioned employees will be dismissed immediately, the Bank recorded a provision at the rate of 25% of the above amount, in the amount of NIS 95 million (including salary tax) (2014 – NIS 93 million). The above amounts also include members of Management.

Part of the said provision was attributed specifically to members of Management, the balance of which at 31 December 2015 was NIS 13 million (31 December 2014 – NIS 12 million).

Note 23 – Employee Rights (cont'd)

4. The Chairman of the Board of Directors of the Bank

The Audit Committee, the Board of Directors and the General Meeting of the Bank has approved the terms of employment of the Chairman of the Board of Directors, who is employed in a full-time position as Executive Chairman.

The Bank and the Chairman have the option of discontinuing the engagement between them by giving 6 months notice in advance. It is clarified that the Bank will be authorized to demand that the advance notice period will be actual employment, in whole or in part. In the advance notice period, the Chairman will be entitled to a salary and the rest of the related conditions.

If the Chairman's employment is terminated for any reason whatsoever (except in exceptional circumstances in which compensation may be denied the Chairman), the Chairman will be entitled to compensation amounting to 150% of the last salary times the number of years (and/or part thereof) of his term of office as Chairman of the Board of Directors, in addition to the Chairman's entitlement to the monies and rights accrued in the severance pay fund and provident fund. The Chairman gave an undertaking for a six-month cooling-off period, in which he is entitled to a salary and the rest of the related conditions. It is clarified that in a period in which the cooling-off period overlaps the advance notice period, in whole or part, the Chairman will be entitled only to payment in respect of the advance notice period.

The Remuneration Committee, the Board of Directors, and the General Meeting also confirmed (on 11 February 2014) that the Chairman of the Board of Directors is entitled to an annual performance-contingent bonus, pursuant to and subject to the provisions of the remuneration policy for office holders in the Bank as set forth in Section G. below, for each of the years 2013, 2014, 2015, and 2016.

C. Long service bonuses

Employees of the Bank and some employees of consolidated companies are entitled, upon their attaining 20, 30 and 40 years of employment, to a monetary bonus in the amount of several monthly salaries ("jubilee grants") and to special vacation periods.

At the date of the balance sheet, there is a provision in the amount of NIS 524 million (31 December 2014 – NIS 942 million).

For further information regarding the collective agreements dated 21 January 2015 under which provisions were stipulated relating to the reduction of jubilee bonus amounts and dated 17 February 2016 under which provisions were stipulated relating for the conversion of jubilee bonus amounts and vacations, see A above.

Calculation of the liability is made on an actuarial basis and takes into account, based on past experience, the probability that on the determining date, the employee will still be employed by the Bank. The said calculation is made according to paragraph B.1 above at the reporting date and on the assumption of a real increase in salary based on past experience and varying in accordance with the age of the employee.

The provision for special service vacations is made on an actuarial basis taking into account past experience with respect to utilization of such vacations.

Note 23 – Employee Rights (cont'd)

D. Provision for vacations

In "Other Liabilities" there is a provision for unutilized vacation days based on the latest salary plus related benefits. In addition, there is provision for sick days to be converted to vacation days calculated on an actuarial basis. The provisions amount to NIS 227 million (31 December 2014 – NIS 115 million).

E. Provident and severance pay funds of the employees of the Bank

The Bank deposits provident and severance monies for "1st generation" employees in the Bank Leumi Employees Provident and Severance Funds, which is managed by a management company held by the members of the funds.

Until the end of 2012, the management company managed two provident and severance funds for Bank Leumi employees and Leumi Mortgage Bank employees. As of January 2013, the two funds were merged into one fund for all 1st generation employees.

The Bank provides the company with the services it requires to manage the fund, as permitted by law.

Commencing in 2008, the funds became non-pension payment provident funds, and provident monies funds cannot be withdrawn from these funds, unless they have been transferred to pension payment provident funds and subject to the conditions applying to the said funds.

In addition, as of 2011 the possibility of depositing monies in the Central Severance Pay Funds was restricted by law, and the Bank deposits severance monies in the provident fund in the name of the employees of the Bank.

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.

On 22 October 2015, the Bank received approval from the Tax Authority for the transfer of the severance pay funds accumulated in the central severance pay fund of Arab Israel Bank ("the central fund" in favor of the severance pay component in personal provident funds maintained on the employees' behalf. In addition it was determined that the surplus remaining in the central fund after the transfer, would be transferred to the central severance pay fund of Bank Leumi after the merger of Arab Israel Bank and Bank Leumi.

Note 23 – Employee Rights (cont'd)

F. Bonus Program for Senior Officers

On 11 February 2014, the General Meeting of the Bank, after obtaining the approval and recommendation of the Remuneration Committee and the approval of the Board of Directors, approved a remuneration policy regarding conditions of service and employment of Bank office holders (including senior office holders), pursuant to Amendment 20 of the Companies Law, 1999, pursuant to the directives of the Supervisor of Banks concerning remuneration policy of a banking corporation ("remuneration policy"), which includes a program for bonuses to office holders of the Bank (the "bonus program"). The remuneration policy and bonus program are valid for each of the years 2013, 2014, 2015, and 2016.

The bonus program provides, inter alia, the manner of determining the annual variable bonus for senior officers and the manner of determining the annual bonus for office holders who are not senior officers, the eligibility of the President and CEO to a fixed annual bonus, the eligibility of senior staff members in audit and control functions to a fixed annual bonus, and the possibility for the competent organs in the Bank to approve a signing-up bonus to a new office holder in the Bank; in accordance with the provisions of the remuneration policy as set out in a condensed form below:

1. The variable annual bonus to senior officers:

1.1. The variable annual bonus to senior officers is based, inter alia, on the rate of return on equity of the Bank, the Bank's annual performance relative to the objectives set by the Board of Directors and in relation to other banking groups, the performance of relevant units of the bank for measuring the performance of each senior officer, and on the development of the business results of the Bank over time.

1.2. The cumulative threshold conditions for variable annual bonus for senior officers are: (a) the employees of the Bank are entitled to a bonus for the relevant year; (b) the Bank achieved a minimum of 7.5% return on equity in the relevant year; and (c) the Bank met the capital adequacy ratios required under the directives of the Banking Supervision Department in the relevant year.

1.3. The variable annual bonus to senior officers is based on measurable criteria and qualitative criteria, as follows:

1.3.1. Part of the variable annual bonus based on measurable criteria shall be as specified below:

1.3.1.1. First, a basic annual variable bonus amount is to be determined for each of the senior officers in terms of fixed monthly remuneration amounts (employer's cost of one monthly amount), based on the rate of return on equity of the Bank for the bonus year and according to the role of each senior officer and his area of responsibility in the Bank and the Group (the "basic annual bonus"):

Note 23 – Employee Rights (cont'd)

The basic annual bonus of the Chairman of the Board of Directors, the President and CEO, and senior officers not in audit and control functions (in a number of amounts of fixed monthly remuneration): 6 amounts for a rate of return on equity of 7.5%; 7 amounts for a rate of return on equity of 8%; 7.5 amounts for a rate of return on equity of 8.5%; 8 amounts for a rate of return on equity of 9%, 8.5 amounts for a rate of return on equity of 9.5%; 9 amounts for a rate of return on equity of 10%, 9.5 amounts for a rate of return on equity of 10.5%, and 10 amounts for a rate of return on equity of 11% and above.

The basic annual bonus for senior officers who belong to auditing and control functions in a number of amounts of fixed monthly remuneration): 4 amounts for a rate of return on equity of 7.5%; 4⅔ amounts for a rate of return on equity of 8%; 5 amounts for a rate of return on equity of 8.5%; 5⅓ amounts for a rate of return on equity of 9%, 5⅔ amounts for a rate of return on equity of 9.5%; 6 amounts for a rate of return on equity of 10%, 6⅓ amounts for a rate of return on equity of 10.5%, and 6⅔ amounts for a rate of return on equity of 11% and above.

If the rate of return will be within a range of values listed above, the amount of the basic annual bonus will be determined for the relevant senior officer linearly between the two closest values.

1.3.1.2. After that, the basic annual bonus amount will be adjusted according to a measurable score of each senior officer between 80 to 120, with the measurable score for each senior officer determined according to the following: (1) Twenty percent (20%) of the measurable score for each senior officer will be determined according to the comparison of return on equity in the bonus year versus the return on equity (weighted by shareholders' equity) in the four other major banks in Israel (Bank Hapoalim, Israel Discount Bank, Mizrahi – Tefahot Bank and the First International Bank) in that year; and (2) eighty percent (80%) of the measurable score for each senior officer will be determined according to a performance measurement sheet of the senior officer and the departments for which he is responsible, in the bonus year, less the return on equity of the Bank as a whole in the bonus year (this part of the measurable score of Chairman of the Board of Directors and the President and CEO, will be determined by a performance measurement sheet of the Bank as a whole).

1.3.2. Part of the variable annual bonus based on qualitative criteria shall be as specified as set forth below:

The Board of Directors, after receiving the recommendation of the President and CEO (other than with respect to the Chairman of the Board of Directors, the President and CEO, and the Chief Internal Auditor, for whom the recommendation will be given by the Audit Committee) and the approval of the Remuneration Committee will have the authority to approve an additional bonus amount as part of the variable annual bonus based on qualitative criteria in respect of the relevant year, for any of the senior officers in the Bank.

Part of this grant will be given to the senior officer subject to fulfillment of various qualitative criteria specified in the remuneration policy, in accordance with the areas of responsibility of the senior officer.

Subject to paragraph 1.4 below, the qualitative part of the bonus shall not constitute more than 20% of the annual variable bonus of that officer senior in the relevant year.

1.4. Adjusting the basic annual bonus amount as stated in paragraph 1.3.1.2 above, plus the variable annual bonus based on qualitative criteria as stated in paragraph 1.3.2 above, may increase jointly the basic annual bonus by one and a half amounts of a fixed monthly remuneration.

1.5. The variable annual bonus amount for each of the above senior officers shall not in any event exceed 100% of the fixed annual remuneration of the senior officer (i.e. shall not exceed 12 monthly amounts of fixed annual remuneration), with the ratio of variable remuneration to fixed remuneration for senior officers who are members of audit and control functions, will incline more in favor of the fixed remuneration, in comparison with this ratio for other senior officers.

1.6. The checking of the variable annual bonus calculation for each senior officer will be made by an external expert, and then the calculated amount will be brought for approval of the Remuneration Committee and the Board of Directors.

1.7. The Board of Directors of the Bank, after receiving the approval of the Remuneration Committee, may decide, at its discretion, on a reduction in the variable annual bonus amount (in whole or in part) for senior officers in the Bank (all or some). For this purpose there will be taken into account, inter alia, Bank data in the bonus year and / or the years prior to the bonus year, relating to material profits of the Bank that the Board of Directors considers that they did not arise from normal activity, as well as material losses in those years.

1.8. If the variable annual bonus to the senior officer exceeded one sixth constant of his fixed annual remuneration, fifty percent (50%) of the variable annual bonus for that senior officer shall be paid in cash next following the reporting of the financial results of the banking system for the relevant year, and the remaining fifty percent (50%) will be awarded through blocked performance-contingent share units (PSU) to be allotted following the reporting of the financial results of the banking system for the relevant year, provided that the total amount and the accumulated PSU units to be allotted to all senior officers in the Bank for each year of the bonus program will not exceed 0.38% of the issued and paid up share capital of the Bank. If the amount of PSU units exceeded the said rate, the entitlement of all those eligible would be reduced by the same proportion to the said rate ceiling.

Note 23 – Employee Rights (cont'd)

1.9. The PSU units will vest into ordinary shares of NIS 1 par value each of the Bank in three equal tranches (subject to that stated below) following the reporting of the financial results of the banking system of each of the three years after the bonus year, with the first amount of the three being blocked for a period of one additional year. The vesting of the PSU share units will be contingent upon the fulfillment of two cumulative conditions: (a) rate of return on equity for the calendar year preceding the date of vesting of the relevant tranche of PSU units was not lower than 5%; and (b) The Bank complied with all the capital adequacy ratios required by the Supervisor of Banks according to the financial statements in the calendar year preceding the vesting date of the relevant tranche.

Allocating the PSU units and their conversion into shares of the Bank, shall be made in the capital gains track under Section 102 of the Income Tax Ordinance, as specified in the bonus program.

1.10. Retirement of a senior officer and joining of a new senior officer:

1.10.1. A senior officer retiring from the Bank after reaching the age of retirement or retiring from the Bank not on his own initiative during a calendar year shall be entitled to a proportional variable annual bonus for the actual term of office during the calendar year in which his resignation occurred, insofar as he is entitled to a variable annual bonus for that year.

1.10.2. A senior officer retiring from the Bank voluntarily (not having reached retirement age) or was dismissed due to the occurrence of an event that allowed dismissal without compensation, during the calendar year, shall not be entitled to a variable annual bonus for the year of retirement.

1.10.3. A Bank employee who was promoted and appointed to the role of a senior officer in the Bank during a calendar year shall be entitled to a proportional variable annual bonus for the actual term of office during the calendar year in which the senior officer was appointed as aforesaid, insofar as he is entitled to a variable annual bonus for that year.

1.10.4. A person appointed to the role of a senior officer in the Bank during a calendar year, who was not previously an employee of the Bank, is entitled to a proportional variable annual bonus for the actual term of office in the year of appointment, insofar as he is entitled to a variable annual bonus for that year.

Note 23 – Employee Rights (cont'd)

1.11. Special bonus: in accordance with the provisions of paragraph 13(a)(2) of Proper Conduct of Banking Business Directive 301A, in exceptional and outstanding cases, the Remuneration Committee and the Board of Directors will be entitled to approve the amount of an additional variable bonus in respect of a given year for some of its officers, subject to the following conditions: (1) The additional variable bonus will be given due to an exceptional event not recurring every year, such as a one – time project, a material structural change and / or an extraordinary transaction in scope and essence, provided that the exceptional business event was defined in advance by the Board of Directors at the beginning of the year relevant to the specific office holder; (2) The total maximum variable remuneration for an office holder in the same year shall not exceed 200% of the fixed annual remuneration of that senior officer; (3) Detailed reasons will be given for the relevant decision, when a decision is made.

During the reporting period, the Board of Directors, after receiving a recommendation of the Remunerations Committee, decided on several unique and non-recurring projects whose execution is until the publication of the financial statements for the year 2015, will be entitled to a special bonus. The Board of Directors further decided that the total of the special bonuses, if all the projects will be met in full, will not exceed an aggregate amount of NIS 8 million for all the relevant office holders.

As at the date of publication of the financial statements, most of the projects were completed. However, the Remuneration Committee decided that it would be correct to discuss and decide which of the office holders would be entitled to the special bonus, whether and for what amount in relation to the ceiling decided, only in another few months, in order to ensure that meeting the projects would be on a long-term basis.

In light of this decision, a provision of NIS 8 million was included in the financial statements as at 31 December 2015 in respect of the special bonuses, without allocation of the amount of the bonuses to any of the office holders, in the absence of a decision to whom and whether the said bonus will be paid

2. Fixed annual payment to the President and CEO: the President and CEO will be entitled to a fixed annual bonus of one amount of fixed monthly remuneration. The fixed annual bonus of the President and CEO is part of the calculation of the "fixed monthly remuneration" used for calculating the variable annual bonus of the President and CEO.

3. Fixed payment to senior officers who are members of the audit and control functions: senior officers in the audit and control functions will be entitled to a fixed annual bonus of one amount of fixed monthly remuneration. Without detracting from this bonus being part of the fixed remuneration component of the senior officers in the audit and control functions, this bonus will not be part of the calculation of the "fixed monthly remuneration" used for calculating the variable annual bonus of the senior officers.

4. Signing-up bonus for a new office holder: a new office holder of the Bank may be entitled to a limited signing-up bonus for the first year of work, up to 12 amounts of fixed monthly remuneration. The Remuneration Committee followed by the Board of Directors will consider, for the purpose of making the decision on granting the said signing-up bonus and its amount, the recommendation of the President and CEO, and will consider for this purpose, inter alia, the circumstances of his appointment, the nature of the job to which he is appointed, the scope and areas of his responsibility, and so forth.

Note 23 – Employee Rights (cont'd)

5. Notwithstanding the aforesaid and in accordance with the Companies Law, an office holder will return to the Bank amounts of bonuses paid to him, if paid to him, on the basis of data found to be erroneous and restated in the financial statements of the Bank.

6. Bonuses, insofar as the office holders will be eligible for bonuses under this program, will not be taken into account for social contributions, severance, and retirement pension and will not be considered as a fringe benefit of any kind for any of the office holders.

Appropriate provisions have been made in the financial statements.

G. Allocation of PSU's to office holders in the Bank

In respect of the year 2015, 50% of the variable annual bonus will be paid in shares blocked for two years, and the remaining 50% will be granted by means of contingent PSU's to the Chairman of the Board of Directors, the President and Chief Executive Officer, and the other office holders in the Bank.

H. Update of terms of employment of key employees

On 31 March 2015, the Board of Directors of the Bank, after approval of the Remuneration Committee, approved an update in the terms of employment of key employees (as defined in Directive 301A of the Supervisor of Banks, and in the Remuneration Policy of the Bank by virtue of the said Directive 301A) and of office holders in the Bank, including the President and Chief Executive Officer, as follows:

1. Cancellation in full of the entitlement of office holders and key employees, including the President and Chief Executive Officer, to jubilee (long-service) bonuses and jubilee vacations (benefits to which office holders in the Bank are entitled according to the provisions of the employment agreements between them and the Bank), with effect from 31 December 2014, as follows:
   The accumulated rights for each office holder and key employee in respect of jubilee (long-service) bonuses and jubilee vacations, during the period of their employment in the Bank until the date of cancellation of the entitlement, namely until 31 December 2014, will be reduced, without any compensation and/or consideration, by about 45% (in a similar manner to the reduction carried out in the collective agreement for all employees of the Bank).
   The balance of the said accumulated rights for the office holder or key employee, as applicable, will be cancelled against payment of one-time compensation, in an amount equal to the balance of the accounting provision remaining in the books of the Bank at 31 December 2014, after the reduction, in respect of that office holder or key employee, as applicable. Subject to the aforesaid, the entitlement of office holders and key employees to jubilee (long-service) bonuses and jubilee vacations will be cancelled in full and the employment agreement of office holders and key employees will be amended accordingly. Accordingly, after cancelation of the said entitlements, the Bank will discontinue recording a current expense in respect of accumulating rights to jubilee bonuses and vacations for office holders and key employees.

Note 23 – Employee Rights (cont'd)

The decision to cancel jubilee (long-service) bonuses and jubilee vacations for office holders and key employees in the Bank, as stated above, was made in consideration of the provisions of Proper Conduct of Banking Business Directive No. 301A on Remuneration Policy in a Banking Corporation. This does not allow granting a variable bonus independent of performance and that is only conditional on employment (for office holders in the Bank). Pursuant to the transitional provisions of the said directive, it was possible to amend employment agreements with office holders and key employees in this matter as required in Directive 301A until the end of 2016. However, because of the arrangement with the other employees of the Bank in the framework of the collective agreement signed recently in the Bank, in which the employees to which the collective agreement applies waived their entitlement to jubilee (long-service) bonuses and jubilee vacations, it was decided to cancel, already at this stage, the entitlement of office holders in the Bank to jubilee (long-service) bonuses and jubilee vacations. In this connection it should be noted that the payment of reduced compensation to office holders and key employees againt cancellation of their entitlement to jubilee (long-service) bonuses and jubilee vacations, as explained above, does not create an accounting expense for the bank, since a salary expense was recorded over the years for office holders and key employees in the Bank for jubilee (long-service) bonuses and jubilee vacations, and, as described above, the compensation mechanism will grant office holders and key employees a payment that represents about half the accounting reserve recorded in the books of the Bank. Furthermore, in light of the cancellation of the entitlement to jubilee (long-service) bonuses and jubilee vacations for office holders and key employees, the Bank will discontinue recording a current expense in respect of the accumulation of the said rights. Pursuant to the cancelation of the entitlement to jubilee bonuses and jubilee vacations, the cancelation of an expense amounting to NIS 16 million will be recorded in the Bank's books in 2015, and an annual current expense of NIS 3 million, in respect of office-holders and key employees, will be saved.

2. The increase in salary of certain office holders in the Bank that are not directors is in effect as of 1 January 2015. Included in this, it was approved that the salary of the President and Chief Executive Officer of the Bank will be increased at the rate of 4% of the total cost of the terms of employment of the President and Chief Executive Officer in the Bank. The salary of the President and Chief Executive Officer of the Bank, after the said update, will be NIS 195,400. The said update of the terms of employment was made in accordance with the Bank’s Remuneration Policy and after the Remuneration Committee and the Board of Directors reviewed the normal cost of employment of holders of equivalent positions in comparable companies, and after they have examined the contribution of the said office holders and of the President and Chief Executive Officer to the activity of the Bank.

3. Similar to normal practice in the Bank for all the employees, by virtue of the collective agreements, the increase in the rate of the Bank’s contributions to provident funds (the employer’s contribution) for key employees and office holders of the Bank, including the long-serving office holders in the Bank who previously waived their entitlement to be included in 1st generation terms and transferred to 2nd generation terms, including for the President and Chief Executive Officer of the Bank, will be so that the rate of contributions by the Bank to provident funds (the employer’s contribution) is 7.5% of the employee’s salary for contributions (instead of 5%). The said increase in the rate of contributions to provident funds is only in respect of the part of the salary of the office holders that is not paid under 1st generation terms (if relevant). In other words, the increment will be added to the external fund without rights to a defined-benefit pension from the Bank, and only the part of salary not included in 1st generation terms.

Note 23 – Employee Rights (cont'd)

The Remuneration Committee and the Board of Directors of the Bank approved that the abovementioned update to the terms of employment constitutes an insignificant update in relation to the existing terms of office and employment of office holders in the Bank, including the President and Chief Executive Officer, as stated in Section 272(D) of the Companies Law, and that updating the said terms of employment is in the interest of the Bank, taking into consideration the contribution of the office holders and the importance of their remuneration in a manner giving them motivation to continue in their position over time. The Remuneration Committee and the Board of Directors were also of the opinion that the updates determined in the updated terms of engagement with office holders in the Bank, as set forth above, would encourage these office holders to continue investing their best efforts in the interest of the Bank, taking into account the challenges facing Bank Management in the short and the long term, and considering the work load placed upon them as part of coping on an ongoing basis with these challenges.

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

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

I. Remuneration policy for all employees

In December 2014, the Board of Directors, after receiving the approval of the Remuneration Committee, approved the remuneration policy for all the employees of the bank not covered by the remuneration policy for key employees.

The remuneration policy for all the employees of the Bank is based on the provisions of Proper Conduct of Banking Business Management Directive No. 301A of the Supervisor of Banks

The remuneration policy for all the employees of the Bank is intended to serve as a tool for promoting the meeting of the Bank's business targets, including facilitating the recruitment of quality employees to work in the Bank, to retain them in the long-term and motivate them to improve performance and achieve the business objectives and targets of the Bank, while preventing the taking of risks deviating from the risk appetite of the bank.

The remuneration policy refers to the current remuneration for employees, including salaries and salary-related benefits and bonuses, conditions of retirement and other payments to which the employees are entitled.

Note 23 – Employee Rights (cont'd)

J. Sale of Shares to Employees

In accordance with the agreements concerning the privatization of the Bank, and in accordance with agreements reached between the Accountant-General in the Finance Ministry and the employees of the Bank, an outline prospectus was published on 6 April 2011 for the offer by the State of Israel of the Bank's shares to employees of the Bank, Arab-Israel Bank Ltd., Leumi Mortgage Bank Ltd., and the Restaurant Association of Employees of Bank Le-Israel B.M. (registered association) ("the participants", "the outline prospectus").

On 17 May 2011, the purchase was completed by the participants, in accordance with and subject to arrangements and conditions detailed in the outline prospectus, of 6,339,730 shares held by the State of Israel representing 0.43% of the Bank's issued and paid-up share capital of the Bank, as at the date of publication of the outline prospectus. On 24 May 2011, the General Meeting of the Bank approved the offer of 9,442 shares to the Chairman of the Board of Directors of the Bank, and the grant of a loan by the Bank to purchase the shares. On 30 May 2011, the Bank was informed by the Ministry of Finance that on 29 May 2011, the sale of the shares to the Chairman of the Board of Directors was completed.

The price per share for purposes of the offer to participants according to the outline prospectus was NIS 13.20825 per share as at 19 January 2011, and this share price was linked to the Consumer Price Index using the "last known index" method, with the base index being the index for the month of December 2010, that was published on 14 January 2011.

The share price was NIS 13.3002797 (The price of the shares purchased by the Chairman of the Board of Directors was NIS 13.37813).

The allocation of shares to the participants and the determination of the number of shares offered each participant, was made relative to the salary serving as a basis for social provisions for those participants for the month of January 2011, in accordance with the terms of the outline prospectus. The Chairman of the Board (as stated above) and the President and CEO of the Bank are included in the participants.

The shares are blocked for a period of four years from the determining date (as defined in the outline prospectus), and are deposited with a trustee.

In addition, the Audit Committee and the Board of Directors approved the granting of loans to the participants for the purchase of the shares offered in the outline prospectus.

The value of the benefit to the employees and to the Chairman of the Board of Directors in respect of the aforesaid purchase, which was assessed by an external valuer, includes a number of components, and amounts to some NIS 13 million. This amount was recorded as a salary expense in accordance with the value of the benefit on the day it was granted and this amount remains fixed. A benefit of NIS 13 million was recorded in a capital reserve.

To finance the purchase of the shares, the Bank extended loans to the employees amounting to some NIS 43 million, with repayment in one amount at the end of the blocked period of the shares, of which loans amounting to NIS 12 million are linked to the Consumer Price Index, bearing interest at 1.55%, and loans amounting to NIS 31 million are unlinked based on the Prime rate less 0.75%. The loans are not under non-recourse conditions. The amount of the loans was deducted from the Bank's capital.

Note 23 – Employee Rights (cont'd)

K. Streamlining – Structural change

On 12 January 2016, the Banking Supervision Department published a letter on "Operational Streamlining of the Banking System in Israel" Pursuant to the letter, the Board of Directors of a banking corporation will make a multi-year streamlining outline plan. A banking corporation meeting the conditions defined in the letter will receive a relief under which it can spread the effect of the plan over five years on a straight-line basis for purposes of calculating capital adequacy.

The bank is examining a multi-year streamlining outline plan.

L. Effect of the change in the rate of tax

The effect of a decrease in payroll tax decreased the balance of liabilities to employees in the fourth quarter of 2015 by about NIS 65 million before tax, and about NIS 41 million after tax.

The change in payroll tax led to a decrease of about NIS 19 million in current salary expenses and in operating expenses for 2015 compared with 2014.

Note 23 – Employee Rights (cont'd)

B. Composition of benefits

1. Employee benefits

	As at 31 December		
	2015	2014 (a)	2013 (a)
	Unaudited		
	NIS millions		
Post-retirement benefits - pension and severance pay			
Amount of liability	**15,764**	16,256	14,367
Fair value of plan assets	**6,766**	7,041	7,119
Excess liabilities over plan assets (included under other liabilities)	**8,998**	9,215	7,248
Long-service (Jubilee) bonus			
Amount of liability	**524**	942	898
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**524**	942	898
Other benefits			
Amount of liability	**549**	499	410
Fair value of plan assets	**-**	-	-
Excess liabilities over plan assets (included under other liabilities)	**549**	499	410
Total[1]			
Excess liabilities in respect of employee rights over plan assets (included under "Other liabilities")	**10,071**	10,656	8,556
[1]Of which: in respect of employee benefits overseas	**111**	222	122

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1.

2. Defined benefit pension plan

A. Commitment and state of funding

a. Change in commitment in respect of forecast benefit

	As at 31 December		
	2015	2014 (a)	2013 (a)
	Unaudited		
	NIS millions		
Commitment in respect of forecast benefit at the beginning of the period	**16,256**	14,367	13,380
Service cost	**198**	223	209
Interest cost	**735**	838	779
Deposits of plan participants	**46**	49	53
Actuarial loss (profit)	**(701)**	1,410	493
Changes in foreign currency exchange rates	**(9)**	43	38
Benefits paid	**(641)**	(722)	(660)
Reductions, disposals, special contractual benefits in respect of dismissal including structural change	**(107)**	48	75
Amendments in the program	**(13)**	-	-
Commitment in respect of forecast benefit at the end of the year	**15,764**	16,256	14,367
Commitment in respect of accumulated benefit at the end of the year	**15,074**	15,374	13,500

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1.

Note 23 – Employee Rights (cont'd)

2. Defined benefit pension plan (cont'd)

A. Commitment and state of funding (cont'd)

2. Change in fair value of plan assets and state of funding of the plan

	As at 31 December		
	2015	2014 (a)	2013 (a)
	Unaudited		
	NIS millions		
Fair value of plan assets at the beginning of the period	**7,041**	7,119	6,897
Actual return on plan assets:	**53**	388	593
Deposits in the plan by the banking corporation	**169**	157	157
Deposits by plan participants	**46**	49	53
Changes in foreign currency exchange rates	**(11)**	36	43
Benefits paid	**(403)**	(708)	(624)
Amendments in the program	**(22)**	-	-
Reductions, disposals, special contractual benefits in respect of dismissal including structural change	**(107)**	-	-
Fair value of plan assets at the end of the year	**6,766**	7,041	7,119
State of funding - net liability recognized at the end of the year (b)	**8,998**	9,215	7,248

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1.

3. Amounts recognized in the consolidated balance sheet

	As at 31 December		
	2015	2014 (a)	2013 (a)
	Unaudited		
	NIS millions		
Amounts recognized under other assets	**-**	-	-
Amounts recognized under other liabilities	**8,998**	9,215	7,248
Liability net recognized at the end of the period	**8,998**	9,215	7,248

4. Amounts recognized in accumulated other comprehensive income (loss) before the effect of tax

	As at 31 December		
	2015	2014 (a)	2013 (a)
	Unaudited		
	NIS millions		
Net actuarial loss	**2,329**	1,958	607
Net liability in respect of transition	**-**	974	974
Closing balance in accumulated other income	**2,329**	2,932	1,581

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1.

Note 23 – Employee Rights (cont'd)

B. Expense for the period

1. Benefit cost components included in profit and loss

	For the year ended 31 December		
	2015	2014 (a)	2013 (a)
	Unaudited		
	NIS millions		
Service cost	198	223	209
Interest cost	735	838	779
Forecast return on plan assets	(392)	(380)	(570)
Amortization of amounts not recognized - net actuarial loss	206	53	16
Reductions, disposals, special contractual benefits in respect of dismissal	9	48	75
Other	30	-	-
Total cost of benefit, net	786	782	509

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1.

2. Changes in plan assets and commitment for benefit recognized in other comprehensive income (loss) before the effect of tax

	For the year ended 31 December		
	2015	2014 (a)	2013 (a)
	Unaudited		
	NIS millions		
Net actuarial loss (profit) for the year	(362)	1,402	471
Amortization of amounts not recognized - net actuarial profit	(206)	(53)	(16)
	-	-	-
	-	-	-
Changes in foreign currency exchange rates	(35)	2	1
Total recognized in other comprehensive income	(603)	1,351	456
Net cost of benefit	786	782	509
Total recognized in cost of benefit, net, for the year and in other comprehensive income	183	2,133	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 2016 before the effect of tax

	For the year ended 31 December 2016
	Audited
	NIS million
Net actuarial loss	226
Total expected to be amortized from accumulated other comprehensive income	226

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1.

Note 23 – Employee Rights (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 31 December

1. Basic assumptions used for determining the commitment in respect of the benefit

	For the year ended 31 December		
	2015	2014	2013
	Unaudited		
	%		
Discount rate	**2.68%**	2.63%	3.26%
CPI discount rate	**1.78%**	2.20%	2.74%
Employee turnover rate	**0.1%-3.7%**	0.1% - 2%	0.1%-2%
Rate of growth of remuneration	**0%-6.3%**	0.8% - 7.2%	0.8%-7.2%

2. Basic assumptions used for measuring the cost of the benefit net for the period

	For the year ended 31 December		
	2015	2014	2013
	Unaudited		
	%		
Discount rate	**2.91%**	3.26%	3.41%
Long term forecast return on plan assets	**5.50%**	5.32% (b)	8.25% (b)
Rate of growth in remuneration	**0%-6.3%**	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 1.D.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 31 December			As at 31 December		
	2015	2014	2013	**2015**	2014	2013
	NIS millions					
Discount rate	**(2,059)**	(2,081)	(1,795)	**2,577**	2,630	2,268
CPI discount rate	**(206)**	(242)	(281)	**210**	247	290
Employee turnover rate	**237**	277	275	**(256)**	(238)	(234)
Rate of growth in remuneration	**661**	745	698	**(585)**	(662)	(620)

(a) The assumptions relate to data of the Bank only.

Note 23 – Employee Rights (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).

4. Plan assets

A. Composition of the fair value of plan assets

	As at 31 December			
	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	NIS millions			
Cash and deposits in banks	**144**	**9**	**30**	**183**
Shares	**2,223**	**97**	**43**	**2,363**
Government bonds	**1,694**	**201**	**-**	**1,895**
Corporate bonds	**1,723**	**115**	**-**	**1,838**
Other	**192**	**142**	**153**	**487**
Total	**5,976**	**564**	**226**	**6,766**

	As at 31 December			
	2014			
	Level 1	Level 2	Level 3	Total
	NIS millions			
Cash and deposits in banks	167	15	22	204
Shares	2,196	98	12	2,306
Government bonds	2,067	115	-	2,182
Corporate bonds	1,555	240	-	1,795
Other	266	121	167	554
Total	6,251	589	201	7,041

B. The fair value of plan assets by type of assets and target for allocation in 2016

	Allocation target	Percentage of plan assets	
		As at 31 December	
	2016	**2015**	2014
	Percentage		
Cash and deposits in banks	**2%**	**3%**	**3%**
Shares	**36%**	**35%**	**33%**
Government bonds	**25%**	**28%**	**31%**
Corporate bonds	**30%**	**27%**	**25%**
Other	**7%**	**7%**	**8%**
Total	**100%**	**100%**	**100%**

(a) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1.

Note 23 – Employee Rights (cont'd)

4. Plan assets (cont'd)

C. Cash flows

1. Deposits

	Forecast	Actual deposits		
		For the year ended 31 December		
	2016(a)(b)	2015	2014	2013
	Unaudited			
	NIS millions			
Deposits	**171**	215	206	210

(a) Estimate of deposits that the Bank expects to pay into a defined benefit pension plan during the remainder of 2015.

2. Benefits that the Bank expects to pay in the future

Year	NIS millions
2016	578
2017	578
2018	610
2019	662
2020	689
2021-2025	4,217
2026 and thereafter	10,696
Total (a)	18,030

(a) In discounted values.

Note 24A – Capital

A. Share capital

	31 December 2015		31 December 2014	
	Authorized	Issued and paid (a)	Authorized	Issued and paid(a)
	NIS		NIS	
Ordinary shares of NIS 1.0 each	**3,215,000,000**	**1,473,797,649**	3,215,000,000	1,473,551,221

(a) All shares issued are registered in the names of the shareholders. Shares that have been or will be issued have been or will be converted into ordinary stock which is transferable in units of NIS 1.0.

The ordinary stock is listed on the Tel-Aviv Stock Exchange.

NIS 400.000,000 par value deferred index-linked deposits/capital notes (unquoted), issued in June and July 2002, and repayable in June and July 2101, and that were recognized by the Bank of Israel as Upper Tier 2 capital of the Bank, are convertible, in certain circumstances defined by the Supervisor of Banks, according to the conversion formula as set out in the conditions of the deposit / capital note, to 148,458,273 ordinary shares of the Bank, as of the date of the report.

NIS 925,750,000 par value subordinated notes (Series 400) were issued by the Bank on 21 January 2016, and are convertible to 147,492,625 ordinary shares of the Bank. For further details in connection with the conversion of subordinated notes (Series 400) to the shares of the bank, see the Trust Deed for the subordinated notes (Series 400), which constitutes an appendix to the shelf prospectus report published on 20 January 2016 (Ref. 2016-01-014872).

For details of the program for allocation of shares to Bank employees of up to 180,077,000 ordinary shares of the Bank against the conversion of accumulated rights of the employees. See paragraph D. below.

B. Share-based Remuneration Plan

On 11 February 2014, the General Meeting of the Bank, approved the remuneration policy for office holders in the Bank for the years 2013-2016, after obtaining the approval of the Board of Directors pursuant to the approval and recommendation of the Remuneration Committee. The Remuneration Policy is based on Amendment 20 of the Companies Law regarding terms of office and employment of office holders in the Bank and on that stipulated in the new Proper Conduct of Banking Business Directive 301A concerning remuneration policy in a banking corporation.

As part of the approval of the performance-contingent annual bonus for office holders in the Bank for 2013 and pursuant to the above remuneration policy, the Remuneration Committee and the Board of Directors of the Bank in March 2014 approved the allocation for no payment of 657,869 Performance Share Units ("PSU units"), to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank, in an equity track with the Trustee under Section 102 of the Income Tax Ordinance. Accordingly, the Bank issued on 13 April 2014 the above PSU units in the name of the Trustee, ESOP Management and Trust Services Ltd. ("the Trustee"). As set forth in the Private Offering Report published by the Bank on 31 March 2014 ("Private Offering Report"), and under the terms stated therein, the aggregate fair value of all the said PSU units amounts to about NIS 8.97 million.

Pursuant to the provisions of the remuneration policy, the rate of the overall cumulative amount of the PSU units to be allocated to all the senior officers (the Chairman of the Board of Directors, the President and Chief Executive Officer, and members of Bank Management) in respect of all the years covered by the bonus plan (2013 to 2016) will not exceed 0.38% of the issues and paid-up share capital of the Bank (see Note 23.F).

Note 24A – Capital (cont'd)

The vesting of the PSU units will be in three equal tranches and is contingent on the business results of the Bank in each of the three calendar years 2014, 2015 and 2016, pursuant and subject to that stated and the terms set forth in the Bank's remuneration policy, and set forth in the Private Offering Report, whereby subject to the fulfillment of all the terms in relation to the vesting date, each PSU unit will be converted automatically to 1 ordinary share of NIS 1 par value each of the Bank, on reaching each vesting date.

In March 2014, the Remuneration Committee and the Board of Directors of the Bank approved the allocation for no payment of 81,414 Restricted Share Units (RSU), for two office holders in the Bank, in an equity track with the Trustee under Section 102 of the Income Tax Ordinance, pursuant to the provisions of the Remuneration Policy regarding the granting of signing rights to a new office holder, and as set forth in the Private Offering Report. Accordingly, the Bank issued on 13 April 2014 the above RSU units in the name of the Trustee. As set forth in the Private Offering Report and under the terms stated therein, the aggregate fair value of all the said RSU units amounted to about NIS 1.1 million.

The vesting of the RSU units will be in three equal tranches and is contingent on the continued employment of each of the office holders who are offerees in the Bank or in the banking group, at the vesting date of each of the tranches, pursuant and subject to that stated and the terms set forth in the Private Offering Report, whereby in the event of fulfillment of the said term, each RSU unit will be converted automatically to 1 ordinary share of NIS 1 par value each of the Bank, on reaching each vesting date.

If the terms set for the vesting of PSU units and RSU units into shares are not met at any of the vesting dates, the units which were to have been vested at that date will expire and become void, and all their associated rights will expire and become void.

The PSU units and RSU units allocated as above are not quoted, and pursuant to the approval of the Tel-Aviv Stock Exchange Ltd. ("the Stock Exchange"), the shares deriving from the vesting of the above units will be listed for trading on the Stock Exchange in the name of the nominee company of Bank Leumi Le-Israel B.M.

Shortly after approval of the 2015 financial statements, the Board of Directors is expected to approve, after receiving the approval of the Remuneration Committee, the issue of PSU units to office holders in the bank, pursuant to remuneration policy that stipulates that half of the variable bonus to office holders will be paid by PSU units to be issued, as set out above.

C. Changes in the Bank's equity

1. On 13 April 2014, the Bank issued 657,869 Performance Share Units (PSU), in the name of the trustee, ESOP Management and Trust Services Ltd. (**"the Trustee"**), to the Chairman of the Board of Directors, the President and Chief Executive Officer, and other office holders in the Bank. If all the terms are met for exercising the said PSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering published by the Bank on 31 March 2014 ("Private Offering Report"), the said PSU units will vest into 657,869 ordinary shares of NIS 1 par value each of the Bank, which will constitute about 0.045% of the issued and paid-up capital of the Bank in the date of issuing the units.

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 restricted shares according to the number of PSU units that vested on that date. The second vesting date of the PSU units is expected to be after the date of publication of the financial statements.

On 13 April 2014, the Bank issued 81,414 Restricted Share Units (RSU), in the name of the trustee, for two office holders in the Bank. If all the terms are met for exercising the said RSU units at each of the vesting dates, as stated in detail in the Report of the Private Offering, the said RSU units will vest into 81,414 ordinary shares of NIS 1 par value each of the Bank, which will constitute about 0.005% of the issued and paid-up capital of the Bank. At the date of publication of these statements no date had arrived for vesting into shares of the Bank for any of the RSU units.

The condition was met for the vesting of the first third of the RSU (which were allocated in 2013), hence, a third of the RSU vested into restricted shares. Accordingly, on 15 April 2015 vested restricted shares were allocated to two officers holders pursuant to the number of RSU units as of that date; the second vesting date of the RSU units is expected to be after the publication of the financial statements.

If the terms set for the vesting of PSU units and RSU units into shares are not met at any of the vesting dates, the units which were to have been vested at that date will expire and become void, and all their associated rights will expire and become void.

Pursuant to the remuneration policy, the shares allocated due to vesting of the PSU and RSU as mentioned were deposited with the Trustee of the Remuneration Plan and they are restricted for one year.

Regarding the expected issuance of the PSU units immediately following the approval of the 2015 financial statements, see Section B. above.

2. 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 restricted PSU units and restricted 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.

3. In January 2016, 925,750,000 COCO-type subordinated notes (series 400) were issued, which include a mechanism for the absorption of loss of principal. whereby in certain situations the subordinated notes will be converted into ordinary shares of the Bank. For additional details see Note 35.D.

D. Outline of share issue to employees

On 17 February 2016, a special collective agreement was signed by the representatives of the Bank's employees and the Bank, under which the rights set out below that accrued in favor of the Bank's employees, will be converted into shares of the Bank to be issued to employees for the same amount as the rights, based on the amount in which those rights are recorded in the books of the Bank, and as described below.

Entering into an undertaking in the special collective agreement was made after receiving the approval of the Remuneration Committee and the Board of Directors of the Bank. The special collective agreement requires the signature of the New Histadrut Labor Organization.

The issuance of the shares will be at the market price of the shares on the date of publication of an outline plan (or another date to be determined in the outline plan), which will be required for purposes of carrying out the issuance. The issuance of the shares will be carried out in exchange for a waiver by the employees on the rights that are converted that are recorded in the books of the Bank, for an amount of the value of the shares to be issued. The shares to be issued will be blocked for two years.

The rights to be converted into shares:

1.1 Annual bonus for the year 2015, insofar as it will be approved. This conversion will apply for all the employees.

1.2 Voluntary conversion of up to 25% of pension rights ("defined-benefit pension"), accumulating in favor of the employees entitled to the same, to shares of the Bank, in exchange for a waiver of rights to that amount, as the rights are recorded in favor of the employee in the books of the Bank, as at 31 December 2015, except for utilizing a discount rate of 3.5%, instead of a discount rate of about 2.68%, which was utilized pursuant to the directives of the Bank of Israel. Every employee under a "first generation" arrangement, who is entitled to a "defined-benefit pension", will be entitled to choose the percentage of the rights to be converted into the shares of the bank. Employee whose salary for purposes of social contributions does not exceed NIS 10,000 for the month of December 2015, will not be entitled to convert the aforementioned rights.

1.3 The conversion of the eligibility recorded in the books of the Bank to "Jubilee" bonuses and "Jubilee" vacations that accrued in favor of the employees to "Jubilee" bonuses, will apply to "Jubilee" bonuses whose date of payment of from 1 January 2017. This conversion is to be carried out for all the employees eligible for "Jubilee" bonuses, as the rights in favor of the employee appear in the Bank's books, as at 31 December 2015, except for using a discount rate of 3.5%, instead of 2.68% which was used pursuant to Bank of Israel directives.

Insofar as the total amount of the rights available for conversion exceed NIS 1.15 billion (herein: "the target amount for conversion"), a partial conversion will be carried out (or no conversion will be carried out) of the rights to "Jubilee" bonuses and "Jubilee" vacations, unless a separate agreement will be reached with the representatives of the employees.

The Bank intends to apply the conversion of the relevant rights also to managers employed by the Bank under personal contracts.

On 18 February 2016, the Bank published an outline plan for issuance of shares to the employees, to carry out that stated in the special collective agreement. Pursuant to the outline plan, employees will be able to convert rights as set out in paragraph 1.2 above from 8 March 2016 and at the end of the response period determined, the issuance of shares is expected to take place.

Note 24A – Capital (cont'd)

As detailed in the outline published by the Bank, assuming theoretically that there will be full compliance with the offer to convert rights with discretion, as detailed in Section 1.2 above, if all the longstanding employees convert 25% of their defined-benefit pension into the shares of the Bank, it will convert rights in the total of NIS 2.35 billion into shares of the Bank and, in such situation, based on the closing price of the Bank's shares on the Stock Exchange on 17 February, 2016 (NIS 13.05), up to 180,077,000 shares will be issued to the employees ((henceforth: "**The maximum number of shares**"). Subject to the assumptions and explanations as detailed in the outline, after allocating the shares of the plan, the maximum number of shares will be about 10.89% of the voting rights and from the fully diluted issued and paid up capital of the Bank.

E. Dividend

The Bank did not distribute dividends in respect of the years 2012-2015.

Restrictions on the distribution of dividends

In addition to restrictions under the Companies Law, an amendment was issued on 15 January, 2013 to the Proper Conduct of Banking Business Directive No. 331 concerning dividend distribution by banking corporations. In light of requirements added in recent years to the Public Reporting Directives making it mandatory to record certain profits and losses of the Bank in other comprehensive income and not in profit and loss, the tests for distributing a dividend were updated. Pursuant to the update, "distributable profits" include elements of other comprehensive income, and the Bank shall not carry out a dividend distribution (unless it received prior approval from the Supervisor), inter alia:

- When the cumulative balance of retained earnings, net of negative differences included in cumulative other comprehensive income is not positive, or if the amount of the proposed distribution would cause such a balance of retained earnings;

- When one or more of the last three calendar years ended in a loss or in a comprehensive loss;

- When the cumulative result of the three quarters ended at the end of the interim period for which the last financial statement has been published indicates a loss or a comprehensive loss.

It was further established that the Bank shall not perform distributions from capital reserves or from positive differences included in the statement of cumulative other comprehensive income.

The amendment came into effect as of 1 January 2013.

Furthermore, in the letter of the Supervisor of Banks on the subject of capital policy for interim periods, it was determined that a banking corporation shall not distribute a dividend if it does not have a core capital ratio of at least 7.5%, or if such distribution would cause a failure to comply with the aforesaid ratio. In the letter of the Banking Supervision Department, concerning minimum core capital ratios under Basel 3, the banks were required, inter alia, to refrain from distributing a dividend if as a result it may not meet the capital targets required in it.

Notwithstanding the above, in certain cases the Bank can distribute dividends even if the aforesaid circumstances apply, if it obtains prior written approval of the Supervisor of Banks for such distribution, up to the amount thus approved.

Note 24B – Capital Adequacy, Leverage and Liquidity

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.

Note 24B – Capital Adequacy, Leverage and Liquidity (cont'd)

	31 December 2015		31 December 2014 (a) (f)
	NIS millions		
A. Consolidated data			
Capital for purposes of calculating capital ratio			
Tier 1 capital, after regulatory adjustments and deductions	**29,001**		27,723
Tier 2 capital, after deductions	**12,593**		14,684
Total capital	**41,594**		42,407
Weighted balance of risk assets			
Credit risk	**277,034**		273,881
Market risk	**5,167**		10,839
Operational risk (b)	**20,432**		20,317
Total weighted balances of risk assets	**302,633**		305,037
Ratio of capital to risk components			
Ratio of Tier 1 capital to risk components	**9.58%**		9.09%
Ratio of total capital to risk components	**13.74%**		13.90%
Ratio of minimum Tier 1 capital required by the Supervisor of Banks (c)	**9.10%**	(e)	9.00%
Ratio of total minimum capital required by the Supervisor of Banks (c)	**12.60%**	(e)	12.50%
B. Major subsidiary companies			
Arab Israel Bank			
Ratio of Tier 1 capital to risk components	**12.13%**		12.15%
Ratio of total capital to risk components	**13.22%**		13.24%
Ratio of minimum Tier 1 capital required by the Supervisor of Banks (c)	**9.00%**	(e)	9.00%
Ratio of total minimum capital required by the Supervisor of Banks (c)	**12.50%**	(e)	12.50%
Leumi Card Ltd.			
Ratio of Tier 1 capital to risk components	**16.89%**		16.20%
Ratio of total capital to risk components	**17.82%**		17.20%
Ratio of minimum Tier 1 capital required by the Supervisor of Banks (c)	**9.00%**		9.00%
Ratio of total minimum capital required by the Supervisor of Banks (c)	**12.50%**		12.50%
Bank Leumi USA (d)			
Ratio of Tier 1 capital to risk components	**12.33%**		11.02%
Ratio of total capital to risk components	**15.13%**		13.45%
Ratio of total minimum capital required by the local authorities	**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 1 January 2015, 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 10.27% and 13.77%, respectively.

(f) Restated pursuant to retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development costs. See Note 1.D.2.

Note 24B – Capital Adequacy, Leverage and Liquidity (cont'd)

C. Capital components for purposes of calculating the capital ratio

	31 December 2015	1 January 2014
	Basel III (a)	
	NIS millions	
C. Capital components for purposes of calculating the capital ratio		
1. Tier 1 shareholders' equity		
Equity attributed to shareholders of the Bank	**28,767**	27,736 (b)
Differences between equity attributed to shareholders of the Bank and Tier 1 shareholders equity - minority interests	**262**	303
Differences between equity attributed to shareholders of the Bank and Tier 1 shareholders equity - in respect of employee benefits	**894**	-
Tier 1 shareholders' equity before regulatory adjustments and deductions	**29,923**	28,039
Regulatory adjustments and deductions:		
Goodwill and intangible assets	**(273)**	(189)
Deferred tax assets	**(643)**	(125) (b)
Equity investments in financial corporations that are not consolidated in reports to the public	**-**	-
Regulatory adjustments and deductions - Tier 1 shareholders' equity	**(6)**	(2)
Total regulatory adjustments and deductions - Tier 1 shareholders' equity	**(922)**	(316)
Total Tier 1 shareholders' equity, after regulatory adjustments and deductions	**29,001**	27,723
2. Tier 2 capital		
Tier 2 capital: instruments before deductions	**9,450**	11,640
Tier 2 capital: provisions before deductions	**3,143**	3,044
Total Tier 2 capital before deductions	**12,593**	14,684
Deductions:	**-**	-
Total deductions - Tier 2 capital	**-**	-
Total Tier 2 capital	**12,593**	14,684

(a) Calculated pursuant to Proper Conduct of Banking Business Directives Nos. 201-211, 299 on "Capital Measurement and Adequacy" applicable from 1 January 2014.

(b) Restated pursuant to retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development costs. See Note 1.D.2.

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

	31 December 2015	31 December 2014 (b)
	Audited	Unaudited
	Percentage	
Ratio of capital to risk components		
Ratio of Tier 1 shareholders' equity to risk components before application of the effect of transitional directives (a)	**8.93%**	7.82%
Effect of the transitional directives	**0.65%**	1.27%
Ratio of Tier 1 shareholders' equity to risk components	**9.58%**	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 retroactive implementation of the directives of the Supervisor of Banks on capitalization of in-house software development costs. See Note 1.D.2.

Note 24B – Capital Adequacy, Leverage and Liquidity (cont'd)

E. Leverage ratio pursuant to the Directives 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.

Note 24B – Capital Adequacy, Leverage and Liquidity (cont'd)

	31 December 2015
	Unaudited
	NIS millions
A. In consolidated terms	
Tier 1 capital	**29,001**
Total exposures	**462,680**
Leverage ratio	
Leverage ratio	**6.27%**
Minimum leverage ratio required by the Supervisor of Banks	**6.00%**
C. Major subsidiary companies	
Arab Israel Bank	
Leverage ratio	**8.62%**
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**
Leumi Card Ltd.	
Leverage ratio	**11.66%**
Minimum leverage ratio required by the Supervisor of Banks	**5.00%**
Bank Leumi USA	
Leverage ratio	**9.98%**

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

F. Liquidity cover ratio pursuant to the directives of the Supervisor of Banks

On 28 September 2014, the Supervisor of Banks published a circular in which was added Proper Conduct of Banking Business Management Directive No. 221 on the liquidity coverage ratio that adopts the recommendations of the Basel Committee on the subject of the liquidity cover ratio in the banking system in Israel.
The liquidity cover ratio examines a horizon of 30 days in a stress scenario and is intended to ensure that a banking corporation has an inventory of high-quality liquid assets that provide a response to the liquidity requirements of the corporation in this time horizon.

The stress scenario set forth in the directive includes a shock combining a shock specific to the corporation with a systemic shock, and in this context standard withdrawal rates were defined for outgoing cash flows and deposit rates of incoming cash flows in accordance with the categories of the various balances.

The liquidity cover ratio came into effect on 1 April 2015.

Pursuant to the transitional provisions, commencing on 1 April 2015, the minimum requirement will be set at 60% and will increase to 80% on 1 January 2016, and to 100% on 1 January 2017 and thereafter. However, in a period of financial pressure, a banking corporation can go below these minimum requirements.

In addition, on 28 September 2014, a circular was published by the Banking Supervision Department on the subject of a Temporary Provision – Implementation of a Disclosure Requirement under the Third Pillar of Basel – Disclosure in respect of the Liquidity Cover Ratio. In the framework of the circular, the Public Reporting Directives were amended to incorporate the disclosure requirements that the banks will be required to include as part of adopting the liquidity cover ratio.

Note 24B – Capital Adequacy, Leverage and Liquidity (cont'd)

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 31 December 2015
	Unaudited
	Percentage
A. In consolidated terms	
Liquidity cover ratio	**105%**
Minimum liquidity cover ratio required by the Supervisor of Banks	**60%**
B. In terms of the banking corporation	
Liquidity cover ratio	**103%**
Minimum liquidity cover ratio required by the Supervisor of Banks	**60%**
C. Major subsidiary companies	
Arab Israel Bank	
Liquidity cover ratio	**253%**
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.

Note 25 - Contingent liabilities and special commitments

A. Off-balance sheet commitments for transactions based on extent of collections [(a)]

Balance of credit from deposits based on extent of collections [(b)]

	31 December 2015	31 December 2014
	NIS millions	
Israeli currency unlinked	**454**	820
Israeli currency linked to the CPI	**2,039**	3,087
Foreign currency	**27**	155
Total	**2,520**	4,062

Cash flows in respect of collection commissions and interest margins on activities based on the extent of collections as at December 31:

	Up to one year	One to three years	Three to five years	Five to ten years	Ten to twenty years	More than twenty years	Total 2014	Total 2013
	NIS millions							
CPI linked sector (c)								
Cash flows of futures contracts	**21**	**25**	**22**	**28**	**9**	**-**	**105**	**158**
Expected future cash flows after management estimate of early repayments	**21**	**25**	**22**	**28**	**8**	**-**	**104**	**156**
Discounted expected future cash flows after management estimate of early repayments (d)	**21**	**24**	**20**	**24**	**6**	**-**	**95**	**139**
Unlinked shekel sector								
Cash flows of futures contracts	**8**	**2**	**2**	**2**	**-**	**-**	**14**	**17**
Expected future cash flows after management estimate of early repayments	**8**	**2**	**2**	**2**	**-**	**-**	**14**	**17**
Discounted expected future cash flows after management estimate of early repayments (d)	**8**	**2**	**2**	**2**	**-**	**-**	**14**	**16**

(a) Credit and deposits out of deposits returnable upon repayment of the credit (or the deposits) with interest margin or with collection commission (instead of interest margin).

(b) Standing loans and government deposits given in respect thereof in the amount of NIS 146 million (previous year - NIS 204 million) are not included in this table.

(c) Including foreign currency sector.

(d) Discounting was at the rate of 2.73% (2014 – at the rate of 2.45%).

Note 25 - Contingent liabilities and special commitments (cont'd)

Information on loans granted during the year by mortgage banks:

	2015	2014
	NIS millions	
Information on loans granted during the year by mortgage banks:		
Loans from deposits on collection basis	**11**	32
Standing loans	**10**	15

B. Other contingent liabilities and special commitments:

	2015	2014
	NIS millions	
(1) Long-term rental contracts - rental of buildings, equipment and motor vehicles and maintenance in respect of commitments payable in following years		
First year	**295**	227
Second year	**203**	186
Third year	**179**	169
Fourth year	**148**	151
Fifth year	**122**	118
After five years	**896**	717
Total long-term rental contracts	**1,843**	1,568
(2) Commitments to purchase securities	**466**	724
(3) Commitments to invest in and acquire buildings and equipment	**353**	31

C. Legal claims

In the regular course of business, legal claims have been filed against the Bank and certain consolidated companies, including petitions for approval of class actions.

In the opinion of the Management of the Bank and the managements of the consolidated companies, 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 72 million.

1. Below are details of claims, including the petitions for approval of class actions, that have been filed against the Bank and against the consolidated companies in which the amount claimed is material. In the opinion of the Management of the Bank and 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)

A. 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. On 20 December 2015, the Central District Court decided to dismiss outright the petition and to approve the claim as a class action, and on 14 January 2016, an appeal was filed against this decision.

B. On 11 February 2015, a petition was filed in the Tel Aviv District Court to approve a class action against the Bank for an amount claimed of NIS 2.3 billion. According to the petition, the Bank allegedly managed a "black list" of customers according to which it marks customer with an asterisk in the Bank's systems, for an unlimited period, in a manner that harms or 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, in which it was explained that inter alia the Bank operates according to the requirements of the Proper Conduct of Banking Business Directives regarding credit risk management.

C. On 21 April 2015, a petition was filed in the Tel Aviv-Jaffa District Court for approval of a class action against the Bank. The claim pertains to the claim of the 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.

D. On 28 April 2015, a petition was filed in the Tel Aviv District Court for approval of a class action against the Bank and against an insurance company that insured the 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.

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.

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). The arrangement is in its final stages of completion.

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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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 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

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 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 3 January 2008, 260 identical claims were filed in the Tel Aviv-Jaffa Magistrates' Court against the Bank and receivers who had been appointed by the court. The amount of the claims ranges from some NIS 787,000 to some NIS 1.3 million. Pursuant to the Court's ruling, the proceedings for all of the abovementioned claims were combined, and they will be heard as one claim. The aggregate amount of the claims is some NIS 276 million. The plaintiffs are the purchasers of vacation apartments in the Nofit Hotel project in Eilat. According to the plaintiffs, the Bank and the receivers were negligent in supervising the project and refrained from financing the guarding fees, and, as a result, the plaintiffs suffered significant damages, including a decline in the value of the apartments. These claims are in addition to five other claims that were filed against the Bank on the same grounds, and are being heard separately. The total amount of all the claims in connection with this project is some NIS 288.6 million. On 11 March 2014, a verdict was handed down rejecting most of the appeal, and accepting the Bank's claims in full regarding rejection outright due to a final judgment. However, the Court returned the case to the Magistrates Court to examine whether to allow filing an amended claim on the grounds that there was no final 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. On 7 December 2015, the plaintiffs filed an appeal against the decision of the Court to the Supreme Court.

F. 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 payments that were paid by customers of the Bank against whom collection proceedings are being conducted, and who made payments directly to files in the Execution Office, were updated in their bank account at a date later than the date of payment. As a result of the delay in updating payments in the bank account, the plaintiffs were charged excessive interest charges.

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, after the position of the Attorney General was submitted, it was proposed to consider the appointment of a CPA to examine if any damage had been caused to customers. A petition was filed on behalf of the banks to allow the filing of a third party notice against the Enforcement and Collection Authority.

G. In February and March 2013, the liquidator of the companies in a real-estate group filed claims against the Bank, against additional banks, and against additional entities and individuals, with the Jerusalem District Court, by means of their special manager.

The special manager claims, inter alia, that the bank (and other defendants) allowed the leakage of funds from the accounts of the companies to other accounts related to the group, and that the Bank aided in the execution of "window dressing " at quarter ends in a manner facilitating the concealment of the thefts, as claimed by the special manager, from the companies, and the prevention of their exposure in the financial statements of the companies. The bank has filed its statements of defense.

In the claims submitted, amounts of about NIS 46 million and NIS 75 million are claimed, with the addition of linkage and interest differentials to be decided by the Court, and according to the calculation of the special manager, the amounts of the claim with the additions of the aforesaid linkage and interest differentials up to the date of filing the claims are about NIS 63 million and NIS 102 million, respectively, and in respect of these linkage and interest differentials, the special manager paid an additional court fee.

In addition, additional proceedings are taking place that were submitted by the special manager on behalf of another company in the group, on other grounds.

H. 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. 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.

I. On 27 November, 2013, a petition for approval of a class action was filed in the Central District Court against the Bank, claiming that the Bank calculates incorrectly the theoretical value of options traded on the Tel Aviv Stock Exchange. According to the petitioners, the Bank uses the Black & Scholes mathematical model, which is the model relevant for determining the value of the option, but inserts an erroneous element regarding the expiry date of the option, adding an extra value date to this element. According to the petitioners, they cannot accurately assess the damages, but estimate it to be tens of millions of shekels.

J. On 2 December 2013, a petition was filed in the Central District Court for approval of a class action against the Bank, on the matter of an early repayment fee non-housing loans. According to the petitioner, early repayment fee calculations by the Bank, both in the case of loans for which calculation principles apply that are set out in Proper Conduct of Banking Business Directives, and in the case of loans for which principles apply that were set by the Bank, are not made lawfully. The petitioner claims that she is unable at this stage to assess the 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.

K. On 9 March 2014, a petition was filed in the Tel Aviv District Court to approve a class action against the Bank without specifying the amount claimed. According to the plaintaiff, the Bank collects money from customers unlawfully in two cases. The first is when the Bank allows customers to exceed the credit limit and debits customer accounts with a fee in the amount of NIS 53 in respect of delivering a warning letter of the deviation from the credit limit. Second, "non-approved" deviations from the credit limit are merged into the excess debit balance in the account resulting in the charging of the the maximum rate of interest.
The Bank has filed its response to the petition.

L. 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 lenders' 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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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.

M. On 18 March 2014, a petition was filed in the Central District Court for approval of a class action against the Bank for an asserted amount of about NIS 155 million. According to the plaintiff, as part of the deducting of tax at source carried out by the Bank in securities transactions executed through it, the Bank's computer systems calculate long capital gains and / or short capital losses unlawfully. The incorrect data are presented to customers in the Leumi Trade system and the simulator existing in the system. The "group" for purpose of the proceedings is: 1. anyone who executed securities trading through Leumi Trade, and for whom, within the deduction of tax at source a long capital gain and / or a short capital loss was calculated. 2. anyone who was presented by the Bank and / or by the Leumi Trade system with incorrect representations about capital gains and / or capital losses reflected in securities owned by him. According to the plaintiff, the aggregate damage caused to members of the first group is about NIS 79 million, and the aggregate damage caused to the members of the second group is about NIS 76.5 million. The Bank has filed its response to the petition.

N. 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, in which the amount claimed is material, which 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 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.

B. 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.

C. On 11 February 2016, petition for approval of a class action was filed with the Tel Aviv District Court against the Bank and against four other banks. The action relates to the petitioner's claim that the banks give various benefits in student accounts, but restricts the age of the students eligible for the benefits, which the petitioner claims is contrary to the law. The petitioner claims personal damages of NIS 11 thousand, and the amount of the claim for the whole group the petitioner wishes to represent in the class action against the five banks together is estimated at NIS 219 million.

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 23 June 2009, a petition for approval of a class action was filed with the Tel Aviv-Jaffa District Court against Standard & Poors Ma’alot Ltd., Keshet Debentures Ltd. (“Keshet”), Bank Leumi le-Israel Trust Company ("the Trust Company"), and six additional defendants. The amount claimed against all the respondents in the class action stands at some NIS 286 million. The complaint makes no clear attribution of a specific claimed amount against any of the respondents. The petition for approval refers to debentures issued by Keshet, backed up by notes issued by Lehman Brothers Bankhaus AG. The petitioner claims that on the collapse of Lehman Brothers, the price of the debenture collapsed and trading was suspended. Regarding the Trust Company, which served as the trustee for the holders of the debentures issued by Keshet, the petitioner alleges that it did not take various actions to prevent or reduce, according to the petitioner, the damage he alleges was caused to the debenture-holders. The Trust Company has filed its response to the petition for approval of the claim as a class action. On 8 February 2016, the parties signed a settlement agreement that was submitted to the Court on 9 February 2016, under which the respondents together will pay an amount of NIS 7,865,000 (plus V.A.T. in respect of the component for professional fees of the plaintiffs' attorney). The Trust Company's part of the payment is NIS 195,000. The agreement is subject to approval of the Court.

B. 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.H above.

C. 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. The amount of the claim was amended to about NIS 267 million.

Note 25 - Contingent liabilities and special commitments (cont'd)

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.

5. For details of legal proceedings on the matter of the US customers, see paragraph H.1.E in this Note.

D. The Bank is a guarantor for members of some of the provident funds that were managed by Leumi Capital Market Services Ltd. (formerly Leumi Gemel Ltd.), whose operations were sold to Psagot Provident Funds Ltd. ("Prizma"). The guarantee secures the repayment of the original principal amounts that were deposited amounting on 31 December 2015 to some NIS 2,326 million in nominal values. The value of the assets of the above funds at 31 December 2015 amounts to NIS 5,306 million. In addition, this guarantee does not apply to deposits in accounts that were opened in the above funds from 22 January 2007.

Against the aforesaid liability, Prizma undertook that, in the event the guarantees or any part of them are realized, it would pay the Bank participation in an amount not exceeding NIS 35 million per calendar year, this amount being linked to the Israeli CPI of 30 October 2006 - and until the payment date. A participation amount that is not utilized in a certain year will not be carried forward to future years.

E. Consolidated companies of the Bank which serve as trust companies, as well as a number of banking subsidiaries, perform trust operations. Such operations include mainly trusteeship over funds, securities and real estate; the handling of donations, gifts and bequests; acting as agent in regard to deposits and loans; handling of share transfers; and management of investment accounts. Some of these companies also act as trustees for debenture holders.

F. **Letters of indemnity**

1. The Bank has undertaken in advance to indemnify the office holders in the Bank and personal managerial contract holders in the Bank who are not officers of the Bank ("the managerial contract holders") with respect to the duties they fulfill with the Bank and in the subsidiaries and other companies on behalf of the Bank and in respect of a list of events as is the generally accepted practice in the banking system in Israel, including, *inter alia*, the routine banking activity of the Bank, an offer of securities to the public pursuant to a prospectus and reports to the public and to the supervisory authorities. The actual fulfillment of the indemnity commitment is subject to the two following cumulative conditions: (1) the maximum amount in respect of the actual realization of the indemnity to all the officers of the Bank and to the officers of the subsidiaries and the managerial contract holders, in respect of monetary liability which may be imposed on any of them, and in respect of reasonable legal fees, in connection with the above events, will not exceed in aggregate 10% (ten percent) of the shareholders' equity of the Bank as defined in the directives of the Supervisor of Banks, as reflected in the last financial statements of the Bank published immediately prior to the date of the actual indemnification; (2) the maximum amount in respect of the actual realization of the indemnity does not impair the minimum capital requirement in accordance with the directives of the Supervisor of Banks. The obligation for indemnification is also for reasonable litigation expenses incurred as a result of an investigation or proceeding that ended without an indictment being filed and without a financial liability being imposed as an alternative to criminal proceedings, or that ended without an indictment being filed but with a financial liability being imposed as an alternative to criminal proceedings for an infraction that does not require proof of criminal intent, or in connection with a monetary sanction. The letter of indemnity also includes a further obligation for indemnification for expenses and/or payment to the injured party of a breach in accordance with and subject to that stipulated in the Streamlining of Enforcement Proceedings in the Securities Authority Law (Legislative Amendments), 2011 ("the Streamlining of Enforcement Proceedings Law"), as well as expenses in connection with proceedings under Section G-1 of the Antitrust Law, 1988. The obligation for indemnification will be in effect only after exhaustion of the rights of the officer toward a third party (e.g. an insurer).

In addition, the Bank granted exemption from liability to officers in the Bank and personal contract holders for damage as a result of breach of their obligation of caution *vis-à-vis* the Bank.

2. The Bank has undertaken to indemnify employees of the Bank for expenses and/or payment to the injured party of a breach or subject to that stipulated in the Streamlining of Enforcement Proceedings Law, in accordance with the usual terms appearing in letters of indemnity given by the Bank.

3. The Bank has undertaken to indemnify external advisors including in connection with plans for granting of offering securities to officeholders or employees of the Bank or subsidiary companies, as applicable, in respect of an obligation or loss, and in various cases including in respect of other legal expenses in connection with the services given by them to the Bank.

4. The Bank and subsidiary companies have undertaken to indemnify the international credit companies "Visa" and "MasterCard" in respect of fulfillment of the obligations of the subsidiaries concerning “Visa” and “MasterCard” credit card activity, whichever applicable.

5. The Bank and its subsidiaries, from time to time and in circumstances generally accepted in the normal course of business, are accustomed to give letters of indemnification, limited and unlimited as to amount and period, including in reference to debts applying to the Bank as a member of the Tel Aviv Securities Exchange.

6. From time to time, the Bank provides subsidiary companies with letters of indemnity, limited and unlimited as to amount and period, to secure indemnities granted by them to officer holders due to risks applicable to office holders in the companies, and for purposes of the subsidiary companies complying with regulatory directives. In addition, the Bank has given letters of indemnity to Bank employees and to office holders of subsidiaries in respect of a list of events which are specified therein.

7. In the framework of the transaction for the sale of the activity of Leumi Private Bank ("LPB") to Julius Baer, the bank gave a guarantee to Julius Baer, limited to the amount of CHF 250 million, in respect of events defined in the agreement with the activity sold, including an indemnity granted by LPB to Julius Baer in respect of various events, limited to a period of two years from the closing date of the transaction (March 2015) (subject to irregular items for which the period will be five years).

8. In the framework of the transaction for the sale of the activity of Bank Leumi (Luxembourg) S.A. ("Leumi Luxembourg") to Banque J. Safra Sarasin (Luxemburg) S.A. ("the purchaser") in November 2015, Leumi Luxembourg undertook to indemnify the purchaser with various indemnities for a period of two years from the date of the closing (January 2016) (subject to irregular items for which the period will be five years). The amount of the indemnity is limited to an amount derived from the shareholders' equity of Bank LL (about $37.4 million). Leumi Luxembourg's undertaking to indemnify is backed by a guarantee of the Bank in the event that Bank Leumi Luxembourg will be unable to meet its obligations for the said indemnity.

G. Credit cards

1. On 7 March 2012, the Antitrust Tribunal gave its judicial approval to an agreement submitted by the credit card companies and the Commissioner regarding the rate of cross-commission, which will decrease gradually to 0.7% from July 2014, according to the outline plan for the reduction of cross-commission set forth in the judgment. The arrangement between the Commissioner and the credit card companies is in force until the end of 2018.

2. The Bank has undertaken with regard to Visa International to take full responsibility for the proper execution by Leumi Card of all the provisions and requirements included in the Articles of Visa International as in effect from time to time, to perform all actions necessary in order to fulfill its commitment and to notify Visa International immediately in writing regarding any material change in the agreement between the Bank and Leumi Card.

3. The Bank has undertaken with regard to World MasterCard and to all other Mastercard members to take full responsibility for carrying out all Leumi Card's obligations under the Articles of World MasterCard and its principles and to indemnify these entities for any loss, cost, expense or debt in respect of an infringement of Leumi Card's aforesaid obligations.

H. Contingent liabilities and other special commitments

1. The US customers affair:

A. Arrangement with the U.S. authorities

On 22 December 2014, the Leumi Group signed arrangements with the US Department of Justice (the DOJ) and with the New York Department of Financial Services (NYDFS), in the framework of which it admitted, inter alia, that beginning in 2000 and up to 2010, the Group voluntarily aided in the preparation and filing of false tax reports to the US tax authorities.

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.

In the framework of the DPA, Leumi Group agreed that if it did not meet its obligations under the DPA within two years of its signing, an indictment will be filed against it. The text of the indictment was attached to the DPA (INFORMATION).

In the framework of the DPA, Leumi Group undertook, inter alia, to take certain actions related to the provision of services to US customers, and to develop and implement a compliance program with the FATCA provisions. In the framework of the agreement with the NYDFS also, certain obligations were imposed on the Bank including the appointment of a monitor to examine, inter alia, the Group's activities. The monitor 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.

Furthermore, the Bank undertook a series of actions intended to prevent violations of the provisions of foreign laws. This included the Bank's closing the majority of the representative offices operating abroad, and making an agreement to sell the activities of Leumi Switzerland, to sell the activities of Leumi Luxembourg, and to sell the activities of Leumi Jersey. In addition, during the reporting period the Bank continued to implement a declared money policy, and procedures concerning restrictions and rules for cross border activity.

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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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 lawyers 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 receiving 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 to draw conclusions. The Committee submitted it s conclusions to the Board of Directors of the Bank, according to which, in light of the steps already taken in the bank and the Group, mainly by the "gate-keepers", most of the conclusions that could be drawn from the US customers affairs, from a broad-based perspective of the subject, had already been drawn and implemented or will be implemented in the near future. Furthermore, it was decided to adopt several moves on the matter of monitoring regulatory changes in Israel and worldwide, setting up a function to coordinate the process of their examination, the impacts of the said changes, and so on. In this framework it was decided, inter alia, to make the Compliance Department report to the Legal Counsel Division in order to coordinate the whole area of compliance, regulation, and the legal treatment required, in one division. This move has already been made. On 18 November 2015, The Board of Directors of the Bank approved the conclusions of the Committee.

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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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.

   In a hearing that took place on 16 December 2015, the Court agreed to a petition for a further extension in order that the parties can have discussions and to attempt to reach an understanding. Accordingly, a date was set for continuation of the.

   Pursuant to the aforesaid in the conclusions of the Committee, the Board of Directors of the Bank authorized the Audit committee to discuss the conduct of the auditors. Based on an expert's opinion from the NYU university appointed by the Committee, the Committee determined that they found no fault in the work of the auditors in everything related to the US customers affair.

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), appropriate provisions have been made in the financial statements, when provisions were required, to cover damages resulting from these claims.

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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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). On 2 December 2015, on the recommendation of the Supreme Court, the appellant withdrew the appeal and the appeal was dismissed.

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 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. 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. Proceedings in the claim have been suspended, and at this stage have not commenced. On 1 February 2016, the Bank (and other companies in the Group) filed a petition with the Court dealing with the proceedings described in Section E.1 above, to grant a blocking order ordering the plaintiff and anyone on his behalf, to desist from continuing to conduct the petition that is the subject matter of this Section, and / or to conduct any other derivative claim on the same grounds and claims that are the subject of the petition for approval described in Section E.1 above, in courts in Israel of outside Israel.

F. Examination by the US Securities and Exchange Commission (SEC)

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. 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.

Note 25 - Contingent liabilities and special commitments (cont'd)

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 16 February 2014, a petition was submitted to the Economic Department of the Tel Aviv District Court against the Bank for the disclosure and the review of documents. The petitioner requests the disclosure of various documents relating to the credit allegedly extended by the Bank to Genden Holdings Ltd. ("Genden") in order to finance the purchase of shares of IDB Holdings Ltd. ("IDB"). The disclosure of the documents is requested in light of the petitioner's intention to submit a request for the approval of a derivative action and its claim that, in 2008 and 2009, senior office-holders in the Bank decided, in a way that is contrary to the Bank's interests and out of foreign and wrongful considerations, to permit Genden to have at its disposal dividends that IDB will distribute from that date on, instead of continuing to be received in the Bank for financing the redemption, According to the petitioner, this is a question of a wrongful decision which did not have any economic rationale and as a result of which, the Bank incurred damage amounting hundreds of millions of shekels. It is further alleged that the Bank's auditors were supposed to be aware of the alleged wrongful decision, but were negligent in fulfilling their duty. The Bank has submitted a response, in which it has opposed the petition. The parties filed a petition with the Court to approve the arrangement reached pursuant to the mediation process before the Hon. Judge (retired) Dr. Amiram Binyamini. On 27 January 2016, the representative of the Attorney General submitted his position to the Court (which is shared by the Banking Supervision Department) under which he leaves it to the Court to decide on the matter of approving the arrangement, subject to several comments.

Note 25 - Contingent liabilities and special commitments (cont'd)

C. On 29 June 2014, a petition was submitted to the Supreme Court, sitting as the High Court of Justice, against the Supervisor of Banks and the Governor of the Bank of Israel, and against four companies from the IDB Group (Tomahawk, Genden Holdings, IDB Holdings, IDB Development), and the banks, Leumi, Poalim, Mizrahi and Discount were also attached as respondents. According to the petitioners, they have applied to the Supervisor several times so that he would examine the conduct of the banking system vis-à-vis the IDB Group, but they allege that they were not answered, and therefore, they are requesting the grant of a conditional order that the Supervisor be instructed to explain why he would not respond to the issue of the petitioners' applications regarding the exercise of his powers in all matters relating to the debt arrangements with the large corporate groups in the economy, in particular, the IDB Group, and why he would not conduct a comprehensive investigation on the matter of the conduct of the banking system in granting credit to the IDB Group, including the granting of securities, guarantees, recycling of loans, decisions of the credit committees and the debt arrangements of the banking system with the group. The petitioners further claimed that the Supervisor is obliged to draw systematic and personal conclusions from the said investigation, to publish them and take steps according to his power to remedy the deficiencies, including to compel the banks to collect the debts of the IDB Group in their entirety, and to remove those responsible for the deficiencies from their positions. The Supreme Court decided to accept the appellants' petition to postpone the hearing in this case until a decision in the administrative appeal under the Freedom of Information Law submitted against the Band of Israel and the officer responsible for the Freedom of Information in the Bank of Israel. It was determined in the decision that when a verdict will be handed down in the other appeal above, the appellant in this Supreme Court case will notify the court if a hearing is required or not.

D. 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. The Bank has submitted its response to the petition.

Note 26 – Liens and Restrictive Conditions

As at 31 December 2015 and 31 December 2014, debentures and notes issued by consolidated companies in Israel are not secured by floating charges on their assets. Foreign branches and consolidated companies have pledged securities and other assets as security for deposits received from the Federal Home Loan Bank (FHLB) and certain obligations pursuant to requirements of the authorities of the countries in which they operate. Pledged assets amount to NIS 796 million (31 December 2014 - NIS 1,024 million). Total liabilities in respect of which assets were pledged amount to NIS 749 million (31 December 2014 - NIS 289 million).

The Bank executes short-term lending of securities in foreign currency from the available portfolio, via the Euroclear clearinghouse, for other customers of the clearinghouse, without knowing the identity of the borrowers. The lending is carried out under a full guarantee of the Euroclear clearinghouse which is an AA+ rated financial institution. The value of the balance of the securities lent to the Euroclear clearinghouse as of 31 December 2015 was about NIS 75 million (31 December 2014 - NIS 98 million).

As a member of the Tel Aviv Stock Exchange, the Bank is a member of the Risk Fund of the Stock Exchange Clearing System.

The amount of the Risk Fund is to be the average highest debit balance that the member had in the six months ending in the calendar month prior to the update. The Fund updates the amounts 4 times a year.

In addition – the Bank has signed a credit facility of US$ 150 million with the Euroclear Clearing System to guarantee securities settlement by customers. The credit facility is backed up by securities held by the Bank in the Euroclear Clearing System.

Each of the members of the Risk Fund pledges securities in favor of the Stock Exchange Clearing System in the amount of its proportionate part in the fund, which secures the member's liabilities to the Clearing System and the member's share in the Risk Fund. Furthermore, such collateral also secures the liabilities of the other members of the Risk Fund, if the collateral that the other member provided is not sufficient to cover the other member's liabilities, and in accordance with the proportionate part of each of the members in the Fund, up to the amount of the collateral provided or up to the amount of the liabilities to the Stock Exchange Clearing System, whichever is the lower. At the date of the financial statements, the Bank's share of the Stock Exchange Clearing Fund was NIS 87 million (31 December 2014 – NIS 65 million). Total assets pledged by the Bank to the Stock Exchange Clearing System was NIS 99 million (31 December 2014 – NIS 93 million).

The Bank is a member of the Maof Clearing System Risk Fund. The Bank has undertaken to the Maof Clearing System to pay every charge deriving from its Maof transactions for its customers, its nostro, and for Maof transactions of a member of the TASE not clearing independently through the Maof Clearing System. The total of the Bank's liabilities is shown in Note 29.D - Off-Balance Sheet Financial Instruments.

The Bank pledges collateral in favor of the Maof Clearing System in the amount of its proportionate part in the Risk Fund and also in respect of its above-mentioned liabilities, which secures its liabilities to the Maof Clearing System and its share in the Risk Fund. Furthermore, such collateral also secures the liabilities of the other members of the Risk Fund. In the event that the collateral that another member provided was not sufficient to cover all of his liabilities, the Maof Clearing System is entitled to realize the collateral provided to it by the other members of the Risk Fund, in accordance with the proportionate part of each of the members in the fund, up to the amount of the collateral provided or up to the amount of the liabilities to the Maof Clearing System, whichever is the lower.

At the date of the financial statements, the Bank's share of the Maof Clearing System Risk Fund was NIS 218 million (about 15.7% of the Fund).

Note 26 – Liens and Restrictive Conditions (cont'd)

The Bank, like any other member of the Clearing System, is entitled to secure its liabilities to the Maof Clearing System risk fund by means of pledging government bonds and deposits. The total of the debentures pledged by the Bank to the Maof Clearing System in respect of the activity of the customers, the *nostro*, and risk fund as at 31 December 2015 was NIS 921 million (31 December 2014 – NIS 1,701 million).

The Bank participates in an arrangement for ensuring the finality of settlement in default situations in which there is an insufficient balance in the clearing account of one or more of the other participants, as a participant in the RTGS (*"Zahav"*) System, and a holder of a clearing account in the system and a member of the *Masav* payment system and the banking clearing system ("participant"). In the event of default, each non-defaulting participant ("surviving participant") is to bear the debit charges of the participant that defaulted, according to the relative share of the surviving participant divided by the difference between 100% and the relative share of the participant that defaulted. The relative share of the Bank at 31 December 2014 in the *Masav* system is 17.5% and in the check clearing system – 22.6% (this percentage is updated every six months according to the relative weighting of debit charges of each participant that were passed through the payment system relevant to the previous six months). The total ceiling for participation for all participants is NIS 300 million in the clearing system and NIS 150 million in the check clearing system. In the event of default, on the business day following the date of default, immediately after the system opens, the Bank of Israel will send a multi-party payment instruction debiting the clearing account of the defaulting participant and crediting the clearing accounts of the surviving participants with the amount that each surviving participant paid in the framework of the arrangement, with the addition of interest at the Bank of Israel rate. The default arrangement is not intended to deal with a situation of a known or probable insolvency. In the event of insolvency, the proceedings will be passed to the Banking Supervision Department.

The Bank and its consolidated companies engage with foreign banks in CSA (Credit Support Annex) agreements that are intended to reduce mutual credit risks created between the banks during trading in derivatives. Under the agreements a measurement is made on a periodic basis of the value of all derivatives transactions carried out between the parties and if the net exposure of one of the parties exceeds the predetermined limit, that party is required to transfer to the other party deposits totaling the amount of exposure, until the next measurement date. At 31 December 2015, the Group had made deposits in favor of foreign banks totaling NIS 453 million (31 December 2014 – NIS 913 million).

The Bank and its consolidated companies engage with foreign banks into agreements under which amounts are deposited in the foreign banks for purposes of carrying out marketable futures transactions in exchanges abroad for them and their customers. As at 31 December 2015, the Group had deposited an amount of US$ 102 million in the above banks (31 December 2014 – US$ 214 million). In addition, the Group pledged bonds in the amount of US$ 342 million. It should be noted that at the end of 2015, most of the collaterals transferred were in respect of activity by customers in these transactions were customer funds in accordance with the CSA agreements we signed with them during the year.

The Bank has signed a debenture, in accordance with which the Bank has pledged by way of a first fixed charge and assignment by way of pledge, unlimited in amount, in favor of the Bank of Israel, all of the assets and rights in specific accounts held in the name of the Bank of Israel, in the Tel Aviv Stock Exchange Clearinghouse, in Euroclear Bank or in any other clearinghouse to which the Bank and the Bank of Israel must agree. The mortgaged assets in the accounts of Euroclear Bank, or in another account maintained in the clearinghouse outside Israel, are also mortgaged under a first ranking floating lien in favor of the Bank of Israel.

This pledge is to secure all the liabilities of the Bank in connection with credit that the Bank of Israel has extended or will extend and the placing of collateral to secure it, as detailed in the credit documents, except for credit according to a credit agreement between the Bank of Israel and the Bank and a secured debenture dated 21 May 2008.

On 21 May 2008, the Bank signed a debenture, by which the Bank pledged by way of a first floating charge, in favor of the Bank of Israel, its rights to receive monetary amounts and charges in shekels, which are due or will

Note 26 – Liens and Restrictive Conditions (cont'd)

be due to the Bank from time to time from its customers, that are corporations (which were incorporated under the laws of the State of Israel) not being in arrears in repayment to the Bank of credits received from the Bank, in respect of credits in shekels of which the duration (average life) of each credit does not exceed three years, which were given or will be given by the bank to the above customers.

This pledge is to secure credits that the Bank of Israel will grant to the Bank for purposes of the Bank's activity as a supplier of liquidity services in shekels to the Continuous Linked Settlement Bank (CLS) Bank, with the addition of interest, costs and expenses involved in realizing the pledge, up to the amount of NIS 1.1 billion, in accordance with the terms of the credit agreement signed by the parties in this matter. Leumi did not avail itself of any such credit during 2010-2015.

	31 December 2015	31 December 2014
	NIS millions	
Sources of securities received which the Bank may sell or pledge, at fair value, before the effect of set-offs		
Securities received in securities borrowing transactions against cash	**1,764**	2,000
Uses of securities received as collateral and securities of the Bank, at fair value, before the effect of set-offs		
Securities loaned in securities lending transactions against cash	**938**	1,238

Apart from these securities, as at the date of the balance sheet, additional securities were given as collateral, shown under Securities above, which the lenders are not permitted to sell or pledge.

In addition, the bank deposits government bonds in HSBC as collateral instead of cash. These securities are held in the available for sale portfiolio.

In September 2010, the Bank signed a deed of pledge, at the instructions of the Federal Reserve, under which it pledged monetary deposits in favor of Bank Leumi USA, in connection with loans given by Bank Leumi USA with collateral of obligations by Bank Leumi Le-Israel, in support of these obligations. The amount of the pledge at 31 December 2015 was US$ 37 million (31 December 2014 - US$ 37 million).

Note 27A – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates

The above activity involves taking risks, of which the main ones are:

- Credit risk which is measured according to the maximum expected loss amount if the counterparty does not meet the terms of the transaction. Covering the risk required collateral from the customer according to the risk deriving from the transactions. The collateral required is included in the facility required in respect of the total of all the customer's indebtedness.

- Market risks include risks deriving from changes in interest rates, exchange rates, the CPI Index, prices of securities / indices and commodity prices. Market risks emanating from transactions in dericative instruments are part of the total market risks of the derivative instruments. Activity in derivative instruments taxes place within the limits allowed for exposure to market risks, as determined by the Board of Directors of Group companies.

- Liquidity risk derives from uncertainty regarding the price the bank will have to pay to cover the transaction. This risk exists mainly in instruments whose marketability, or the marketability of the underlying asset, is low. In the framework of collateral requirements, this risk is taken into account.

- This activity does not refer to derivative instruments embedded in other activities.

Note 27B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates (cont'd)

a. Scope of activity on consolidated basis

	31 December 2015					
	Interest rate contracts					
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(1) Nominal amount of derivative instruments						
a. Hedging derivatives (a)						
Forward contracts	-	-	-	-	-	-
Swaps	-	**2,443**	-	-	-	**2,443**
Total	-	**2,443**	-	-	-	**2,443**
Of which: interest-rate swap contracts in which the banking corporation agreed to pay a fixed rate of interest	-	**2,443**	-	-	-	**2,443**
b. ALM derivatives (a)(b)						
Futures contracts	-	**14,589**	**10**	**58,799**	**217**	**73,615**
Forward contracts	**12,525**	**14,300**	**179,448**	**366**	**11**	**206,650**
Exchange-traded options	-	-	-	-	-	-
Options written	-	**262**	**14,797**	**11,129**	**100**	**26,288**
Options purchased	-	**250**	**15,292**	**11,129**	**101**	**26,772**
Other options	-	-	-	-	-	-
Options written	-	**10,797**	**15,997**	**3,144**	**139**	**30,077**
Options purchased	-	**8,037**	**16,567**	**3,245**	**139**	**27,988**
Swaps	**587**	**268,113**	**28,668**	**27,384**	**299**	**325,051**
Total	**13,112**	**316,348**	**270,779**	**115,196**	**1,006**	**716,441**
Of which: interest-rate swap contracts in which the banking corporation agreed to pay a fixed rate of interest	-	**137,675**	-	-	-	**137,675**
c. Other derivatives (a)	-	-	-	-	-	-
Total	-	-	-	-	-	-
d. Credit derivatives and foreign exchange spot contracts	-	-	-	-	-	-
Credit derivatives in which the banking corporation is a guarantor	-	-	-	-	-	-
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	**40**	**40**
Foreign exchange spot contracts	-	-	**9,086**	-	-	**9,086**
Total	-	-	**9,086**	-	**40**	**9,126**
Aggregate total	**13,112**	**318,791**	**279,865**	**115,196**	**1,046**	**728,010**

(a) Excluding credit derivatives and spot foreign currency exchange contracts.
(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.

Note 27B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates (cont'd)

a. Scope of activity on consolidated basis (cont'd)

	31 December 2015					
	Interest rate contracts					
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	NIS millions					
(2) Gross fair value of derivative instruments						
a. Hedging derivatives (a)						
Gross positive fair value	**-**	**1**	**-**	**-**	**-**	**1**
Gross negative fair value	**-**	**146**	**-**	**-**	**-**	**146**
b. ALM derivatives (a)(b)						
Gross positive fair value	**344**	**6,375**	**3,245**	**1,245**	**46**	**11,255**
Gross negative fair value	**392**	**5,949**	**3,340**	**1,258**	**45**	**10,984**
c. Other derivatives (a)	**-**	**-**	**-**	**-**	**-**	**-**
d. Credit derivatives						
Credit derivatives in which the banking institution is a guarantor						
Gross positive fair value	**-**	**-**	**-**	**-**	**-**	**-**
Gross negative fair value	**-**	**-**	**-**	**-**	**-**	**-**
Credit derivatives in which the banking institution is a beneficiary						
Gross positive fair value	**-**	**-**	**-**	**-**	**-**	**-**
Gross negative fair value	**-**	**-**	**-**	**-**	**1**	**1**
e. Total						
Gross positive fair value (c)	**344**	**6,376**	**3,245**	**1,245**	**46**	**11,256**
Fair value amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Book value of assets in respect of derivative instruments	**344**	**6,376**	**3,245**	**1,245**	**46**	**11,256**
Of which: book value of assets in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	**31**	**20**	**147**	**65**	**-**	**263**
Gross negative fair value (c)	**392**	**6,095**	**3,340**	**1,258**	**46**	**11,131**
Fair value amounts offset in the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**
Book value of liabilities in respect of derivative instruments	**392**	**6,095**	**3,340**	**1,258**	**46**	**11,131**
Of which: book value of liabilities in respect of derivative instruments not subject to a master netting arrangement or similar arrangements	**-**	**6**	**482**	**37**	**-**	**525**

(a) Excluding credit derivatives and spot foreign currency exchange contracts.
(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.
(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 6 million (gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 33 million).

Note 27B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates (cont'd)

a. Scope of activity on consolidated basis (cont'd)

	31 December 2014					
	Interest rate contracts					
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	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 corporation 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 corporation agreed to pay a fixed rate of interest	-	130,205	-	-	-	130,205
c. Other derivatives (a)	-	-	-	-	-	-
Total	-	-	-	-	-	-
d. Credit derivatives and foreign exchange spot contracts	-	-	-	-	-	-
Credit derivatives in which the banking corporation is a guarantor	-	-	-	-	-	-
Credit derivatives in which the banking corporation is a beneficiary	-	-	-	-	-	-
Foreign exchange spot contracts	-	-	18,397	-	-	18,397
Total	-	-	18,397	-	-	18,397
Aggregate Total	12,571	338,777	350,560	110,727	1,518	814,153

(a) Excluding credit derivatives and spot foreign currency exchange contracts.
(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.

Note 27B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates (cont'd)

a. Scope of activity on consolidated basis (cont'd)

	31 December 2014					
	Interest rate contracts					
	Shekel – index	Other	Foreign currency contracts	Contracts in respect of shares	Commodities and other contracts	Total
	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 institution is a guarantor						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
Credit derivatives in which the banking institution is a beneficiary						
Gross positive fair value	-	-	-	-	-	-
Gross negative fair value	-	-	-	-	-	-
e. Total						
Gross positive fair value	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) Excluding credit derivatives and spot foreign currency exchange contracts.

(b) Derivatives constituting part of the assets and liabilities of the Bank not intended for hedging.

(c) Of which: gross positive fair value of assets in respect of embedded derivative instruments in the amount of NIS 5 million (gross negative fair value of liabilities in respect of embedded derivative instruments in the amount of NIS 34 million).

Note 27B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates (cont'd)

b. Credit risk in respect of derivative instruments by counterparty to the contract on consolidated basis

	31 December 2015					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
	NIS millions					
Book balance of assets in respect of derivative instruments (a) (b)	**169**	**6,653**	**1,880**	**6**	**2,548**	**11,256**
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	**-**	**2,951**	**1,085**	**6**	**821**	**4,863**
Mitigation of credit risk in respect of cash collateral received	**-**	**731**	**252**	**-**	**96**	**1,079**
Net amount of assets in respect of derivative instruments	**169**	**2,971**	**543**	**-**	**1,631**	**5,314**
Off-balance sheet credit risk in respect of derivative instruments (d)	**-**	**3,551**	**1,220**	**71**	**4,963**	**9,805**
Mitigation of off-balance sheet credit risk	**-**	**379**	**97**	**43**	**2,392**	**2,911**
Net off-balance sheet credit risk in respect of derivative instruments	**-**	**3,172**	**1,123**	**28**	**2,571**	**6,894**
Total credit risk in respect of derivative instruments	**169**	**6,143**	**1,666**	**28**	**4,202**	**12,208**
Book balance of liabilities in respect of derivative instruments (a)(c)	**194**	**6,427**	**1,707**	**91**	**2,712**	**11,131**
Gross amounts not offset in the balance sheet:						
Financial instruments	**-**	**2,951**	**1,085**	**6**	**821**	**4,863**
Cash collateral pledged	**-**	**341**	**68**	**29**	**1**	**439**
Net amount of liabilities in respect of derivative instruments	**194**	**3,135**	**554**	**56**	**1,890**	**5,829**

Note 27B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates (cont'd)

b. Credit risk in respect of derivative instruments by counterparty to the contract on consolidated basis (cont'd)

	31 December 2014					
	Stock Exchanges	Banks	Dealers/ Brokers	Governments and central banks	Others	Total
	NIS millions					
Book balance of assets in respect of derivative instruments (a) (b)	304	9,533	2,560	6	4,511	16,914
Gross amounts not offset in the balance sheet:						
Mitigation of credit risk in respect of financial instruments	-	3,504	1,140	6	888	5,538
Mitigation of credit risk in respect of cash collateral received	-	1,015	409	-	-	1,424
Net amount of assets in respect of derivative instruments	304	5,014	1,011	-	3,623	9,952
Off-balance sheet credit risk in respect of derivative instruments (d)	-	4,118 (e)	1,196	87	5,321 (e)	10,722
Mitigation of off-balance sheet credit risk	-	253	71	52	1,011	1,387
Net off-balance sheet credit risk in respect of derivative instruments	-	3,865 (e)	1,125	35	4,310 (e)	9,335
Total credit risk in respect of derivative instruments	304	8,879 (e)	2,136	35	7,933 (e)	19,287
Book balance of liabilities in respect of derivative instruments (a)(c)	328	8,642	2,292	114	4,308	15,684
Gross amounts not offset in the balance sheet:						
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 set off net accounting arrangements.

(b) Of which a book balance of assets in respect of stand-alone derivative instruments in the sum of NIS 11,250 million (31 December 2014 – NIS 16,909 million).

(c) Of which a book balance of liabilities in respect of stand-alone derivative instruments in the sum of NIS 11,098 million (31 December 2014 – NIS 15,650 million).

(d) Off-balance sheet credit risk in respect of derivative instruments (including in respect of derivative instruments with negative fair value) as calculated for purposes of limitations on debts of borrowers.

(e) Reclassified.

Note:
In 2015, 2014 and 2013, no credit losses were recognized in respect of derivative instruments.

Note 27B – Derivative Instrument Activity - Scope, Credit Risks and Repayment Dates (cont'd)

c. Details of Repayment Dates – Nominal Values: Year-end balances on consolidated basis

	31 December 2015				
	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	**2,384**	**2,416**	**5,537**	**2,775**	**13,112**
Other	**30,712**	**72,142**	**133,621**	**82,316**	**318,791**
Foreign currency contracts	**173,995**	**69,908**	**26,429**	**9,533**	**279,865**
Contracts in respect of shares	**90,066**	**24,195**	**931**	**4**	**115,196**
Commodities and other contracts	**753**	**274**	**19**	**-**	**1,046**
Total	**297,910**	**168,935**	**166,537**	**94,628**	**728,010**

	31 December 2014				
	Up to three months	From three months to one year	From one to five years	Over five years	Total
	NIS millions				
Interest contracts:					
Shekel – index	1,297	3,203	5,696	2,375	12,571
Other	18,043	75,505	158,142	87,087	338,777
Foreign currency contracts	221,191	91,815	19,825	17,729	350,560
Contracts in respect of shares	92,157	16,928	1,642	-	110,727
Commodities and other contracts	1,009	471	38	-	1,518
Total	333,697	187,922	185,343	107,191	814,153

Note 28A – Regulatory operating segments and geographic areas

On 3 November 2014 a circular was published concerning the reporting on operating segments that updated the Public Reporting Directives including changing some definitions and guidelines according to which, the Bank is required to classify customers in regulatory segments.

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. 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.

  These disclosure requirements are in addition to the disclosure requirements on operating segments pursuant to the Public Reporting Directives that were in effect prior to the entry of the circular.

- 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 comparative figures for one year only in the financial statements in 2016.

- From the financial statements for the first quarter of 2017, the requirements of the circular are required to be implemented in their entirety.

Note 28A – Regulatory operating segments and geographic areas (cont'd)

A. Information on regulatory operating segments

	As at 31 December 2015			
	Activity in Israel			
	Households	Private Banking	Small businesses	Mid-size businesses
Balance of assets	**115,928**	**613**	**57,216**	**25,416**
Including: investments in companies included on equity basis	**3**	**-**	**-**	**-**
Balance of credit to the public	**116,040**	**606**	**57,662**	**25,053**
Balance of impaired debts	**393**	**-**	**1,508**	**393**
Balance of impaired debts in arrears of more than 30 days	**784**	**-**	**125**	**6**
Balance of liabilities	**119,498**	**27,056**	**50,496**	**31,723**
Balance of deposits	**110,728**	**26,031**	**47,893**	**29,787**
Balance of risk assets	**43,087**	**559**	**68,515**	**40,140**
Balance of assets under management	**85,413**	**51,258**	**40,273**	**24,810**

(a) Risk assets – as calculated for capital adequacy purposes.

(b) Assets under management – including provident fund assets, training funds, mutual funds and securities of customers.

Note 28A – Regulatory operating segments and geographic areas (cont'd)

Large businesses	Instituional entities	Financial management segment	Other segment	Total activity in Israel	Activity abroad: Individuals	Activity abroad: Business activity	Activity abroad: Other	Activity abroad: Total activity abroad	Total
41,399	**1,299**	**132,352**	**7,152**	**381,375**	**3,248**	**21,262**	**10,614**	**35,124**	**416,499**
-	**-**	**921**	**-**	**924**	**-**	**-**	**-**	**-**	**924**
41,262	**318**	**339**	**2**	**241,282**	**2,412**	**21,363**	**13**	**23,788**	**265,070**
845	**-**	**2**	**-**	**3,141**	**35**	**745**	**-**	**780**	**3,921**
2	**-**	**-**	**1**	**918**	**18**	**6**	**-**	**24**	**942**
52,000	**38,217**	**40,102**	**86**	**359,178**	**10,292**	**15,642**	**2,280**	**28,214**	**387,392**
48,368	**34,384**	**4,927**	**13**	**302,131**	**10,045**	**15,416**	**1,101**	**26,562**	**328,693**
77,147	**1,952**	**33,520**	**12,802**	**277,722**	**3,016**	**27,321**	**488**	**30,825**	**308,547**
90,613	**260,396**	**224,919**	**-**	**777,682**	**15,102**	**2,007**	**2,270**	**19,379**	**797,061**

Note 28A – Regulatory operating segments and geographic areas (cont'd)

A. Information on regulatory operating segments (cont'd)

	As at 31 December 2015								
	Household segment				Private banking segment				
	Housing loans	Credit cards	Other	Total households	Housing loans	Credit cards	Other	Total private banking	Total
Balance of assets[1]	**76,663**	**11,006**	**28,259**	**115,928**	**202**	**93**	**318**	**613**	**116,541**
[1]Including: investments in companies included on equity basis	**-**	**3**	**-**	**3**	**-**	**-**	**-**	**-**	**3**
Balance of credit to the public	**76,219**	**10,649**	**29,172**	**116,040**	**204**	**98**	**304**	**606**	**116,646**
Balance of impaired debts	**-**	**12**	**381**	**393**	**-**	**-**	**-**	**-**	**393**
Balance of impaired debts in arrears of more than 90 days	**279**	**-**	**505**	**784**	**-**	**-**	**-**	**-**	**784**
Balance of liabilities[2]	**-**	**663**	**118,835**	**119,498**	**3**	**-**	**27,053**	**27,056**	**146,554**
Balance of deposits[(a)]	**-**	**65**	**110,663**	**110,728**	**-**	**-**	**26,031**	**26,031**	**136,759**
Balance of risk assets[(b)]	**569**	**7,057**	**35,461**	**43,087**	**3**	**2**	**554**	**559**	**43,646**
Balance of assets under management	**-**	**-**	**85,413**	**85,413**	**-**	**-**	**51,258**	**51,258**	**136,671**

	As at 31 December 2015									
	Small business segment			Mid-size business segment			Large business segment			
	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Construction and real estate	Other	Total	Total
Balance of assets[1]	**23,233**	**33,983**	**57,216**	**7,711**	**17,705**	**25,416**	**10,348**	**31,051**	**41,399**	**124,031**
[1]Including: investments in companies included on equity basis	-	-	-	-	-	-	-	-	-	-
Balance of credit to the public	**23,965**	**33,697**	**57,662**	**7,589**	**17,464**	**25,053**	**10,517**	**30,745**	**41,262**	**123,977**
Balance of impaired debts	**823**	**685**	**1,508**	**75**	**318**	**393**	**437**	**408**	**845**	**2,746**
Balance of impaired debts in arrears of more than 90 days	**-**	**125**	**125**	**-**	**6**	**6**	**-**	**2**	**2**	**133**
Balance of liabilities[2]	**10,098**	**40,398**	**50,496**	**4,191**	**27,532**	**31,723**	**5,821**	**46,179**	**52,000**	**134,219**
Balance of deposits[(a)]	**9,699**	**38,194**	**47,893**	**3,787**	**26,000**	**29,787**	**4,870**	**43,498**	**48,368**	**126,048**
Balance of risk assets[(b)]	**35,197**	**33,318**	**68,515**	**16,864**	**23,276**	**40,140**	**27,771**	**49,376**	**77,147**	**185,802**
Balance of assets under management	**6,918**	**33,355**	**40,273**	**2,449**	**22,361**	**24,810**	**12,986**	**77,627**	**90,613**	**155,696**

(a) Risk assets – as calculated for capital adequacy purposes.
(b) Assets under management – including provident fund assets, training funds, mutual funds and securities of customers.

B. Information on geographical areas

	Total assets
	As at 31 December 2015
Israel	**381,375**
USA	**23,683**
UK	**9,150**
Switzerland	**609**
Luxembourg	**504**
Romania	**1,158**
Others	**20**
Total	**416,499**

Note 28A – Operating segments and geographic areas

Description of Operating Segments

The Bank in Israel is organized in four business lines. Each business line specializes in providing service to segments of customers with similar characteristics and needs. This specialization allows for the provision of a high level of professional service. In addition, there are a number of management units providing various services to the business lines.

The subsidiary companies in Israel and abroad have been assigned to the relevant business line in accordance with the nature of their activities and the characteristics of their customers.

Principal Operating Segments

1. Pursuant to Bank of Israel directives, an operating segment is a component which has three characteristics:

2. It engages in business activities from which it is likely to produce income and bear expenses (including income and expenses from transactions with other segments in the Bank).

3. Its operating results are regularly examined by the Management and the Board of Directors in order to make decisions relating to the allocation of resources to the segment and the appraisal of its performance.

4. There is separate financial information with regard to the segment.

The principal operating segments that have been determined under the directives of the Bank of Israel in accordance with the above characteristics are as follows:

1. Households - providing banking services to households and private customers in all stages of their lives.

2. Small Businesses - providing banking services to small businesses and local authorities.

3. Corporate Banking - providing banking and financial services to major companies and international companies in the economy for their operations in Israel and abroad, and providing banking and financial services for the construction and real estate sector.

4. Commercial Banking - providing banking and financial services to middle market companies in the economy and to interested parties in these companies.

5. Private Banking - providing domestic and global financial services and solutions to private customers with large financial asset portfolios.

6. Financial Management and Capital Market - nostro and trading rooms activities and provision of services to institutional customers and foreign financial institutions. Includes the results of activity of investments in (real) companies included on equity basis and investing in shares in the available for sale portfolio.

7. Others - activities not assigned to other segments. This includes other activities of the Group, none of which constitutes a profit segment under the directives of the Supervisor of Banks.

Segmented operations also include inter-segmental activity, such as services provided to customers in another segment and also activities (deriving from products) such as mortgage loans, credit cards, capital market, and real estate.

Note 28A – Operating segments and geographic areas (cont'd)

Allocation to a specific operating segment is carried out according to quantitative criteria and additional criteria, such as: size of the approved facility and business turnover, and financial wealth with regard to private customers. Criteria such as the nature of a corporation's business operations and the volume of its business, such as activity volume, international trade volume, complex and special transactions, complex projects and construction financing, can change the segmental allocation of a specific customer.

As mentioned above, the Bank is organized in five business lines, and its policy is to allocate the customers, as much as possible, to the business line/operating segment appropriate for them, in accordance with their characteristics and activities. It should however be emphasized that segmental allocation is determined according to the sector in which the customer's account is actually operated; and until segmentation is carried out between the segments, i.e. until the customer receives service from the segment to which he should be allocated under the above criteria, there is no change to the segmental classification, and the financial results in respect of the customer are recorded in the segment in which his account is actually held.

Financial Measurement System

The basis of the current system ("Bachan System)" in the Bank is the "data warehouse" that centralizes all the Bank's transactions and, with the aid of an appropriate index, enables transactions to be sorted and classified between the different profit centers.

The data presented below regarding operating segments includes the Bank's data in accordance with the principles of the "Bachan" system explained below, while the data for the segments of the subsidiaries in Israel and abroad has been taken from their financial statements, and as defined by them.

In measuring the profitability of overseas subsidiaries, exchange rate differentials, net of tax, arising from financing investments in overseas subsidiaries, are allocated to the net interest income of the overseas units whose functional currency is the same as the functional currency of the Bank.

Income

Net Interest Income

The profit center is credited with interest received from loans that it granted or is debited with interest that is paid on deposits it raised.

At the same time, the profit center granting the loan is debited, and the profit center receiving the deposit is credited, with transfer prices. Transfer prices are usually determined in accordance with market prices with certain adjustments, and generally reflect the risk-free return or marginal costs of raising funds with the same linkage sector and currency and for a similar term. The effects of exchange rate differentials between the shekel/foreign currencies, including adjustments from translating data of overseas units, and also changes in the CPI on surplus uses and/or sources of funds are attributed in the Group to the financial management segment. Under the method described above, the profit centers bear credit risks but do not bear market risks.

The profit and loss account of each of the segments also takes into account the capital allocated to the segment. Each profit center is credited for Tier 1 capital allocated to it in respect of the risk assets in accordance with risk-free return, and is charged for the additional cost of Tier 2 capital. Under this method the Bank's available capital is credited with interest equal to the marginal cost of raising funds in accordance with the segment that it is financing, or invested in the capital market. Interest income from management of the nostro is recorded in the financial management and capital markets segment.

Credit Loss Expenses, including the collective allowance, are charged to the profit center in which the customer's account is managed pursuant to the directives of the Bank of Israel.

Note 28A – Operating segments and geographic areas (cont'd)

Non-interest Income

All non-interest income (non-interest financing income, commissions and other income) that the Bank charges its customers and/or its subsidiaries for various services is credited to the profit center in which the customer's account is managed. Income from nostro securities, profits of the severance pay fund and dividends received by the Bank are credited to the financial management and capital market profit center.

Expenses

Expenses are attributed to the lines of business (divisions of the Bank) in accordance with the sectoral association of the customers dealt with by those lines of business.

In a few cases, where the line of business deals with a number of operating segments, the expenses of the lines of business are attributed to the relevant segments and products on the basis of the pricing of multi-dimensional transactions. This pricing is a system in which the transaction cost is calculated taking into account the type of transaction, the type of customer performing it, and the channel in which the transaction was performed.

Pricing is a system in which the cost of transaction is calculated taking into account the type of transaction, the type of customer executing it and the channel in which the transaction was carried out.

Measuring the return on equity

As part of the intensification of measurement of the performance of units and its adjustment to the unique risk characteristics, a comparison is made of the rate of Return on Risk-Adjusted Capital (RORAC) of operating segments according to the standardized approach. In addition, reference is made also in internal measurement of the risk-adjusted return according to the advances approach. The allocation of capital to risk components among the segments was done in accordance with the various risk characteristics inherent in each segment, in accordance with Basel II.

The allocation of First Pillar capital (in respect of credit, market and operational risks) is according to First Pillar principles in Basel. Credit risks are calculated on the basis of weighted risk assets in the units, and operational and market risks according to the standardized measurement method. Second Pillar Capital is allocated to the units divided into its various components according to models designed by the Bank.

The profit of the operating segments is adjusted for the risk capital in each segment. The risk-adjusted return adjusted was calculated as a ratio of the adjusted profit to the average shareholders' equity allocated to the sector, which constitutes a part of the risk capital allocated (Pillar 1 capital, Pillar 2 capital and the balance of the capital in respect of extreme scenarios and the balance of equity).

Note 28B – Operating segments and geographic areas (cont'd)

A. Information on operating segments for the year ended 31 December 2015

	Household segment	Small Business segment	Corporate segment	Commer-cial segment	Private Banking segment	Financial Manage-ment segment	Other	Total consol-idated
	NIS millions							
Interest income, net:								
From outside entities -	**2,972**	**1,169**	**1,577**	**1,716**	**1**	**(317)**	**-**	**7,118**
Intersegmental -	**(408)**	**(90)**	**(412)**	**(248)**	**224**	**930**	**4**	**-**
Non-interest income:								
From outside entities -	**1,649**	**558**	**267**	**543**	**415**	**2,320**	**545**	**6,297**
Intersegmental -	**170**	**(40)**	**360**	**(14)**	**6**	**(434)**	**(48)**	**-**
Total income	**4,383**	**1,597**	**1,792**	**1,997**	**646**	**2,499**	**501**	**13,415**
Expenses (income) in respect of credit losses	**307**	**178**	**(131)**	**(103)**	**4**	**(56)**	**-**	**199**
Operating and other expenses	**3,982**	**955**	**671**	**1,225**	**894**	**1,137**	**(28)**	**8,836**
Profit (loss) before taxes	**94**	**464**	**1,252**	**875**	**(252)**	**1,418**	**529**	**4,380**
Provision for taxes	**25**	**179**	**470**	**339**	**(41)**	**490**	**229**	**1,691**
Profit (loss) after taxes	**69**	**285**	**782**	**536**	**(211)**	**928**	**300**	**2,689**
Group equity in after-tax operating profits of companies included on equity basis, net of tax effect	**5**	**-**	**-**	**-**	**-**	**172**	**-**	**177**
Net profit (loss)								
Before attribution to non-controlling interests	**74**	**285**	**782**	**536**	**(211)**	**1,100**	**300**	**2,866**
interests	**(28)**	**(2)**	**(4)**	**(2)**	**5**	**-**	**-**	**(31)**
Attributable to shareholders of the banking corporation	**46**	**283**	**778**	**534**	**(206)**	**1,100**	**300**	**2,835**
Return on capital (percentage profit on relative share of equity of the segment in risk assets), attributed to shareholders of the banking corporation	**0.7%**	**13.4%**	**9.9%**	**8.5%**	**(28.3%)**	**37.1%**	**28.4%**	**10.3%**
Average balance of assets	**115,589**	**25,195**	**58,276**	**52,888**	**7,100**	**136,370**	**7,558**	**402,976**
Including: investments in companies included on equity basis	**3**	**-**	**-**	**-**	**-**	**1,172**	**-**	**1,175**
Average balance of liabilities	**121,793**	**28,247**	**30,503**	**49,439**	**32,790**	**110,467**	**1,785**	**375,024**
Average balance of risk assets	**83,340**	**22,721**	**87,476**	**57,821**	**6,470**	**34,689**	**10,680**	**303,197**
Average balance of assets of mutual funds and training funds	**79,486**	**4,433**	**779**	**4,462**	**12,047**	**203,100**	**-**	**304,307**
Average balance of securities	**43,826**	**8,303**	**52,198**	**21,045**	**70,038**	**392,722**	**-**	**588,132**
Average balance of other assets under management	**2,523**	**116**	**173**	**287**	**33**	**-**	**-**	**3,132**
Interest income, net:								
Margin on credit-granting activities	**2,287**	**1,022**	**1,143**	**1,186**	**66**	**2,580**	**10**	**8,294**
Margin on deposit-taking activities	**277**	**57**	**22**	**282**	**159**	**(1,967)**	**(6)**	**(1,176)**
Total interest income, net	**2,564**	**1,079**	**1,165**	**1,468**	**225**	**613**	**4**	**7,118**

Note 28B – Operating segments and geographic areas (cont'd)

A. Information on operating segments (cont'd) for the year ended 31 December 2014 (a)

	Household segment	Small Business segment	Corporate segment	Commer-cial segment	Private Banking segment	Financial Manage-ment segment	Other	Total consol-idated
	NIS millions							
Interest income, net:								
From outside entities -	3,057	1,170	1,936	1,630	(8)	(422)	-	7,363
Intersegmental -	(430)	(130)	(684)	(195)	290	1,137	12	-
Non-interest income:	-	-	-	-	-	-	-	-
From outside entities -	1,639	548	1,137	463	567	720	67	5,141
Intersegmental -	181	(40)	(364)	50	30	118	25	-
Total income	4,447	1,548	2,025	1,948	879	1,553	104	12,504
Expenses (income) in respect of credit losses	407	182	(489)	153	14	205	-	472
Operating and other expenses	3,786	875	634	1,021	1,925	1,105	25	9,371
Profit (loss) before taxes	254	491	1,880	774	(1,060)	243	79	2,661
Provision for (benefit from) taxes	85	196	706	297	(11)	(118)	123	1,278
Profit (loss) after taxes	169	295	1,174	477	(1,049)	361	(44)	1,383
Group equity in after-tax operating profits of companies included on equity basis, net of tax effect	5	-	-	-	-	37	-	42
Net profit (loss)								
Before attribution to non-controlling interests	174	295	1,174	477	(1,049)	398	(44)	1,425
Attributable to non-controlling interests	(30)	(3)	(5)	(3)	29	-	-	(12)
Attributable to shareholders of the banking corporation	144	292	1,169	474	(1,020)	398	(44)	1,413
Return on capital (percentage profit on relative share of equity of the segment in risk assets), attributed to shareholders of the banking corporation	2.1%	15.1%	15.6%	9.5%	(117.7%)	13.0%	(5.7%)	5.4%
Average balance of assets	105,959	23,972	60,920	50,172	10,638	118,119	8,687	378,467
Including: investments in companies included on equity basis	2	-	-	-	-	1,845	-	1,847
Average balance of liabilities	117,416	24,928	28,386	41,915	35,218	102,060	2,458	352,381
Average balance of risk assets	75,690	21,259	84,375	54,199	7,749	35,406	8,711	287,389
Average balance of assets of mutual funds and training funds	79,559	4,188	1,879	5,959	10,926	188,353	-	290,864
Average balance of securities	47,497	8,534	58,714	19,776	79,494	384,106	-	598,121
Average balance of other assets under management	3,586	184	192	497	82	-	1	4,542
Interest income, net:								
Margin on credit-granting activities	2,092	908	1,220	1,145	86	3,822	12	9,285
Margin on deposit-taking activities	535	132	32	290	196	(3,107)	-	(1,922)
Total interest income, net	2,627	1,040	1,252	1,435	282	715	12	7,363

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

Note 28B – Operating segments and geographic areas

A. Information on operating segments (cont'd) for the year ended 31 December 2013

	Household segment	Small Business segment	Corporate segment	Commer-cial segment	Private Banking segment	Financial Manage-ment segment	Other	Total consol-idated
	NIS millions							
Interest income, net:								
From outside entities -	2,941	1,125	2,528	1,656	(72)	(821)	-	7,357
Intersegmental -	(291)	(176)	(1,145)	(278)	365	1,513	12	-
Non-interest income:								
From outside entities -	1,640	588	80	492	533	1,954	144	5,431
Intersegmental -	166	(42)	567	83	77	(733)	(118)	-
Total income	4,456	1,495	2,030	1,953	903	1,913	38	12,788
Expenses (income) in respect of credit losses	179	112	(166)	186	9	(52)	-	268
Operating and other expenses	4,129	941	694	1,076	1,349	795	(167)	8,817
Profit (loss) before taxes	148	442	1,502	691	(455)	1,170	205	3,703
Provision for (benefit from) taxes	37	156	535	274	(70)	362	86	1,380
Profit (loss) after taxes	111	286	967	417	(385)	808	119	2,323
Companies included on equity basis after the effect of taxes	4	-	-	-	-	(297)	-	(293)
Before attribution to non-controlling interests	115	286	967	417	(385)	511	119	2,030
Attributable to non-controlling interests	(27)	(4)	(6)	(3)	(4)	2	-	(42)
Attributable to shareholders of the banking corporation	88	282	961	414	(389)	513	119	1,988
Return on capital (percentage profit on relative share of equity of the segment in risk assets), attributed to shareholders of the banking corporation	1.6%	17.0%	11.9%	9.2%	(41.0%)	12.7%	24.4%	7.8%
Average balance of assets	96,033	22,601	66,634	50,717	11,864	114,243	8,092	370,184
Including: investments in companies included on equity basis	2	-	-	-	-	1,971	-	1,973
Average balance of liabilities	124,043	22,710	27,548	48,608	36,884	82,628	2,649	345,070
Average balance of risk assets	68,277	19,898	90,729	53,726	9,285	32,304	6,625	280,844
Average balance of assets of mutual funds and training funds	65,532	3,091	2,366	5,150	8,181	111,397	-	195,717
Average balance of securities	48,145	6,907	59,121	40,322	77,301	297,712	-	529,508
Average balance of other assets under management	4,357	210	212	653	188	-	2	5,622
Interest income, net:								
Margin on credit-granting activities	1,861	789	1,335	1,086	87	6,257	12	11,427
Margin on deposit-taking activities	789	160	48	292	206	(5,565)	-	(4,070)
Total interest income, net	2,650	949	1,383	1,378	293	692	12	7,357

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

Note 28B – Operating segments and geographic areas (cont'd)

B. Information on activity by geographic area[(a)]

31 December 2015	Israel	USA	UK	Switzerland	Luxembourg	Romania	Others	Total outside of Israel	Total consoli-dated
	NIS millions								
Total income (b)	**11,918**	**1,129**	**269**	**68**	**23**	**(2)**	**10**	**1,497**	**13,415**
Net profit attributable to shareholders of the banking corporation	**2,752**	**240**	**45**	**(134)**	**(39)**	**(40)**	**11**	**83**	**2,835**
Total assets	**381,377**	**23,685**	**9,149**	**609**	**505**	**1,158**	**16**	**35,122**	**416,499**
Credit to the public, net	**238,054**	**15,530**	**6,836**	**36**	**238**	**705**	**-**	**23,345**	**261,399**
Deposits of the public	**302,130**	**17,675**	**7,156**	**4**	**985**	**743**	**-**	**26,563**	**328,693**

31 December 2014	Israel (c)	USA	UK	Switzerland	Luxembourg	Romania	Others	Total outside of Israel	Total consoli-dated
	NIS millions								
Total income (b)	11,111	673	423	251	(36)	63	19	1,393	12,504
Net profit attributable to shareholders of the banking corporation	2,138	(182) (c)	83	(554)	(29)	(58)	15	(725)	1,413
Total assets	360,685	20,225	8,778	5,105	756	1,249	186	36,299	396,984
Credit to the public, net	229,314	14,363	6,242	1,259	406	841	55	23,166	252,480
Deposits of the public	272,452	16,471	7,200	4,955	1,368	818	133	30,945	303,397

31 December 2013	Israel (c)	USA	UK	Switzerland	Luxembourg	Romania	Others	Total outside of Israel	Total consoli-dated
	NIS millions								
Total income (b)	11,451	642	217	307	99	49	23	1,337	12,788
Net profit attributable to shareholders of the banking corporation	2,035	66	(67)	(57)	15	(7)	3	(47)	1,988
Total assets	338,586	18,055	9,272	5,999	1,279	1,282	331	36,218	374,804
Credit to the public, net	217,381	12,926	7,155	1,917	447	849	199	23,493	240,874
Deposits of the public	256,586	13,982	7,510	5,406	1,610	707	202	29,417	286,003

(a) The classification was made according to the location of the office.
(b) Interest income net and non-interest income.
(c) Restated pursuant to retroactive implementation of US GAAP on employee rights - see Note 1.D.1, and retroactive implementation of the letter of the Supervisor of Banks on capitalization of in-house software development.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses

A. Debts[a] and off-balance sheet credit instruments

1. Change in balance of credit loss allowance

	31 December 2015					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	**3,317**	**513**	**652**	**4,482**	**4**	**4,486**
Expenses (income) in respect of credit losses	**(123)**	**14**	**309**	**200**	**(1)**	**199**
Accounting write-offs	**(676)**	**(12)**	**(614)**	**(1,302)**	**-**	**(1,302)**
Collection of debts written off in previous years	**410**	**-**	**361**	**771**	**-**	**771**
Net accounting write-offs	**(266)**	**(12)**	**(253)**	**(531)**	**-**	**(531)**
Adjustments from translation of financial statements	**5**	**(2)**	**(1)**	**2**	**-**	**2**
Balance of allowance for credit losses at end of year[1]	**2,933**	**513**	**707**	**4,153**	**3**	**4,156**
[1]Of which: in respect of off-balance sheet credit instruments	**449**	**-**	**33**	**482**	**-**	**482**

(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 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

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

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

	31 December 2014					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	3,301	498	496	4,295	2	4,297
Expenses in respect of credit losses	90	24	356	470	2	472
Accounting write-offs	(578) (b)	(10)	(560)	(1,148)	-	(1,148)
previous years	479 (b)	-	364	843	-	843
Net accounting write-offs	(99)	(10)	(196)	(305)	-	(305)
Adjustments from translation of financial statements	25	1	(4)	22	-	22
Balance of allowance for credit losses at end of year[1]	3,317	513	652	4,482	4	4,486
[1]Of which: in respect of off-balance sheet credit instruments	446	1	47	494	-	494

	31 December 2013					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Balance of allowance for credit losses at beginning of year	3,691	475	395	4,561	4	4,565
Expenses in respect of credit losses	30	53	182	265	3	268
Accounting write-offs	(846)	(29)	(477)	(1,352)	(5)	(1,357)
Collection of debts written off in previous years	441	-	397	838	-	838
Net accounting write-offs	(405)	(29)	(80)	(514)	(5)	(519)
Adjustments from translation of financial statements	(15)	(1)	(1)	(17)	-	(17)
Balance of allowance for credit losses at end of year[1]	3,301	498	496	4,295	2	4,297
[1]Of which: in respect of off-balance sheet credit instruments	373	-	39	412	-	412

(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 29 – Additional information on credit risk, credit to the public and the 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 the debts[a] on which it was calculated

	31 December 2015					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	Total
	(NIS millions)					
Recorded debt balance of debts[a]:						
Examined on an individual basis	**107,768**	**45**	**852**	**108,665**	**7,515**	**116,180**
Examined on a collective basis[2]	**38,097**	**81,760**	**36,548**	**156,405**	**3,254**	**159,659**
[2]Of which: the allowance was calculated by extent of arrears	**1,014** (c)	**80,616**	**-**	**81,630**	**-**	**81,630**
Total debts[a]	**145,865**	**81,805**	**37,400**	**265,070**	**10,769**	**275,839**
Of which:						
Debts under restructuring	**2,192**	**-**	**86**	**2,278**	**-**	**2,278**
Other impaired debts	**1,617**	**-**	**26**	**1,643**	**-**	**1,643**
Total impaired debts	**3,809**	**-**	**112**	**3,921**	**-**	**3,921**
Debts in arrears of more than 90 days	**67**	**770**	**105**	**942**	**-**	**942**
Other problem debts	**6,960**	**11**	**411**	**7,382**	**-**	**7,382**
Total problem debts	**7,027**	**781**	**516**	**8,324**	**-**	**8,324**
Allowance for credit losses in respect of debts[a]:						
Examined on an individual basis	**2,177**	**15**	**93**	**2,285**	**3**	**2,288**
Examined on a collective basis[3]	**307**	**498**	**581**	**1,386**	**-**	**1,386**
[3]Of which: the allowance was calculated by extent of arrears	**1**	**497**	**-**	**498**	**-**	**498**
Total allowance for credit losses	**2,484**	**513**	**674**	**3,671**	**3**	**3,674**
Of which: in respect of impaired debts	**496**	**-**	**100**	**596**	**-**	**596**

(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 balance of allowance in excess of that required by the extent of arrears method calculated on a collective basis in the amount of NIS 310 million.

(c) Including housing loans granted to purchasing groups under construction.

Note 29 – Additional information on credit risk, credit to the public and the 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 the debts[a] on which it was calculated

	31 December 2014					
	Allowance for credit losses					
	Credit to the public					
	Commercial	Residential	Other private	Total	Banks and governments	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[2]	35,194 (d)	75,811(d)	33,808	144,813	1,364	146,177
[2]Of which: the allowance was calculated by extent of arrears	1,216 (c) (d)	73,023(d)	-	74,239	-	74,239
Total debts[a]	145,244	75,863	35,361	256,468	19,664	276,132
Of which:						
Debts under restructuring	2,605	-	97	2,702	-	2,702
Other impaired debts	2,021	-	68	2,089	-	2,089
Total impaired debts	4,626	-	165	4,791	-	4,791
Debts in arrears of more than 90 days	57	775	109	941	-	941
Other problem debts	8,800	-	411	9,211	-	9,211
Total problem debts	8,857	775	520	10,152	-	10,152
Allowance for credit losses in respect of debts[a]:						
Examined on an individual basis	2,441	16	64	2,521	4	2,525
Examined on a collective basis[3]	430	496	541	1,467	-	1,467
[3]Of which: the allowance was calculated	-	495	-	495	-	495
Total allowance for credit losses	2,871	512	605	3,988	4	3,992
Of which: in respect of impaired debts	712	-	68	780	-	780

(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 balance of 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 housing loans granted to purchasing groups under construction.

(d) Restated.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[(a)]

1. Credit quality and arrears

	31 December 2015					
		Problem debts (b)			Unimpaired debts - additional information	
	Non-problem debts	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	**14,705**	**420**	**563**	**15,688**	**11**	**33**
Construction & real estate - real estate activities	**23,182**	**553**	**918**	**24,653**	**6**	**13**
Financial services	**9,495**	**13**	**62**	**9,570**	**2**	**1**
Commercial - other	**64,014**	**1,798**	**1,502**	**67,314**	**42**	**108**
Total commercial	**111,396**	**2,784**	**3,045**	**117,225**	**61**	**155**
Private individuals - housing loans(f)	**79,852**	**781**	**-**	**80,633**	**753** (i)	**481**
Private individuals - other	**36,546**	**385**	**60**	**36,991**	**105**	**187**
Total public - activity in Israel	**227,794**	**3,950**	**3,105**	**234,849**	**919**	**823**
Israeli banks	**2,146**	**-**	**-**	**2,146**	**-**	**-**
Government of Israel	**262**	**-**	**-**	**262**	**-**	**-**
Total activity in Israel	**230,202**	**3,950**	**3,105**	**237,257**	**919**	**823**
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**9,283**	**66**	**434**	**9,783**	**4**	**113**
Other commercial	**18,159**	**368**	**330**	**18,857**	**2**	**128**
Total commercial	**27,442**	**434**	**764**	**28,640**	**6**	**241**
Private individuals	**1,510**	**19**	**52**	**1,581**	**17**	**4**
Total public - activity abroad	**28,952**	**453**	**816**	**30,221**	**23**	**245**
Foreign banks	**8,170**	**-**	**-**	**8,170**	**-**	**-**
Foreign governments	**191**	**-**	**-**	**191**	**-**	**-**
Total activity abroad	**37,313**	**453**	**816**	**38,582**	**23**	**245**
Total public	**256,746**	**4,403**	**3,921**	**265,070**	**942**	**1,068**
Total banks	**10,316**	**-**	**-**	**10,316**	**-**	**-**
Total governments	**453**	**-**	**-**	**453**	**-**	**-**
Total	**267,515**	**4,403**	**3,921**	**275,839**	**942**	**1,068**

See notes on page 371.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[a] (cont'd)

1. Credit quality and arrears (cont'd)

	31 December 2014					
		Problem debts(b)			Unimpaired debts - additional information	
	Non-problem debts	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	290	579	16,161	9	31
Construction & real estate - real estate activities	20,420	518	1,331	22,269	5	12
Financial services	9,953	33	20	10,006	-	12
Commercial - other	65,096	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	775	-	74,651	768	499
Private individuals - other	34,037	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 (g)	8,275	57	500	8,832	4	23
Other commercial	17,351	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 371.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

1. Credit quality and arrears (cont'd)

Notes:

(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 29.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 503 million (31 December 2014 – NIS 533 million) were classified as problem debts that are not impaired.

(f) Including housing loans in the amount of NIS 144 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) 5.3% of the credit for income-generating assets given by the Construction and Real Estate Division is at LTV rates above 85%.

(h) Reclassified.

(i) The balance of unimpaired debits in arrears of 90 days or more, as at 31 December 2015, NIS 942 million, is credit given by the Bank, of which about NIS 268 million is in respect of non-housing loans whose period of arrears is 90-194 days, and about NIS 753 million is in respect of housing loans, of which NIS 185 million is in arrears of up to 149 days, NIS 199 million is in arrears of 150-249 days, and the balance is in respect of a loan in arrears of 150 days or more.

Credit quality – status of debts in arrears[a]

The status of debts in arrears is monitored routinely, and serves as one of the key indicators of credit quality. The status of debts in arrears is determined based on actual days of arrears. Debts are treated as nonperforming (not accruing interest income) after 90 days of arrears, as is any debt that has undergone troubled debt restructuring and has resumed accruing interest when it is one day of arrears relative to the new terms of the debt. With regard to debts evaluated on a collective basis, the status of arrears affects the classification of the debt (the classification is more severe for more extensive arrears) and after 150 days of arrears, the Bank performs a charge-off of the debt. With regard to housing loans, with the exception of loans without quarterly or monthly payments, the Bank establishes an allowance according to the method of the extent of arrears.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[(a)] (cont'd)

2. Additional information on impaired debts
A. Impaired debts and individual allowance

	31 December 2015				
	Balance (b) of impaired debts in respect of which there is an individual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) of impaired debts	Contractual principal balance of impaired debts
	NIS millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate - construction	**149**	**33**	**414**	**563**	**1,084**
Construction & real estate - real estate activities	**666**	**129**	**252**	**918**	**2,214**
Financial services	**1**	**1**	**61**	**62**	**589**
Commercial - other	**1,103**	**333**	**399**	**1,502**	**4,856**
Total commercial	**1,919**	**496**	**1,126**	**3,045**	**8,743**
Private individuals - housing loans	**-**	**-**	**-**	**-**	**-**
Private individuals - other	**51**	**82**	**9**	**60**	**1,958**
Total public - activity in Israel	**1,970**	**578**	**1,135**	**3,105**	**10,701**
Israeli banks	**-**	**-**	**-**	**-**	**-**
Government of Israel	**-**	**-**	**-**	**-**	**-**
Total activity in Israel	**1,970**	**578**	**1,135**	**3,105**	**10,701**
Activity of borrowers abroad					
Public - commercial					
Construction & real estate	**295**	**146**	**139**	**434**	**634**
Other commercial	**261**	**125**	**69**	**330**	**599**
Total commercial	**556**	**271**	**208**	**764**	**1,233**
Private individuals	**29**	**18**	**23**	**52**	**96**
Total public - activity abroad	**585**	**289**	**231**	**816**	**1,329**
Foreign banks	**-**	**-**	**-**	**-**	**1**
Foreign governments	**-**	**-**	**-**	**-**	**-**
Total activity abroad	**585**	**289**	**231**	**816**	**1,330**
Total public	**2,555**	**867**	**1,366**	**3,921**	**12,030**
Total banks	**-**	**-**	**-**	**-**	**1**
Total governments	**-**	**-**	**-**	**-**	**-**
Total	**2,555**	**867**	**1,366**	**3,921**	**12,031**
Of which:					
Measured by present value of cash flows	**1,549**	**572**	**950**	**2,499**	**-**
Debts under troubled debt restructuring	**1,425**	**308**	**853**	**2,278**	**-**

(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) Balance of recorded debt.
(c) Individual allowance for credit losses.

Note 29 – Additional information on credit risk, credit to the public and the 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				
	Balance (b) of impaired debts in respect of which there is an individual allowance (c)	Balance of individual allowance (c)	Balance (b) of impaired debts in respect of which there is no individual allowance (c)	Total balance (b) of impaired debts	Contractual principal balance of impaired debts
	NIS millions				
Activity of borrowers in Israel					
Public - commercial					
Construction & real estate -	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
Other commercial	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 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) Balance of recorded debt.
(c) Individual allowance for credit losses.

Note 29 – Additional information on credit risk, credit to the public and the 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 year ended 31 December 2015		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis
	(NIS millions)		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	**582**	**12**	**12**
Construction & real estate - real estate activities	**1,208**	**16**	**16**
Financial services	**36**	**7**	**7**
Commercial - other	**1,512**	**49**	**32**
Total commercial	**3,338**	**84**	**67**
Private individuals - housing loans	**-**	**-**	**-**
Private individuals - other	**86**	**21**	**21**
Total public - activity in Israel	**3,424**	**105**	**88**
Israeli banks	**-**	**-**	**-**
Government of Israel	**-**	**-**	**-**
Total activity in Israel	**3,424**	**105**	**88**
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	**517**	**12**	**12**
Other commercial	**450**	**9**	**9**
Total commercial	**967**	**21**	**21**
Private individuals	**55**	**2**	**2**
Total public - activity abroad	**1,022**	**23**	**23**
Foreign banks	**-**	**-**	**-**
Foreign governments	**-**	**-**	**-**
Total activity abroad	**1,022**	**23**	**23**
Total public	**4,446**	**128**	**111**
Total banks	**-**	**-**	**-**
Total governments	**-**	**-**	**-**
Total	**4,446**	**128 (d)**	**111**

(a) Credit to the public, credit to governments, deposits in banks and other debts, excluding bonds and securities borrowed or purchased under agreements to resell.
(b) Average debt balance recorded of impaired debts in the reporting period.
(c) Interest income recorded in the reporting period in respect of the average balance of impaired debts, for the period in which the debts were classified as impaired.
(d) If the impaired debts had accrued interest under their original terms, interest income would have been recorded in the amount of NIS 361 million.

Note 29 – Additional information on credit risk, credit to the public and the 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 year ended 31 December 2014		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis
	(NIS millions)		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	501	10	10
Construction & real estate - real estate activities	1,404	13	13
Financial services	150	2	2
Commercial - other	1,612	39	38
Total commercial	3,667	64	63
Private individuals - housing loans	-	-	-
Private individuals - other	105	20	20
Total public - activity in Israel	3,772	84	83
Israeli banks	-	-	-
Government of Israel	-	-	-
Total activity in Israel	3,772	84	83
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	674	8	8
Other commercial	804	14	14
Total commercial	1,478	22	22
Private individuals	71	1	1
Total public - activity abroad	1,549	23	23
Foreign banks	-	-	-
Foreign governments	-	-	-
Total activity abroad	1,549	23	23
Total public	5,321	107	106
Total banks	-	-	-
Total governments	-	-	-
Total	5,321	107 (d)	106

(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 debt balance recorded of impaired debts in the reporting period.
(c) Interest income recorded in the reporting period in respect of the average balance of impaired debts, for the period in which the debts were classified as impaired.
(d) If the impaired debts had accrued interest under their original terms, interest income would have been recorded in the amount of NIS 401 million.

Note 29 – Additional information on credit risk, credit to the public and the 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 year ended 31 December 2013		
	Average balance (b) of impaired debts	Interest income recorded (c)	Of which: recorded on cash basis
	(NIS millions)		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	549	12	12
Construction & real estate - real estate activities	1,585	19	19
Financial services	477	-	-
Commercial - other	2,064	19	17
Total commercial	4,675	50	48
Private individuals - housing loans	-	-	-
Private individuals - other	68	5	5
Total public - activity in Israel	4,743	55	53
Israeli banks	-	-	-
Government of Israel	-	-	-
Total activity in Israel	4,743	55	53
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	787	8	4
Other commercial	894	16	15
Total commercial	1,681	24	19
Private individuals	92	1	1
Total public - activity abroad	1,773	25	20
Foreign banks	2	-	-
Foreign governments	-	-	-
Total activity abroad	1,775	25	20
Total public	6,516	80	73
Total banks	2	-	-
Total governments	-	-	-
Total	6,518	80 (d)	73

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

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

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

(d) If the impaired debts had accrued interest under their original terms, interest income would have been recorded in the amount of NIS 510 million.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[(a)] (cont'd)

2. Additional information on impaired debts (cont'd)
C. Impaired debts under restructuring[(d)]

	31 December 2015			31 December 2014		
	Not accruing interest income	Accruing (b) not in arrears	Total (c)	Not accruing interest income	Accruing (b) not in arrears	Total (c)
	NIS millions			NIS millions		
Activity of borrowers in Israel						
Public - commercial						
Construction & real estate - construction	**456**	**14**	**470**	411	18	429
Construction & real estate - real estate activities	**613**	**4**	**617**	826	-	826
Financial services	**1**	**-**	**1**	17	-	17
Commercial - other	**519**	**29**	**548**	564	30	594
Total commercial	**1,589**	**47**	**1,636**	1,818	48	1,866
Private individuals - housing loans	**-**	**-**	**-**	-	-	-
Private individuals - other	**56**	**-**	**56**	61	-	61
Total public - activity in Israel	**1,645**	**47**	**1,692**	1,879	48	1,927
Israeli banks	**-**	**-**	**-**	-	-	-
Government of Israel	**-**	**-**	**-**	-	-	-
Total activity in Israel	**1,645**	**47**	**1,692**	1,879	48	1,927
Activity of borrowers abroad						
Public - commercial						
Construction & real estate	**146**	**267**	**413**	200	141	341
Other commercial	**40**	**103**	**143**	213	185	398
Total commercial	**186**	**370**	**556**	413	326	739
Private individuals	**8**	**22**	**30**	25	11	36
Total public - activity abroad	**194**	**392**	**586**	438	337	775
Foreign banks	**-**	**-**	**-**	-	-	-
Foreign governments	**-**	**-**	**-**	-	-	-
Total activity abroad	**194**	**392**	**586**	438	337	775
Total public	**1,839**	**439**	**2,278**	2,317	385	2,702
Total banks	**-**	**-**	**-**	-	-	-
Total governments	**-**	**-**	**-**	-	-	-
Total	**1,839**	**439**	**2,278**	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) Accruing interest income.
(c) Included in impaired debts.
(d) Commitments to grant additional credit to borrowers for whom there was a troubled debt restructuring that included changes in the credit terms amounted at 31 December 2014 to NIS 43 million (31 December 2014 – NIS 98 million).

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[(a)] (cont'd)

2. Additional information on impaired debts (cont'd)
C. Impaired debts under restructuring (cont'd)

1. Restructurings carried out

	31 December 2015		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	NIS millions		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	**33**	**72**	**70**
Construction & real estate - real estate activities	**4**	**28**	**26**
Commercial - other	**105**	**109**	**102**
Total commercial	**142**	**209**	**198**
Private individuals - housing loans	**-**	**-**	**-**
Private individuals - other	**961**	**9**	**9**
Total public - activity in Israel	**1,103**	**218**	**207**
Israeli banks	**-**	**-**	**-**
Government of Israel	**-**	**-**	**-**
Total activity in Israel	**1,103**	**218**	**207**
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	**21**	**42**	**41**
Other commercial	**25**	**75**	**73**
Total commercial	**46**	**117**	**114**
Private individuals	**6**	**2**	**2**
Total public - activity abroad	**52**	**119**	**116**
Foreign banks	**-**	**-**	**-**
Foreign governments	**-**	**-**	**-**
Total activity abroad	**52**	**119**	**116**
Total public	**1,155**	**337**	**323**
Total banks	**-**	**-**	**-**
Total governments	**-**	**-**	**-**
Total	**1,155**	**337**	**323**

(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 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[(a)] (cont'd)

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

C. Impaired debts under restructuring (cont'd)

1. Restructurings carried out (cont'd)

	31 December 2014		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	(NIS millions)		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	27	241	241
Construction & real estate - real estate activities	11	385	379
Financial services	-	-	-
Commercial - other	96	150	144
Total commercial	134	776	764
Private individuals - housing loans	-	-	-
Private individuals - other	855	10	10
Total public - activity in Israel	989	786	774
Israeli banks	-	-	-
Government of Israel	-	-	-
Total activity in Israel	989	786	774
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	12	142	142
Other commercial	49	211	205
Total commercial	61	353	347
Private individuals	12	2	2
Total public - activity abroad	73	355	349
Foreign banks	-	-	-
Foreign governments	-	-	-
Total activity abroad	73	355	349
Total public	1,062	1,141	1,123
Total banks	-	-	-
Total governments	-	-	-
Total	1,062	1,141	1,123

(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 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[(a)] (cont'd)

2. Additional information on impaired debts (cont'd)
C. Impaired debts under restructuring (cont'd)

1. Restructurings carried out (cont'd)

	31 December 2013		
	Number of contracts	Recorded debt balance before restructuring	Recorded debt balance after restructuring
	(NIS millions)		
Activity of borrowers in Israel			
Public - commercial			
Construction & real estate - construction	18	186	176
Construction & real estate - real estate activities	15	165	138
Financial services	-	-	-
Commercial - other	75	5	5
Total commercial	108	356	319
Private individuals - housing loans	-	-	-
Private individuals - other	753	7	7
Total public - activity in Israel	861	363	326
Israeli banks	-	-	-
Government of Israel	-	-	-
Total activity in Israel	861	363	326
Activity of borrowers abroad			
Public - commercial			
Construction & real estate	12	166	166
Other commercial	63	322	321
Total commercial	75	488	487
Private individuals	52	7	7
Total public - activity abroad	127	495	494
Foreign banks	-	-	-
Foreign governments	-	-	-
Total activity abroad	127	495	494
Total public	988	858	820
Total banks	-	-	-
Total governments	-	-	-
Total	988	858	820

(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 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[(a)] (cont'd)

2. Additional information on impaired debts (cont'd)
C. Impaired debts under restructuring (cont'd)
2. Failed restructurings[b]

	31 December 2015	
	Number of contracts	Recorded debt balance (c)
		NIS millions
Activity of borrowers in Israel		
Public - commercial		
Construction & real estate - construction	**27**	**14**
Construction & real estate - real estate activities	**10**	**7**
Financial services	**-**	**-**
Commercial - other	**128**	**37**
Total commercial	**165**	**58**
Private individuals - housing loans	**-**	**-**
Private individuals - other	**564**	**10**
Total public - activity in Israel	**729**	**68**
Israeli banks	**-**	**-**
Government of Israel	**-**	**-**
Total activity in Israel	**729**	**68**
Activity of borrowers abroad		
Public - commercial		
Construction & real estate	**8**	**13**
Other commercial	**9**	**4**
Total commercial	**17**	**17**
Private individuals	**4**	**1**
Total public - activity abroad	**21**	**18**
Foreign banks	**-**	**-**
Foreign governments	**-**	**-**
Total activity abroad	**21**	**18**
Total public	**750**	**86**
Total banks	**-**	**-**
Total governments	**-**	**-**
Total	**750**	**86**

(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 debt balance at the end of the period when the failure occurred.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts(a) (cont'd)

2. Additional information on impaired debts (cont'd)
C. Impaired debts under restructuring (cont'd)
2. Failed restructurings[b] (cont'd)

	31 December 2014	
	Number of contracts	Recorded debt balance (c)
		NIS millions
Activity of borrowers in Israel		
Public - commercial		
Construction & real estate - construction	30	19
Construction & real estate - real estate activities	12	106
Financial services	1	-
Commercial - other	109	43
Total commercial	152	168
Private individuals - housing loans	-	-
Private individuals - other	437	4
Total public - activity in Israel	589	172
Israeli banks	-	-
Government of Israel	-	-
Total activity in Israel	589	172
Activity of borrowers abroad		
Public - commercial		
Construction & real estate	3	16
Other commercial	25	69
Total commercial	28	85
Private individuals	8	1
Total public - activity abroad	36	86
Foreign banks	-	-
Foreign governments	-	-
Total activity abroad	36	86
Total public	625	258
Total banks	-	-
Total governments	-	-
Total	625	258

(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 debt balance at the end of the period when the failure occurred.

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

B. Debts[a] (cont'd)

3. Additional information on housing loans
Year-end balances by LTV[b], type of repayment and type of interest

		31 December 2015			
			Balance of housing loans		
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Total off-balance sheet credit risk
		NIS millions			
First charge: financing ratio	Up to 60%	**50,828**	**3,748**	**35,307**	**3,173**
	Above 60%	**30,149**	**1,145**	**21,714**	**926**
Second charge or without charge		**828**	**26**	**603**	**118**
Total		**81,805**	**4,919**	**57,624**	**4,217**

		31 December 2014			
			Balance of housing loans		
		Total[1]	[1]Of which: bullet and balloon	[1]Of which: variable interest	Total off-balance sheet credit risk
		NIS millions			
First charge: financing ratio	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 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

C. Credit to the public and off-balance sheet credit risk by size of credit of borrower

Credit limit		31 December 2015 Number of borrowers (c)	Credit (a)	Off-balance sheet credit risk (b)
(NIS thousands)			(NIS millions)	
From	To			
-	10	717,725	794	1,952
10	20	363,771	1,882	3,697
20	40	377,455	4,514	6,565
40	80	291,379	8,720	7,805
80	150	163,182	12,190	5,437
150	300	91,885	15,649	3,640
300	600	66,366	25,692	2,964
600	1,200	54,691	41,477	4,234
1,200	2,000	14,731	19,461	2,687
2,000	4,000	6,256	14,264	2,665
4,000	8,000	2,612	11,549	3,211
8,000	20,000	1,784	17,899	4,599
20,000	40,000	812	16,961	5,807
40,000	200,000	784	42,292	20,175
200,000	400,000	109	17,200	13,491
400,000	800,000	45	11,892	12,589
800,000	1,200,000	8	1,926	5,226
1,200,000	1,600,000	2	2,205	615
1,600,000	2,000,000	1	35	1,613
2,000,000	2,184,979	2	3,065	1,193
Total		**2,153,600**	**269,667**	**110,165**

(a) Before the effect of allowances for credit losses, and before the effect of collateral permitted for deduction for purposes of single borrower and group of borrowers indebtedness; with the addition of the fair value of derivative instruments in the amount of NIS 4,597 million. Open credit card transactions have been allocated to credit levels by the category consolidation method.
(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower restrictions.
(c) Number of borrowers by total credit and credit risk.

General comments
Commencing with a credit level of NIS 8,000 thousand, the classification is set out by the specific consolidation method; with respect to the other borrowers, credit has been classified by the category consolidation method.
The definition of "borrower" and the definition of debt, including off-balance sheet credit risk, are in accordance with the directives of the Banking Supervision Department for amendment of Proper Conduct of Banking Business Directive No. 313 - "Restrictions on the Debt of a Single Borrower and of a Group of Borrowers".

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

C. Credit to the public and off-balance sheet credit risk by size of credit of borrower (cont'd)

Credit limit		31 December 2014		
		Number of borrowers (c) (d)	Credit (a)	Off-balance sheet credit risk (b)
(NIS thousands)			(NIS millions)	
From	To			
-	10	593,436	448	1,641
10	20	346,152	1,797	3,474
20	40	443,601	4,671	8,389
40	80	339,270	9,411	9,840
80	150	180,823	13,160	6,368
150	300	96,914	16,610	3,616
300	600	65,784	25,807	2,449
600	1,200	46,513	35,311	3,293
1,200	2,000	11,724	15,633	2,175
2,000	4,000	5,445	12,615	2,321
4,000	8,000	2,410	10,683	2,726
8,000	20,000	1,813	17,776	5,199
20,000	40,000	829	17,459	6,178
40,000	200,000	735	38,009	20,273
200,000	400,000	112	18,622	12,900
400,000	800,000	41	11,740	11,582
800,000	1,200,000	10	4,656	5,290
1,200,000	1,600,000	2	268	2,360
1,600,000	2,000,000	2	2,942	400
2,000,000	2,400,000	3	4,068	2,019
2,400,000	2,800,000	-	-	-
2,800,000	2,855,203	1	2,157	698
Total		2,135,620	263,843	113,191

(a) Before the effect of allowances for credit losses, and before the effect of collateral permitted for deduction for purposes of single borrower and group of borrowers indebtedness; with the addition of the fair value of derivative instruments in the amount of NIS 7,375 million. Open credit card transactions have been allocated to credit levels by the category consolidation method.
(b) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower restrictions.
(c) Number of borrowers by total credit and credit risk.
(d) Restated.

General comments
Commencing with a credit level of NIS 8,000 thousand, the classification is set out by the specific consolidation method; with respect to the other borrowers, credit has been classified by the category consolidation method.
The definition of "borrower" and the definition of debt, including off-balance sheet credit risk, are in accordance with the directives of the Banking Supervision Department for amendment of Proper Conduct of Banking Business Directive No. 313 - "Restrictions on the Debt of a Single Borrower and of a Group of Borrowers".

Note 29 – Additional information on credit risk, credit to the public and the allowance for credit losses (cont'd)

D. Off-balance sheet financial instruments

	31 December 2015		31 December 2014	
	Contract balances (a)	Balance of allowance for credit losses	Contract balances (a)	Balance of allowance for credit losses
	NIS millions			
A. Off-balance sheet financial instruments				
Balances of contracts or their stated amounts as at the end of the period				
Transactions in which the balance reflects a credit risk:				
Documentary credits	**1,759**	**4**	1,627	3
Credit guarantees	**6,136**	**78**	6,071	102
Guarantees to apartment purchasers	**19,313**	**21**	17,547	24
Other guarantees and liabilities (b)	**17,131**	**228**	17,079	216
Unutilized credit card facilities	**24,090**	**30**	26,506	28
Other unutilized revolving credit facilities and credit facilities in accounts on demand	**13,607**	**37**	14,125	25
Irrevocable commitments to provide credit which has been approved and not yet granted[1]	**25,350**	**68**	22,727	73
Commitments to issue guarantees	**14,423**	**16**	15,097	23
Unutilized facilities for activity in derivative instruments	**4,115**	**-**	5,533	-
Approval in principle for a guaranteed rate of interest	**3,874**	**-**	4,565	-

[1] Of which: credit exposures in respect of the obligation to provide liquidity to securitization structures under the auspices of others not utilized in the amount of NIS 234 million (31 December 2014 – NIS 233 million). This commitment is only made in a situation where financing difficulties do not facilitate securitization. Currently and in the past the liquidity facility was not utilized. The lines provided by the Bank represent a small part of the overall volume of liquidity lines provided to those entities. The Bank does not provide these entities with any other kind of support.

(a) The balances of the contracts or their stated amounts at the year-end, before the effect of the allowance for credit losses.
(b) Including the Bank's liabilities in respect of its share in the risk fund of the Maof Clearing House in the amount of NIS 218 million (31 December 2014 – NIS 284 million).

E. Information on loans sold

Proceeds of NIS 268 million were received for commercial loans sold in 2015 (NIS 344 million in 2014).

For further information regarding transactions for the sale of loans, see Note 3A.5 below.

Note 30 - Assets and Liabilities by Linkage Basis

	31 December 2015						
	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In US dollars	In Euros	In other currencies	Non-monetary items (b)	Total
	NIS millions						
Assets							
Cash and deposits with banks	**50,912**	**246**	**5,951**	**763**	**2,407**	**176**	**60,455**
Securities	**32,331**	**1,933**	**28,228**	**2,023**	**1,640**	**3,320**	**69,475**
Securities borrowed or purchased under agreements to resell	**1,764**	**-**	**-**	**-**	**-**	**-**	**1,764**
Credit to the public, net (c)	**172,545**	**49,178**	**28,768**	**4,809**	**5,849**	**250**	**261,399**
Credit to governments	**67**	**195**	**130**	**61**	**-**	**-**	**453**
Investments in companies included on equity basis	**-**	**-**	**-**	**-**	**-**	**924**	**924**
Buildings and equipment	**-**	**-**	**-**	**-**	**-**	**3,095**	**3,095**
Assets in respect of derivative instruments	**6,402**	**115**	**3,466**	**308**	**243**	**716**	**11,250**
Other assets	**6,138**	**5**	**896**	**6**	**44**	**577**	**7,666**
Intangible assets and goodwill	**-**	**-**	**-**	**-**	**-**	**18**	**18**
Total assets	**270,159**	**51,672**	**67,439**	**7,970**	**10,183**	**9,076**	**416,499**
Liabilities							
Deposits of the public	**195,425**	**25,583**	**84,646**	**13,709**	**8,866**	**464**	**328,693**
Deposits from banks	**1,886**	**72**	**1,470**	**385**	**46**	**-**	**3,859**
Deposits from governments	**39**	**1**	**703**	**7**	**-**	**-**	**750**
Securities loaned or sold under agreements to repurchase	**938**	**-**	**-**	**-**	**-**	**-**	**938**
Debentures, bonds and subordinated notes	**5,704**	**15,604**	**-**	**-**	**-**	**-**	**21,308**
Liabilities in respect of derivative instruments	**6,356**	**222**	**3,266**	**305**	**247**	**702**	**11,098**
Other liabilities	**9,170**	**9,515**	**964**	**51**	**215**	**831**	**20,746**
Total liabilities	**219,518**	**50,997**	**91,049**	**14,457**	**9,374**	**1,997**	**387,392**
Difference (d)	**50,641**	**675**	**(23,610)**	**(6,487)**	**809**	**7,079**	**29,107**
Effect of non-hedging derivative instruments:	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative instruments (except options)	**(26,357)**	**(1,308)**	**23,871**	**5,617**	**(1,427)**	**(396)**	**-**
Options in the money, net (in terms of underlying asset)	**616**	**-**	**(654)**	**102**	**(64)**	**-**	**-**
Options out of the money, net (in terms of underlying asset)	**533**	**-**	**(483)**	**(9)**	**(41)**	**-**	**-**
Total	**25,433**	**(633)**	**(876)**	**(777)**	**(723)**	**6,683**	**29,107**
Effect of non-hedging derivative instruments:							
Options in the money, net (discounted par value)	**1,425**	**-**	**(1,257)**	**(100)**	**(68)**	**-**	**-**
Options out of the money, net (discounted par value)	**1,305**	**-**	**(1,112)**	**(416)**	**223**	**-**	**-**

(a) Including linked to foreign currency.
(b) Including derivative instruments whose underlying asset is a non-monetary item.
(c) After deduction of credit loss allowances attributable to linkage bases in the amount of NIS 3,671 million.
(d) Shareholders' equity includes non-controlling interests.

Note 30 - Assets and Liabilities by Linkage Basis (cont'd)

	31 December 2014						
	Israeli currency		Foreign currency (a)				
	Unlinked	Linked to the CPI	In US dollars	In Euros	In other currencies	Non-monetary items (b)	Total
	NIS millions						
Assets							
Cash and deposits with banks	41,900	263	11,764	1,325	5,277	86	60,615
Securities	19,138	2,294	20,764	3,090	2,133	4,694	52,113
Securities borrowed or purchased under agreements to resell	2,000	-	-	-	-	-	2,000
Credit to the public, net (c)	159,533	51,221	29,813	5,599	6,092	222	252,480
Credit to governments	53	240	176	59	-	-	528
Investments in companies included on equity basis	-	-	-	-	-	2,216	2,216
Buildings and equipment	-	-	-	-	-	3,162(f)	3,162
Assets in respect of derivative instruments	7,602	181	7,174	104	281	1,567	16,909
Other assets	5,665 (e)	4	886	7	45	311	6,918
Intangible assets and goodwill	-	-	-	-	-	43	43
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 loaned 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 non-hedging derivative instruments:							
Derivative instruments (except 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 underlying asset is a non-monetary item.
(c) After deduction of credit loss allowances attributable to linkage bases in the amount of NIS 3,988 million.
(d) Shareholders' equity includes non-controlling interests.
(e) Restated pursuant to a change in accounting method for accumulating employee rights, see Note 1.D.1.
(f) Restated pursuant to implementation of the directives of the Supervisor of Banks on capitalization of software costs, see Note 1.D.2.
(g) Reclassified.

Note 31 - Assets and Liabilities by Maturities and Linkage Basis [(a)]

	31 December 2015			
	Estimated future contractual cash flows			
	Upon demand and up to one month (f)	One month to three months (f)	Three months to one year (f)	One year to two years
	NIS millions			
Israeli currency (including linked to foreign currency):				
Assets[1]	93,336	20,412	57,288	30,828
Liabilities[2]	170,116	18,473	38,210	16,970
Difference	(76,780)	1,939	19,078	13,858
[1]Of which: credit to the public	37,901	16,285	37,463	27,640
[2]Of which: deposits of the public	159,358	16,220	32,677	7,581
Derivative instruments (except options)	(7,869)	(408)	(16,775)	145
Options (in terms of underlying asset)	(808)	298	(231)	4
Difference after effect of derivative instruments	(85,457)	1,829	2,072	14,007
Foreign currency (c)				
Assets[1]	19,977	7,970	14,934	9,356
Liabilities[2]	77,142	12,502	20,547	3,428
Difference	(57,165)	(4,532)	(5,613)	5,928
[1]Of which: credit to the public	8,839	6,626	8,808	4,483
[2]Of which: deposits of the public	73,220	11,771	18,450	2,745
Of which difference in $	(44,941)	(5,462)	(4,680)	5,444
Of which: difference in respect of foreign operations	(6,228)	1,805	(1,303)	2,208
Derivative instruments (except options)	7,869	408	16,775	(145)
Options (in terms of underlying asset)	808	(298)	231	(4)
Difference after effect of derivative instruments	(48,488)	(4,422)	11,393	5,779
Total				
Assets[1]	113,313	28,382	72,222	40,184
Liabilities[2]	247,258	30,975	58,757	20,398
Difference (g)	(133,945)	(2,593)	13,465	19,786
[1]Of which: credit to the public	46,740	22,911	46,271	32,123
[2]Of which: deposits of the public	232,578	27,991	51,127	10,326

Notes:

(a) In this Note, forecast contractual future cash flows in respect of assets and liabilities are shown according to linkage basis, in accordance with the remaining contractual period to maturity of each cash flow. The data is presented after deduction of allowance for credit losses.

(b) Assets without a fixed maturity include assets in the amount of NIS 568 million that are overdue.

(c) Not including Israeli currency linked to foreign currency.

(d) As included in Note 30, "Assets and Liabilities by Linkage Basis", including off-balance sheet amounts in respect of derivatives that are not settled net.

(e) The contractual rate of return is the interest rate discounting future anticipated contractual cash flows reported in this Note in respect of a monetary item to the balance sheet figure.

(f) Credit with revolving account conditions is classified in accordance with the period of the credit facility in the amount of NIS 10.6 billion. Over-limit credit in the amount of NIS 0.9 billion is classified as without repayment date.

(g) The above difference does not necessarily reflect the exposure to interest and/or linkage basis.

Note: Total memorandum liabilities against which short-term credit was granted in the Bank amount to NIS 4.9 billion.

Note 31 - Assets and Liabilities by Maturities and Linkage Basis [a] (cont'd)

							Book balance (d)		
Two years to three years	Three years to four years	Four years to five years	Five years to ten years	Ten years to twenty years	Over twenty years	Total cash flows	Without fixed maturity (b)	Total	Contractual rate of return (e) in %
23,518	18,928	18,061	47,720	41,126	13,987	365,204	2,538	324,041	2.03
4,759	4,686	8,514	10,529	4,094	2,386	278,737	1,468	272,832	1.65
18,759	14,242	9,547	37,191	37,032	11,601	86,467	1,070	51,209	
21,885	17,154	14,141	38,663	37,861	12,168	261,161	749	221,725	3.52
2,839	2,032	1,311	3,759	525	-	226,302	-	221,301	1.18
596	1,697	(823)	(758)	(195)	-	(24,390)	-	(22,179)	
188	930	726	-	-	-	1,107	-	1,055	
19,543	16,869	9,450	36,433	36,837	11,601	63,184	1,070	30,085	
6,464	5,573	5,865	11,465	5,797	4,375	91,776	472	83,382	2.45
1,404	1,300	438	97	417	1	117,276	3	112,563	1.51
5,060	4,273	5,427	11,368	5,380	4,374	(25,500)	469	(29,181)	
3,576	2,694	2,993	2,252	733	177	41,181	449	39,424	3.48
931	771	159	97	356	1	108,501	-	106,928	1.10
3,629	3,232	3,302	9,925	4,696	3,761	(21,094)	914	(21,477)	
2,382	2,238	2,958	2,023	583	74	6,740	23	5,872	
(596)	(1,697)	823	758	195	-	24,390	-	22,574	
(188)	(930)	(726)	-	-	-	(1,107)	-	(1,055)	
4,276	1,646	5,524	12,126	5,575	4,374	(2,217)	469	(7,662)	
29,982	24,501	23,926	59,185	46,923	18,362	456,980	3,010	407,423	2.12
6,163	5,986	8,952	10,626	4,511	2,387	396,013	1,471	385,395	1.61
23,819	18,515	14,974	48,559	42,412	15,975	60,967	1,539	22,028	
25,461	19,848	17,134	40,915	38,594	12,345	302,342	1,198	261,149	3.51
3,770	2,803	1,470	3,856	881	1	334,803	-	328,229	1.16

Note 31 - Assets and Liabilities by Maturities and Linkage Basis [(a)] (cont'd)

	31 December 2014			
	Estimated future contractual cash flows			
	Upon demand and up to one month (f)	One month to three months (f)	Three months to one year (f)	One year to two years
	NIS millions			
Israeli currency (including linked to foreign currency):				
Assets [1(h)]	84,066	20,473	53,017	28,056
Liabilities [2(h)]	148,612	15,784	35,582	12,779
Difference	(64,546)	4,689	17,435	15,277
[1]Of which: credit to the public	35,520	18,668	37,801	24,607
[2]Of which: deposits of the public	135,542	12,532	30,828	6,635
Derivative instruments (except options)	(6,283)	(3,718)	(8,863)	(132)
Options (in terms of underlying asset)	294	316	30	19
Difference after effect of derivative instruments	(70,535)	1,287	8,602	15,164
Foreign currency (c)				
Assets [1]	32,104	8,441	17,284	9,472
Liabilities [2]	75,958	17,857	18,748	3,826
Difference	(43,854)	(9,416)	(1,464)	5,646
[1]Of which: credit to the public	11,469	5,876	10,134	4,886
[2]Of which: deposits of the public	70,145	16,429	15,837	3,120
Of which difference in $	(46,374)	2,283	(2,501)	4,826
Of which: difference in respect of foreign operations	(5,697)	(180)	171	2,262
Derivative instruments (except options)	6,283	3,718	8,863	132
Options (in terms of underlying asset)	(294)	(316)	(30)	(19)
Difference after effect of derivative instruments	(37,865)	(6,014)	7,369	5,759
Total				
Assets [1]	116,170	28,914	70,301	37,528
Liabilities [2]	224,570	33,641	54,330	16,605
Difference (g)	(108,400)	(4,727)	15,971	20,923
[1]Of which: credit to the public	46,989	24,544	47,935	29,493
[2]Of which: deposits of the public	205,687	28,961	46,665	9,755

Notes:

(a) In this Note, forecast contractual future cash flows in respect of assets and liabilities are shown according to linkage basis, in accordance with the remaining contractual period to maturity of each cash flow. The data is presented after deduction of allowance for credit losses.

(b) Assets without a fixed maturity include assets in the amount of NIS 431 million that are overdue.

(c) Not including Israeli currency linked to foreign currency.

(d) As included in Note 30, "Assets and Liabilities by Linkage Basis", including off-balance sheet amounts in respect of derivatives that are not settled net.

(e) The contractual rate of return is the interest rate discounting future anticipated contractual cash flows reported in this Note in respect of a monetary item to the balance sheet figure.

(f) Credit with revolving account conditions is classified in accordance with the period of the credit facility in the amount of NIS 13.1 billion. Over-limit credit in the amount of NIS 0.7 billion is classified as without repayment date.

(g) The above difference does not necessarily reflect the exposure to interest and/or linkage basis.

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

Note: Total memorandum liabilities against which short-term credit was granted in the Bank amount to NIS 4.5 billion.

							Book balance (d)		
Two years to three years	Three years to four years	Four years to five years	Five years to ten years	Ten years to twenty years	Over twenty years	Total cash flows	Without fixed maturity (b)	Total	Contractual rate of return (e) in %
23,607	17,036	13,973	41,219	35,328	11,380	328,155	2,796	295,365	2.48
14,118	4,448	4,140	15,294	5,163	4,301	260,221	1,630	252,033	1.54
9,489	12,588	9,833	25,925	30,165	7,079	67,934	1,166	43,332	
21,162	15,786	12,645	36,468	33,161	10,672	246,490	778	210,732	3.35
4,750	2,612	1,473	4,385	664	2	199,423	-	194,120	1.75
210	(14)	1,807	(1,956)	(40)	(85)	(19,074)	-	(18,856)	
-	183	895	687	-	-	2,424	-	1,877	
9,699	12,757	12,535	24,656	30,125	6,994	51,284	1,166	26,353	
6,217	5,239	4,758	9,503	5,566	3,522	102,106	563	89,318	2.41
1,873	731	1,763	2,284	430	3	123,473	15	116,198	0.29
4,344	4,508	2,995	7,219	5,136	3,519	(21,367)	548	(26,880)	
3,315	2,013	2,492	2,406	960	240	43,791	382	41,526	1.86
1,115	487	1,298	1,848	1	1	110,281	-	108,934	1.50
3,487	3,409	1,946	5,670	5,549	3,095	(18,610)	589	(24,386)	
2,596	2,388	1,383	(123)	441	200	3,441	(3)	2,383	
(210)	14	(1,807)	1,956	40	85	19,074	-	18,856	
-	(183)	(895)	(687)	-	-	(2,424)	-	(1,877)	
4,134	4,339	293	8,488	5,176	3,604	(4,717)	548	(9,901)	
29,824	22,275	18,731	50,722	40,894	14,902	430,261	3,359	384,683	2.46
15,991	5,179	5,903	17,578	5,593	4,304	383,694	1,645	368,231	1.15
13,833	17,096	12,828	33,144	35,301	10,598	46,567	1,714	16,452	
24,477	17,799	15,137	38,874	34,121	10,912	290,281	1,160	252,258	3.11
5,865	3,099	2,771	6,233	665	3	309,704	-	303,054	1.66

Note 32A – Balances and fair value assessments of financial instruments

A. General

This note includes information regarding the determination of the fair value of financial instruments according to directives of the Supervisor of Banks. Most of the financial instruments of the Bank do not have a "market value" because they do not have an active trading market. Their fair value is therefore determined on the basis of the present value of future cash flows, discounted at an interest rate that reflects the interest at which the Bank would have effected a similar transaction on the reporting date. The estimated fair value is calculated by means of estimating future cash flows and a subjective determination of the discount rate. Therefore, in respect of most financial instruments, the reported fair value does not necessarily indicate the realizable value of the financial instrument on the reporting date. The estimate of fair value is made on the basis of interest rates in effect on the reporting date and does not take into account interest rate fluctuations. Under different interest rates the fair value calculated may be significantly different. This is true especially in respect of financial instruments with interest at fixed rates or those which are non-interest bearing. Furthermore, the determination of fair value does not take into account commissions that will be received or paid over the course of business. In addition, the difference between the balance sheet value and the fair value may not be realized because in most cases the Bank may hold the financial instrument until maturity. Therefore, it should be noted that the data included in this note do not purport to reflect the value of the Bank as a going concern. Furthermore, because of the wide range of valuation techniques and estimates that can be applied in the calculation of fair value, caution must be exercised when comparing fair values of different banks.

B. Principal methods and assumptions used in estimating the fair value of financial instruments

Financial assets:

Credit to the public - the fair value of credit to the public is determined on the basis of the present value of future cash flows discounted at an appropriate discount rate. The balance of credit was classified into a number of categories according to the operating segment and the credit rating of the borrowers. Future cash flows (principal and interest) were calculated in respect of each category according to the various linkage bases. These receipts were discounted at an interest rate that reflects the rate of risk and average margin inherent in that category of credit and the term of the credit.

The interest rate is usually determined according to the interest rate used in similar transactions on the reporting date.

The fair value of debit balances in current accounts was valued at book value.
The fair value of impaired debts was calculated using interest rates that reflect the inherent high credit risk. In any case, these interest rates reflect the highest rates of interest used by the Group in transactions on the reporting date in the same segment.

The fair value of current account balances classified as impaired loans was calculated in accordance with an estimate of their average duration and based on maximum interest rates in the Bank.

The future cash flows in respect of impaired debts were calculated after deducting the effect of accounting write-offs and allowances for credit losses.

Note 32A – Balances and fair value assessments of financial instruments (cont'd)

Deposits with banks and credit to governments - by the discounted future cash flows method, at interest rates at which similar transactions were executed on the reporting date.

Securities – Quoted securities at their market value. Unquoted securities, shares at cost, and debentures according to a model which takes into account the present value of future cash flows discounted at the appropriate discount rate, and which also takes into account the probability of default and market value.

Financial liabilities:

Deposits of the public - The balance of the deposits is classified according to a number of categories according to operating segments, adjustment basis and the terms of deposit. Future cash flows (principal and interest) were calculated in respect of each category. These payments were discounted at an interest rate that reflects the average interest rate the Group pays on similar deposits in the same category for the period remaining until maturity. The balance sheet amount of current accounts and deposits without a repayment date is considered to be an estimate of their fair value.

Deposits from banks and deposits from governments - The fair value estimated by the discounted future cash flows method, at the rate of interest at which the Group raises similar deposits on the reporting date.

Debentures, bonds and subordinated notes - At their fair value or by the discounted future cash flows method, at the rate of interest at which the Group raises similar deposits or at the rate at which it issues similar bonds on the reporting date.

Other financial assets and liabilities:

Derivative instruments:

Derivative instruments that have an active market were valued at market value and, when there are a number of markets in which the instrument is traded, the value is determined according to the most active market.

Derivative instruments that are not traded on an active market were valued on the basis of models the Bank uses in its current operations as at the reporting date, which take into account the risks inherent in the financial instrument.

Off-balance sheet financial instruments in which the balance reflects a credit risk:

The balance sheet value approximates the fair value, since the terms of transactions in the balance sheet do not differ materially from the terms of similar transactions on the reporting date.

Note 32A – Balances and fair value assessments of financial instruments (cont'd)

	31 December 2015				
	Book	Fair value			
	value	Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	NIS millions				
Financial assets					
Cash and deposits with banks	**60,455**	**52,418**	**6,431**	**1,656**	**60,505**
Securities (b)	**69,475**	**46,931**	**19,491**	**3,053**	**69,475**
Securities borrowed or purchased under agreements to resell	**1,764**	**1,764**	**-**	**-**	**1,764**
Credit to the public, net	**261,399**	**2,246**	**68,534**	**190,601**	**261,381**
Credit to governments	**453**	**-**	**26**	**441**	**467**
Assets in respect of derivative instruments	**11,250**	**916**	**8,931**	**1,403**	**11,250**
Other financial assets	**1,643**	**551**	**-**	**1,093**	**1,644**
Total financial assets	**406,439** (c)	**104,826**	**103,413**	**198,247**	**406,486**
Financial liabilities					
Deposits of the public	**328,693**	**2,666**	**203,012**	**124,612**	**330,290**
Deposits from banks	**3,859**	**-**	**3,777**	**56**	**3,833**
Deposits from governments	**750**	**-**	**688**	**86**	**774**
Securities loaned or sold under agreements to repurchase	**938**	**938**	**-**	**-**	**938**
Debentures, bonds and subordinated notes	**21,308**	**17,880**	**340**	**4,724**	**22,944**
Liabilities in respect of derivative instruments	**11,098**	**914**	**9,932**	**252**	**11,098**
Other financial liabilities	**7,871**	**1,363**	**5,025**	**1,480**	**7,868**
Total financial liabilities	**374,517** (c)	**23,761**	**222,774**	**131,210**	**377,745**
Off-balance sheet financial instruments					
Transactions in which the balance reflects a credit risk	**347**	**-**	**-**	**347**	**347**
In addition, the liability in respect of employee rights, gross - pension and severance pay (d)	**15,764**	**-**	**194**	**15,570**	**15,764**

(a) Level 1 - Fair value measurements using prices quoted in an active market.
Level 2 – Fair value measurements using other significant observable inputs.
Level 3 – Fair value measurements using significant unobservable inputs.

(b) For further details of the book value and fair value of securities, see Note 12 on Securities.

(c) Of which assets and liabilities of NIS 113,254 million and NIS 130,250 million, respectively, whose book value is the same as fair value (instruments that are shown in the balance sheet at fair value) or are an approximation of fair value (instruments for an original period of 3 months for which the book value is used as an approximation of fair value). For further information on instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 32B-32D.

(d) The liability is shown gross, without taking into account the plan assets managed against it.

Note 32A – Balances and fair value assessments of financial instruments (cont'd)

	31 December 2014				
	Book value	Fair value			
		Level 1 (a)	Level 2 (a)	Level 3 (a)	Total
	NIS millions				
Financial assets					
Cash and deposits with banks	60,615	43,671	15,617	1,367	60,655
Securities (b)	52,113	30,526	17,982	3,605	52,113
Securities borrowed or purchased under agreements to resell	2,000	2,000	-	-	2,000
Credit to the public, net	252,480	2,109	58,238	193,571	253,918
Credit to governments	528	-	51	491	542
Assets in respect of derivative instruments	16,909	1,360	12,546	3,003	16,909
Other financial assets	875	188	-	687	875
Total financial assets	385,520 (c)	79,854	104,434	202,724	387,012
Financial liabilities					
Deposits of the public	303,397	2,682	169,062	134,079	305,823
Deposits from banks	4,556	-	4,313	218	4,531
Deposits from governments	467	-	400	95	495
Securities loaned or sold under agreements to repurchase	1,238	1,238	-	-	1,238
Debentures, bonds 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	935 (d)	4,786 (d)	2,270 (d)	7,991
Total financial liabilities	356,976 (c)	25,121	193,136	143,417	361,674
Off-balance sheet financial instruments					
Transactions in which the balance reflects a 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 inputs.
Level 3 – Fair value measurements using significant unobservable inputs.

(b) For further details of the book value and fair value of securities, see Note 12 on Securities.

(c) Of which assets and liabilities of NIS 105,782 million and NIS 132,246 million, respectively, whose book value is the same as fair value (instruments that are shown in the balance sheet at fair value) or are an approximation of fair value (instruments for an original period of 3 months for which the book value is used as an approximation of fair value). For further information on instruments measured for fair value on a recurring basis and on a non-recurring basis, see Notes 32B-32D.

(d) Reclassified.

Note 32B – Items measured for fair value

(a) Items measured for fair value on a recurring basis

	31 December 2015			
	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	**26,954**	**1,599**	**-**	**28,553**
Foreign government bonds	**7,339**	**789**	**-**	**8,128**
Bonds of Israeli financial institutions	**-**	**35**	**-**	**35**
Bonds of financial institutions abroad	**157**	**6,105**	**-**	**6,262**
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**-**	**7,563**	**2,003**	**9,566**
Other bonds in Israel	**113**	**473**	**-**	**586**
Other bonds abroad	**20**	**1,674**	**-**	**1,694**
Shares and mutual funds available for sale	**1,653**	**-**	**-**	**1,653**
Total securities available for sale	**36,236**	**18,238**	**2,003**	**56,477**
Securities held for trading:				
Israeli government bonds	**6,632**	**32**	**-**	**6,664**
Foreign government bonds	**3,056**	**2**	**-**	**3,058**
Bonds of Israeli financial institutions	**238**	**-**	**-**	**238**
Bonds of financial institutions abroad	**-**	**148**	**-**	**148**
Asset-backed (ABS) or mortgage-backed (MBS) bonds	**-**	**751**	**-**	**751**
Other bonds in Israel	**152**	**-**	**-**	**152**
Other bonds abroad	**-**	**320**	**-**	**320**
Shares and mutual funds held for trading	**617**	**-**	**-**	**617**
Total securities held for trading	**10,695**	**1,253**	**-**	**11,948**
Assets in respect of derivative instruments:				
Shekel-index contracts	**-**	**170**	**174**	**344**
Interest contracts	**30**	**6,043**	**297**	**6,370**
Foreign currency contracts	**-**	**2,292**	**770**	**3,062**
Share contracts	**517**	**420**	**129**	**1,066**
Commodity and other contracts	**7**	**6**	**33**	**46**
Activity in the Maof market	**362**	**-**	**-**	**362**
Total assets in respect of derivative instruments	**916**	**8,931**	**1,403**	**11,250**
Others:				
Credit and deposits in respect of the lending of securities	**2,246**	**6**	**-**	**2,252**
Securities borrowed or purchased under agreements to resell	**1,764**	**-**	**-**	**1,764**
Other	**551**	**-**	**-**	**551**
Total others	**4,561**	**6**	**-**	**4,567**
Total assets	**52,408**	**28,428**	**3,406**	**84,242**

Note 32B – Items measured for fair value (cont'd)

(a) Items measured for fair value on a recurring basis (cont'd)

	31 December 2015			
	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	**-**	**339**	**53**	**392**
Interest contracts	**30**	**6,065**	**-**	**6,095**
Foreign currency contracts	**-**	**2,930**	**199**	**3,129**
Share contracts	**517**	**559**	**-**	**1,076**
Commodity and other contracts	**7**	**39**	**-**	**46**
Activity in the Maof market	**360**	**-**	**-**	**360**
Total liabilities in respect of derivative instruments	**914**	**9,932**	**252**	**11,098**
Others:				
Deposits in respect of the lending of securities	**2,666**	**20**	**13**	**2,699**
Securities loaned or sold under agreements to repurchase	**938**	**-**	**-**	**938**
Other	**1,363**	**-**	**-**	**1,363**
Total others	**4,967**	**20**	**13**	**5,000**
Total liabilities	**5,881**	**9,952**	**265**	**16,098**

Note 32B – Items measured for fair value (cont'd)

(a) Items measured for fair value on a recurring basis on consolidated basis (cont'd)

	31 December 2014			
	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 financial institutions abroad	409	5,267	-	5,676
Asset-backed (ABS) or mortgage-backed (MBS)	-	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:				
Israeli government bonds	7,523	392	-	7,915
Foreign government bonds	496	9	-	505
Bonds of Israeli financial institutions	374	-	-	374
Bonds of financial institutions abroad	-	266	-	266
Asset-backed (ABS) or mortgage-backed (MBS)	-	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
Commodity and other contracts	13	-	64	77
Activity in the 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 the lending of securities	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 32B – Items measured for fair value (cont'd)

(a) Items measured for fair value on a recurring basis on consolidated basis (cont'd)

	31 December 2014			
	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
Commodity and other contracts	12	64	-	76
Activity in the Maof market	573	-	-	573
Total liabilities in respect of derivative instruments	1,306	14,193	151	15,650
Others:				
Deposits in respect of the lending of securities	2,680	23	11	2,714
Securities loaned or sold under agreements to repurchase	1,238	-	-	1,238
Other	935 (a)	-	-	935
Total others	4,853	23	11	4,887
Total liabilities	6,159	14,216	162	20,537

(a) Reclassified.

Note 32B – Items measured for fair value (cont'd)

(b) Items measured for fair value on a non-recurring basis

	31 December 2015				
	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 the period
	NIS millions				
Collateral-dependent impaired credit	**-**	**-**	**1,132**	**1,132**	**14**
Total	**-**	**-**	**1,132**	**1,132**	**14**

	31 December 2014				
	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 the period
	NIS millions				
Collateral-dependent impaired credit	-	-	1,518	1,518	(274)
Total	-	-	1,518	1,518	(274)

Note 32C – Changes in items measured for fair value on a recurring basis included in Level 3

	For the year ended 31 December 2015										
		Total realized and unrealized profits (losses) included:									
	Fair value at beginning of the year	In profit and loss (a)	In other comprehensive profit (b)	Acquisitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3	Transfers from Level 3	Fair value at 31 December 2015	Unrealized profits (losses) in respect of instruments held at 31 December 2015
	NIS millions										
Assets											
Securities available for sale:											
ABS / MBS	**2,009**	**48**	**(11)**	**508**	**(138)**	**(413)**	**-**	**-**	**-**	**2,003**	**(250)**
Total bonds available for sale	**2,009**	**48**	**(11)**	**508**	**(138)**	**(413)**	**-**	**-**	**-**	**2,003**	**(250)**
Shares available for sale	-	-	-	-	-	-	-	-	-	-	-
Total bonds for trading	-	-	-	-	-	-	-	-	-	-	-
Shares for trading	-	-	-	-	-	-	-	-	-	-	-
Assets in respect of derivative instruments:											
Shekel-index contracts	**145**	**(23)**	**-**	**-**	**-**	**-**	**-**	**52**	**-**	**174**	**66**
Interest contracts	**423**	**(11)**	**-**	**-**	**-**	**(115)**	**-**	**-**	**-**	**297**	**(83)**
Foreign currency contracts	**2,307**	**(3,478)**	**-**	**1,941**	**-**	**-**	**-**	**-**	**-**	**770**	**230**
Share contracts	**64**	**65**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**129**	**108**
Commodity and other contracts	**64**	**(31)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**33**	**32**
Activity in the Maof market	-	-	-	-	-	-	-	-	-	-	-
Total assets in respect of derivative instruments	**3,003**	**(3,478)**	**-**	**1,941**	**-**	**(115)**	**-**	**52**	**-**	**1,403**	**353**
Total others	-	-	-	-	-	-	-	-	-	-	-
Total assets	**5,012**	**(3,430)**	**(11)**	**2,449**	**(138)**	**(528)**	**-**	**52**	**-**	**3,406**	**103**
Liabilities											
Liabilities in respect of derivative instruments:											
Shekel-index contracts	**41**	**(37)**	**-**	**-**	**-**	**-**	**-**	**49**	**-**	**53**	**49**
Foreign currency contracts	**110**	**89**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**199**	**123**
Total liabilities in respect of derivative	**151**	**52**	**-**	**-**	**-**	**-**	**-**	**49**	**-**	**252**	**172**
Total others	**11**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**13**
Total liabilities	**162**	**54**	**-**	**-**	**-**	**-**	**-**	**49**	**-**	**265**	**185**

(a) Realized profits (losses) are included in the statement of profit and loss under non-interest financing income.
(b) Unrealized profits (losses) are included in the statement of changes in equity under accumulated other comprehensive income (loss).

Note 32D – Quantitative information on items measured for fair value included in Level 3

For the year ended 31 December 2014

	Fair value at beginning of the year	unrealized profits (losses) included: In profit and loss (a)	In other comprehensive profit (b)	Acquisitions and issues	Sales	Extinguish-ments	Adjustments from translation of financial statements	Transfers to Level 3	Transfers from Level 3	Fair value at 31 December 2014	Unrealized profits (losses) in respect of instruments held at 31 December 2014
	NIS millions										
Assets											
Securities available for sale:											
Foreign governments	7	-	-	-	(7)	-	-	-	-	-	-
Financial institutions in Israel	-	-	-	-	-	-	-	-	-	-	-
Financial institutions abroad	120	(1)	-	-	-	(119)	-	-	-	-	-
ABS / MBS	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	(c) 1,273
Share contracts	-	64	-	-	-	-	-	-	-	64	64
Commodity 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	379	(265)	-	-	-	-	-	37	-	151	(143)
Total others	-	11	-	-	-	-	-	-	-	11	11
Total liabilities	379	(254)	-	-	-	-	-	37	-	162	(132)

(a) Realized profits (losses) are included in the statement of profit and loss under non-interest financing income.
(b) Unrealized profits (losses) are included in the statement of changes in equity under accumulated other comprehensive income (loss).
(c) Restated.

Note 32D – Quantitative information on items measured for fair value included in Level 3

Quantitative information regarding fair value measurement in Level 3 (in NIS millions)

	31 December 2015				
	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)	2,003	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	85	Discounting cash flows	Inflation forecasts	0.0%-(0.2)%	(0.10%)
	89	Discounting cash flows	Transaction counterparty risk	0.52%-100% (*)	1.49%
Interest contracts	297	Discounting cash flows	Transaction counterparty risk	0.52%-100% (*)	1.49%
Foreign currency contracts	95	Discounting cash flows	Inflation forecasts	0.0%-(0.2)%	(0.10%)
	675	Discounting cash flows	Transaction counterparty risk	0.52%-100% (*)	1.49%
Shares contracts	129	Discounting cash flows	Transaction counterparty risk	0.52%-100% (*)	1.49%
Commodities contracts	33	Discounting cash flows	Transaction counterparty risk	0.52%-100% (*)	1.49%
Liabilities					
Liabilities in respect of derivative instruments (2)					
Shekel-index interest contracts	53	Discounting cash flows	Inflation forecasts	0.0%-(0.2)%	(0.10%)
Foreign currency contracts	199	Discounting cash flows	Inflation forecasts	0.0%-(0.2)%	(0.10%)
B. Items measured for fair value on a non-recurring basis					
Collateral-contingent impaired debt	1,132	Fair value of collateral			

* In respect of a failed counterparty.

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 32D – Quantitative information on items measured for fair value included in Level 3 (cont'd)

Quantitative information regarding fair value measurement in Level 3 (cont'd)

	31 December 2014				
	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	70-160 bp	115 bp
			Probability of default	2.5%-6%	4.25%
			Rate of early repayme	20%	20%
			Loss rate	30%	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%
Shares 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.

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 more the credit risk of the counterparty to the transaction increases (decreases), the fair value of the transactions will decrease (increase).

   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 relating to the unobservable parameter of "transaction counterparty risk" reflects a weighted average.

Note 33 - Interested Parties and Related Parties of the Bank and its Consolidated Companies (cont'd)

Control of the Bank

Bank without a controlling core

As of 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.

A. Balance sheet and off-balance sheet balances

	For the year ended 31 December 2015 (i)			
	Interested parties (f) (h)			
	Controlling owners		Key management personnel (a)	
	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)
	NIS millions			
Assets:				
Deposits in banks	-	-	-	-
Securities (e)	-	-	-	-
Credit to the public	-	-	12	12
Allowance for credit losses	-	-	-	-
Credit to the public, net	-	-	12	12
Investments in companies included on equity basis (e)	-	-	-	-
Other assets	-	-	-	-
Liabilities:				
Deposits of the public	-	-	42	47
Deposits from banks	-	-	-	-
Debentures, bonds and subordinated notes	-	-	1	1
Other liabilities	-	-	1	1
Credit risk in off-balance sheet items (g)	-	-	12	14

(a) Including their close relatives as defined in Section 80.D(3) in the Public Reporting Directives.
(b) In accordance with Section 80.D(4) in the Public Reporting Directives and corporations in which a person or a corporation included in one of the groups on the interested parties under the Securities Law, holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of the Boards of Directors.
(c) In accordance with Section 80.D(8) in the Public Reporting Directives
(d) Based on end of month balances.
(e) For details, see Note 12 - Securities and Note 15 - Investments in Companies Included on Equity Basis.
(f) At 31 December 2015, holdings of interested parties and related parties in the equity of the Bank were NIS 463,732 nominal value of shares in the Bank.
(g) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.
(h) Interested party, related party, as defined in Section 80.D in the Public Reporting Directives.
(i) Companies included on equity bases or investee companies under joint ownership, in accordance with Section 80.D(7) in the Public Reporting Directives.
(j) The disclosure format in the Note has been updated pursuant to the circular of the Supervisor of Banks on disclosure of interested parties and related parties – see Note 1.D.4.

Interested parties (f) (h)				Related parties held by the Bank					
Others (b)		Interested party at time of transaction		Unconsolidated subsidiaries		Companies included on equity basis(i)		Others (c)	
Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**482**	**1,162**
-	**-**	**-**	**5**	**-**	**-**	**913**	**1,935**	**928**	**1,334**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**5**	**-**	**-**	**913**	**1,935**	**928**	**1,334**
-	**-**	**-**	**-**	**-**	**-**	**924**	**948**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**5**	**11**	**-**	**6**
2	**3**	**-**	**15**	**4**	**4**	**71**	**2,279**	**648**	**1,456**
-	**-**	**-**	**-**	**-**	**-**	**1**	**1**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
-	**-**	**-**	**-**	**-**	**-**	**11**	**54**	**1**	**1**
1	**1**	**-**	**2**	**-**	**-**	**92**	**113**	**100**	**589**

Note 33 - Interested Parties and Related Parties of the Bank and its Consolidated Companies (cont'd)

A. Balance sheet and off-balance sheet balances (cont'd)

	For the year ended 31 December 2014 (h)			
	Interested parties (f)			
	Controlling owners		Key management personnel (a)	
	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)
	NIS millions			
Assets:				
Deposits in banks	-	-	-	-
Securities (e)	-	-	-	-
Credit to the public	-	-	17	18
Allowance for credit losses	-	-	-	-
Credit to the public, net	-	-	17	18
Investments in companies included on equity basis (e)	-	-	-	-
Other assets	-	-	-	-
Liabilities:				
Deposits of the public	-	-	37	39
Deposits from banks	-	-	-	-
Debentures, bonds and subordinated notes	-	-	2	2
Other liabilities	-	-	2	3
Credit risk in off-balance sheet items (g)	-	-	12	12

(a) Including their close relatives as defined in IAS 24.
(b) Corporations in which a person or a corporation included in one of the groups on the interested parties, controls them or has joint control in them, has significant influence or holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of their directors.
(c) Parties meeting the definition of a related party according to IAS 24 that were not included in other columns, and a party on whose business the activity of the Bank and its consolidated companies is significantly dependent.
(d) Based on end-of-month balances.
(e) For details, see Note 12 - Securities and Note 15 - Investments in Companies Included on Equity Basis.
(f) At 31 December 2014, holdings of interested parties and related parties in the equity of the Bank were NIS 125,076 nominal value of shares in the Bank.
(g) Credit risk in off-balance sheet financial instruments as calculated for purposes of single borrower debt limitations.
(h) Comparative figures have not been restated.

				Related parties held by the Bank					
Others (b)		Interested party at time of transaction		Unconsolidated subsidiaries		Companies included on equity basis		Others (c)	
Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)	Balance as at 31 December	Highest balance (d)
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	942	-	-	539	539	1,303	1,700
-	-	-	-	-	-	-	-	-	-
-	-	-	942	-	-	539	539	1,303	1,700
-	-	-	-	-	-	2,216	2,216	-	-
-	-	-	86	-	-	6	7	51	76
-	-	-	-	-	-	-	-	-	-
3	3	-	7,383	3	3	2,511	2,727	919	1,102
-	-	-	-	-	-	1	25	-	-
-	-	-	2,784	-	-	-	-	-	-
-	-	-	120	-	-	35	102	20	82
-	-	-	630	-	-	46	46	616	811

Note 33 - Interested Parties and Related Parties of the Bank and its Consolidated Companies (cont'd)

B. Condensed results of operations with interested and related parties

	For the year ended 31 December					
	2015 (f)					
	Interested parties (i)			Related parties held by the banking corporation		
	Shareholders Controlling owners	Key management personnel (a)	Others (b)	Subsidiaries (unconsolidated)	Companies on equity basis or companies held under joint control (j)	Others (k)
	NIS millions					
Net interest income (expenses) (d)	-	-	-	-	**33**	**41**
Non-interest income (expenses)	-	-	-	-	**(11)**	**(4)**
Of which: management fees and services	-	-	-	-	**4**	**3**
Operating and other expenses (e)	-	**(48)**	**(1)**	-	**(7)**	**(36)**
Total	-	**(48)**	**(1)**	-	**15**	**1**

	For the year ended 31 December					
	2014 (g)					
	Interested parties			Related parties held by the banking corporation		
	Shareholders Controlling owners	Key management personnel (h)	Others (b)	Subsidiaries (unconsolidated)	Companies on equity basis or companies held under joint control	Others (c)
	NIS millions					
Net interest income (expenses) (d)	-	-	(16)	-	5	70
Non-interest income (expenses)	(1)	-	(54)	-	(38)	53
Of which: management fees and services	-	-	14	-	-	8
Operating and other expenses (e)	-	(49)	1	-	(26)	-
Total	(1)	(49)	(69)	-	(59)	123

(a) Including their close relatives as defined in Section 80.D (3) in the Public Reporting Directives.

(b) Corporations in which a person or a corporation included in one of the groups on the interested parties, controls them or has joint control in them, has significant influence or holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of their directors.

(c) Parties meeting the definition of a related party according to IAS 24 that were not included in other columns, and a party on whose business the activity of the Bank and its consolidated companies is significantly dependent.

(d) See details in paragraph D below.

(e) See details in paragraph C below.

(f) The disclosure format in the Note has been updated pursuant to the circular of the Supervisor of Banks on disclosure of interested parties and related parties – see Note 1.D.4.

(g) Comparative figures have not been restated.

(h) Including their close relatives as defined in IAS 24.

(i) Interested party, related party, related person as defined in Section 80.D in the Public Reporting Directives.

(j) Companies included on equity basis or investee companies held under joint control, pursuant to Section 80.D(7) of the Public Reporting Directives.

(k) Pursuant to Section 80.D(7) of the Public Reporting Directives.

Note 33 - Interested Parties and Related Parties of the Bank and its Consolidated Companies (cont'd)

	For the year ended 31 December					
	2013 (f)					
	Interested parties			Related parties held by the banking corporation		
	Shareholders Controlling owners	Key management personnel (a)	Others (b)	Subsidiaries (unconsolidated)	Companies on equity basis or companies held under joint control	Others (c)
	NIS millions					
Net interest income (expenses) (d)	59	1	(321)	(4)	7	87
Non-interest income (expenses)	-	-	(589)	-	(31)	(8)
Of which: management fees and services	-	-	16	-	-	12
Operating and other expenses (e)	-	(76)	44	-	(19)	-
Total	59	(75)	(866)	(4)	(43)	79

(a) Including their close relatives as defined in IAS 24.

(b) Corporations in which a person or a corporation included in one of the groups on the interested parties, controls them or has joint control in them, has significant influence or holds 25% or more of the issued share capital or the voting rights or is entitled to appoint 25% or more of their directors.

(c) Parties meeting the definition of a related party according to IAS 24 that were not included in other columns, and a party on whose business the activity of the Bank and its consolidated companies is significantly dependent.

(d) See details in paragraph D below.

(e) See details in paragraph C below.

(f) Comparative figures have not been restated.

Note 33 - Interested Parties and Related Parties of the Bank and its Consolidated Companies (cont'd)

C. Remuneration and all other benefits

	For the year ended 31 December					
	2015 (d)		2014 (e)		2013 (e)	
	Office holders		Key management personnel			
	Total benefits	Number of recipients	Total benefits	Number of recipients	Total benefits	Number of recipients
	NIS millions		NIS millions		NIS millions	
Interested parties employed in the banking corporation or on its behalf (a) (b) (c)	**33**	**18**	36	23	62	28
Directors not employed by the banking corporation or on its behalf (a)	**9**	**17**	10	16	11	14

D. Interest income, net in transactions by the banking corporation and itsconsolidated companies with interested parties and related parties

	For the year ended 31 December					
	2015 (d)		2014 (e)		2013 (e)	
	Consolidated	**Of which: companies included on equity basis**	Consolidated	Of which: companies included on equity basis	Consolidated	Of which: companies included on equity basis
	NIS millions					
a) In respect of assets						
From credit to the public	**78**	**35**	101	11	183	13
b) In respect of liabilities						
On deposits of the public	**(4)**	**(2)**	(37)	(6)	(204)	(6)
On deposits from banks	**-**	**-**	-	-	(11)	-
On other liabilities	**-**	**-**	(5)	-	(139)	-
Total interest income, net	**74**	**33**	59	5	(171)	7

(a) Does not include payroll tax expenses.

(b) Of which: short term employee benefits NIS 25 million, post retirement benefits NIS 2 million, and (4) other long term benefits (2014 - short term employee benefits NIS 27 million, post retirement benefits NIS 9 million, and no other long term benefits; 2013 - short term employee benefits NIS 46 million, post retirement benefits NIS 6 million, and no other long term benefits).

(c) In 2015, share-based payments were made in the anount of NIS 10 million (in 2014 - no share-based payments were made ; in 2013 - NIS 10 million).

(d) The disclosure format in the Note has been updated pursuant to the circular of the Supervisor of Banks on disclosure of interested parties and related parties – see Note 1.D.4.

(e) Comparative figures have not been restated.

Directors and officers have been insured by the Bank under a policy for insuring the liability of directors and other officers of the Bank and investee companies. The aggregate insurance premium amounted to NIS 4,262 thousand (2014 - NIS 3,219 thousand, 2013 – NIS 3,351 thousand).

E. Information regarding terms of transactions and balances with related parties and interested parties

Transactions and balances with related parties and interested parties were all made during the normal course of business and on terms similar to the terms of transactions with entities not related to the bank and its investee companies.

Interest debited and interest paid in respect of balances with interested parties and related parties are at normal rates of interest for transactions during the normal course of business with parties that are not related to the bank.

Note 34 - Condensed Financial Statements of the Bank

A. Condensed Statement of Profit and Loss for the year ended 31 December

	2015	2014	2013
	NIS millions		
Interest income	**7,313**	8,508	10,627
Interest expenses	**1,549**	2,546	4,648
Net interest income	**5,764**	5,962	5,979
Expenses in respect of credit losses	**149**	195	27
Net interest income after expenses in respect of credit losses	**5,615**	5,767	5,952
Non-interest income			
Non-interest financing income	**1,134**	384	929
Commissions	**2,852**	2,808	2,817
Other income	**214**	139 (a)	79 (a)
Total non-interest income	**4,200**	3,331	3,825
Operating and other expenses			
Salaries and related expenses	**4,301**	4,085 (a)	4,058 (a)
Maintenance and depreciation of buildings and equipment	**1,305**	1,281 (a)	1,453 (a)
Other expenses	**1,019**	1,101	1,233
Total operating and other expenses	**6,625**	6,467	6,744
Profit before taxes	**3,190**	2,631 (a)	3,033 (a)
Provision for taxes on profit	**1,175**	1,087 (a)	1,187 (a)
Profit after taxes	**2,015**	1,544	1,846
Bank's share in the profits (losses), net of operating profit of investee companies after tax	**820**	(131) (a)	142 (a)
Net profit	**2,835**	1,413	1,988

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

Note 34 - Condensed Financial Statements of the Bank (cont'd)

Condensed Balance Sheet

	31 December 2015	31 December 2014
	NIS millions	
Assets		
Cash and deposits with banks	**58,928**	57,276
Securities	**63,620**	43,669
Securities borrowed or purchased under agreements to repurchase	**1,764**	2,000
Credit to the public	**233,526**	224,308
Allowance for credit losses	**(3,060)**	(3,118)
Credit to the public, net	**230,466**	221,190
Credit to governments	**453**	477
Investments in investee companies	**12,543**	13,528 (a)
Buildings and equipment	**2,487**	2,556 (a)
Assets in respect of derivative instruments	**11,173**	16,702
Other assets	**6,349**	5,923 (a)
Total assets	**387,783**	363,321
Liabilities and equity capital		
Deposits of the public	**300,177**	287,378
Deposits from banks	**6,703**	8,889
Deposits from governments	**146**	123
Securities loaned or sold under agreements to resell	**938**	1,238
Subordinated notes	**21,308**	5,953
Liabilities in respect of derivative instruments	**11,032**	15,497
Other liabilities	**18,712**	18,445 (a)
Total liabilities	**359,016**	337,523
Equity attributable to shareholders of the banking corporation	**28,767**	25,798 (a)
Total liabilities and equity	**387,783**	363,321

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

Note 34 - Condensed Financial Statements of the Bank (cont'd)

Condensed Statement of Cash Flows for the year ended 31 December

	2015	2014	2013
	NIS millions		
Cash flows from operating activities			
Net profit for the year	**2,835**	1,413 (a)	1,988 (a)
Adjustments:			
Bank's share in undistributed profits of investee companies less dividend received	**(13)**	147 (a)	(23)(a)
Other, net (including provisions for doubtful debts and impairment of securities)	**21,844**	(1,738) (a)	(1,670) (a)
Net cash from operating activities	**24,666**	(178)	295
Cash flows from investment activities			
Acquisition of shares in investee companies	**(75)**	3	-
Change in cash resulting from merger of an investee company	**-**	-	(5)
Other	**(19,559)**	16,462	(7,536) (a)
Net cash from investment activities	**(19,634)**	16,465	(7,541)
Cash flows from financing activities			
Issue of bonds and subordinated notes	**3,315**	-	-
Redemption of bonds, notes and subordinated notes	**(5,682)**	(855)	(582)
Other	**42**	1	1
Net cash from financing activities	**(2,325)**	(854)	(581)
Increase (decrease) in cash and cash equivalents	**2,707**	15,433	(7,827)
Balance of cash at beginning of year	**53,145**	37,014	45,460
Effect of exchange rate changes on blances of cash and cash equivalents	**91**	698	(619)
Balance of cash and cash equivalents at end of year	**55,943**	53,145	37,014

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

Interest and taxes paid and/or received and dividends received for the year ended 31 December

	2015	2014	2013
	NIS millions		
Interest received	**8,350**	9,128	10,912
Interest paid	**(3,060)**	(3,602)	(5,242)
Dividends received	**973**	22	137
Taxes paid on income	**(1,133)**	(1,420)	(1,036)

Note 34 - Condensed Financial Statements of the Bank (cont'd)

D. Information on the basis of historical nominal values for tax purposes

	31 December 2015	31 December 2014
	NIS millions	
Total assets	**387,157**	361,728 (b)
Total liabilities	**358,963**	337,465
Shareholders' equity	**28,194**	24,263 (b)
Net profit (a)	**3,464**	1,214

(a) Not including profits (losses) of companies included on equity basis, as required under generally accepted accounting principles in Israel.

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

Note 35 – Events after the Balance Sheet Date

A. Acquisition by Visa Inc. of Visa Europe

On 3 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 aggregate consideration to be paid pursuant to the transaction is estimated at € 21.2 billion, and this is made up of payment in cash and shares. The execution of the transaction is subject to the receipt of various regulatory approvals. Pursuant to the reports, it is expected that the transaction will be completed in 2016.

According to preliminary information which reached the Bank regarding the method of allocation of the consideration between the members in Visa Europe Ltd., as far as the transaction is completed, the consideration that is expected to be paid to the Bank in respect of the companies in Visa Europe Ltd. is expected to amount to NIS 274 million in cash and NIS 94 million in shares. (According to the preliminary assessments as stated above, the total of these two components are expected to amount to NIS 368 million.) In addition, according to the conditions of the transaction, future consideration is expected, contingent on compliance with the targets provided in the transaction, which will be paid in two years time, in a total of NIS 105 million in cash. The data above were computed according to the exchange rate of the euro on 23 December 2015.

There is no certainty that the transaction will be concluded.

B. Purchase of Insurance for the Portfolio of Sales Law Guarantees

The Bank has entered into an undertaking with international reinsurers with a high international rating, for the purchase of insurance for the portfolio of Sales Law (Apartments) guarantees and for the liability to issue such guarantees. Purchasing the insurance is intended mainly to reduce the capital allocated in respect of the credit risk resulting from the issue of guarantees, by using the policy as a "credit risk mitigator", pursuant to Proper Conduct of Banking Business Directive No. 203. On completion of the move, an improvement of 0.22%-0.28% is expected in the capital adequacy of Tier 1 Shareholders' Equity.

C. Leumi Card

On 14 December 2015, the Interim Report of the Strum Committee was published and on 6 January 2016, an additional version of the draft report was published for comments from the public. At this stage, it is not possible to assess what the Company's final recommendations will be after the process of hearing the public's comments to the draft report. Furthermore, it is impossible to assets at this stage whether the Committee's recommendations, in their final format, will be adopted in the legislation, and if indeed, they are adopted, what the transitional provision to be stipulated will be. It should be noted in this context that during the the Committee's work, a number of key points of dispute came to light between the Bank of Israel and the Ministry of Finance, mainly, in all matters related to giving banks the option of issuing new credit cards, and in relation to the factors which would regulate the new credit market that would be established. Currently, there is no proposed law and there is no legislation which requires the sale of credit card companies by the banks. 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 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 yet 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 85 million.

Note 35 – Events after the Balance Sheet Date (cont'd)

D. 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.

E. Bank Leumi Jersey

On 15 February 2016, Bank Leumi Jersey, a subsidiary of Bank Leumi UK, entered into an agreement to sell its holdings in the trust company in Jersey (Bank Leumi Jersey and Leumi Overseas Trust Corporation). The validity of the agreement is subject to the receipt of the requisite regulatory approvals. In view of the relatively limited activity of the trust company in Jersey, the execution of the transaction is not expected to have a significant impact in the Group's activity.

Bank Leumi UK is conducting negotiations to sell the holdings or the activity of Leumi Jersey.

F. Leumi Luxembourg

In November 2015, an agreement was signed for the sale of the assets of the customers of Bank Leumi Luxembourg to Banque J. Safra Sarasin (Luxembourg) (hereinafter: "Safra") for consideration of an amount derived from the value of the customers to be transferred to the purchaser. On 29 January 2016, the transfer of the majority of the customers of Leumi Luxembourg to Safra was executed for consideration of US$ 2.6 million. On 2 February 2016, the transaction was completed following receipt of the approvals necessary for its completion. At the same time, Leumi Luxembourg is taking steps to terminate its banking activity.

G. Issuance of Debentures

1. Pursuant to the Shelf Prospectus dated 20 January, NIS 925,750,000 par value subordinated notes (Series 400) were issued by the Bank on 21 January 2016, and are convertible into up to 147,492,625 ordinary shares of the Bank, and are eligible to be included in Tier 2 equity. For further details in connection with the conversion of subordinated notes (Series 400) to the shares of the Bank, see the Trust Deed for the subordinated notes (Series 400), which constitutes an appendix to the Shelf Prospectus Report published on 20 January 2016.
2. On 21 January 2016, Series 177 was expanded and additional debentures were issued totaling about NIS 3.6 billion. The debentures are not recognized for of regulatory capital purposes.

Note 35 – Events after the Balance Sheet Date (cont'd)

H. Special Collective Agreement

On 17 February 2016, a special collective agreement was signed by the representatives of the Bank's employees and the Bank, under which various rights that accrued in favor of the Bank's employees, will be converted into shares of the Bank to be issued to employees for the same amount as the rights, based on the amount in which those rights are recorded in the books of the Bank. The outline plan will be carried out subject ot the publication of the plan for the issuance of shares to employees and the conducting of additional processes, as required under the law.

For further information on the collective agreement, see Note 23.

Bank Leumi Le-Israel B.M. and its Investee Companies
Corporate Governance, additional details and appendices

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Members of the Board of Directors[*][**]

Mr. David Brodet, Chairman

Mr. David Avner

Dr. Shmuel (Muli) Ben-Zvi[b][e]

Ms. Tamar Gottlieb [a][b][e]

Dr. Samer Haj Yehia

Mr. Shai Shachnai Hermesh

Professor Haim Levy[b]

Mr. Ohad Marani[b][e]

Mr. Yoav Nardi

Adv. Haim Samet[a][b][c]

Ms. Nurit Segal

Ms. Zipporah Samet[a][b]

Professor Yedidya Zvi Stern[b][d]

Professor Gabriela Shalev[a][b]

a. External director pursuant to the Companies Law, 1999.
b. External director pursuant to Proper Conduct of Banking Management Regulation No. 301.
c. Adv. Haim Samet was re-elected as external director pursuant to the Companies Law at the Annual General Meeting of the Bank held on 8 July 2015 for a period of three years.
d. Professor Yedidya Zvi Stern was re-elected to serve as director at the Annual General Meeting of the Bank held on 8 July 2015.
e. Elected as directors at the Annual General Meeting of the Bank held on 8 July 2015. The term of office of Ms. Tamar Gottlieb commenced on 26 August 2015, The term of office of Mr. Shmuel (Muli) Ben-Zvi commenced on 29 July 2015. The term of office of Mr. Ohad Marani commenced on 1 November 2015.

* Professor Efraim Sadka and Professor Aryeh Gans ceased to serve as directors in the Bank on 3 July 2015. Mr. Rami Guzman ceased to serve as director in the Bank on 31 October 2015. Mr. Moshe Dovrat ceased to serve as director in the Bank on 24 January 2016.

** Further details regarding members of the Board of Directors of the Bank are presented in the Periodic Report of the Bank for 2015 and on the Magna website of the Israel Securities Authority - http://www.magna.isa.gov.il

The Board of Directors numbers 14 directors. The legal quorum for its discussions and approval of resolutions is the majority of the directors.

Pursuant to Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks, at least one-third of the members of the Board of Directors shall be external directors who meet the eligibility requirements of an external director as defined in Proper Conduct of Banking Business Regulation 301.

Accordingly, eight directors who are classified as external directors serve on the Board of Directors, four of whom are external directors pursuant to the provisions of the Companies Law, 1999 ("external directors pursuant to the provisions of the Companies Law").

In addition, in light of the definition of an "independent director" in the Companies Law, the Audit Committee of the Board of Directors confirmed that the external directors pursuant to Proper Conduct of Banking Business Directive No. 301 of the Banking Supervision Department and the external directors pursuant to the provisions of the Companies Law are independent directors.

Pursuant to the provisions of the Companies Law and the related regulations, the Board of Directors of the Bank resolved that the minimum number of directors with "accounting and financial expertise", to serve on the Board of Directors of the Bank at any time, and who will participate in the discussions in the plenum of the Board of Directors on the draft financial statements and their approval, will be three, so as to allow the Board of Directors to comply with the requirements imposed upon it by law and the documents of incorporation, and, in particular, with regard to its responsibility to examine the financial position of the Bank and to prepare the financial statements.

In determining the said minimum number, the Board of Directors took into account the size of the Bank, the complexity of its activities and the range of risks involved therein, and the systems and procedures in place at the Bank, such as control, risk management, compliance, internal audit, and the audit of the external auditors. It was also taken into account that all of the members of the Board of Directors comply with the qualification requirements to serve as a director of the Bank pursuant to the law.

All of the directors serving on the Board of Directors comply with the definition of a director with accounting and financial expertise.

With effect from 1 January 2013, and pursuant to Proper Conduct of Banking Business Directive No. 301 of the Supervisor of Banks, the discussions relating to the financial statements are held in the Audit Committee of the Board of Directors. Pursuant to the directives of the Bank of Israel, the Board of Directors has determined that at least three "directors with accounting and financial expertise" will serve on the Audit Committee of the Board of Directors at all times. In fact, most of the directors serving on the Audit Committee have accounting and financial expertise. The legal quorum for discussion and the approval of resolutions in the Audit Committee will be a majority of the members of the committee, providing that a majority of those present are external directors who are independent, and at least one of them is an external director pursuant to the provisions of the Companies Law. Seven directors currently serve on the Audit Committee, six of whom are external directors, including four directors who are external directors pursuant to the provisions of the Companies Law.

Name of Director	Membership in the committees of the Board of Directors- Is he/she an independent director / external director as defined in the Companies Law / Proper Conduct of Banking Business Directive No. 301 – Yes/no?	Education and employment in the past five years, giving details of professions or areas in which education has been acquired, the institution in which the academic degree or professional certificate which he/she holds was acquired, and details of the corporations in which he/she acts as director	Does the company regard him/her as having accounting and financial expertise?
David Brodet	Chairman of the Board of Directors, chairman of the following committees: Credit, Risk Management, Resources, Procedure, Investment Prospectuses, Logo Strategy, Digital Banking and member of the Foreign Customers Committee Not an external/independent director	Academic education – B.A. in Economics and Political Science and M.A. in Economics, The Hebrew University of Jerusalem. Chairman of the Board of Directors – Bank Leumi Le-Israel B.M., owner of David Brodet Ltd. (in suspension), Chairman of the Executive Committee of the Jerusalem Foundation, the Hadassah Academic College and the Foerder Institute for Economic Research (R.A.), member of the Executive Committee of the Jerusalem Institute for Israel Studies and of the Cameri Theater, Chairman of the Board of Trustees of the Fund for Treatment of Wards of the State, lecturer at the National Security College (Haifa University), member of the Executive Committee in the Association of Banks in Israel (R.A.). Till April 2015, Chairman of the Board of Directors in Bank Leumi USA and Bank Leumi Israel Corporation Till December 2014, President of the Association of Banks in Israel (R.A.). Till December 2012, Chairman of the Public Council for Statistics. Till August 2011, member of the committee for locating the Director of the Income Tax Authority.	YES. Chairman of the Board of Directors of the Bank since August 2010. B.A. in Economics and Political Science and M.A. in Economics, Hebrew University, Jerusalem. V.P. Finance of Israel Aircraft Industries 1987-1991. Budgets Director in the Ministry of Finance 1991-1994. Director-General, Ministry of Finance 1995-1997 Served as Chairman of the Board of Directors of Mizrahi Bank and Tefahot Bank, and as Chairman of Karnit Government Insurance Corporation. Served as director of public companies and as a member of the finance and financial statements committees of various boards of directors.
David Avner	Member of the following committees: Credit, Risk Management, Resources, Digital Banking. Not an external/independent director	Academic education - B.A. in Mathematics, Computer Sciences and Philosophy, Haifa University, and M.B.A, Haifa Technion Chief Executive Officer and Owner of N.S.Y. Avner Ltd. Lecturer in the Kiryat Ono College in the Business Administration Faculty Till March 2015, member of the Executive Committee in the Technion, Israel Institute of Technology.	YES B.A. in Mathematics and Philosophy, Haifa University, and M.B.A, Haifa Technion, CEO and Deputy CFO in Partner Communication Ltd., a public company traded on the Tel Aviv Stock Exchange, 2005-2010. As part of his function as CEO of the company, he was heavily involved in the process of preparing financial statements

Name of Director	Membership in the committees of the Board of Directors- Is he/she an independent director / external director as defined in the Companies Law / Proper Conduct of Banking Business Directive No. 301 Yes/no?	Education and employment in the past five years, giving details of professions or areas in which education has been acquired, the institution in which the academic degree or professional certificate which he/she holds was acquired, and details of the corporations in which he/she acts as director	Does the company regard him/her as having accounting and financial expertise?
Dr. Shmuel Ben-Zvi	Member of the following committees: Audit, Risk Management and Strategy Independent and external director pursuant to Proper Conduct of Banking Business Management Regulation 301	Academic education – Ph.D. in Economics and B.A in Economics and Statistics, Tel Aviv University; post-doctorate studies at MIT (1988). AMP Senior Management course at HBS (2013), qualified in National Security at the National Security Council, and Haifa University (1993). Owner and manager on Shmuel (Muli) Ben-Zvi Ltd. Till December 2014, Deputy CEO of Teva.	YES Ph.D. in Economics and B.A in Economics and Statistics at Tel Aviv University. Qualified in National Security from the National Security Council, Haifa University Fulfilled central role in preparing financial reports in large global company (Teva) and in analyzing reports of competitors which were considered for acquisition. Management of financial activity by virtue of his responsibility for the treasury of Teva, including work with banks in several fields.
Tamar Gottlieb	External director in the following committees: Audit, Risk Management, Remuneration, Digital Banking, and for Drawing Conclusions. Independent and external director as defined in the Companies Law and Proper Conduct of Banking Business Management Regulation 301.	Academic education - Qualified in Economics at Indiana University, United States, Graduate of International Relations at Hebrew University in Jerusalem. Owner, Chairperson and Joint CEO in Yevul Capital Markets Ltd., Chairperson of the Board of Directors in Agriculture Businesses Holdings and Management Shefayim Agricultural Cooperative Union, in Security Technology Integration Ltd (STI), external director in Extel Ltc., owner of Albaad Massuot Yitzhak Ltd, independent director in Arad Investments and Industry Development Ltd., director in Hutzot Shefayim – Agricultural Cooperative Union Ltd. Member of the Body of Trustees and member of the Board of Directors in College of Administration – Academic Track. Till December 2015, chairperson of the Board of Directors in Piryon Network Ltd; till January 2015, independent director in Carasso Motors Ltd.; till June 2014, external director in REIT 1 Ltd.; till May 2014, independent director in IDB Development Company Ltd., till 2012, director in Polishuk Plastics Industries Ltd.; till November 2013, independent director in Robogroup Tech Ltd.; till December 2012, external director in Leumi Mortgage Bank Ltd., till April 2012, chairperson of the Board of Directors of Amelia Development Ltd. and Zohar Dalia; till February 2012, director in Amelia Cosmetics Ltd.	YES Graduate in International Relations at the Hebrew University in Jerusalem. Qualified in Economics, Indiana University, Bloomington, Indiana, USA. Served for many years in banking corporations. From 1998-1991 in the Leumi Group, in some of those years as Deputy Vice-President Leumi & Co. (currently Leumi Partners) From 1997 to 2000, served as CEO of a subsidiary of Bank Investec (currently U-Bank). This required an understanding of banks' financial statements. In her role in Leumi & Co., served as manager of issues with the Israeli Securities Authority and the Stock Exchange. A broad understanding of the accounting questions in the bank and the structure of the financial statements was required. From 2007 to 2012, served as a member of the Audit Committee and the Committee for Examining the Financial Statements in Leumi Mortgage Bank. Similarly, in all the companies in which she has served as a director, she also serves as a member of the committee for examining the financial statements and the audit committee, and in some of the companies, she has also served as chairperson of those committees.

Name of Director	Membership in the committees of the Board of Directors- Is he/she an independent director / external director as defined in the Companies Law / Proper Conduct of Banking Business Directive No. 301 Yes/no?	Education and employment in the past five years, giving details of professions or areas in which education has been acquired, the institution in which the academic degree or professional certificate which he/she holds was acquired, and details of the corporations in which he/she acts as director	Does the company regard him/her as having accounting and financial expertise?
Dr. Samer Haj Yehia	Member of the following committees: Risk Management, Prospectuses, Digital Banking and Drawing Conlusions Not an external/independent director.	Academic education – Ph.D. in Economics specializing in Econometrics and Finance from the Massachusetts Institute of Technology, USA, MBA specializing in Banking and Finance from the Hebrew University in Jerusalem, LL.B, specializing in Capital Market and Banking from the Hebrew University in Jerusalem. M.A. in Economics specializing in Macroeconomics and International Trade from the Hebrew University in Jerusalem, B.A. in Accounting and Economics from the Hebrew University in Jerusalem. Fourth year training in Auditing, specializing in Taxation and Audit of Financial Statements, from the Tel Aviv University, CFA in Monetary and Financial Analysis from the CFA Institute, Massachusetts, USA, lecturer in the Inter-Disciplinary Center (Public Benefit Company), member and chairman of the audit committee in the Hadassah Medical Organization (Public Benefit Company). Owner, CEO and chairman of B..H. Eden Management and International and Business Consulting Ltd. Till 2013, commercial strategist in Grantham Mayo van Otterloo. Till 2012, Vice-President Financial Engineering in Fidelity Capital Markets.	YES Education and professional experience and skill in banking, finance and economics. Business management, risk management, commerce, accounting, law regulations and financial technology.
Shay Shachnai Hermesh	Member of the following committees: Resources, Procedure, Investments and Strategy Not an external/independent director	Academic education – B.A. in Economics, Hebrew University in Jerusalem, qualified in Business Administration, specializing in employment relations and finance, Hebrew University in Jerusalem. Chairman of the Israeli Management, World Deputy President and member of the Steering Committee in the World Jewish Congress and director in Kafrit Industries (Public corporation). Member of the Board of Trustees in Sapir Academic College, member of the Association of Friends of the Yiddishshpiel Theatre, member of the Chen Ha'Negev Association. Till 2015, Deputy General Manager of the Mishke Hanegev Organization – Central Cooperative Union Ltd.; till 2013, Chairman of the Executive Committee in Sapir College of Education (voluntary) and member of Knesset.	YES Treasurer in Kibbutz Kfar Aza, Head of Sha'ar Hanegev Regional Council. (including treatment with banks according to the Kibbutzim Arrangement), Chairman of the Sha'ar Hanegev Regional Plants Finance Committee, Chief Financial Officer of Kafrit Industries (Public corporation), Treasurer of the Jewish Agency and Zionist Histadrut, member of Knesset Finance Committee (2006-2013), member of the Financial Statements Committee (formerly) – "Frutarom", Kafrit, Chairman of the Executive Committee, Sapir College and Head of the Investment Committee, Academic background in the field: B.A. in Economics and Business Administration. specializing in employment relations and finance, Hebrew University, Jerusalem

Name of Director	Membership in the committees of the Board of Directors- Is he/she an independent director / external director as defined in the Companies Law / Proper Conduct of Banking Business Directive No. 301 Yes/no?	Education and employment in the past five years, giving details of professions or areas in which education has been acquired, the institution in which the academic degree or professional certificate which he/she holds was acquired, and details of the corporations in which he/she acts as director	Does the company regard him/her as having accounting and financial expertise?
Professor Haim Levy	External director Member of the following committees: Remuneration, Risk management, Prospectuses, Strategy Independent and external director pursuant to Proper Conduct of Banking Business Management Regulation No. 301	Academic education – Graduate in Economic and Statistics, Qualified in Statistics and Business Administration, specializing in Finance, PhD in Finance and Economics from the Hebrew University in Jerusalem. Chairman of the Knesset Public Committee for Determining the Terms of Employment of Knesset Members and their Assistants, researcher and lecturer (voluntary) in the Hebrew University in Jerusalem; Till 2014, Director in Harel Portfolio Management; till 2013, Dean and Professor in the Academic Centre in Ramat Gan; till June 2012, Advisor in Kanat Investment Funds; till 2011, Director in Menorah – Emda Mutual Funds	YES Relevant professional education and experience in economics, risk management and finance
Ohad Marani	Member of the following committees: Credit, Resources, Prospectuses and Procedure Independent and external director pursuant to Proper Conduct of Banking Business Management Regulation No. 301	Academic education – Graduate in Economics. Expertise in Accounting and Statistics. M.B.A. in Business Administration in the Hebrew University in Jerusalem. Qualified as Public Manager with expertise in Economics and Finance at Harvard University, Cambridge, Boston, USA. CEO of the Israel Land Development Company – Energy Ltd., director in Emanuel Energy, in Ariel Oil and Gas Exploration and in Ariel Oil and Gas Exploration – Trusts Ltd., member of the Investment Committee of the Israel I-A Infrastructure Fund Limited Partnership and of the Israel Infrastructure II (A.A.F. 2011) Limited Partnership, director and member of the Audit, Finance and Balance Sheet Committee in Nisco Electrics and Electronics Ltd. Till 2013, member of the Executive Committee of the Batsheva Dance Troupe; till 2012, chairman of the Executive Committee of the Batsheva Dance Troupe; till September 2012, director in Geo Global Resources Income.	YES Graduate of Economics, specialized in Accounting and Statistics and qualified in Business Administration (MBA), specialized in Finance at the Hebrew University. Qualified in Public Administration, specialized in Economics and Finances at Harvard University, Cambridge, Boston, USA. Wide experience in fulfilling a range of senior management roles in government and in the corporate sector, including membership in the boards and serving as chairman of the boards and finance and balance sheet committees, including: Director-General at the Finance Ministry, Budget Supervisor at the Finance Ministry, chairman of the board of directors and chairman of the finance and balance sheet committee in Oil Refineries Ltd. and in Israel Natural Gas Lines Ltd., CEO of Israel Land Development Company Ltd.

Name of Director	Membership in the committees of the Board of Directors- Is he/she an independent director / external director as defined in the Companies Law / Proper Conduct of Banking Business Directive No. 301 Yes/no?	Education and employment in the past five years, giving details of professions or areas in which education has been acquired, the institution in which the academic degree or professional certificate which he/she holds was acquired, and details of the corporations in which he/she acts as director	Does the company regard him/her as having accounting and financial expertise?
Yoav Nardi	Member of the following committees: Credit, Audit, Sub-committee for Audit for Conducting Review of the Banking Division and Foreign Customers Not an external/independent director	Academic education - B.A. in Economics and M.B.A. (Finance), The Hebrew University in Jerusalem. Chairman of Investments Committee of the National Library Ltd. and Yad Sarah (R.A.) Director and Owner of Nardi Consultants and Risk Management Ltd.	YES B.A. in Economics and M.B.A. (Finance), The Hebrew University in Jerusalem. Has wealth of diverse banking experience in the fields of credit, financial markets and asset and liability management. Served in a wide range of positions in the Banking Supervision Department of the Bank of Israel, and as a Chief Economist at the First International Bank. Served as member of Management and Deputy President and Chief Executive Officer of the Jerusalem Bank and was involved on an ongoing basis in monitoring the preparing the Financial Statements of Bank Jerusalem, including the Directors Report.
Haim Samet	External director Chairman of the Remuneration Committee, and member of the Audit Committees and the Sub-committee for Conducting a Review of the Audit Division, Prospectuses, Investment,, and the Committee for Digital Banking Independent and external director as defined in the Companies Law and Proper Conduct of Banking Business Management Regulation No. 301	Academic education – .LLB in Law from the Hebrew University in Jerusalem, Tel Aviv branch Lawyer, Joint Senior Partner in law firm: Schnitzer, Gottlieb Samet & Co., Director and Assistant Deputy Chairman in Tel Aviv Museum of the Arts Ltd., Director in Tekoa Mushroom Farm Ltd., in H.Y.D. Properties Ltd., in H.Y.D.A. Holdings Ltd. in H. Samet Attorneys Ltd., Member of Board of Trustees and Chairman of the Audit Committee in Tel Aviv University. Till December 2013, director in H.Y.D. Trustees (1991) Ltd. in H.Y.D. Services (1991) Ltd.	YES B.A. in Law from the Hebrew University in Jerusalem. Director in Bank Leumi. Served as member of the Credit and Audit Committee of the Bank, 1995-2000. Director in Bank Hapoalim, where he served as a member of credit committee, audit committee, businesses and budget committee, review of expenditure and streamlining committee and remuneration committee, 2000-2008.

Name of Director	Membership in the committees of the Board of Directors- Is he/she an independent director / external director as defined in the Companies Law / Proper Conduct of Banking Business Directive No. 301 Yes/no?	Education and employment in the past five years, giving details of professions or areas in which education has been acquired, the institution in which the academic degree or professional certificate which he/she holds was acquired, and details of the corporations in which he/she acts as director	Does the company regard him/her as having accounting and financial expertise?
Nurit Segal	Member of the following committees: Credit, Resources, Prospectuses, Procedure Committee Not an external/independent director	Academic education – B.A. in Economics and Statistics from Hebrew University in Jerusalem M.Sc. in Operational Research in Case Western Reserve University, Cleveland, Ohio, USA. Member of management and Chairperson of the Finance Committee in the Helicon Society for the Advancement of Poetry in Israel. Till September 2014, Director in Aspen Group Ltd., till February 2012, director in Olympia – Real Estate Holdings Ltd., till August 2011, external director in King Ltd.	YES B.A. in Economics and Statistics – Hebrew University, Jerusalem Term of office in the boards of public companies including the balance sheet committees and chairman of the balance sheet committee. Monitoring developments in financial reporting by means of seminars of accounting firms and email updates
Zipporah Samet	External director. Chairman of the Audit Committee and Sub-committee for Conducting a Review of the Audit Division and member of the following committees: Credit, Remuneration and Resources Independent and external director as defined in the Companies Law and Proper Conduct of Banking Business Management Regulation No. 301	Academic education – B.A. in Economics and Mathematics and MBA (Economics), Hebrew University in Jerusalem. Owner, Chairperson of the Board of Directors and CEO in Merav Yaniv Financial Consulting Ltd. Director and shareholder in Bio-Plasmar Ltd. Chairperson of "Israel Gives" Or Ad - Association for the Prevention and Treatment of Behavioral and Functional Changes in Senior Citizens (R.A.). Till June 2015, external director in Africa Israel Investments Ltd.; till 2014, External Director in Shahar Hadash Group Ltd., till December 2012, chairman of the board of directors of Capital Israeli Company for the Location of Money Ltd; till 2012, external director in Ophir Optronics Ltd.	YES B.A. in Economics and Mathematics and MBA (Economics), Hebrew University in Jerusalem. Senior Economist in the Bank Research Unit in the Bank of Israel Head of Pricing Monitoring and Control Team, 1983-1995. Senior Deputy to the Supervisor of Capital Markets, Insurance and Saving in the Finance Ministry, 1995-1998. Supervisor of Capital Markets, Insurance and Saving in the Finance Ministry, 1998-2002. External Director in Israel Discount Bank Ltd., including term as Chairman of the Audit Committee, 2003-2009.

Name of Director	Membership in the committees of the Board of Directors- Is he/she an independent director / external director as defined in the Companies Law / Proper Conduct of Banking Business Directive No. 301 Yes/no?	Education and employment in the past five years, giving details of professions or areas in which education has been acquired, the institution in which the academic degree or professional certificate which he/she holds was acquired, and details of the corporations in which he/she acts as director	Does the company regard him/her as having accounting and financial expertise?
Prof. Yedidya Stern	External director Chairman of the Committee for Drawing Conclusions, Member of the following committees: Audit, Credit, Prospectuses and Procedure. Independent and external director as defined in Proper Conduct of Banking Business Management Regulation No. 301.	Academic education – .B.A. in Law, Bar Ilan University, M.A. in Law, Harvard University, United States. Professor of Law in Bar-Ilan University, Deputy President for Research in Israeli Democracy Institute .and member and founder of "Tekana Forum" for the Prevention of Sexual Harassment in the Religious Public. Chairman of the Executive Committee in Volunteering in the Gefen Fund Association (R.A.) and member of the Israeli Theater Prize. Till January 2016, Member of the Association in She'arim– Association for the Empowerment and Jewish Renewal in Israel (R.A.). Till 2014, member of the Committee for Governance in the Higher Education System; til 2012- member of the Public Committee for the Promotion of Equality of Burden; till 2011, Lecturer in Kiryat Academit Ono, Visiting Professor in University of Monash, Austraila and Chairman of the Professional Committee for Civics Studies in the State of Israel in the Ministry of Education.	YES Professor in the Faculty of Law at Bar Ilan University, specialized in Business Law (Company law, corporate governance, company acquisition and company finance) and Public Law (Constitution, Religion and State, Civil Rights, Law and Halacha, Education for Civics, multiculturalism). Graduate of the Faculty of Law at Bar-Ilan University and holder of second and third degrees in Law at the Faculty of Law in Harvard University. Graduate of advanced course for reading and analyzing financial statements and company valuations.
Prof. Gabriella Shalev	External director Chairman of the Foreign Customers Committee and member of the following committees: Audit, Remuneration, Procedure and Strategy. Independent and external director as defined in the Companies Law and Proper Conduct of Banking Business Management Regulation No. 301.	Academic education – B.A. in Law, The Hebrew University of Jerusalem, M.A. in Law, The Hebrew University of Jerusalem, Doctor of Law, The Hebrew University of Jerusalem Post-doctoral training in Law - Harvard University, USA. Senior Lecturer in the Kiryat Ono Academic College. Shareholder in Din Publishing, Management and Services Ltd. Owner and director in E.N. Shalom Ltd. Chairman of the Committee for the Appointment of Professors in the Field of Social Sciences, Management and Law in the Higher Education Council. Member of the Yitzhak Rabin Israel Research Council. Chairman of the Executive Committee in the Kibbutz Dance Troupe. Chairman of the Advisory Committee for the Sifrei Shira Enterprise in the Sefer and Sifriyot Center. Till 2014, member of the Public Committee for Granting the "Efficiency Medal" for Associations, Corporations and Private Investors in Midot, member of the steering team for formulating a the concept of national security, Chairman of the Jury for the Sapir Literature Prize in Mifal Hapayis. President of the Supreme Academic Council in the Kiryah Academit, Kiryat Ono.	YES B.A. in Law, The Hebrew University of Jerusalem, M.A. in Law, The Hebrew University of Jerusalem, Doctor of Law, The Hebrew University of Jerusalem. Served for lengthy periods on Boards of Directors of public companies and banks. In some of these companies, served as external director. Served as Director and Head of Audit Committee in Bank Hapoalim.

Changes in the Board of Directors

During 2015 and until the publication of the Report, the following changes took place in the composition of the Board of Directors:

On 3 July 2015, Professor Efraim Sadka and Professor Arieh Gans terminated their term of office as directors in the Bank, and on 31 October 2015, Mr. Rami Guzman terminated his term of office as director in the Bank. Mr. Moshe Dovrat ceased to serve as director in the Bank on 24 January 2016.

On 8 July 2015, the Annual General Meeting of the Bank ("Annual General Meeting") took place with the following topics on the agenda, *inter alia*: (1) the election of three external directors pursuant to Regulation 301 of the Banking Supervision Department and (2) the election of two external directors pursuant to the Companies Law, who are also external pursuant to Regulation 301 of the Banking Supervision Department.

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

The Board of Directors currently numbers 14 directors.

Bank Leumi le-Israel B.M.
Members of Management and their Positions*

Ms. Rakefet Russak-Aminoach, C.P.A. (Isr.)
President and Chief Executive Officer

Professor Daniel Tsiddon
Deputy Chief Executive Officer

Mr. Itai Ben-Zeev
First Executive Vice President, Head of Capital Markets Division

Mr. Shlomo Goldfarb, C.P.A. (Isr.)
First Executive Vice President, Chief Accounting Officer and Head of Accounting Division

Mr. Yaacov (Kobi) Haber
First Executive Vice President, Head of Corporate and Commercial Division

Ms. Michal Dana
First Executive Vice President, Head of Human Resources Division

Ms. Tamar Yassur
First Executive Vice President, Head of Digital Banking Division

Mr. Dan Yerushalmi
First Executive Vice President, Head of Leumi Technologies Division

Mr. Dan Cohen
First Executive Vice President, Head of Banking Division

Mr. Yoel Mintz
First Executive Vice President, Head of International Credit and Real Estate Division

Ms. Hila Eran-Zik
First Executive Vice President, Chief Risk Officer, Head of Risk Management Division

Mr. Ron Fainaro C.P.A. (Isr.)
First Executive Vice President, Head of Finance Division

Mr. Hanan Friedman Adv.
First Executive Vice-President, Chief Legal Counsel, Head of Legal Division and Legal Risks Manager

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Mr. Sasson Mordecai
First Executive Vice President, Chief Internal Auditor, Head of Internal Audit Division

Ms. Yael (Ben Moshe) Rudnicki, Adv.
Bank and Group Secretary

Somekh Chaikin
Kost Forer Gabbay & Kasierer
Joint Auditors of the Bank

For information on changes that have occurred relating to the management and office holders of the Bank during 2015, see chapter "Appointments and Retirements".

* Further details on the Bank management are presented in the Periodic Report of the Bank for 2015 and on the Magna website of the Israel Securities Authority - http://www.magna.isa.gov.il

Internal Auditor

The Chief Internal Auditor, Sasson Mordechay, has served as the Chief Internal Auditor of the Bank since 1 March 2011 and is highly experienced in internal audit. His appointment was approved by the Bank's Audit Committee on 13 December 2010 and by the Board of Directors on 14 December 2010.

The Chief Internal Auditor meets the criteria of section 146(b) of the Companies Law, 1999 and the provisions of section 8 of the Internal Audit Law, 1992 (hereinafter "the Internal Audit Law") and the internal audit employees meet the criteria of the provisions of paragraphs 11 and 12 of the Proper Conduct of Banking Regulations No. 307 regarding the internal audit function.

The Chief Internal Auditor is a full-time employee of the Bank, with the status of a member of management and this is his sole occupation. He is responsible within the organization to the Chairman of the Board of Directors.

The Internal Audit Division has an annual work plan and a multi-year work plan for a period of up four years. The annual work plan and the multi-year work plan are derived from a mapping of audit subjects which are based, *inter alia*, on the documents detailed in Regulation No. 307. The work plans are derived from a systematic methodology of estimating risks and controls, according to which the frequency and scope of the audit for each subject is established. Thus, regarding subjects with a higher level of risk, audits will be carried out once a year, while for subjects that involve a lower level of risk, audits will be carried out with a frequency of between two and four years. The proposed annual work plan and multi-year work plan are submitted by the Internal Audit Division and are approved by the Chairman of the Board of Directors, the Audit Committee and the plenum of the Board of Directors.

The Internal Audit Division's annual work plan and the multi-year work plan allow the Chief Internal Auditor to exercise discretion in deciding to deviate from the plan, as necessary.

In addition, the audit days are allocated each year to unplanned audit and the examination of special incidents enabling the Internal Auditor to review topics which arise on an ad hoc basis, either at the request of the Bank management or the Audit Committee, or as a result of new activities or subjects in the Group.

In the context of the audit work, a sample of material transactions carried out by the Bank – including the procedures through which they were approved – are examined. For this purpose, material transactions include a material purchase or sale of activity, "transactions" - as stated in section 270 of the Companies Law and an "extraordinary transaction" – as defined in the Companies Law.

The Internal Audit Division's annual work plan and the multi-year work plan each include a chapter dealing with the annual and multi-year work plans of the material consolidated subsidiaries in Israel (as set forth in Note 6D to the financial statements). Employees of the Internal Audit Division serve as internal auditors of the Bank's consolidated subsidiaries in Israel. The process of structuring the consolidated companies' work plans is similar to the process of structuring the work plan of the Bank's Internal Audit Division. Generally, the financial statements of the companies included on equity basis include reference to the work plans of their internal auditors.

In the significant foreign subsidiaries, a local internal auditor (sometimes, a agent of the parent company) is appointed. The Internal Audit Division supervises the work of the local auditor, as provided in paragraph 21(L) of Regulation 307. This is carried out, *inter alia*, through an examination of the local internal audit working program abroad before it is presented for approval to the audit committee and the board of directors abroad. The Bank's internal work-plan includes targeted audits by the Internal Audit Division in Israel of the overseas subsidiaries. The work among the Israeli and overseas auditors is allocated by coordinating the topics which have been audited by each one. The internal auditors of the significant overseas subsidiaries report to the board of directors of their local audit committee.

The Chief Internal Auditor and his team of employees in the Leumi Group in Israel comprise, on average, 102.5 positions for 2015, as described below:

	Average positions of auditors in the Leumi Group in Israel
The Bank	89.2
Subsidiaries in Israel	9.7
Overseas subsidiaries	3.2
Total	* 102.1

(*) Of which 2.8 positions on average are maternity leave / unpaid vacation.

In addition, 2.1 positions were invested on an outsourcing basis.

Furthermore, local auditors are employed in overseas subsidiaries in 16.5 positions (including outsourcing).

The number of positions was approved by the Audit Committee in Israel, based on the annual and the multi-year work plan.

The Chief Internal Auditor may, within the framework of the budget, use outsourcing for the execution of work that requires special knowledge or in the event of insufficient staff.

The table below shows details of the benefits and amounts which were paid or for which provisions were made for 2015 to the Chief Internal Auditor:

2015

Holding in the capital of the Bank	Remuneration for services				Other remuneration		Loans given on beneficial terms			
	Salary	Bonuses**	Social benefit provisions	Share-based payments	Value of the benefit	Total *	Balance as at 31 December 2015	Average period until maturity (years)	Benefit provided over the year	Loans granted on regular terms
	NIS thousands									
0.003	**1,172**	**-**	**199**	**1,147**	**126**	**2,644**	**-**	**-**	**2**	**-**

* Excluding salary tax.

** Estimate – see Note 23G oto the financial statements.

The total payments to the Chief Internal Auditor and the components thereof are submitted to and approved by the Audit Committee.

The Board of Directors believes that the holding of securities by the Chief Internal Auditor and the remuneration paid to him do not affect the exercise of his professional discretion.

The Chief Internal Auditor operates in accordance with the professional standards of the Institute of Internal Auditors in Israel and the Institute of Internal Auditors (IIA).

In addition, the Chief Internal Auditor operates in accordance with the directives and instructions of the Supervisor of Banks, including Proper Conduct of Banking Business Regulation No. 307 regarding the internal audit function.

The Audit Committee and the Board of Directors have noted that in the Chief Internal Auditor's written declaration he complies with the requirements laid down in the abovementioned generally accepted professional standards, and he operates in accordance with the directives and instructions of the Supervisor of Banks. On the basis of this declaration, and on the basis of his role as expressed at the meeting of the Audit Committee of the Board of Directors, the Audit Committee and the Board of Directors are satisfied that the Chief Internal Auditor meets all the said requirements.

Generally, upon the issue of written audit reports and records of the findings of the examination by the Internal Audit Division, and as part of the ongoing work process, discussions are held with the audited entities (branch managers, district managers or managers of other organizational units) on the audit reports and records, and discussions are also held on material findings with the heads of the divisions and the President and Chief Executive Officer.

Before the meetings of the Audit Committee, the Chairman of the Audit Committee, in consultation with the Chief Internal Auditor, determines which audit reports and records of the examination's findings will be presented in their entirety for discussion at the Audit Committee. Furthermore, lists of all the audit reports and records issued by the Internal Audit Division in the relevant period, together with a summary of the material findings, are submitted on an ongoing basis for the perusal of all the members of the Audit Committee. They may peruse any audit report they wish and make a request to the Chairman for them to be presented in their entirety for discussion by the Audit Committee.

Material audit reports and records of the examination's findings are discussed at the Audit Committee each month, and on occasion, several times a month.

At the end of the first and second halves of the year, the Internal Auditor submits to the Chairman of the Board of Directors, the President and Chief Executive Officer and the Chairman of the Audit Committee reports summarizing the audit operations. They include a summary of the material findings, the auditor's recommendations and the audited entity's replies for the relevant periods.

In addition, the Chief Internal Auditor submits to the Chairman of the Board of Directors, the President and Chief Executive Officer and the Chairman of the Audit Committee an annual report summarizing the audit operations during the course of the entire year, which also includes monitoring the performance of the annual work plan and an assessment of the effectiveness the Bank's internal control framework.

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

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

The Internal Auditor's report for the second half of 2015 was submitted to the Audit Committee on 10 February 2016 and was discussed by the Committee on 14 February 2016.

The Internal Auditor's annual report for 2015 was submitted to the Audit Committee on 18 February 2016 and was discussed by the Committee on 23 February 2016, and it will be submitted to the Board of Directors and discussed therein soon after the publication date of the financial statements.

The work program of the Internal Audit Division for 2016 was submitted to the Audit Committee on 28 December 2015 and approved in the Committee on 31 December 2015, and submitted to the Board of Directors on 5 January 2016 and approved in the Board of Directors on 10 January 2016.

The Chief Internal Auditor has been provided with documents and information as specified in section 9 of the Internal Audit Law, and was given access to information, as specified in that section. He has continuous and direct access to the Bank's information systems, including access to financial data.

The internal auditors in Israel carrying out audits of the subsidiaries in Israel and abroad have been provided with documents and information as specified in section 9 of the Internal Audit Law, and were given access to information, as specified in that section. They have continuous and direct access to the information systems of the subsidiaries in Israel and abroad, including financial data.

The Board of Directors and the Audit Committee believe that the scope, nature and continuity of operations and the work plan of the Chief Internal Auditor are reasonable under the circumstances, and that they enable the Internal Audit to achieve its goals in the Group.

Auditors' Fees (a)(b)(c)

	Consolidated		Bank	
	2015	2014	**2015**	2014
	NIS thousands			
For auditing activity: (d)				
Joint auditors	**29,611**	30,889	**15,341**	15,514
Other auditors	**4,849**	4,019	**-**	27
Total	**34,460**	34,908	**15,341**	15,541
For audit related services: (f)	**-**	-	**-**	-
Joint auditors	**682**	630	**150**	266
Other auditors	**-**	-	**-**	-
For tax services: (e)	**-**	-	**-**	-
Joint auditors	**1,679**	1,438	**489**	508
Other auditors	**890**	538	**-**	-
For other services:	**-**	-	**-**	-
Joint auditors	**3,248**	4,391	**1,948**	2,438
Other auditors	**1,099**	715	**646**	246
Total	**7,598**	7,712	**3,233**	3,458
Total auditors' fees	**42,058**	42,620	**18,574**	18,999
Joint auditors' fees from other engagements (g)	**-**	-	**-**	-

a. Report of the Board of Directors to the Annual General Meeting on the auditors' fees in respect of audit and additional services, under sections 165 and 167 of the Companies Law, 1999.

b. Auditors' fees include payments to partnerships and corporations under their control and also payments required by the VAT Law.

c. Including fees paid and accumulated fees.

d. Audit of annual financial statements and review of interim reports.

e. Services provided related to routine tax auditing.

f. Audit related fees, mainly include: prospectuses, special certificates, comfort letters, tax consultancy, forms and reports to authorities to which the signature of the auditors is required and audit of businesses purchased during the year.

g. As reported by the joint auditors, pursuant to section 4 of the directives relating to a conflict of interests and impairment of independence in consequence of the auditors' other engagements, and included above.

Remuneration policy of office-holder and key employees

On 31 March 2015, the Board of Directors of the Bank, after approval of the Remuneration Committee, approved an update in the terms of employment of key employees (as defined in Directive 301A of the Supervisor of Banks, and in the Remuneration Policy of the Bank by virtue of the said Directive 301A) and of office holders in the Bank, including the President and Chief Executive Officer, as follows:

1. Cancellation in full of the entitlement of office holders and key employees, including the President and Chief Executive Officer, to jubilee (long-service) bonuses and jubilee vacations (benefits to which office holders in the Bank are entitled according to the provisions of the employment agreements between them and the Bank), with effect from 31 December 2014, as follows:

   The accumulated rights for each office holder and key employee in respect of jubilee (long-service) bonuses and jubilee vacations, during the period of their employment in the Bank until the date of cancellation of the entitlement, namely until 31 December 2014, will be reduced, without any compensation and/or consideration, by about 45% (in a similar manner to the reduction carried out in the collective agreement for all employees of the Bank). The balance of the said accumulated rights for the office holder or key employee, as applicable, will be cancelled against payment of one-time compensation, in an amount equal to the balance of the accounting provision remaining in the books of the Bank at 31 December 2014, after the reduction, in respect of that office holder or key employee, as applicable. Subject to the aforesaid, the entitlement of office holders and key employees to jubilee (long-service) bonuses and jubilee vacations will be cancelled in full and the employment agreement of office holders and key employees will be amended accordingly. Accordingly, after cancelation of the said entitlements, the Bank will discontinue recording a current expense in respect of accumulating rights to jubilee bonuses and vacations for office holders and key employees.

   The decision to cancel jubilee (long-service) bonuses and jubilee vacations for office holders and key employees in the Bank, as stated above, was made in consideration of the provisions of Proper Conduct of Banking Business Directive No. 301A on Remuneration Policy in a Banking Corporation. This does not allow granting a variable bonus independent of performance and that is only conditional on employment (for office holders in the Bank). Pursuant to the transitional provisions of the said directive, it was possible to amend employment agreements with office holders and key employees in this matter as required in Directive 301A until the end of 2016. However, because of the arrangement with the other employees of the Bank in the framework of the collective agreement signed recently in the Bank, in which the employees to which the collective agreement applies waived their entitlement to jubilee (long-service) bonuses and jubilee vacations, it was decided to cancel, already at this stage, the entitlement of office holders in the Bank to jubilee (long-service) bonuses and jubilee vacations. In this connection it should be noted that the payment of reduced compensation to office holders and key employees against cancellation of their entitlement to jubilee (long-service) bonuses and jubilee vacations, as explained above, does not create an accounting expense for the bank, since a salary expense was recorded over the years for office holders and key employees in the Bank for jubilee (long-service) bonuses and jubilee vacations, and, as described above, the compensation mechanism will grant office holders and key employees a payment that represents about half the accounting reserve recorded in the books of the Bank. Furthermore, in light of the cancellation of the entitlement to jubilee (long-service) bonuses and jubilee vacations for office holders and key employees, the Bank will discontinue recording a current expense in respect of the accumulation of the said rights. Pursuant to the cancelation of the entitlement to jubilee bonuses and jubilee vacations, the cancelation of an expense amounting to NIS 16 million will be recorded in the Bank's books in 2015, and an annual current expense of NIS 3 million, in respect of office-holders and key employees, will be saved.

2. The increase in salary of certain office holders in the Bank that are not directors is in effect as of 1 January 2015. Included in this, it was approved that the salary of the President and Chief Executive Officer of the Bank will be increased at the rate of 4% of the total cost of the terms of employment of the President and Chief Executive Officer in the Bank. The salary of the President and Chief Executive Officer of the Bank, after the said update, will be NIS 195,400. The said update of the terms of employment was made in accordance with the Bank’s Remuneration Policy and after the Remuneration Committee and the Board of Directors reviewed the normal cost of employment of holders of equivalent positions in comparable companies, and after they have examined the contribution of the said office holders and of the President and Chief Executive Officer to the activity of the Bank.

For further information regarding the terms of office and employment of the President and CEO, including pursuant to the Sixth Amendment to the Regulations, see Note 23

3. Similar to normal practice in the Bank for all the employees, by virtue of the collective agreements, the increase in the rate of the Bank's contributions to provident funds (the employer's contribution) for key employees and office holders of the Bank, including the long-serving office holders in the Bank who previously waived their entitlement to be included in first-generation terms and transferred to 2nd generation terms, including for the President and Chief Executive Officer of the Bank, will be so that the rate of contributions by the Bank to provident funds (the employer's contribution) is 7.5% of the employee's salary for contributions (instead of 5%). The said increase in the rate of contributions to provident funds is only in respect of the part of the salary of the office holders that is not paid under first-generation terms (if relevant). In other words, the increment will be added to the external fund without rights to a non-contributory pension from the Bank, and only the part of salary not included in first-generation terms.

   The Remuneration Committee and the Board of Directors of the Bank approved that the abovementioned update to the terms of employment constitutes an insignificant update in relation to the existing terms of office and employment of office holders in the Bank, including the President and Chief Executive Officer, as stated in Section 272(D) of the Companies Law, and that updating the said terms of employment is in the interest of the Bank, taking into consideration the contribution of the office holders and the importance of their remuneration in a manner giving them motivation to continue in their position over time. The Remuneration Committee and the Board of Directors were also of the opinion that the updates determined in the updated terms of engagement with office holders in the Bank, as set forth above, would encourage these office holders to continue investing their best efforts in the interest of the Bank, taking into account the challenges facing Bank Management in the short and the long term, and considering the work load placed upon them as part of coping on an ongoing basis with these challenges.

Remuneration policy of office-holders

On 11 February 2014, following the approval of the Board of Directors, pursuant to the approval and recommendations of the Remuneration Committee, the General Meeting of the Bank approved the remuneration policy for office-holders in the Bank in respect of the years 2013-2016. The remuneration policy is based on the provisions of Amendment 20 of the Companies Law with regard to the conditions of the terms of office and employment of the office-holders in the Bank and the provisions of the new Proper Conduct of Banking Business Management Regulation 301A "Remuneration Policy in a Banking Corporation".

The remuneration policy is intended for the remuneration of office-holders in the Bank in accordance with the Bank's performances and profits over time, and in accordance with the Bank's and the Group's long-term targets, and the actual contribution of the office-holders to achieve these performances and targets. The remuneration policy includes, *inter alia*, consideration of the salary component, fringe benefits, retirement terms and the component of the annual bonuses.

Remuneration policy of key employees who are not office-holders (personal contract holders)

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

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

Transition to second-generation conditions commencing 2014

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

For further information regarding remuneration policy, see Note 23F.

Remuneration of Senior Office-holders

For the year ended 31 December 2015

Below are details of the benefits and amounts which were paid or provided in the years 2015 and 2014 to the Chairman of the Board of Directors and to the five recipients of the highest salaries among the senior office holders of the Group. The benefits described below do not include benefits in respect of banking services that are granted to employees in the Bank, such as benefits regarding interest on deposits of monies with the Bank, interest benefits in respect of mortgages, discounts or exemptions from commissions for banking services provided by the Bank, etc. The amounts of the benefits in respect of the banking services mentioned, regarding each recipient, are not material. Certain private banking customers, including customers who are included in arrangements between the Bank and employee groups, are occasionally awarded benefits that are similar to those granted to Bank employees and in some cases, even exceed them.

2015								
Details of recipient of remuneration (1)			Remuneration for services			Other remuneration		
Name	Position	Holding in the capital of the Bank	Salary	Bonuses	Social benefit provisions	Share-based payment	Value of the benefit (4)	Total (2)
		%	NIS thousands					
Mr. David Brodet (5)	Chairman of the Board of Directors	**0.002**	**2,185**	**1,359**	**750**	**1,359**	**171**	**5,824**
Ms. Rakefet Russak-Aminoach (6)	President and CEO	**0.005**	**2,515**	**-**	**1,727**	**3,713**	**170**	**8,125**
Mr. Avner Mendelson (12)	CEO, Bank Leumi USA	**-**	**1,707**	**1,366**	**345**	**-**	**2,314**	**5,732**
Mr. Paul Hurd (13)	Managing Director, Leumi ABL	**-**	**823**	**4,425**	**123**	**-**	**85**	**5,456**
Mr. Phill Woodward (14)	Deputy Managing Director, Leumi ABL	**-**	**753**	**4,425**	**113**	**-**	**89**	**5,380**
Professor Daniel Tsiddon (8)	Deputy Chief Executive Officer	**0.001**	**1,566**	**-**	**1,131**	**1,954**	**121**	**4,772**
Mr. Yaron Bloch (15)	General Manager, Leumi Partners	**-**	**1,549**	**-**	**369**	**2,373**	**118**	**4,409**
Mr. Dan Yerushalmi (10)	Executive Vice-President, Head of Leumi Technologies Division	**0.002**	**1,490**	**-**	**780**	**1,931**	**21**	**4,222**
Ms. Hila Eran-Zik (11)	First Executive Vice President, Head of Risk Management Division	**-**	**1,144**	**390**	**1,614**	**268**	**500**	**3,916**

1. Those receiving remuneration hold 100%, full-time positions.

2. Excluding salary tax.

3. Social benefit provisions include provisions for severance pay, provident funds, pension (including "non-contributory pension" arrangement which applies to long-serving employees and long-serving office holders in the Bank – for details, see Notes 23B.1 to the financial statements. As set forth in the note, due to the incidence of the new acting standards regarding the recording employee rights and due to the historically low rates of interest that prevailed during the reporting period, there was a significant increase in the expense in respect of "budget pension" for employees and office-holders who are so eligible), supplementary training fund, non-competition period, and national insurance, as well as supplemental reserves in respect of the above, due to salary changes during the accounting year.

4. The value of the benefit includes, *inter alia*, a car and telephone expenses.

5. On 4 November 2010, the General Meeting of the Bank, after the approval of the Board of Directors and the Audit Committee, approved the terms of engagement between the Bank and the Chairman of the Board of Directors, Mr. David Brodet. The Chairman is employed on a full-time basis as an Executive Chairman. For details of the terms of employment of the Chairman, see Note 23B.4 to the Financial Statements. On 11 February 2014, following the approval of the Board of Directors and the Remuneration Committee, the General Meeting approved a resolution that the Chairman of the Board of Directors is entitled to a performance-contingent annual bonus, subject to the provisions of the remuneration policy for office-holders in the Bank for each of the years 2013, 2014, 2015 and 2016. For a summary of the details of the Bonus Plan, see Note 23F, to the financial statements.

6. Ms. Rakefet Russak-Aminoach serves as President and CEO of the Bank and the Group from 1 May 2012. For further details regarding the terms of office of the President and Chief Executive Officer, see Note 23B.3a. The President and CEO, who had a first-generation employee agreement with the Bank, transferred, with effect from 2013, to the employment terms of a second-generation agreement, as follows: the rights of the President and CEO to a non-contributory pension from the Bank pursuant to her rights as first-generation, will be only in respect of the frozen salary level (the salary of the President and CEO at the date of the transfer from first-generation to second-generation plus linkage to the consumer price index) with her rights with regard to the salary increment in excess of the frozen salary level being according to the second-generation conditions (provisions for provident fund without the rights to non-contributory pension from the Bank). On 11 February 2014, following the approval of the Board of Directors and the Remuneration Committee, the General Meeting of the Bank approved an update of the retirement terms of the President and CEO, as detailed in Note 23B.3a to the financial statements. The General Meeting also approved, following the approval of the Board of Directors and the Remuneration Committee, that the President and CEO is entitled to a performance-contingent annual bonus and to a fixed annual bonus in accordance with and subject to the provisions of the office-holders in the Bank's remuneration policy, for each of the years 2013, 2014, 2015 and 2016. For a summary of the details of the Bonus Plan, see Note 23F, to the financial statements. It should be noted that, pursuant to the remuneration policy, office-holders in the Bank, including the President and CEO, are not entitled to a variable annual bonus for 2014.

   On 31 March 2015, the Board of Directors of the Bank, after the approval of the Remuneration Committee, approved an update in the terms of employment of office holders in the Bank, including the President and CEO. Pursuant thereto, the entitlement of the President and CEO to jubilee bonuses and jubilee vacations (as with the other personal contract holders in the Bank) was canceled, with effect from 31 December 2014, and compensation representing 45% of the amount that was recorded in the Bank's books in respect of this liability vis-à-vis the President and CEO was paid. In addition, in light of the cancelation of the entitlement, as aforesaid, no expense in respect of the liability for jubilee bonuses and jubilee vacations will be recorded in the future. In addition, the Board of Directors approved an update, in effect from 1 January 2015, in the regular salary of the President and CEO of 4% of the cost of the terms of employment of the President and CEO of the Bank.

   For the method of payment of the bonus to the President and CEO (as with the method of payment of the other office-holders) in respect of 2015 – see 8. below.

7. Senior employees of the Bank have special personal employment agreements with the Bank. For further details regarding the retirement conditions of senior officers and entitlement to advance notice on terminating employment, see Note 23B.3c to the financial statements.

Members of the Bank management who had a first-generation employee agreement in the Bank with effect from 2013 have transferred to the employment terms of a second-generation agreement, as follows: their rights to a non-contributory pension from the Bank pursuant to their rights as first-generation will be only in respect of the frozen salary level (the salary at the date of the transfer from first-generation to the second-generation plus linkage to the consumer price index), with the rights with regard to the salary increments in excess of the frozen salary being in accordance with the second-generation conditions (provisions for provident fund without the rights to a non-contributory pension from the Bank).

The maximum additional expense that the Bank may incur, in the event of the abovementioned employees being immediately dismissed, amounts to NIS 380 million (2014 – NIS 372 million) These amounts are before tax and include salary tax on the pension obligation. Since it is not likely that all the said employees will be dismissed immediately, a global provision of 25% of the above amount has been made, amounting to NIS 95 million (2014 - NIS 93 million). These amounts also relate to members of management and to the President and CEO. A specific attribution out of the said provision was made for members of management, the balance of which amounted to NIS 13 million as of 31 December 2015 (2014 – NIS 13 million).

On 11 February 2014, the General Meeting of the Bank approved the remuneration policy for office-holders in the Bank in respect of the years 2013 – 2016, following the approval of the Board of Directors in accordance with the approval and recommendations of the Remuneration Committee. The remuneration policy is based on the provisions of Amendment 20 to the Companies Law with regard to the term of office and employment of office-holders in the Bank and the provisions of the new Proper Conduct of Banking Business Management Regulation No. 301A regarding Remuneration Policy in a Banking Corporation. For details, see Note 23F. Pursuant to the remuneration policy, office-holders in the Bank are entitled to a variable annual bonus in respect of 2015. Office-holders in the Bank were not entitled to a variable annual bonus in respect of 2014.

It should be further noted that the accumulated conditions, pursuant to the provisions in the remuneration policy for the vesting of the first third of the PSU (which were allocated in respect of half of the bonus for 2013) to shares, are being fulfilled, and accordingly, the office-holders in the Bank (to whom the PSU units were allocated, as aforesaid) are entitled to two-thirds of the aforementioned PSU units vesting to shares, under the provisions of the remuneration policy. For further details, see Note 23F.

8. Pursuant to special collective agreement, dated 17 February 2016, the annual bonus in respect of 2015 will be paid by means of shares, blocked for two years, which will be issued by the Bank to the employees, at market price, is in accordance with the amount of the bonus to be approved for each employee. In light of this collective agreement, it was decided with regard to office-holders and key officials, some of the annual bonus in respect of 2015, which was due to be paid (in excess of the half which was deferred and paid with regard to office-holders by means of the PSU mechanism as outlined above) will be paid by means of shares, blocked for two years, which will be issued by the Bank, and the value of which in accordance with the market price will be of the amount which is equivalent to the amount which was due to be paid as a cash bonus.

Special bonus: in accordance with the remuneration policy for office holders, in exceptional and outstanding cases, the Remuneration Committee and the Board of Directors will be entitled to approve the amount of an additional variable bonus in respect of a given year for some of its officers, subject to the following conditions: (1) The additional variable bonus will be given due to an exceptional event not recurring every year, such as a one – time project, a material structural change and / or an extraordinary transaction in scope and essence, provided that the exceptional business event was defined in advance by the Board of Directors at the beginning of the year relevant to the specific office holder; (2) The total maximum variable remuneration for an office holder in the same year shall not exceed 200% of the fixed annual remuneration of that senior officer; (3) Detailed reasons will be given for the relevant decision, when a decision is made.

During the reporting period, the Board of Directors, after receiving a recommendation of the Remunerations Committee, decided on several unique and non-recurring projects whose execution is until the publication of the financial statements for the year 2015, will be entitled to a special bonus. The Board of Directors further decided that the total of the special bonuses, if all the projects will be met in full, will not exceed an aggregate amount of NIS 8 million for all the relevant office holders.

As at the date of publication of the financial statements, most of the projects were completed. However, the Remuneration Committee decided that it would be correct to discuss and decide which of the office holders would be entitled to the special bonus, whether and for what amount in relation to the ceiling decided, only in another few months, in order to ensure that meeting the projects would be on a long-term basis.

In light of this decision, a provision of NIS 8 million was included in the financial statements as at 31 December 2015 in respect of the special bonuses, without allocation of the amount of the bonuses to any of the office holders, in the absence of a decision to whom and whether the said bonus will be paid

9. Professor Daniel Tsiddon serves as Deputy CEO in the Bank. The salary of Professor Tsiddon, as set forth in the table above, is in accordance with the Bank's remuneration policy as regards the remuneration of senior officers in the Bank. For details regarding the retirement terms of senior officers in the Bank and their entitlement to early notice on termination of employment – see Note 23B.3c to the financial statements.

10. Mr. Dan Yerushalmi serves as the Head of the Leumi Technologies Division in the Bank. Mr. Yerushalmi's salary as set forth in the table above is in accordance with the Bank's remuneration policy on the matter of the salary of senior officers in the Bank. For details regarding the terms of retirement of senior officers in the Bank and their entitlement to early notice on the termination of employment relations – see Note 23B.3c to the financial statements. The Board of Directors of the Bank and the Remuneration Committee have decided to award Mr. Yerushalmi, in accordance with the Bank's remuneration policy, a recruitment bonus amounting to 10 salaries (half in respect of the commencement of his term of office in the Bank in 2013 and half at the end of the first year of his term of office in the Bank at the end February 2014).

11. On 1 October 2015, Ms.Hila Eran-Zik was appointed to the position of member of management, Head of the Risk Management Division and Chief Risk Officer of the Bank. Up until that date, Ms. Eran-Zik served as Deputy CEO of Bank Leumi USA (Leumi USA). In respect of her term of office as Deputy CEO of Bank Leumi USA, Ms. Eran-Zik received remuneration, including a proportional variable bonus for the relevant period, according to Leumi USA's remuneration plan and in respect of the period since her appointment to the position of Chief Risk Officer, Ms. Eran-Zik received remuneration, including a proportional variable bonus, in accordance with the period of her term of office in the new position.

12. Mr. Avner Mendelson serves as CEO of Bank Leumi USA (Leumi USA), a wholly-owned and controlled subsidiary of the Bank with effect from 1 September 2013. Mr. Mendelson's salary, as set forth in the table above, is determined in accordance with the remuneration policy [of Leumi USA] and the remuneration policy for companies in the Leumi Group and in accordance with customary practice for general managers of banks of a similar size and activity in the United States. Mr. Mendelson's salary includes additional related expenses, for example, apartment rental for the CEO in the United States.

For details regarding the retirement conditions of senior officers in the Bank, including Mr. Mendelson and his entitlement to early notice on termination of employment, see Note 23B3.c.

13. Mr. Paul Hird serves as CEO of Leumi ABL Ltd. (Leumi ABL), a wholly-owned subsidiary of Leumi UK since 2006. Paul was one of the founders of the subsidiary, jointly with Bank Leumi UK. and Mr. Hird's salary in respect of his term of office as Chief Executive of Leumi ABL is determined in accordance with the terms of the agreement the Bank signed with him, under which he is entitled, in addition to his annual salary, to an annual variable payment based on a fixed formula, according to the company's net profit after taxes.

14. Mr. Phil Woodward serves as Deputy CEO of Leumi ABL, a wholly-owned subsidiary of Leumi UK since 2006. Mr. Woodward was also one of the founders of the subsidiary, jointly with Bank Leumi UK. and Mr. Woodward's salary in respect of his term of office as Managing Director of Leumi ABL is determined in accordance with the terms of the agreement the Bank signed with him, under which he is entitled, in addition to his annual salary, to an annual variable payment based on a fixed formula, according to the company's net profit after taxes.

15. Mr. Yaron Bloch serves as CEO of Leumi Partners Ltd ("Leumi Partners"), a wholly-owned and controlled subsidiary of the Bank, with effect from 1 January 2011. The annual bonus to Mr. Bloch, as set forth in the table above, has been approved by the Remuneration Committee and the Board of Directors of Leumi Partners, in accordance with the provisions of his employment agreement and pursuant to the remuneration policy for office-holders in Leumi Partners which was approved in 2014. The annual bonus is comprised of a fixed annual bonus which is included in the above table of salary data and a variable annual bonus. According to the employment agreement, each party may terminate the agreement at any time, on duly giving prior notice. On the termination of Mr. Bloch's employment, due to resignation or dismissal, he will be entitled to an adaptation bonus equal to the cost of annual employment. In addition, in the event of termination of employment relations between the parties, he will be entitled to all of the monies which have accrued to his credit in the managers insurance policy maintained for him, including the amounts in respect of severance pay, and a supplement in respect of the difference, if applicable, between the severance pay due to him according the law and the severance pay accrued to his account in the severance pay component in the managers insurance policy.

16. Loans granted under favorable terms are granted under terms generally excepted for all employees in the Bank and their amounts have been determined according to consistent criteria. The said loans amount in aggregate to negligible sums (a few thousand shekels) and therefore, are not presented in the table.

17. Directors and other office-holders have been insured by the Bank under directors' and other officers' liability insurance policies covering the Bank and its investee companies. The proportional insurance premium paid is not included in the above tables, as it is insignificant. The total premium amounted to NIS 4,262 thousand and relates to all office-holders in the insured group.

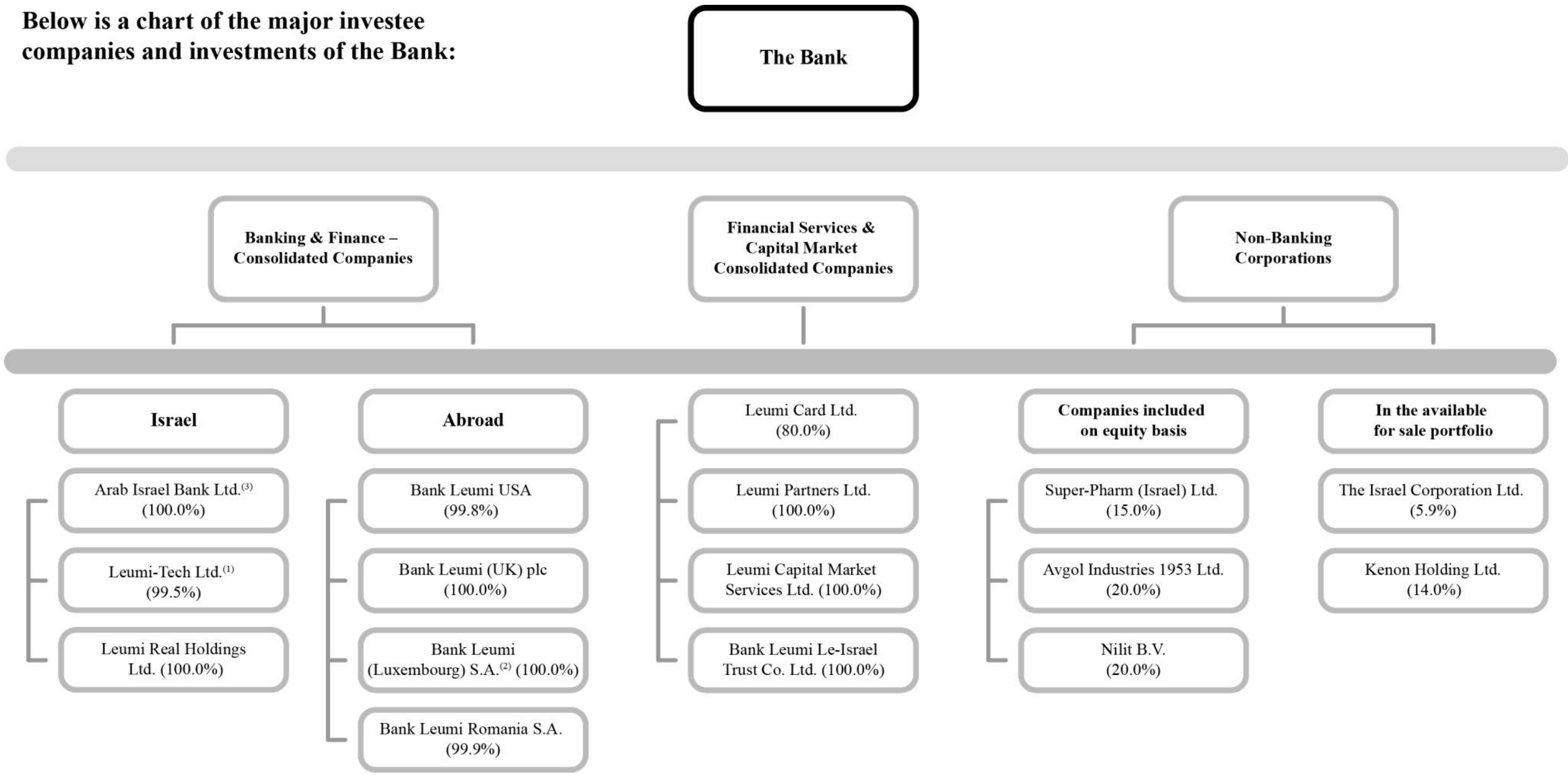
18. Having held discussions, received explanations and appropriate and relevant background material, and having examined the remuneration, taking into account the activities of the Bank and the Group and their results in 2015, and after noting the Bank's group remuneration policy and the remuneration policy in the Group companies, as well as the performance and activity of each senior officer in the Bank or in the Group, the Board of Directors believes that the remuneration to abovementioned senior officers, as set out in the table and the explanations above, represents remuneration that in no way exceeds fair and reasonable remuneration under the circumstances, taking into consideration the contribution of each of the office-holders, as stated in the Bank's operating results and the remuneration, as aforesaid, is in favor of the Bank.

For further details, see Note 23.

2014 (a)													
Details of recipient of remuneration			Remuneration for services			Other remuneration			Loans given on beneficial terms				
Name	Position	Holding in the capital of the Bank	Salary	Bonuses	Social benefit provisions	Share-based payment	Value of the benefit	Total	Balance as at 31.12. 2014	Average period until maturity (years)	Benefit provided over the year	Loans granted on regular terms
		%	NIS thousands									
Mr. David Brodet	Chairman of the Board of Directors	0.001	2,186	-	733	-	159	3,078	-	-	-	-
Ms. Rakefet Russak-Aminoach	President and CEO	0.003	2,679	-	1,291	-	160	4,130	-	-	-	20
Ms. Nomi Sandhaus	Executive Vice-President, Head of Legal Division (formerly)	-	2,051	-	5,617	-	101	7,769	106	2.37	7	-
Mr. Yaron Bloch	General Manager, Leumi Partners	-	1,546	949	2,412	-	119	5,026	-	-	-	-
Mr. Paul Hurd	Chief Executive, Leumi ABL	-	863	3,301	129	-	89	4,382	-	-	-	-
Mr. Phil Woodward	Managing Director, Leumi ABL	-	789	3,301	118	-	93	4,301	-	-	-	-
Mr. Larry Weiss	General Manager, Leumi UK (formerly)	-	973	-	2,859	-	72	3,904	-	-	-	-
Mr. Avner Mendelson	CEO, Bank Leumi USA	-	1,455	-	402	-	1,731	3,588	-	-	-	-
Professor Daniel Tsiddon	Deputy Chief Executive Officer	-	1,516	-	927	-	113	2,556	82	0.42	4	-
Mr. Dan Yerushalmi	Executive Vice-President, Head of Leumi Technologies Division	-	1,404	-	667	258	20	2,349	-	-	-	-

(a) The data are presented according to the report from last year, in accordance with the reporting directives which were in force prior to the introduction of United States generally accepted accounting principles regarding employee rights, and the data in the table of the remuneration of senior employees are therefore not comparable on a year-to-year basis.

Below is a chart of the major investee companies and investments of the Bank:



1. Voting rights – 99.8%.
2. In November 2015 an agreement was signed for the sale of customer assets of Leumi Luxembourg. For further information, see Chapter on "Principal Consolidated Companies"
3. The company was merged with and into Bank Leumi on 3 December 2015.

Control of the Bank

With effect from 24 March 2012, the Bank is defined, according to the provisions of the law, as a banking corporation without core control and there is no shareholder who is defined as a controlling shareholder in the Bank.

For updated information regarding the holdings of interested parties in the Bank, see Immediate Report on the Holdings Position of Interested Parties and Senior Office Holders, dated 7 December 2015 (ref No. 2015-01-175125).

Annual General Meeting and Election of Directors

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, as set forth below: (1) the election of two external director pursuant to the Companies Law, who are also external directors pursuant to Regulation No.301 of the Banking Supervision Department and (2) the election of three external directors pursuant to Regulation No. 301 of the Banking Supervision Department.

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. 2015-01-068940, 2015-01-068943).

For further details regarding the election of directors at the General Meeting, see also the chapter "Members of the Board of Directors of the Bank".

Lien in favor of the Bank of Israel

On 21 May 2008, the Bank signed a debenture pursuant to which it granted a first degree floating lien in favor of the Bank of Israel on its rights to receive amounts and monetary shekel payments that are and will be payable to the Bank from time to time from its customers who are corporations (established according to the laws of the State of Israel), and are not in arrears with their repayments to the Bank of loans received from the Bank, of which the average duration of the credit does not exceed three years, and were granted or will be granted to these customers by the Bank. The amount of the lien is equal to the total of the amounts to be secured by the debenture, from time to time, up to an aggregate of NIS 1.1 billion.

This lien secures funds that are required for the Bank's operations for the purpose of its activities with the CLS (Continuous Linked Settlement) Clearinghouse.

Fixed Assets and Plant

Buildings and equipment - the amortized cost of buildings and equipment as at 31 December 2015 amounted to NIS 3.1 billion, compared with NIS 3.2 billion as at 31 December 2014.

Investments in buildings and equipment as at 31 December 2015 are as follows:

	Cost	Accumulated depreciation	Net book value	
	31 December 2015			31 December 2014
Buildings and land	**3,374**	**1,894**	**1,480**	1,582
Equipment, furniture and vehicles	**3,467**	**2,826**	**641**	657
Software	**4,054**	**3,080**	**974**	923
Total	**10,895**	**7,800**	**3,095**	3,162

The above buildings and equipment are used mainly for the activities of the Group. Buildings that are not used by the Group and are leased to non-Group parties, included in the consolidated balance sheet as at 31 December 2015, amounted to NIS 45 million.

Real estate

The majority of the premises in which the business of the Group is conducted in Israel are owned by the Bank or by subsidiaries. Most of the properties in which the business of the Group is conducted abroad are leased.

Real estate assets of the Bank held by the Bank, and owned by the Bank, Binyanei Bank Ltd. and Lyn City Center Ltd. (wholly-owned subsidiaries of the Bank) comprise 219 properties, with an area of 250,000 sq. mtrs. of which 111 are branches and archives, with an area of 73,000 sq. mtrs., and 24 are Head Office buildings, with an area of 39,000 sq. mtrs. (excluding the Bank Leumi Service Center complex). The remainder is divided into offices for the use of the subsidiaries, a logistical center, plots, vacant properties, etc. Properties designated for sale as of 31 December 2015 constituted 18,700 sq. mtrs., and are presented at the lower of amortized cost or realization value.

The area held by the Bank contracted in 2015 by 12,000 sq. mtrs., of which 8,000 sq. mtrs. is owned by the Bank, compared with 2014.

In addition, the Bank holds "Keshev" – "The Yitzhak Rabin Bank Leumi Service Center", which includes Leumi Technologies Division - the Bank's operation and computerization of operating services division, and the Bank's training center, which is located in Lod, within a facility comprising a total area of 78.8 dunams.

In addition to areas owned by the Bank, the Bank leases an area of 86,000 sq. mtrs.

As part of the streamlining program, it was decided to relocate a number of units (including two subsidiaries, Leumi Capital Market Services Ltd. and Bank Leumi Le-Israel Trust Company Ltd.) from Tel Aviv to the outskirts of the Dan Region, a decision which led to a reduction in the costs of rental and municipal rates. This move was completed during the first half of 2015.

Information systems

Bank Leumi has two computer centers, the main one, in Keshev, and a secondary one, in Tel Aviv. In addition, Leumi has set up a center for a third copy of data in the Jerusalem area.

Leumi has an underground facility for the primarily computer complex. The facility is protected against rocket attack, biological and chemical warfare and earthquakes. The facility was constructed with advanced technology enabling high-level day-to-day operation and independent functioning in times of emergency. The infrastructure in the computer center has a tier-3 survival and redundancy level and is in accordance with international standards.

Leumi has 3 mainframe computers produced by IBM, part of the Z Series family, for use by the production, development and testing systems and the emergency recovery program. The total operating capacity of the computers is 14,106 mips (the values of the capacity are measured according to the number of instructions in millions per second). The Mortgage Department's main computer center is located in Keshev and receives services from IBM. A backup site for it has been constructed in Tel Aviv.

The Bank has an online and historical database stored on discs and cassettes in the main computer facility at Keshev and in the back-up facility in Tel-Aviv. A third copy of data is stored in a facility in the Jerusalem area. The data pass through a designated communication infrastructure between Leumi's computer centers.

Information security at Leumi is based on the principle of banking secrecy and various laws and directives, such as the provisions of the Protection of Privacy Law and related regulations, the provisions of the Computers Law, directives of the Bank of Israel, and generally accepted international standards of information security.

Based on these directives, extensive activity is undertaken in Leumi in defining organizational information security policy, with an emphasis on devising work programs for the implementation of control and information security mechanisms, setting up systems and integrating information security management, and planning and execution of information security controls, including the drafting of procedures.

In an era in which threats from external and internal organizational factors are increasing, Leumi is prepared for computer attacks and is taking steps to hedge the risks arising from various types of cyber attacks. In addition, the Bank is taking steps, in coordination with the Banking Supervision Department in the Bank of Israel, the Antitrust Commissioner and in cooperation with the banking sector to set up a center for sharing cyber know-how and protection, and through ABS, to strengthen its ability to cope with cyber threats.

The operations and computer department of subsidiaries in Israel and abroad are based on independent systems, with the managements and boards of directors of those subsidiaries having professional and administrative responsibility, and in coordination with the Leumi's IT strategy of Leumi. Within the context of a multi-year program, the Bank, together with the overseas subsidiaries, is taking steps to improve and upgrade the systems at the overseas subsidiaries.

The overseas subsidiaries are connected to each other and to Leumi in Israel via internal communication networks. This system is used for mail communication as well as for transmitting encrypted data in a secured manner. The Bank invests in the maintenance and development of its Internet sites for the Bank’s overseas subsidiaries based on Leumi's infrastructure. In addition, the technological infrastructure has been upgraded to improve the availability of the systems.

Bank Leumi USA has outsourcing agreements with a number of U.S. companies in the field of information systems used for the management of its banking business.

Leumi Technologies Division operates a system of computer services for Union Bank, in accordance with is an agreement for the provision of computer services, including operating services, computer system development, consulting services, backups and other services.

The Antitrust Commissioner has approved the exemption from a restrictive agreement in relation to the agreement between the Bank and Union Bank through 31 December 2016 which is the termination date of the agreement.

For further information regarding the agreement with Union Bank, see chapter "Material agreements".

In 2015, the Group invested in equipment including software some NIS 609 million, compared with some NIS 686 million in 2014. The budget was adapted to support the strategic goals as defined by the Bank Management.

The Bank continued to focus investment in 2015 on direct channels and improving the "customer experience" through digital services, including Leumi Mobile, trading on capital markets via the Internet and through the CRM project for developing a system for enhancing the customer experience and improving the sales processes. The CRM system will go live immediately following the approval of the regulator. In addition, as in every year, emphasis was placed on compliance with regulatory provisions.

In 2015, as a part of Leumi's vision to update and make accessible the traditional banking services and payment means and adapt them to the new digital world, Leumi has developed a number of innovative products in the mobile field, including "Snap-to-Pay", a service which enables the payment of various accounts to local authorities, telephone and electricity; by scanning the bill; "Digital cheque" - a convenient interface for making transfers to Leumi customers only, including deferred transfers. The digital cheque does not constitute a cheque according to the Notes Ordinance. Leumi is taking steps to obtain recognition of the digital cheque as a cheque in accordance with the Notes Ordinance.

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 Stage A core systems. 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.

In the Capital Markets Division, a project for the integration of a new computer system for the foreign currency dealing rooms was completed, replacing the old systems which was closed at the end of 2015. In addition, the trading system for "TradeOn" transactions was activated for customers in their offices.

In 2015, the Bank was certified for quality standards from Israel Standards Institute in the following areas: IT services, data security, business continuity, safety and occupational health, environment, energy management and a green mark for service.

For further details, see Note 16.

Intangible Assets

1. The Bank is the sole proprietor of the "Leumi" trademark, and its accompanying design logo, in the banking and finance services field in Israel.
2. In addition, the Group makes use of the names of its companies and their logos for the purposes of its activities, and the names of services and products, some of which are registered as trademarks and service marks.
3. The Group has registered databases in which information is stored regarding, *inter alia*, customers, suppliers and employees of Leumi, with advanced technological means that are designed to protect customer activity and the Bank's business activity, while reducing the risks arising from the use of information systems.
4. The Group holds various intellectual property rights and user rights in various computer programs and information systems for the purpose of managing its business, including the provision of services to its customers.
5. The Group has intangible assets and goodwill from the acquisition of companies. For further information, see Note 15.

Human Resources

Number of Personnel

In 2015, the number of positions in the Group decreased by 363, a fall of some 2.8% in relation to the number of positions in 2014. With regard to the average for the year, the number of positions in the Group fell by 306, a fall of 2.3% in relation to the average for 2014. The number of specific positions at the end of 2015 reflects a decrease of 1,403 (10.1%) positions in the space of four years.

The fall in the number of positions was achieved through a reduction in the workforce in the Bank as part of the streamlining procedures which included structural changes in the Bank's divisions e.g.: removing back-office activities from the centers of expertise, streamlining in the divisions' headquarters including, *inter alia*, the merger of the Corporate Division and the Commercial Division, the elimination of the Procurement Department, etc. and through early retirement, natural retirement and other streamlining measures carried out in the subsidiaries in Israel and abroad, in addition to the closure of overseas offices.

	Positions at year end		Average positions during the year	
	2015	2014[(a)]	**2015**	2014[(a)]
The Bank in Israel	**9,592**	9,762	**9,828**	10,000
Consolidated subsidiaries in Israel	**1,975**	2,018	**2,010**	2,047
Total of the Group in Israel	**11,567**	11,780	**11,838**	12,047
Overseas: Bank branches and representative offices	**6**	6	**8**	19
Consolidated subsidiaries	**955**	1,105	**1,048**	1,134
Group total in Israel and overseas	**12,528**	12,891	**12,894**	13,200

* Position – means a full time position including specific overtime, working hours of employees from temporary employment agencies and employment of external consultants.

(a) As a result of the retroactive application of the directives of the Supervisor of Banks regarding software costs, the data on the number of employees have been restated for the effect of the number of employees whose salary has been capitalized to fixed assets. The effect of the retroactive application led to an increase in salary expenses and as a consequence, to an increase of 200 in the number of positions in 2014.

Natural retirement

During 2015, around 80 employees left the Bank by natural retirement.

As of the date of the report, over the coming decade, around 2,217 employees are expected to leave by natural retirement, 100 of which will retire in 2016.

Remuneration system and salary structure

In general, the salary and remuneration systems for the Bank’s employees are based upon a correlation between the level of remuneration and the position of the employee, the contribution of the employee to the Bank and the evaluation of the employee’s manager. Consequently, the remuneration granted to the employee is differential.

Collective agreements with the employees

On 21 January 2015, the Bank announced that the Bank management and the Bank employees' organization had reached agreements with regard to a special collective agreement (hereinafter, "the collective agreement"), and these were approved by the Bank's Board of Directors and by the Employees' Council. For further information regarding the collective agreement, see Immediate Report dated 21 January 2015 (Ref.: 2015-01-016267).

On 31 March 2015, a special collective agreement was signed between the Bank, as the first party, and the Employees' Organization and the New General Histadrut Employees Organization, as the second party, regarding an arrangement for the social security of the Bank's veteran employees. The agreement is a revision of the special collective agreement of 19 December 1999 regarding the remuneration to which the veteran employees are entitled. The agreement from March 2015 does not contain any change the existing rights of the employees and/or in the Bank's commitment to eligible employees, but rather it changed the work processes and form of employment due to changes in the law that had occurred in the field of pensions since 1999 and thereafter.

On 10 December 2015, a special collective agreement was signed between the Bank, on the one part, and the Arab Israel Bank Ltd., on the second part, and the representative body of the employees of the Arab Israel Bank, and the New General Histadrut Employees Organization, on the third part, regarding the merger of Arab Israel Bank within and with Bank Leumi.

The agreement deals with the ramifications of the merger on the status and rights of the employees of the Arab Israel Bank with effect from 1 January 2016 with effect when the latter become employees of Leumi for all intents and purposes. In general, the agreement provides that from the merger date, the Arab Israel Bank employees are part of Bank Leumi and will be entitled to all of the rights and conditions to which the employees of the Bank are entitled, without detracting from the rights including surplus personal rights that were granted to them prior to the merger.

On 17 February 2016, a special collective agreement was signed by representatives of the Bank's employees and the Bank, pursuant to which various rights, accrued in favor of employees would be converted into shares of the Bank, which will be issued to employees in the amount those rights, on the basis of the amount at which those rights are recorded in the books of the Bank (subject to the use of a discount interest rate of 3.5%, instead of the discount rate which was used pursuant to the directives of the Bank of Israel). The realization of the plan will be effected in accordance with the draft prospectus for the issue of shares to employees published on 18 February 2016, to the employees and the existence of further proceedings, as required pursuant to law.

For further information regarding the collective agreement, see Note 23.

For details in connection with the remuneration of senior officeholders, see chapter "Remuneration of Senior Officeholders"

Labor and Salary Costs (in the Bank)

	2015	2014 (a)	2013(a) (b)
	NIS thousands		
Cost per employee position (excluding bonus)*	**343.3**	339.2	335.1
Cost per employee position (including bonus)*	**399.5**	339.4	363.3
Salary per employee position (excluding bonus)*	**234.1**	227.7	225.8
Salary per employee position (including bonus)*	**279.3**	227.8	248.5

* Cost per employee position does not include pension expenses, costs of voluntary retirement, retro-severance pay and shares to employees.

(a) Restated as a result of the retroactive application of United States generally accepted accounting principles regarding employee rights, see Note 1D.1

(b) In 2013, the data included the effect of the cost of employees from the Mortgage Department which was merged with the Bank.

Training and Development

The Management of the Bank sets itself the goal of supporting the business units and the attainment of their business goals through study and training procedures, which focus on improving the professional and managerial ability of employees and managers. In this context, Leumi employees participated in 56,000 training days during 2015.

Training activities in 2015 focused on reinforcing professional knowhow of the employees and managers with emphasis on core banking areas – credit, investment counseling, service and sales, regulations and management training, all according to the business objectives of the Bank. In addition, designated training activities were held supporting the organizational change processes, the acquisition of new skills and adaptation to changing needs in the various divisions.

In 2015, training activity in "Simulator" Training Center was expanded with an emphasis on skills, sales and service. As a part of this arrangement, bank officials and managers attended seminars on sales-focused training.

Digital learning

The main aim of the digital learning is the maintenance of the high level of skill of employees at low cost. In 2015, the trend of intensifying digital learning in Leumi as a part of the learning culture in the organization continued. In 2015, employees studied 10 regulations, participated in almost 25,000 hours of learning by video, and underwent remote assimilation of several systems.

This year saw the opening of a training sub-division to improve the learning experience in classes using innovative digital means, via the Internet, cellular devices and tablets. These devices encourage employee involvement in the learning, competition, brainstorming, discussion, recapping and processing of the study material, and thus, considerably improve the effectiveness of the learning.

Knowledge management

In 2015, the field of knowledge management continued to provide real-time performance-supporting solutions and knowledge infrastructure. A knowledge administration was set up in the Banking Division, providing solutions in the fields of private credit, commercial credit, credit cards, arrangement with salaried employees, digital channels, value proposals to the customer, etc.

In addition, unique solutions were constructed for the other divisions within the Bank, with an emphasis on cross-organization processes, such as, "360", a leadership program, Cross-Border, etc.

In the field of knowledge retention, solutions were constructed for unique areas of knowhow in the Tel Aviv Central branch and in Leumi Technologies.

Education

The percentage of employees with university education at the Bank is on a continuing upward trend.

The percentage of university graduates at the Bank was 70.1% of all employees at the end of 2015, compared with 68.5% in 2014 and 66.4% in 2013. The percentage of graduates among the managerial staff reached 95.6% in 2015, in comparison with 95.3% in 2014 and 94.4% in 2013.

This increase in the percentage of university graduates is the result of the recruitment of employees with university education, the departure of Bank employees who were not university graduates, and the acquisition of higher education by Bank employees.

Age and number of years of experience in the Bank

The average age of Bank's employees at the end of 2015 was 44.4 years, compared to 44.1 years in 2014 and 44.5 in 2013. The average number of years' experience of persons employed in the Bank at the end of 2015 was 18 years, compared with 17.9 in 2014 and 18.3 in 2013.

Employee rights

Labor relations between the Bank and its employees in Israel, save for those with personal employment contracts, are primarily based upon a basic collective labor agreement known as the "Labor Constitution" and supplementary and collective agreements. The terms of employment of members of the Bank's Management and certain other senior employees are regulated by personal employment contracts. For additional details see Note 23.

Organizational development

The Training Department provides a solution for the particular organizational needs of the divisions through a range of organizational development processes.

The main tasks are: assisting the units with change – constructing and applying programs from the aspects of harnessing communication and training, developing management teams, formulating strategy and work programs, surveys, internal communication and assimilation of the vision and core values.

Employee involvement in the community

Leumi management views the involvement of its employees and managers in the community as a key channel in the area of the Bank's involvement and social responsibility. Leumi encourages its employees to take an active part in volunteer projects and to become involved in community life, and providing them with frameworks for volunteering and a variety of opportunities to contribute and volunteer.

During the course of 2015, some 4,066 employees – from various units within the Bank - engaged in voluntary activity. The total hours of volunteer work by employees from which the community benefited in 2015 was 33,270.

The activities of the unit are based on a network of social leaders in all the divisions and departments of the Bank, numbering some 360 employees representing the various units of the Bank. Their purpose is to promote voluntary work among employees in their unit, while building an activity-supporting infrastructure and managing an employee involvement section in the Human Resources Division.

Leumi has a wide range of community partners, mainly in the area of children and young people. Many thousands of people benefit every year from the direct impact of volunteer work by Leumi employees.

Employees from throughout the country are involved in a range of activities such as assisting children and at-risk youth in residential homes, clubs and community centers; tutoring, assisting with homework and accompanying youth groups, collecting equipment for the needy, visiting hospitals, assisting Holocaust survivors, supporting populations with special needs, etc. Bank employees participate in the annual traditional Passover food collection, distributing food packages to needy families so that they can enjoy their festive Passover meal. In 2015, the Bank distributed 2,445 packages. In addition, packaging campaigns took place and 150 food packages marking the Ramadan festival and 20 food packages at Christmas were delivered to needy families.

Alongside these many activities, the Bank chose to link with Leumi's vision of strengthening the future generation, through strategic programs, reinforcing the connection with associations supported by the "Leumi Tomorrow" organization with various projects, such as "Youth Leading Change". In addition, the Bank participates in activity together with associations, such as "Pa'amonim", "Late Lesson", and more. In the involvement of Leumi employees in the community and the various interfaces with children and youth, an emphasis is placed on the contents, including enrichment, the assimilation of values and, gradually, the financial education compatible with the Bank's core business.

Positions according to operating segments:

	Average positions in 2015		Average positions in 2014	
	Managerial Staff	Clerical Staff	Managerial Staff	Clerical Staff
Households	**1,367**	**5,331**	1,396	5,505
Small businesses	**487**	**1,509**	487	1,530
Private banking	**382**	**336**	428	377
Commercial banking	**758**	**1,059**	726	1,054
Corporate banking	**414**	**566**	414	552
Financial management – capital markets	**336**	**337**	348	370
Other	**2**	**10**	3	10
Total	**3,746**	**9,148**	3,802	9,398

The calculation of the number of positions according to operational segments is based on the management of personnel according to the Bank's main lines of business, with various adjustments, and on the basis of assessments. In calculating the number of positions according to operating segments, employees of head office units, who serve all or part of the operating segments of the Bank, have also been taken into account.

Appointments and Retirements

Appointments:

Ms. Hila Eran-Zik, Credit Manager and Deputy Vice-President of Bank Leumi USA, was appointed to the position of Head of the Risk Management Division, Chief Risk Officer and member of management of the Bank with the rank of First Deputy CEO, 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 was appointed to the position of Head of the Banking Division, with effect from 1 January 2016.

Ms. Tamar Yassur, member of Bank management, Head of the Banking Division and Chairman of the Board of Directors of Leumi Card was appointed to the position of Head of the Digital Banking Division with effect from 1 January 2016, 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.

Adv. Livnat Ayin-Shai Vilder is expected to join the Bank on 1 March 2016 and will be appointed to the position of the Bank's Secretary, holding office which is of a non-management nature. Adv. Ayin-Shai Vilder will replace Adv. Yael (Ben Moshe) Rudnicki who will be appointed to a senior position in the Leumi Group.

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.

Organizational Structure

The Leumi Group's organizational structure, according to lines of business and head-office services, as described below, combines the activity of companies in the fields of banking, finance, the capital market and financial services.

Lines of Business

Leumi is organized into four lines of business that focus on different market sectors, and each business line specializes in the provision of service to a group of customers. This form of organization enables the customers to enjoy a high standard of professional service, varied distribution channels, products that are adapted to their requirements and fast and flexible decision-making processes.

During the reporting period, the Digital Banking Division was set up, developing Leumi's digital banking activity, principally for the retail customers who opt to join the digital banking activity. Digital banking activity is expected to commence in mid-2016.

Following is a description of the areas of responsibility for Leumi's four lines of business:

1. The **Banking Division** manages the activity of the private and small commercial customers, who receive the full range of services through 186 branches which are organized in 8 districts on a geographic basis and by means of a variety of technological/direct distribution channels, including Leumi Call, which provides services to customers via telephone, mobile phones and the Internet. The services and products are adapted to all the customer sectors differentially according to the nature of their banking activity, their characteristics and their needs. The customers of the Division are segmented into the following sectors: the retail segment, the premium segment, and the corporate banking segment. The Division coordinates the retail operations in the Group, including those of the Arab Israel Bank, which, at the end of the period, was merged within Leumi, and Leumi Card,

   The **Small Businesses Department –** In January 2016, the Small Businesses Department was established, operating in the format of an independent profit and loss center management, responsible for all of the small business customer activity.

   The **Private Banking Department** is responsible for private banking activity in Israel. The department has 5 private banking centers in Israel for Israeli residents and foreign residents and 2 branches. In January 2015, an organizational change was made, in the course of which the Private Banking Department was transferred to the responsibility of the Banking Division.

   The **Mortgage Department –** The main activity of the Mortgage Department is in the sector for loans to purchase housing and in the sector for any-purpose loans with a housing mortgage, with specific skill and expertise in the area. The department operates through 108 representative offices, most of which are located in branches of the Banking Division, with a few in independent locations. The representative offices report to five regional areas which report to the department's management. The department operates a business center which coordinates activity in the area of credit, underwriting and the transfer of loan funds to customers. The department also operates telephone call-centers which allow the submission of requests for approval in principle of a credit facility via telephone and the Internet, and the provision of a qualitative service to existing borrowers regarding managed loans. As part of the extension of housing loans, individual loans are made in the department to participants in a purchasing group.

   The **Investment Counseling Department** is responsible for the construction and assimilation of all the advisory doctrine and provides investment and pension advisors with an address for inquiries on professional automated topics and on legal and ethical subjects. The department makes ongoing and continuous assessments of what is happening in the capital and money markets in Israel and around the world, and distributes reviews and reports to investment advisors in order to update them regarding what is happening in the economic environment. In this context, the department constructs and operates decision supporting systems and models for the use of the Bank's advisors. In addition, the department is responsible for the pension counseling centers. In January 2016, an organizational change was made pursuant to which the department was transferred to the responsibility of the Head of the Banking Division.

2. The **Corporate and Commercial Division** includes two departments: the Corporate Department and the Commercial Department (as detailed below). The Tel Aviv Central branch and the Head Office units provide service to the Corporate and Commercial Division and the International Credit and Real Estate Division in Israel. In addition, the division is responsible for the design of special transactions which include project financing, financing the means of control, the organization of syndicates, the sale of debts, the examination of investment and trade programs and international finance.

   The **Corporate Department** manages the banking activity of the large business companies in the economy on the basis of sector expertise and synergy between industries. The department includes four business sectors: a technology and tourism sector, a sector for chemicals, energy, holding companies and public institutions, a consumption and trade sector and a sector for industry and transport.

   The **Commercial Department** manages the activity of middle-market commercial companies, through 25 business branches, organized on a geographical basis into 5 commercial districts. The Division's organizational structure is unique in the banking system, providing the customer with a "one-stop-shop" for its comprehensive and extensive services, while broadening its services to business customers through digital channels.

3. The **International Credit and Real Estate Division** includes two departments - the Construction and Real Estate Department and the Special Loans Unit (as outlined below). In addition, the Division is engaged in the examination of aspects corporate-commercial loans in the Bank's overseas offices in the United States, United Kingdom and Romania.

   The **Construction and Real Estate Department** manages the large building companies, promoters and contractors in the economy (including national infrastructure projects) with specific skill and expertise in all areas of real estate in the economy. The financial services are provided both to finance the activity of the customers in Israel through the Bank's branches, and to fund their activity abroad, including cooperation in extending credit with the Bank's overseas units. Through the overseas offices, credit is also granted to local entrepreneurs who are active in the field of real estate, hotels and nursing retirement homes.

   The **Special Loans Unit** deals with corporate customers who are in difficulty, while attempting to assist in the recovery of active customers through business help and support or by taking steps to collect the debts of corporate customers whose rehabilitation is not possible. In addition, the unit coordinates the professional assistance required for clarifying demands and claims against the Bank and consultation for the entire Bank on topics related to its area of expertise.

4. The **Capital Markets Division** is responsible for managing the Group's financial assets in Israeli currency and foreign exchange; management of the *nostro*; the activity of all the Bank's dealing rooms (Israeli currency, foreign exchange and Israeli and foreign securities); developing innovative financial products and investment products; managing the assets and liabilities of the Bank and managing market risks; management of the formulation of a price policy and financial margins in the Bank; relations with financial institutions abroad; co-ordination of the Bank's capital market (through the subsidiary, Leumi Capital Market Services Ltd.), and banking and operational services; and operational service for customers active in the capital and financial markets, including institutional customers.

In addition to the division according to line of business, Leumi Group has the following head office units which provide services to the business units:

The **Finance Division** is responsible for coordinating and preparing the Bank's work-plan; managing profit centers and financial and managerial measurement; planning and managing the Group’s capital; preparing the Bank's expenditure budget and monitoring its application, sharing in the determination of the order of priorities in the investment budget, connections with investors and analysts; monitoring economic developments and preparing sectoral reviews and economic forecasts; formulating concepts, processes and organizational and administrative solutions; devising models for optimization of resources and directing overseas units and analyzing their activity, the coordination of policy in the area of commissions and insurance of the Bank and the Group. In addition, the division is responsible for the provision of services in the area of procurement (general, construction and technological), construction and maintenance.

The **Accounting Division** is responsible for managing, developing and determining the Bank's accounting guidelines, managing the Bank's books of account, preparing the financial statements of the Bank and the Group, the relationship with the Bank of Israel in all accounting matters and the related reports, and the monitoring of regulatory changes related to accounting and their assimilation in the Bank and in the Group. In addition, the Accounting Division is responsible for managing the tax affairs of the Bank and the Group, assessing the effectiveness of the key controls of the SOX 404 working process, calculating capital adequacy and reporting to the public in accordance with Basel directives.

The **Human Resources Division** is responsible for formulating and implementing the Bank's human resources policy and, within this overall context, for selecting and placing employees, remuneration, salary structure, labor relations, development and advancing employees, banking training – managerial and general, assimilation of the "Leumi Way" code of ethics, intra-organizational communications, internal advocacy, care of the individual, organizational counseling and development, employee involvement in the community and employee welfare. The division is responsible for the management of the assets and provision of the various logistical services in the area of the launching and management of a logistical center in the Bank and in the subsidiaries in Israel.

Leumi Technologies Division is responsible for the computer and operational deployment of the Bank and the Group, including the computerization of Union Bank, in accordance with an agreement between it and Bank Leumi. As part of its function, the division coordinates the formulation and determination of the strategy, policy and activity regarding technological development, computerization, operations, data technology, communications, cyber, data protection, security, operations of subsidiaries in Israel, and also support of the overseas units in all matters related to technological services, operations and the receipt of assistance required from Bank Leumi in Israel, and extending automated solutions required for achieving Leumi's business goals.

The **Legal Counsel Division** is responsible for overall legal counsel to the Bank and its subsidiaries in Israel and the management of legal risks in the Bank and the Group. It is also responsible for expressing an opinion on various legal matters and for the infrastructure of legal forms and opinions, following legislative and regulatory proceedings and representation of the Group with the various legislative and regulatory bodies, legal advice for new products developed or integrated into the activity of the Bank and Group, and is responsible for dealing with claims against the Bank, the employment of outside attorneys and their supervision. In addition, the division is responsible for the Customer Complaints Bureau, whose function is to examine customer complaints, and for the Compliance and Enforcement Department, which was transferred to the responsibility of the Chief Legal Officer of the Bank.

The **Compliance and Enforcement Department** which, on 1 December 2015, came under the responsibility of the Legal Division, is responsible for implementing compliance programs in the Bank and in the Group, including the prohibition of money laundering and financing of terrorism, administrative enforcement and U.S. customers (in cooperation with the Finance Division).

The **Internal Audit Division** is responsible for the internal audit of the Leumi Group. The Audit Division operates by virtue of the Internal Audit Law – 1992, Proper Conduct of Banking Business Directives of the Bank of Israel and directives of the Board of Directors. In addition, the Division acts in accordance with professional standards of the Institute of Internal Auditors.

The division deals, in an independent, impartial manner, with the examination and assessment of the Group's internal control system, including: examination of the work and control processes, examination of the method of managing various risks in the Group, maintenance of the Bank's assets, minimization of exposures, compliance with the rules of ethics and proper governance, implementation of the directives of the Board of Directors, the management and the Bank's procedures, and the examination of operational efficiency. In addition, the Audit Division conducts an independent review of the internal process for an assessment of capital adequacy of the Group (ICAAP). The Chief Internal Auditor reports directly to the Chairman of the Board of Directors.

The **Risk Management Division** is responsible for risk management in the Group and in the Bank, and coordinates risk management at the Group level in the main risk areas: credit, market and operations and compliance. The Division operates with an emphasis on independence in risk-taking. The object of the Division is the creation of a strong infrastructure for managing and controlling risks that will support the achievement of business targets, in accordance with the defined risk appetite. In addition, the Division is responsible for assisting the Board of Directors in defining the risk appetite, leading risk policy, developing and defining tools for measuring and pricing risks in the various activities; identifying, measuring and controlling the major risk focal points in the Group, and the changes occurring in them, and examining the risks inherent in new activities. The Division also includes the Credit Risk Management Department.

The **Credit Risk Management Department** is responsible for the specific analysis of credit risk in excess of NIS 25 million, and for the examination of appropriateness of the classifications and allowances for credit losses. The Department is split into three sections: analysis of corporate credit risk, analysis of credit risk in the real estate sector and commercial credit risk. The analysis of the risks is achieved as part of the process of approving the credit and is presented to the relevant credit committee before making the decisions.

The **Digital Banking Division** is responsible for leading, accelerating and implementing advanced digital innovation with an emphasis on leading digital strategy and assimilating innovative digital products in all the digital channels connecting to the credit lines and business targets. The division will also manage and lead the Bank's "Big Data" activity and manage the marketing while outlining the marketing strategy and implementing it in all of the Bank's credit lines.

The **Strategy Section,** which is headed by the Deputy CEO of the Bank, is responsible for assisting Group Management and the Board of Directors in defining and planning Bank and Group strategy and its validation, examining and analyzing subjects with strategic implications, and providing support and leadership of main projects in cooperation with the lines of business.

During the year, a number of significant organizational changes were made in Leumi:

Private Banking Department

On 1 January 2015, an organizational change was made in the course of which the Private Banking Department was transferred to the responsibility of the Banking Division.

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.

Procurement, Building and Logistics Department

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

Compliance and Enforcement Department

On 18 November 2015, the Board of Directors of the Bank approved the implementation of an organizational change in which the Compliance and Enforcement Department, which had operated under the Risk Management Division, would come under the auspices of the Legal Division. Against the background of the frequent regulatory changes and legal complexity of these changes, the Board of Directors of the Bank decided that placing the Compliance and Enforcement Department under the responsibility of the Legal Division would enable coordinated management and an overall vision of all legal and regulatory risks, such that it would result in optimal management in this area, while potentially saving certain costs arising from the split that exists in dealing with these areas.

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 leads and implements advanced digital innovation in Leumi Group.

Banking Division

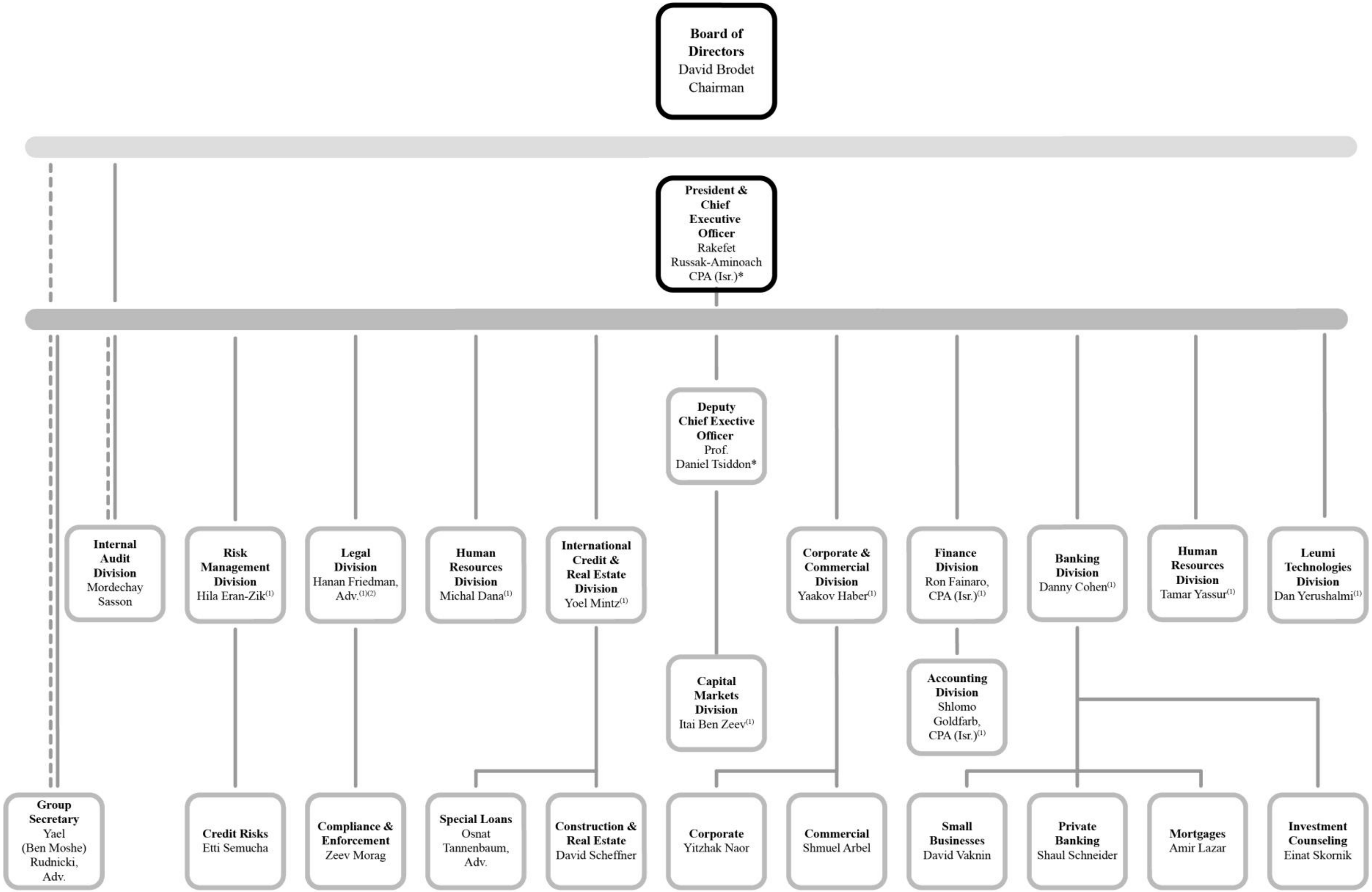
In light of changes and trends in the global business environment in general, and, particularly, in banking in Israel, it was decided in the Banking Division on a gradual transition from a geographical structure (regions) to a structure of four lines of business, which will operate as independent profit centers: Private Banking (an existing department), Small Businesses (set up on 1 January 2016), Premium Banking and Retail Banking. The preparations and transition from areas to lines of business will span the whole year.

Investment Counseling Department

On 1 January 2016, the Investment Advice Department was transferred to the responsibility of the Head of the Banking Division. Until the end of 2015, the department was the responsibility of the Head of the Human Resources Division.

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

Bank Leumi le-Israel B.M.
Organizational Structure



(1) Member of Management
(2) Serves also as Legal Counsel to the Board of Directors

Legal Proceedings

A. Civil proceedings

1. The Bank is a party to legal proceedings, including petitions for leave to approve derivative claims and petitions to approve class actions, brought against it by customers and former customers of the Bank, and various third parties considering themselves prejudiced or harmed by the Bank's activity during the ordinary course of its business.

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

The grounds for claims against the Bank are different and varied, including assertions as to the non-execution of instructions or their late execution, petitions for approval of attachments imposed by third parties on assets of debtors that according to them, are held by the Bank, assertions that interest charged is not in accordance with the interest rates agreed upon between the Bank and the customer, interest rates deviating from those permitted by law, assertions in connection with the charging of commissions, assertions relating to securities, labor relations, drawing cheques without cover, and failure to honor cheques.

For information regarding claims against the Bank in material amounts, see Note 25.

2. As part of measures taken to recover debts during the ordinary course of its business, the Bank initiated, *inter alia,* various legal proceedings against debtors and guarantors, as well as proceedings to realize collateral. The financial statements contain allowances for credit losses that were made by the Bank on the basis of an assessment of all the risks involved in the credit to the various sectors of the economy and taking into account the extent of the information concerning the relevant debtor/guarantor with regard to his financial strength and the collateral given to the Bank to secure repayment of the debt.

B. Other proceedings

1**.** U.S. customers affair

The terms of the arrangements with the U.S. authorities, their background and the developments on this topic, including the legal proceedings, are set forth in Note 25.

2. Merger between the Bank and 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 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.

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 2015, the court approved the merger after the parties reached an agreement with regard to the merger conditions.

The merger took effect on 31 December 2015 and was registered with the Registrar of Companies.

On 10 December 2015, a special collective agreement was signed in connection with the merger with representatives of the Arab Israel Bank. The collective agreement includes, *inter alia*, provisions regarding the employees who will be integrated within the Bank, as follows:

a. On the merger date, employees of the Arab Israel Bank will become employees of the Bank and be integrated with continuity of rights.

b. Various units of the Arab Israel Bank will merge with corresponding units within the Bank.

c. An option for a one-time redemption of the quota of accumulated vacation days provided in the agreement.

d. A one-time bonus of between one and one and a quarter salary.

e. One time addition to salary for employees who have been employed for more than 12 months at the date of the merger, at a rate of 2%.

The one-time cost of the abovementioned bonuses and the salary update is expected to total NIS 8 million.

3. **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.

4. **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.

Material Agreements

1. Following publication of the circular by the Supervisor of Banks regarding measurement and disclosure of impaired debts, credit, and the allowance for credit losses, (hereinafter "Directive of the Bank of Israel"), the banks, including the Bank, reached an agreement with the Tax Authority regarding recognition of allowances for credit losses for tax purposes.

The agreement was signed on 19 March 2012, and is effective for impaired debts that were recorded from 1 January 2011 onwards.

This agreement replaces the earlier agreement which applied to doubtful debts recorded through 31 December 2010.

The main points of the new agreement are as follows:

Large impaired debts on an individual basis:

The allowance is recognized as tax deductible in the same year it is recorded as an expense in the financial statements. In the tax year in which the balance of the allowance for credit losses was reduced (not as a result of an "accounting write-off" or a "waiver"), an "additional tax" will be added to the Bank's tax liability, with the addition of interest and linkage differentials, which will result in a tax charge which would have been collected if the allowance permitted to be deducted had not been recognized at the outset.

For this purpose – a "large debt" is a debt of NIS 1 million or more, or a lower amount as notified by the Bank to the assessing officer and in accordance with the Bank's characteristics.

Impaired debts that are not large:

The expenses in respect of a net "accounting write-off" (after offsetting tax payment for the same year) – half are recognized for tax purposes in the first tax year following the year in which the expense was recorded, and half are recognized in the subsequent tax year in which the expense was recorded.

Collective allowance:

This is not recognized for tax purposes.

Allowances in respect of "retail debts" recorded up to 31 December 2010:

These will be recognized as tax deductible in five annual equal installments, beginning in tax year 2011 through tax year 2015, providing they have not been recognized as an expense for tax purposes in previous years.

Implications of the initial implementation of the Bank of Israel's directive on 1 January 2011:

Differences deducted from shareholders' equity as a result of the initial implementation of the Bank of Israel's directive will be recognized as tax deductible in five annual equal payments, beginning in tax year 2011 through tax year 2015, subject to their being recognized for tax purposes in accordance with the terms of the arrangement, and on condition that they are not collective, general or supplementary provisions.

2. A compromise agreement for the regulation of tax payments in Israel in respect of profits of subsidiaries of the Bank overseas, between the Bank and the Assessing Officer for Large Enterprises of August 1987, which was extended in October 1991 until the end of 1993, and again in March 1994, when its term was extended until such time as one of the parties gives a year's notice of its intention to propose changes to the agreement.

3. An agreement from April 2005 between the Bank and the Tax Authority in connection with an offset in respect of the profits of a foreign subsidiary and a follow-up letter from the Tax Authority dated 29 June 2014, in connection with an offset in respect of the profits of foreign subsidiaries.

For further details, see Note 8.

4. An agreement between the Bank and Union Bank Ltd. ("Union Bank") for providing comprehensive computing and operational services, including development work and new and special projects as well as relevant training, by the Bank to Union Bank and its related entities, signed in September 2001 and effective retroactively from September 1998 for a period of 11 years with an extension option. In December 2007, an addition to the agreement was signed by Leumi and Union Bank, concerning an extension of the relationship, with changes in the business terms. The term of the new relationship is ten years, starting from 1 January 2007, during which a gradually increasing amount of annual consideration will be paid to the Bank. The addition has been approved by the Supervisor of Banks and the Antitrust Commissioner. According to provisions of the agreement, it terminates on 31 December 2016, with Union Bank having the right to announce that the separation mechanism provided in the agreement will apply only on 31 December 2016.

In December 2013, Union Bank announced that, pursuant to its right according to the agreement, it was postponing the commencement of the project of terminating the engagement with the Bank (as this term is defined in the agreement), such that it will commence at the end of the period of the agreement (31 December 2016). The Bank has clarified that it intends not to renew the agreement at the end of the agreement period, and accordingly, the separation project is expected to begin on 31 December 2016.

On 12 February 2015, the Antitrust Commissioner extended the exemption from the approval of a restrictive arrangement between the Bank and Union Bank, on the matter of computer and operating services, until 31 December 2016, in accordance with the conditions stipulated therein.

5. On 21 July 2014, Leumi signed a strategic cooperation agreement with Julius Baer, a leading private banking group in Switzerland. On 18 March 2015, the transaction for the sale of Leumi Switzerland activity to Julius Baer was completed after most of the customers were transferred to Julius Baer and the proceeds according to the sales agreement amounting to CHF 10 million was paid to Leumi Switzerland. The shareholders' equity of Leumi Switzerland was not transferred as part of the transaction.

6. On 21 January 2015, the Bank announced that the Bank management and the Bank employees' organization had reached agreements with regard to a special collective agreement (hereinafter, "the collective agreement"), and these were approved by the Bank's Board of Directors and by the Employees' Council.

For further information regarding the special collective agreement, see Note 23.

7. 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.

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.

8. 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 with the Arab Israel Bank.

9. The Bank is in advanced contacts towards signing an agreement with institutional entities from the Harel Insurance and Finance Group (hereinafter, "Harel"), for the joint provision of housing loans (as the term is defined in Proper Conduct of Banking Management Regulation No. 451) secured, *inter alia*, by mortgages and pledged with contractual rights in connection with land.

Further to the agreement being formulated, the total accumulated loans to be extended by Harel in 2016 will not exceed the sum of NIS 4 billion, and the rate of participation of the Harel Group in each joint loan as aforesaid will not exceed 50%. The amount to be extended by Harel in 2017 (subject to the decision of the Bank in the future as regards the extent of mortgages to extended in 2017) will be determined between the parties and will not be less than NIS 4 billion and the rate of participation of Harel in each joint loan will be agreed between the parties, but will not exceed 50%.

The approval of the joint loans, the determination of their terms, extension and the commitment in the credit documents will be made by the Bank at its sole discretion, subject to the relevant provisions of the law and the threshold conditions agreed between the parties, that they will apply to loans which will be extended jointly by the parties.

The Bank will manage the joint loans for the parties in accordance with the generally accepted procedures and principles in the Bank, as it operates in the ordinary course of business for itself. Harel will pay the Bank a monthly management commission.

The Bank will be the factor which will stand before the borrowers and the entity which will deal with the underwriting and management of the loan throughout the loan period.

The cooperation between the parties will come into effect immediately on completing the preconditions, including, *inter alia*, the completion of the operating preparedness required between the parties, and subject to regulatory approval, and in any event, not later than 90 days from the date of signing the agreement.

The cooperation between the parties in relation to the extension of the aforementioned joint loans will come to an end on 31 December 2017, unless the parties have agreed to its extension in writing. The cooperation between the parties in extending joint loans will come to an end before the date provided above, if one or more of the cases provided in the agreement, including, the option to notify the termination of the agreement at any time by prior notice is given to one of the parties.

The agreement being formulated includes various provisions in relation to the continuation of activity, the management of the loans, etc. after the end of the period of the agreement, as mentioned above, through the repayment of all the loans.

In addition, the agreement being formulated organizes that, in certain cases in which an option is provided for the termination of the management of the joint loans via the Bank, an obligation for the failure to transfer rights according to the agreement and subject to terms set forth therein, items of warranty and indemnity, and sections on confidentiality and non-competition, all under the conditions provided in the agreement.

The execution of the transaction, if the agreement is signed, is expected to have an impact on the outline of the allocation of the Bank's risk assets during the period of the commitment.

The agreement between the parties has not yet been signed, and it is subject to various preconditions, as set forth. Accordingly, there is no certainty that the transaction outlined above will be concluded in the end, and if it is concluded, there is no certainty that it will be under the conditions outlined above..

10. The Bank has provided office-holders and others with letters of indemnity. For details, see 25F.

11. For further information regarding guarantees insurance by virtue of Sales Law and liabilities of taking out guarantees see chapter on "Capital and capital adequacy".

12. For further information regarding the agreements of subsidiaries, see chapter on "Principal investee companies".

Legislation and Regulation relating to the Banking System

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, "Forward-Looking Information", below.

A large number of proposals for changes in regulations and changes in various provisions of the law were made during the reporting 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.

Details regarding provision of the law enacted during the reporting period

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 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.

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), on 30 November 2015, an amendment to the Banking (Licensing) Law, 1981 was published which enables non-banking entities which are engaged in the procedure of credit to raise capital through the issue of notes to the public, under various conditions and restrictions provided in the amendment to the law. The amendment is expected to increase the sources of finance for the activities of non-banking entities which extend retail credit and credit to small and medium-sized businesses, and this will increase competition in these areas of operation.

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

Pursuant to the proposed Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), was published on 30 November 2015, an amendment to the Supervision of Financial Services Law (Marketing Counseling and Pension Clearing System). The amendment provides, that an employer who wishes to receive pension operating services from the same entity providing pension marketing services to its employees is obliged to pay for the pension operation "clearing fees" for each employee at a rate of 0.6% plus VAT of the total of the employer's deposits to the provident fund in the name of the employee, and not less than NIS 10.5 plus VAT.

Amendment to the Housing Loans Law, 1992

Pursuant to the proposed Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), on 30 November 2015, Amendment No. 13 to the Housing Loans Law, 1992 was published.

This amendment relates to the interest rate on a housing loan, as defined in the Housing Loans Law, i.e. a loan granted to an eligible person from the State Budget or State assistance for the purpose of purchasing and/or building an apartment and/or purchasing rights in an apartment, except for a loan granted to eligible persons only, without direct assistance of the State.

In addition, pursuant to the abovementioned amendment, the populations of eligible persons for State assistance were expanded. Those eligible to interest according to this law (and through the date of minimum points to eligibility stood at 1,000 points, and now, it is provided that the aforementioned interest will also be granted to holders of a minimum number of 599 points).

The Bank is taking steps vis-à-vis the Ministry of Housing and Construction in order to coordinate the Bank's preparations for the extension of loans at the aforementioned interest rate, including the ministry's state of preparedness for implementing the amendment.

Regulations for Arranging Engagement in Investment Counseling, Investment Marketing and Management of Investment Portfolios (Recording of Transactions and Recording of Counseling Actions) (Amendment), 2015

On 17 December, 2015, an amendment to the Regulations for Arranging Engagement in Investment Counseling, Investment Marketing and Management of Investment Portfolios (Recording of Transactions and Recording of Counseling Activity) was published in *Reshumot*. The Law for Controlling Engagement in Investment Counseling, Investment Marketing and Management of Investment Portfolios, 1995, requires that a license-holder maintain records of each counseling process provided to a customer. The abovementioned regulations set forth the details that must be included in the records, as well as the way in which they are prepared and conveyed to the customer. The amendment to the regulations includes a number of aspects, including: the cancelation of the requirement to obtain the customer's signature on the minutes of the consultation and its immediate conveyance to the customer at the end of the consultation meeting; a clarification that the requirement for identifying the license-holder of the counselor does not require the signature of the license-holder on the protocol of the consultation, providing that the single-value identification of the provider of the advice will be possible; the determination of a consistent model for conveying the minutes of the consultation to the customers, both in frontal consultation and in non-frontal consultation; cancelation of the requirement to convey the minutes in the event that a customer signs a portfolio manager agreement; and in the case of consultation conducted by way of a recording – cancelation of the obligation to provide the customer with a notification in writing regarding the existence of consultative action. In place of this, it should be brought to the customer's attention that the recording is held by the license-holder and that the customer can obtain a copy from him on request.

Details regarding provisions of the law enacted after the reporting period

Electronic Clearing of Cheques Law, 2016

On 10 February 2016, the Electronic Clearing of Cheques Law was published in the Statute Book. The law deals with the regulation of the method of electronic clearing of cheques by the banks, including the cancelation of the requirement physically to process cheques back and forth, storage and retrieval of cheques, the regulation of the return of a dishonored cheque, the regulation of the evidential acceptability of the computerized cheque in a legal proceeding, the determination of responsibility of the Bank due to damage incurred as a result of the non-retention of a cheque. the authorization of the Governor of the Bank of Israel, on the advice of the Minister of Justice and with the approval of the Knesset Economics Committee to establish rules regarding the duty of retaining cheques and computerized cheques.

The law will come into effect on 10 August 2016. However, until 10 August 2017, the use of non-computerized cheques will also be permitted.

Legislative proposals published during the reporting period

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 comprising 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 additional issues, 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.

In December 2015, the Securities Authority 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 a lien of shares of the controlling owner in a corporation at a rate of at least 5% of the share capital of the corporation, with regard to bankruptcy or insolvency events of a controlling owner in the corporation and corporations under its control, and regarding 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.

Proposed 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. The last version of the proposed law which was submitted to the Ministerial Committee for Legislative Affairs and discussed on 17 January 2016 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 order for opening proceedings 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.
- The start of insolvency proceedings against a corporation will commence in a consolidated proceeding in which it will be established whether the corporation is insolvent. After this decision the court will decide on the way in which it is appropriate to deal with the corporation's insolvency – recovery proceedings or liquidation proceedings.
- With regard to individuals – The management of a large part of the proceedings will be transferred from the District Court to the Official Receiver referred to in the proposed law as "the Official Receiver") and to the Magistrates Court. The proceedings will begin in the period of examination, which will coincide with grant of the order for opening proceedings, in which the economic position of the debtor will be investigated, during which a stay of the 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 alternative tracks for debtors without any means, and debtors with small debts, which will be dealt with mainly by the execution system, usually, without the involvement of the court.
- The preferred status of some of the "debts with preferential right" will be cancelled.
- A floating lien will apply only to the assets of the debtor at the time of granting the order and to the assets that will be due to the debtor at this date and thereafter as consideration for the abovementioned assets 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.
- 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 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.

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 Prohibition of Money Laundering Law (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 who do not fall 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 Supervision of Financial Services (Extra-Institutional Financial Services) Law, 2015

On 30 November 2015, the Knesset approved in a first reading the proposed Supervision of Financial Services (Extra-Institutional Financial Services) Law, 2015.

According to the proposed law, a new designated financial regulatory authority, to be called "the Supervisor of Financial Service-Providers" will be established 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 as to lead, on the one hand, to 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.

According to the proposed law, rules will be provided 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.

Memorandum of Supervision of Financial Services Law (Legislative Amendments), 2016

On 17 February 2016, the Ministry of Finance published memorandum of the Supervision of Financial Services Law (Legislative Amendments), which lays the infrastructure for setting up an independent authority to be called: the Capital Market, Insurance and Savings Authority.

The authority will operate as an independent and separate government unit, with the minister in charge being the Finance Minister. It is proposed to establish that the authority's duty will be the preserving the interests of the matters of policy holders, members and customers of the supervised entities, assuring the stability and proper management of the supervised entities, in order to meet the obligations to their customers, promoting of competition in the capital market, insurance and saving and in the financial system, and encouraging technological and business innovation.

Material directives of the Bank of Israel published in the reporting period

Update of Proper Conduct of Banking Management Regulation No. 435 – Telephonic Instructions

On 5 January 2015, the Supervisor of Banks published an amendment to Regulation No. 435, which discusses the topic of telephonic instructions.

According to the amendment, the customer can give his consent to enter into transactions according to a telephonic instruction, as well as via the Internet, and not only in the bank's branch.

Circular regarding types of accounts and conditions where the customer's signature on the agreement is not required

On 5 January 2015, the Banking Supervision Department published a circular regarding "types of accounts and conditions where the customer's signature on the agreement is not required". The circular details the agreement on which the signature of the customer is not required, providing the customer is able to confirm in an appropriate place on the banking corporation's website that he has been afforded the opportunity required to review an agreement.

The circular was published as a complementary step to Regulation 418, which permits the opening of an account on the Internet for an individual Israeli resident, who is over the age of 18, providing the account will have no beneficiaries other than the account-holders. The circular was published by the Banking Supervision Department on 15 July 2014.

Duty to notify the customer regarding interest gaps

On 18 January 2015, the Banking Supervision Department published a letter regarding the duty of notifying the customer regarding interest gaps. Pursuant to the letter, banking corporations must be meticulous in supplying information to the customer who has a debit balance and wishes to place money in a deposit, regarding the gap existing between the interest rates paid on the deposit and the interest rates collected in respect of the debit balance in the account, prior to making the placement of monies on deposit.

In addition, banking corporations are required to contact their customers in writing who, as of the date of the Banking Supervision Department's letter, have a debit balance and at the same time, place monies in a deposit by means of a standing order, and to furnish them with the interest rate paid on the deposit, the interest rate collected in respect of the debit balance in the account, and the interest rate gap between the two, with the interest rate wholly updated to the date of sending the letter.

It was also stipulated that initiated applications should not be made to customers who, at that date, have a debit balance, with a proposal to place monies in a deposit.

Proper Conduct of Banking Business Management Regulation 329 – Restrictions on the Granting of Housing Loans

Directive No. 329 provides, *inter alia*, that a banking corporation must not approve or make a housing loan at a rate of repayment from income exceeding 50%. On 25 January 2015, the Supervisor of Banks published an update to the directive 329 in which it was clarified that, for the purposes of the calculation of the rate of repayment from income, the full amount of the available monthly income of the spouse of the borrower, complying with all of the conditions provided in the directive, residing with the borrower in the apartment, may be recognized. It was also clarified that more than more than half of the monthly available income of a relative who is not purchasing an interest in the land may not be recognized, even if the relative has signed the loan agreement as a borrower.

Amendment to Banking Rules (Service to the Customer) (Commissions), 2008

On 29 January 2015, Banking Supervision Department published an amendment to the Banking Rules (Service to the Customer) (Commissions), 2008. The amendment updates the Banking Rules (Service to the Customer) (Commissions) on various matters, including: changes in the definition of an account of a small business; expanding the options open to customers, joining a commission track option and a cancelation of the option; an addition of a chapter to the tariff-list detailing commissions to customers who receive clearing services from the banks on transactions by debit card; the cancelation of management fees in housing loans and collection fees due to non-housing loans, given prior to the application of these rules; the cancelation of the deferred payment commission on credit cards in respect of transactions entered into with effect from 1 February 2015 and the collection of a commission totaling up to the amount of the clerk's commission in RTGS transfers in the amount of up to NIS 1 million.

Proper Conduct of Banking Management Regarding No. 361 – Management of Cyber-Protection

On 16 March 2015, the Banking Supervision Department published a new Proper Conduct of Banking Management Regulation on the topic of the management of cyber protection. The directive establishes that consideration should be given to the management of cyber risks as part of the overall system of risk management in the banking corporation and set out a structured, but flexible, framework for managing cyber-risks, while allowing the banking corporation freedom in its execution. The main topics to which the directive refers include: details of the areas of authority of the Board of Directors and senior management on the topic, the appointment of a cyber protection manager, the exercise of periodic control over the area by the Internal Audit Department, the management of cyber risks in a coordinated manner with interfacing systems inside and outside the banking corporation, the determination of a list of principles for maintaining an effective and efficient cyber protection system, the definition of a company-wide cyber protection policy, the existence of an effective process for identifying and assessing cyber risks and the establishment of an effective control system vis-à-vis the cyber risks.

Bank of Israel Circular – Risk management deriving from cross-border activity of customers

On 16 March 2015, the Banking Supervision Department published a circular regarding risk management deriving from cross-border activity of customers.

The circular provides that, in light of the increasing risks deriving from cross-border activity of customers, and pursuant to the provisions of paragraphs 4–6 of Proper Conduct of Banking Management Regulation No. 411, the board of directors and senior management of a banking corporation should examine and update the policy, procedures and controls of the banking corporation in relation to these risks, and ensure that the bank is prepared to deal with them, with an emphasis on the tax indebtedness outside the country in which the account was opened, whether the customer is resident in that country or not, in a risk-based approach.

The banking corporation is obliged to classify high-risk customers from cross-border activity according to various parameters, *inter alia*, the source of wealth and income of the customer and the source of the monies which are supposed to be deposited in the account, the amount and the type of activity in the account, the customer's country of residence, and to take the necessary steps to implement the policy: e.g., to obtain from the customer a declaration reporting on his income in accordance with the law applicable to him and the obligation to notify any change in the tax indebtedness and to establish procedures and hierarchy of authorities for approving the opening of an account.

The circular provides that the refusal to provide banking services will be considered a reasonable refusal for the purposes of the Banking Law (Service to the Customer), 1981, in the following cases: the opening of an account for a customer who does not cooperate with the banking corporation, in a way that was necessary to implement the Bank's policy and procedures for the purpose of cross-border risk, and therefore, the continuation of providing service in an existing account, such that it exposes the banking corporation to risk, which will be considered as cooperating with the customer for the purpose of bypassing foreign legislation, which applies to the customer.

The circular stipulates transitional provisions regarding existing accounts, according to which the banking corporation is obliged to complete the necessary actions with regard to existing accounts which it classifies as customers at high risk by 31 December 2015, and with regard to existing accounts by 31 December 2016.

Regulations resulting from the recommendations of the Committee to Examine the 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.

- **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.

- **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.

- **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.

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 sets forth the threshold provisions for establishing banking associations in Israel, and the stages required for their establishment.

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.

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 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 "Credit Risk, Group of Borrowers".

Amendment to Proper Conduct of Banking Business Regulation No. 411 – Prevention of Money Laundering and Financing of Terrorism and Customer Identification

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 the outline of principles published on 4 August 2014 by the Israel Securities Authority and the Banking Supervision Department. This involves an outline which enables 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.

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.

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".

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.

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 letter regarding the expansion of the distribution of debit cards, the Banking Supervision Department made stipulations regarding an increase in 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 in its remuneration agreements its ability to require a key employee to repay variable remuneration paid to him, and take all reasonable steps to return the actual remuneration, except 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 entities. 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 announced 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.

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.

Initiated Marketing of Retail Loans

On 17 November 2015, the Banking Supervision Department published a letter on the topic of initiated marketing of retail loans, to replace previous letters published on the topic.

In light of the substantial increase in the volume of retail loans, and in order to ensure that the loans offered meet the needs of the customer, the banking corporation were requested to set policy, procedures and processes connected with an initiated application for the extension of a loan to retail customers, and to ensure that the process of initiated application for extending a loan as aforesaid is organized and detailed.

Among other things, the banking corporations were requested to define specific, clear and compartmentalized target populations, determine appropriate conversation scenarios, establish the method of application to the customer, including adapting the means of marketing to the characteristics of the target population and document the application to the customer.

The Bank transferred the policy and procedures on this matter to the Banking Supervision Department as required.

Branch Closures and Reduction in the Number of Teller Positions in the Bank – Providing a Solution to the Range of Customers

On 6 December 2015, the Banking Supervision Department published a letter on the topic of branch closures and a reduction in the number of teller positions in the banks – providing a solution to the range of customers. The letter clarifies that the Banking Supervision Department supports the trend of increasing the use of online and technological means for providing banking services, which result in an immediate and significant lowering of the cost to the customers and to an improvement in the service and convenience in the consumption of banking services for most of the public population of the banks. This process represents a part of a worldwide trend, in the context of which the customers are starting to use the many technological means at their disposal, and, simultaneously, as a consequence, less and less needing to attend a branch of the bank in order to execute the transactions that they require.

The banking corporations are required to formulate branch policy for the coming years. Banks which plan to contract the number of branches and tellers are required to devise policy which will provide solutions for customers who are affected by the branch closures and those who find it difficult to adapt to the new technologies.

Material directives of the Bank of Israel published after the reporting period

Letter on the operational streamlining of the banking system in Israel

On 12 January 2016, the Banking Supervision Department published a letter of directives on operational streamlining of the banking system in Israel. According to the letter, the board of directors of a banking corporation is required to outline a multi-year streamlining program. The program will determine specific actions over the next five years, as well as the streamlining principles over the longer term. The program will include well-defined interim targets, with a frequency of at least annually and means of monitoring and supervising for the board of directors of compliance with the programs and the interim targets.

In addition, the letter clarified that the Banking Supervision Department intends to specify a periodic reporting format on the subject.

The Banking Supervision Department will take steps to encourage streamlining programs, including reliefs on the subject of the capital adequacy requirements for banks which specify significantly long-term streamlining programs, subject to meeting the conditions set forth in the letter. The letter also provides clarifications regarding the accounting treatment of the aforesaid streamlining program.

Risk Management involved in the operation of a Voluntary Disclosure Plan in Israel

On 26 January 2016, the Bank of Israel published a letter regarding the management of risks involved in the operation of a voluntary disclosure program in Israel. The letter was published as a result of a procedure published by the Israel Tax Authority in September 2014, regarding the procedure of voluntary disclosure of income which was not reported and of tax thereon which was not paid. The procedure enables taxpayers to apply to the tax authority and report their income, declaring that the source of the income is an illicit activity. The approval of the request by the tax authority accords the tax payer immunity from criminal prosecution in respect of tax evasion but not from indictment in respect of committing other offenses. The Bank of Israel letter was published in light of the fear that customers are liable to abuse the abovementioned procedure of the tax authority, in order to transfer monies originating in criminal offenses by way of presenting an approval from the tax authority for the monies and the utilization of lack of understanding as regards the nature of the approval. Set out in the letter are principles which banking corporations are obliged to implement in order to mitigate the risks of money laundering and financing of terrorism involved in operating a voluntary disclosure program.

Material drafts of the Bank of Israel published in the reporting period

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.

Measures to increase competition in the clearing market and to encourage the entry of new entities to the ownership of clearing agencies and credit card companies

On 17 November 2015, the Banking Supervision Department published a draft update and relief of policy for licensing a clearing agency and updating the criteria and general conditions for an applicant for a permit to control and hold the means of control in a clearing agent. This measure is intended to encourage the entry of additional players to the activity of clearing and support competition in the field of credit cards. The new policy, after it comes into effect, will be used to examine the grant of a license to new clearing agents and the grant of a control permit to new non-credit card company clearing agents. The criteria established will be used for examining and approving investors who express an interest in purchasing the credit card companies, if and when a decision is made, which will be enshrined in legislation, to compel the separation from the banks.

The aforementioned draft includes a change in policy that improves the efficiency of the licensing process and significantly eases the requirements of an applicant for a clearing license, including moves to remove technological barriers, reliefs regarding ownership structure in a clearing agent or a credit card company and reliefs in the "financial solidity" requirement from the controller of a clearing agent.

Draft Proper Conduct of Banking Business Regulation regarding clearing agents and the clearing of debit card transactions

On 20 December 2015, the Banking Supervision Department published a draft Proper Conduct of Banking Business Regulation regarding clearing agents and the clearing of debit card transactions. This directive relates for the first time exclusively to financial entities whose main business is the clearing of debit card transactions. The directive relieves some of the regulatory requirements imposed till today on the credit card companies and the clearing agents, in that it gives relief from the capital requirements from the clearing agents. In addition, the directive discusses the following areas: protection of monies in clearing, the management of merchants' accounts, the relationship between a clearing agent and a merchant, the transfer of monies in immediate debit transactions; the use of the EMV standard, a mechanism for diverting responsibility and the rental of terminal and summary of the Proper Conduct of Banking Management Regulations which are applicable to clearing agents.

Pursuant to the establishment of the directive, the relevant sections applicable to clearing agents were transferred from Proper Conduct of Banking Management Regulation No. 470 – Debit Cards – to this directive.

Material drafts of the Bank of Israel published after the reporting period

Amendments expected in the directives on commissions

On 24 January 2015, the Banking Supervision Department informed the banks that it intended to amend the directives regarding commissions, in the following areas:

- An amendment to the Commission Rules, such that the banks will be required to include all of the accounts of the elderly and disabled customers in the basic track, so that this will be the default, while giving advance notice of the fact;
- The imposition of a commission in respect of "generating a report at the customer's request – standard reports", such that the rate may not exceed NIS 15;
- An amendment to the Commission Rules, such that the commission in respect of a change in the repayment date of a housing loan will be reduced to a price of one transaction by a clerk.
- The imposition of a supervision on the "purchase/sale/redemption of Israeli shares and debentures" commission, such that the rate will not exceed 0.4%.

In addition, the Banking Supervision Department notified the banks of its intention in 2016 to scrutinize commission tariffs of banking corporations in respect of the banking services for households and small businesses, with the aim of identifying excessive commissions and take steps to reduce them.

Expected amendments to the directives regarding online banking

On 31 January 2016, the Banking Supervision Department notified the banks that it intended to amend the directives regarding online banking in the following areas:

- Opening an account remotely without physically attending the branch, and without restrictions imposed on an account which is opened in this way;
- Enrolling for online banking services via the Internet;
- Expanding the types of agreement for which the customer's signature at the branch is not a requirement;
- A customer who enrolls for online banking services will be able to make transactions and payments to a third party on the Internet and specify fixed beneficiaries in his account without the need to attend the branch as has been the requirement until now;
- The restrictions that have been imposed until now as regards ceilings for the amounts of transfers by the customers to unlisted beneficiaries will be removed;
- A customer who enrolls for online banking services will be able to update details in his account (for example, family name and address) and also obtain a preliminary password and release a blocked password via the Internet without the need to attend a branch;
- A customer will be able to obtain summary information services from any financial entity in which he has an account. The customer may choose the bank in which he wishes the information to be summarized.
- A customer who so chooses will be able to receive most of the notices via online banking. The bank will be able to offer the customer the option of receiving warnings which will assist him in managing his account via a mobile telephone (SMS text messages) or by e-mail, such as warnings of expected overdrawing the credit facility, etc.

Alongside these reliefs, the Banking Supervision Department intends to impose on the banks responsibility for the management of the risks inherent in expanding remote banking activity and protection of the information.

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 governed 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 circular was published updating Appendix D to the abovementioned circular – Interface of Events in the Fields 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 obligation 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.

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 6 August 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 options 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.

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, 2005 ("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 amendment to the law also included 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.

Amendment to the Supervision of Financial Services Law (Advice, Marketing and Pension Clearing System), 2005 (Amendment No. 6)

Pursuant to the proposed Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), 2015, on 30 November 2015, amendments to the Supervision of Financial Services Law (Advice, Marketing and Pension Clearing System), 2005 were published, pursuant to which it was provided, *inter alia*, that for the purpose of the following transactions, pension advice or pension marketing will not be required:

- 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, unless the customer complies with one of the following: the customer is an active insured person in a veteran fund, the customer is an active insured person in an insurance fund, the performance of the transaction will include exclusions due to the poor health of the customer, other conditions are fulfilled to be determined by the Supervisor.
- 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.
- Executing a transaction in a pension product by an institutional entity by virtue of a legal duty.

Amendment to Supervision of Financial Services (Provident Funds) (Amendment No. 14)

Pursuant to the proposed Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), on 30 November 2015, amendments to the Supervision of Financial Services (Provident Funds), 2005, were published, in the context of which directives were provided granting an employee the right to choose, at any time, a license holder for the provision of pension marketing, pension counseling or making transactions in a provident fund. It was also provided that the employee's employer will not condition the deposit of monies to the provident fund for the employee or the grant of another benefit to the employee, if a particular license holder gives the aforesaid employee pension marketing or pension counseling or makes other transactions in the provident fund.

Draft circular of engagement of institutional entity with license holder

On 20 December 2015, the Supervisor published an amended draft to the circular of engagement of institutional entity with a license holder. The object of the amendment is to provide directives regarding the debts applicable to license holders as part of the transfer of a policyholder or his employer to institutional entities.

Additional directives and topics

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.

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

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

Draft 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 "Principal Investee Companies". As long as it is not clear whether the aforesaid provision will become law, the Bank does not intend to sell Leumi CMS.

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 Authority 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 related to foreign public officials and report them to the Authority.

Consortium arrangements for the provision of credit

On 31 December 2015, the Antitrust Authority published an updated letter to the manager of the banking corporations and the institution entities, setting out the conditions by which the Authority does not intend to enforce the provisions of the Antitrust Law on a consortium for the provision of credit to which the parties are banking corporations or institutional entities or similar entities which are incorporated outside Israel.

In the letter, it is stipulated that a transaction for shared credit to which Bank Leumi and Bank Hapoalim are connected will require individual approval from the Antitrust Authority.

Other important conditions included in the letter: Joining in a credit consortium and contacts in preparation for joining must be made after written consent of the customer on a separate form; the customer will be given the opportunity to negotiate the terms of the credit provision with any of the parties combining in the consortium, including through another person on its behalf; the parties will maintain a record which will include all of the data set forth in the letter.

The letter is effective for one year from the date of its publication.

Memorandum of Supervision of Financial Services (Provident Funds) Law (Amendment).2016

On 27 January 2016, a memorandum of Supervision of Financial Services (Provident Funds) Law (Amendment), 2016 was published. Pursuant to the memorandum, it is proposed, *inter alia*, to allow managing companies of provident funds to set an additional savings products, called an "investment provident fund". The monies in the investment provident fund will be liquid and the saver will be able to withdraw them at any time without any tax benefit. In addition, it is proposed to provide that monies deposited in an investment provident fund will be exempt from capital gains tax, if the member decides to withdraw them in an allowance and that the allowance will be tax-exempt.

Offer of units of overseas funds to the Israeli public.

On 9 February 2016, the Knesset Financial Committee approved regulations governing the activity of overseas funds in Israel, further to Amendment No. 23 to the Joint Investment in Trust Law, 1994, pursuant to which Chapter J1 regarding the offer of units of overseas funds to the Israeli public was added to the law.

In addition, on 16 February 2016, the Securities Authority published a circular regarding the duties of a license holder in connection with the entry of foreign funds to the Israeli market.

The regulations outline the conditions that will apply to the fund managers of the funds themselves, and they take into account, *inter alia*, the distribution committee to be paid by the fund managers to the banks.

The amendments are intended to increase competition in the fund sector and open the investment market abroad to Israeli investors, at the same time, determining mechanisms which are intended as hedging for the investing public.

Joint notice to the Bank of Israel and the Ministry of Finance on the matter of the regulatory reliefs of the Banking Supervision Department for "Price to the New Household" projects

On 14 February 2016, a joint notice of the Bank of Israel and the Ministry of Finance was published. Pursuant to the notice, which was intended to support the ability of eligible persons to take part in "Price to the New Household" projects, the Bank of Israel decided that the extent of the mortgage to eligible persons in the "Price to New Household" projects will be determined at the fair value of the apartment (by means of an assessors valuation) and not according to its actual purchase price, providing the shareholders' equity of the purchaser is not less than NIS 100 thousand and the value of the apartment does not exceed NIS 1.8 million.

It was further announced that the Ministry of Finance will take steps to remove blocks connected with these apartments, and would enable the banks to sell the apartments of the eligible persons on the open market without additional restrictions, if these do not meet the mortgage payments.

Public committees

Interim Report of the Inter-Ministerial Committee for the Promotion of the Use of Advanced Means of Payment

On 29 November 2015, the Inter-Ministerial Committee for the Promotion of the Use of Advanced Payment Means published an interim report for the comments of the public. The committee was set up in 2014, further to the recommendations of the Locker Committee for the Reduction of the Use of Cash in the Israeli economy, with the aim of regulating the area of advance payment means in aspects of data security, money laundering and the financing of terrorism, business continuity, competition, stability and efficiency, in a way that would encourage the Israeli public to expand the use of advanced payment means.

As part of the committee's work, advanced payment means and various solutions connected to the use of advanced payment means were examined, inter alia, digital cheques, electronic wallets, payments by mobile phone and payments online.

The following are the main recommendations:

- To set up a central clearing infrastructure and national communication infrastructure for making payments using advanced means;
- To formulate a memorandum of a law for the settlement of payment services, payment account and clearing and issue services;
- To adapt the existing legal infrastructure to activity using advanced payment means;

- To advance point-of-sale (POS) payment terminals – infrastructure which will enable the execution of "contact-less" transactions;
- To examine the chain of executing a transaction with a digital cheque;
- To promote consumer education and create consumer trust in advanced payment means.

The committee was of the opinion that the use of advanced payment means in the payment system in Israel should be promoted in a combined process including the arrangement of the legal infrastructure, the technological infrastructure and the computer infrastructure. This includes, *inter alia*, arranging the legal basis for activity in the area of advanced payment means and the establishment of a new retail payment system for fast clearing of payments through advanced payment means, including a secure national communication infrastructure.

Interim Report of the Committee for Increasing Competition in Common Banking and Financial Services in Israel

On 3 June 2015, the Minister of Finance appointed the Committee for Increasing Competition in Common Banking and Financial Services (Strum Committee). The member bodies in the committee include the Ministry of Finance, the Bank of Israel, the Antitrust Authority and representatives of the public. On 14 December 2015, the committee published its interim report and on 6 January 2016, a further version of the report was published. The main recommendations of the committee in the interim report were as follows:

- The separation of the two credit card companies from the major banks (the sale of control within two years), providing the separated companies with infant industry protection;
- Prohibition on the issue of credit cards by the two major banks (currently, most of the cards are bank card issued by the banks, i.e. the credit in the card is provided by the bank) for a period of four years, commencing the date of transferring actual control in the credit card companies to a non-bank entity;
- A target for reducing the interchange commission in respect of credit card clearing to the level generally accepted in Europe (a reduction of more than 50% compared to what is usual today);
- The separated credit card companies will be entitled to use the information in their possession deriving from the operation of the issue and from the clearing executed till now. The transfer of additional information will be subject to the customer's consent;
- Determining a regulatory level relieves entities which are not engaged in raising deposits, which will make it easier for new entities to compete with the banks in the provision of credit, particularly retail and credit to small businesses;
- Devising technological tools for the consumer (data services and initiation of transactions) that will facilitate the simple price comparisons);
- Providing insurance for deposits placed in the banks;
- Determining the right of the customer to create an additional lien for the purpose of receiving credit from another financing entity, so prohibiting the bank holding the existing lien, to condition the customer's right to pledge an additional lien;
- Completing the regulation that will apply to non-bank finance companies (including P2P), Regulated companies will be able to be connected to the payment systems;
- Regulation for payment services, in accordance with the principles generally accepted around the world, with adaptation to the domestic market, and determining the terms for accessing the controlled payments systems.
- Establishing a committee which will monitor the implementation of the recommendations, and recommend further measures as necessary.

The implementation of the abovementioned recommendations will compel the Bank to sell its holdings in Leumi Card. Full implementation of the recommendation is liable to result in significant impairment in the Bank's sources of income, as well as, the creation of inferiority due to the regulatory provisions vis-à-vis competitors with some of the areas of activity.

It should be emphasized that during the committee's work, a number of central points of dispute were discovered between the Bank of Israel and the Ministry of Finance, particularly in all matters related to providing banks with an opportunity to issue new credit cards, and related to the identity of the factors that will regulate the new credit market to be set up.

Taxation

Company tax

The rates of company tax relevant to the Bank in 2013-2015:

2013 – 25.0%

2014 – 26.5%

2015 – 26.5%

On 5 January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216), 2016, was published, reducing the company tax from 26.5% to 25%, with effect from 2016 and thereafter.

The aforesaid change in the company tax rate and the change in profit tax as detailed below reduced the historical tax rate applicable to financial entities from 37.71% in 2014 to 37.58% in 2015 and to a statutory tax rate of 35.9% from 2016 and thereafter.

The change in the company tax rate is expected to result in a reduction in the balance of net deferred taxes receivable amounting to NIS 145 million in the first quarter of 2016. The reduction in the balance of deferred taxes will be recognized against deferred tax expenses amounting to NIS 117 million, and against capital, amounting to NIS 28 million.

Value added tax, profit tax and national insurance

On 2 June 2013, Value Added Tax Order (Tax Rate on Non-Profit Associations and Financial Institutions) (Amendment), 2013, was published, updating the rate of salary tax and profit tax, such that from 2 June 2013, it will stand at 18%. As a result of the said change, the statutory tax rate which applies to financial institutions increased in 2013 to 36.21%, and in 2014 and thereafter, it increased to 37.71%.

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% to 37.58% in 2015 and to 35.9% 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 resulted in a decrease in the balance of net deferred receivable taxes, amounting to NIS 61 million in the fourth quarter of 2015. The decrease in the balance of deferred taxes was recognized against deferred taxes amounting to NIS 49 million and against capital of NIS 12 million.

The effect of the decrease in payroll tax reduced the balance of liabilities to employees in the fourth quarter of 2015 by NIS 65 million before tax and NIS 41 million after tax.

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

Current taxes for the periods reported in these financial statements are calculated according to the tax rates as determined in the above mentioned laws.

The balances of deferred taxes as at 31 December 2015 have been calculated according to the tax rates as determined in the above mentioned laws and published by 31 December 2015, in accordance with the expected rate of tax at the date of reversal. The expected statutory rate of tax at the date of reversal in 2016 and thereafter that will apply to financial institutions and according to which deferred taxes were calculated is 37.18% which weights the rate of company tax of 26.5% and the rate of profit tax of 17%, pursuant to the applicable laws at 31 December 2015.

National Insurance

On 13 August 2012, the Deficit Reduction and Change in Tax Burden Law (Legislative Amendments), 2012 (hereinafter "the Law"), was published. Pursuant to the Law, with effect from January 2013, the rate of national insurance contributions collected from employers in respect of the portion of the salary exceeding 60% of the average salary in the economy increased from 5.9% to 6.5%. In addition, it was provided that this rate would increase to 7% and 7.5% in January 2014 and January 2015, respectively. However, on 27 January 2014, the Reduction of the Deficit and Change in the Tax Burden (Legislative Amendments) (Amendment), 2014, was published according to which the rate of insurance fees collected from employers in respect of the part of salary exceeding 60% of the average salary in the market, would be updated in January 2014, January 2015 and January 2016 to 6.75%, 7.25% and 7.5%, respectively.

Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), 2015

On 30 November 2015, the Economic Program Law (Legislative Amendments for the Implementation of the Economic Policy for the Budget Years 2015 and 2016), 2015 was published, including, *inter alia*, the following changes:

- Expanding the duty of online reporting for income tax (annual report for companies, capital gain), VAT, taxation of land and national insurance.
- Extending the period of obsolescence of income tax assessments from three years to four years (in effect with regard to tax returns for tax year 2013 and thereafter).
- Providing the assessing officer with the opportunity of making partial assessments with regard to one or more subjects from a tax return. It is possible to make a partial assessment once only with regard to that tax year (in affect with regard to tax returns for tax year 2013 and thereafter).
- Reducing the ceiling for tax benefits on pension deposits to two-and-a-half times the average salary, instead of four-times the average salary in the economy (with effect from 1 January 2016).

Law for the Amendment of the Income Tax Ordinance (No. 207), 2015

On 26 November 2015, Amendment No. 207 to the Income Tax Ordinance was published, regulating the exchange of information between the Israel Tax Authority and tax enforcement institutions in foreign countries. The transfer of information will be done in accordance with exchange of information agreements or tax treaties between the State of Israel and a foreign country, providing all of the following conditions are met:

- The information is required by the foreign country for the purposes of enforcing its tax laws.
- The tax authority was authorized to use that information for the purpose of enforcing a tax law.
- In the agreement, it is provided that the foreign country is obliged to retain confidentiality and security of the information.

The law provides conditions and restrictions with regard to the transfer of the information.

The law is in effect from 1 January 2016.

Tax Benefits and Tax Counseling (Legislative Amendments) Law, 2015

On 9 December 2015, the Tax Benefits and Tax Counseling (Legislative Amendments) Law, 2015, was published. The law imposes on taxpayers a duty to report due to a written opinion, signed by the person who renders the opinion, given directly or indirectly, to a person and enabling or intended to enable a tax advantage, providing either of the following applies:

1. His fee in respect thereof, in whole or in part, is dependent on the amount of the tax advantage that will accrue to the taxpayer, and the amount of the fee amounts to at least NIS 100 thousand.

2. It is a shelf plan.

The law defines a "tax advantage" and a "shelf plan".

In addition, the law defines a "position liable to report" as a position standing in contrast to a position published by the tax authority up to the end of the tax year in respect of which the report is filed, and which the tax advantage deriving therefrom exceeds NIS 5 million in that tax year or NIS 10 million in the four tax years at the most (With regard to VAT, NIS 2 million or NIS 5 million, respectively).

The law defined the method and timing of the reporting required, as well as restrictions on their application.

As regards income tax, the law will apply to an opinion to be rendered with effect from 1 January 2016, and with regard to a position liable to report to be brought in the tax return for 2016 and thereafter.

As regards VAT, the law will apply regarding to the report due to be submitted from 1 February 2016 and thereafter.

International regulations

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

Proposed Law to amend the Income Tax Ordinance (Amendment No. 221) 2016 regarding the implementation of the FATCA agreement and Exchange of Information Agreements between Israel and the OECD countries

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 standard – with regard to the standard, see details below), on 10 February 2016, a proposed amendment to of the Income Tax Law 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 with 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 with 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 they manage.
- Transitional provisions were provided including relief as regards the monetary sanctions in respect of a breach of the financial institution.
- 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.

  For further information, see Law for the Amendment of the Income Tax Ordinance (Amendment No. 207), 2015.
- 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.

The law will become effective on the date the regulations amended according to this law are published

The proposed law was approved on 22 February 2016 in a first reading in the Knesset.

Standard for the Automatic Exchange of Information (CRS) of the OECD

The OECD organization has published a standard for the implementation of uniform reporting for the automatic exchange of information with regard to financial accounts between countries (hereinafter "the standard"). This standard is constructed in the spirit of the U.S. FATCA and is intended to increase transparency and supervision of tax reporting for residents of the OECD countries. The model was approved in principle by the G-20 Committee in September 2013. On 21 July 2014, the OECD published a guide for implementation of the standard.

The reporting standard is composed of two parts:

1. The Common Reporting Standard (CRS) model, which imposes a duty of identification and reporting on financial institutions with regard to reportable financial accounts held by them. The model prescribes the financial institutions which are required to report, the types of account that are required to be reported, the type of information to be furnished and the procedures for examining fairness which the financial institutions are obliged to apply.
2. The Competent Authority Agreement (CAA) model – a model which constitutes the basis for the legal agreements to be signed between the various countries for the purpose of exchanging information to be received from the financial institutions.

As of date, more than 90 countries have undertaken to adopt the standard, with 60 countries having undertaken early adoption of the standard. (The commencement of the application for them will be 1 January 2016, and initial reporting in September 2017.) Israel is not among those opting for early adoption. In October 2014, the Ministry of Finance announced that "Israel will adopt the procedure of automatic exchange of information about financial accounts for tax purposes by the end of 2018".

On 24 November 2015, Israel joined the multilateral treaty regarding mutual administrative assistance in tax matters. Israel is the 91st country to join the treaty. A signature on the treaty constitutes an additional and important step towards the adoption of the CRS standard in Israel and a reinforcement of Israel's status as operating to improve global transparency for tax purposes.

For the purpose of implementing the standard, the Government is expected to prepare the necessary legislative amendments which will authorize the Ministry of Finance to sign the agreements with the other countries, to require the financial entities to transfer the information to tax authorities, and to transfer the information to the relevant countries.

Leumi is continuing 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.

Credit Rating

The table below shows the credit ratings of Israel and of the Bank on 18 February 2016:

	Rating agency	Long-term rating	Outlook	Short-term rating
State of Israel	Moody's	A1	stable	P-1
	S&P	A+	stable	A-1
	Fitch	A	stable	F1
Leumi: Foreign currency	Moody's	A2	stable	P-1
	S&P	A-	stable	A-2
	Fitch	A-	stable	F1
Leumi: Local currency	S&P 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 the rating of the State of Israel.

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

On 7 October 2015, Fitch Credit Rating Agency affirmed 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 rating 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.

On 5 February 2016, S&P International Credit Rating Agency affirmed the rating of the State of Israel.

David Brodet
Chairman of the Board of Directors

Rakefet Russak-Aminoach
President and Chief Executive Officer

Rates of income and expenses[(a)] and analysis of changes in interest income and expenses

Part A – Average balances and interest rates - assets

	2015			2014 (j)			2013 (j)		
	Average balance (b)	**Interest income**	**Rate of income**	Average balance (b)	Interest income	Rate of income	Average balance (b)	Interest income	Rate of income
	NIS millions		%	NIS millions		%	NIS millions		%
Interest-bearing assets									
Credit to the public (c)									
In Israel	**229,093**	**7,265**	**3.17**	216,805	8,108	3.74	209,967	9,700	4.62
Outside Israel	**23,069**	**905**	**3.92**	23,025	945	4.10	25,799	978	3.79
Total (i)	**252,162**	**8,170**	**3.24**	239,830	9,053	3.77	235,766	10,678	4.53
Credit to the government									
In Israel	**448**	**15**	**3.35**	464	18	3.88	453	23	5.08
Outside Israel	**13**	**-**	**-**	42	-	-	24	-	-
Total	**461**	**15**	**3.25**	506	18	3.56	477	23	4.82
Deposits in banks									
In Israel	**9,654**	**56**	**0.58**	8,387	57	0.68	7,182	62	0.86
Outside Israel	**987**	**14**	**1.42**	1,518	25	1.65	2,403	13	0.54
Total	**10,641**	**70**	**0.66**	9,905	82	0.83	9,585	75	0.78
Deposits in central banks									
In Israel	**27,544**	**35**	**0.13**	24,651	136	0.55	21,638	309	1.43
Outside Israel	**4,642**	**4**	**0.09**	5,376	10	0.19	4,343	7	0.16
Total	**32,186**	**39**	**0.12**	30,027	146	0.49	25,981	316	1.22
Securities borrowed or purchased under resale agreements									
In Israel	**1,732**	**3**	**0.17**	1,668	11	0.66	1,362	20	1.47
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**1,732**	**3**	**0.17**	1,668	11	0.66	1,362	20	1.47
Bonds available for sale (d)									
In Israel	**42,997**	**326**	**0.76**	35,451	517	1.46	41,254	771	1.87
Outside Israel	**4,581**	**73**	**1.59**	4,473	76	1.70	3,940	43	1.09
Total	**47,578**	**399**	**0.84**	39,924	593	1.49	45,194	814	1.80
Bonds for trading (d)									
In Israel	**11,330**	**83**	**0.73**	10,249	106	1.03	9,742	206	2.11
Outside Israel	**304**	**5**	**1.64**	166	3	1.81	314	2	0.64
Total	**11,634**	**88**	**0.76**	10,415	109	1.05	10,056	208	2.07
Total interest-bearing assets	**356,394**	**8,784**	**2.46**	332,275	10,012	3.01	328,421	12,134	3.69
Receivables for non-interest bearing credit cards	**7,412**			7,396			7,037		
Other non-interest bearing assets (e)	**45,260**			38,067			30,706		
Total assets	**409,066**	**8,784**		377,738	10,012		366,164	12,134	
Total income-bearing assets attributable to activity outside Israel	**33,596**	**1,001**	**2.98**	34,600	1,059	3.06	36,823	1,043	2.83

See notes on page 499 below.

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

	2015			2014			2013		
	Average balance (b)	**Interest expenses**	**Rate of expenses**	Average balance (b)	Interest expenses	Rate of expenses	Average balance (b)	Interest expenses	Rate of expenses
	(NIS millions)		%	(NIS millions)		%	(NIS millions)		%
Interest- bearing liabilities									
Deposits of the public									
In Israel	**221,889**	**(821)**	**(0.37)**	210,458	(1,447)	(0.69)	212,077	(2,974)	(1.40)
On demand	**58,908**	**(13)**	**(0.02)**	48,914	(63)	(0.13)	41,228	(195)	(0.47)
Fixed term	**162,981**	**(808)**	**(0.50)**	161,544	(1,384)	(0.86)	170,849	(2,779)	(1.63)
Outside Israel	**16,570**	**(124)**	**(0.75)**	16,479	(138)	(0.84)	17,876	(175)	(0.98)
On demand	**2,943**	**(7)**	**(0.24)**	2,779	(7)	(0.25)	2,923	(11)	(0.38)
Fixed term	**13,627**	**(117)**	**(0.86)**	13,700	(131)	(0.96)	14,953	(164)	(1.10)
Total	**238,459**	**(945)**	**(0.40)**	226,937	(1,585)	(0.70)	229,953	(3,149)	(1.37)
Deposits of the government									
In Israel	**149**	**(4)**	**(2.68)**	144	(6)	(4.17)	224	(8)	(3.57)
Outside Israel	**421**	**-**	**-**	245	-	-	233	-	-
Total	**570**	**(4)**	**(0.70)**	389	(6)	(1.54)	457	(8)	(1.75)
Deposits from central banks									
In Israel	**-**	**-**	**-**	61	-	-	-	-	-
Outside Israel	**-**	**-**	**-**	-	-	-	-	-	-
Total	**-**	**-**	**-**	61	-	-	-	-	-
Deposits from banks									
In Israel	**5,100**	**(11)**	**(0.22)**	4,147	(26)	(0.63)	3,256	(35)	(1.07)
Outside Israel	**40**	**(3)**	**(7.50)**	94	(20)	(21.28)	195	(2)	(1.03)
Total	**5,140**	**(14)**	**(0.27)**	4,241	(46)	(1.08)	3,451	(37)	(1.07)
Securities lent or sold under resale agreements									
In Israel	**958**	**(3)**	**(0.31)**	876	(9)	(1.03)	728	(13)	(1.79)
Outside Israel	**-**	**-**	**-**	-	-	-	28	(1)	(3.57)
Total	**958**	**(3)**	**(0.31)**	876	(9)	(1.03)	756	(14)	(1.85)
Bonds									
In Israel	**21,193**	**(700)**	**(3.30)**	24,503	(1,003)	(4.09)	26,884	(1,568)	(5.83)
Outside Israel	**2**	**-**	**-**	10	-	-	10	(1)	(10.00)
Total	**21,195**	**(700)**	**(3.30)**	24,513	(1,003)	(4.09)	26,894	(1,569)	(5.83)
Total interest-bearing liabilities	**266,322**	**(1,666)**	**(0.63)**	257,017	(2,649)	(1.03)	261,511	(4,777)	(1.83)
Non-interest bearing deposits of the public	**76,278**			59,070			47,890		
Payables for non-interest bearing credit cards	**8,221**			8,009			7,565		
Other non-interest bearing liabilities (f)	**30,636**			26,339			23,849		
Total liabilities	**381,457**	**(1,666)**		350,435	(2,649)		340,815	(4,777)	
Total capital means	**27,609**			27,221			25,349		
Total liabilities and capital means	**409,066**	**(1,666)**		377,656	(2,649)		366,164	(4,777)	
Interest margin		**7,118**	**1.84**		7,363	1.98		7,357	1.87
Net yield (g) on interest-bearing assets									-
In Israel	**322,798**	**6,244**	**1.93**	297,675	6,462	2.17	291,598	6,493	2.23
Outside Israel	**33,596**	**874**	**2.60**	34,600	901	2.60	36,823	864	2.35
Total	**356,394**	**7,118**	**2.00**	332,275	7,363	2.22	328,421	7,357	2.24
Total interest-bearing liabilities attributable to activity outside Israel	**17,033**	**(127)**	**(0.75)**	16,828	(158)	(0.94)	18,342	(179)	(0.98)

See notes on page 499 below.

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

	2015			2014			2013		
	Average balance (b)	**Interest income (expenses)**	**Rate of income (expenses)**	Average balance (b)	Interest income (expenses)	Rate of income (expenses)	Average balance (b)	Interest income (expenses)	Rate of income (expenses)
	(NIS millions)		%	(NIS millions)		%	(NIS millions)		%
Index-linked Israeli currency									
Total interest-bearing assets	**52,685**	**1,294**	**2.46**	56,436	1,890	3.35	59,223	3,206	5.41
Total interest-bearing liabilities	**42,457**	**(858)**	**(2.02)**	48,374	(1,418)	(2.93)	49,671	(2,580)	(5.19)
Interest margin			**0.44**			0.42			0.22
Unlinked Israeli									
Total interest-bearing assets	**222,907**	**5,648**	**2.53**	200,542	6,178	3.08	189,342	6,976	3.68
Total interest-bearing liabilities	**169,900**	**(503)**	**(0.30)**	152,607	(906)	(0.59)	145,862	(1,752)	(1.20)
Interest margin			**2.23**			2.49			2.48
Foreign currency									
Total interest-bearing assets	**47,206**	**841**	**1.78**	40,697	885	2.17	43,033	909	2.11
Total interest-bearing liabilities	**36,932**	**(178)**	**(0.48)**	39,208	(167)	(0.43)	47,636	(266)	(0.56)
Interest margin			**1.30**			1.74			1.55
Total activity in Israel									
Total interest-bearing assets	**322,798**	**7,783**	**2.41**	297,675	8,953	3.01	291,598	11,091	3.80
Total interest-bearing liabilities	**249,289**	**(1,539)**	**(0.62)**	240,189	(2,491)	(1.04)	243,169	(4,598)	(1.89)
Interest margin			**1.79**			1.97			1.91

See notes on page 499 below.

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

	2015 compared to 2014			2014 compared to 2013 (j)		
	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	**390**	**(1,233)**	**(843)**	256	(1,848)	(1,592)
Outside Israel	**2**	**(42)**	**(40)**	(114)	81	(33)
Total	**392**	**(1,275)**	**(883)**	142	(1,767)	(1,625)
Other interest-bearing assets						
In Israel	**71**	**(398)**	**(327)**	(8)	(538)	(546)
Outside Israel	**(10)**	**(8)**	**(18)**	5	44	49
Total	**61**	**(406)**	**(345)**	(3)	(494)	(497)
Total interest income	**453**	**(1,681)**	**(1,228)**	139	(2,261)	(2,122)
Interest-bearing liabilities						
Deposits of the public						
In Israel	**42**	**(668)**	**(626)**	(11)	(1,516)	(1,527)
Outside Israel	**1**	**(15)**	**(14)**	(12)	(25)	(37)
Total	**43**	**(683)**	**(640)**	(23)	(1,541)	(1,564)
Other interest-bearing liabilities						
In Israel	**(61)**	**(265)**	**(326)**	(48)	(532)	(580)
Outside Israel	**1**	**(18)**	**(17)**	(7)	23	16
Total	**(60)**	**(283)**	**(343)**	(55)	(509)	(564)
Total interest expenses	**(17)**	**(966)**	**(983)**	(78)	(2,050)	(2,128)

See notes on page 499 below.

Notes:

(a) The data in these tables are after the effect of derivative instruments.
(b) Based on monthly opening balances, except for the unlinked Israeli currency sector in which the average balance is based on daily figures, and before deduction of the average book balance of allowances for credit losses, overseas subsidiaries on the basis of quarterly opening balances.
(c) Before deduction of the average balance of allowances for credit losses. Including impaired debts not accruing interest income.
(d) From the average balance of the assets there has been deducted (added) the average balance of unrealized profits (losses) from adjustments to fair value of debentures held for trading and available for sale, in the various sectors, the amount of NIS 490 million (31 December 2014 – NIS 428 million).
(e) Including book balances of derivative instruments, other non-interest bearing assets, non-monetary assets and after deducting the allowance for credit losses.
(f) Including book balances of derivative instruments, and non-monetary liabilities.
(g) Net return – net interest income divided by total interest-bearing assets.
(h) The calculation of the allocation between a change in amount and a change in price is made as follows: change in price - the change in price is multiplied by the book balance for the corresponding period; change in amount – the change in book balance is multiplied by the price for the current period.
(i) Commissions in the amount of NIS 363 million were included in interest income from credit to the public (31 December 2014 – NIS 487 million).
(j) Reclassified.

Quarterly Consolidated Statements of Profit and Loss – Multi-Quarter Data

	2015				2014			
	4	3	2	1	4	3	2	1
	(NIS millions)							
Interest income	**2,001**	**2,463**	**2,818**	**1,502**	2,334	2,665	2,812	2,201
Interest expenses	**274**	**588**	**818**	**(14)**	532	766	907	444
Interest income, net	**1,727**	**1,875**	**2,000**	**1,516**	1,802	1,899	1,905	1,757
Expenses (income) in respect of credit losses	**33**	**73**	**12**	**81**	483	56	(16)	(51)
expenses in respect of credit losses	**1,694**	**1,802**	**1,988**	**1,435**	1,319	1,843	1,921	1,808
Non-interest income								
Non-interest financing income	**71**	**325**	**(105)**	**1,319**	76	224	172	323
Commissions	**993**	**1,013**	**1,035**	**1,051**	1,054	1,033	1,040	1,040
Other income	**481**	**6**	**53**	**55**	84 (a)	18 (a)	46 (a)	31 (a)
Total non-interest income	**1,545**	**1,344**	**983**	**2,425**	1,214	1,275	1,258	1,394
Operating and other expenses								
Salaries and related expenses	**1,325**	**1,360**	**1,345**	**1,418**	1,132 (a)	1,283 (a)	1,320 (a)	1,416 (a)
Building and equipment maintenance and depreciation	**420**	**427**	**434**	**421**	418 (a)	420 (a)	405 (a)	412 (a)
Amortization of intangible assets and goodwill	**5**	**-**	**6**	**(6)**	-	44	11	3
Other expenses	**568**	**334**	**377**	**402**	523	737	880	367
Total operating and other expenses	**2,318**	**2,121**	**2,162**	**2,235**	2,073	2,484	2,616	2,198
Profit before taxes	**921**	**1,025**	**809**	**1,625**	460	634	563	1,004
Provision for taxes on profit	**502**	**327**	**297**	**565**	244 (a)	332 (a)	337 (a)	365 (a)
Profit after taxes	**419**	**698**	**512**	**1,060**	216	302	226	639
Banking corporation's share in profits of companies included on equity basis, after tax	**16**	**15**	**15**	**131**	(252)	345	(14)	(37)
Net profit (loss):								
Before attributiing to non-controlling interests	**435**	**713**	**527**	**1,191**	(36)	647	212	602
Attributed to non-controlling interests	**(4)**	**(9)**	**(9)**	**(9)**	(7)	(11)	17	(11)
Attributable to shareholders of the banking corporation	**431**	**704**	**518**	**1,182**	(43)	636	229	591
Basic and diluted earnings per share:								
Net profit (loss) attributable to shareholders of the banking corporation (in NIS)	**0.29**	**0.48**	**0.35**	**0.80**	(0.03) (a)	0.43 (a)	0.16 (a)	0.40 (a)

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

Quarterly Consolidated Balance Sheets – Multi-Quarter Data

	2015				2014			
	4	3	2	1	4	3	2	1
	(NIS millions)							
Assets								
Cash and deposits with banks	**60,455**	**52,562**	**46,170**	**51,769**	60,615	54,612	49,902	44,162
Securities	**69,475**	**67,545**	**64,810**	**64,379**	52,113	46,058	49,713	60,481
Securities borrowed or purchased under agreements to resell	**1,764**	**1,420**	**2,177**	**2,197**	2,000	2,019	1,634	1,370
Credit to the public	**265,070**	**263,822**	**258,460**	**254,223**	256,468	253,206	248,172	245,111
Allowance for credit losses	**(3,671)**	**(3,813)**	**(3,912)**	**(3,948)**	(3,988)	(3,725)	(3,787)	(3,838)
Credit to the public, net	**261,399**	**260,009**	**254,548**	**250,275**	252,480	249,481	244,385	241,273
Credit to governments	**453**	**474**	**435**	**433**	528	510	483	487
Investments in companies included on equity basis	**924**	**948**	**889**	**896**	2,216	2,062	1,641	1,630
Buildings and equipment	**3,095**	**2,992**	**3,054**	**3,103**	3,162(a)	3,051 (a)	3,037 (a)	3,027(a)
Intangible assets and goodwill	**18**	**18**	**17**	**18**	43	42	85	96
Assets in respect of derivative instruments	**11,250**	**15,314**	**14,538**	**18,831**	16,909	16,227	11,860	12,303
Other assets	**7,666**	**7,242**	**7,113**	**7,418**	6,918 (a)	6,320 (a)	6,301(a)	6,166 (a)
Total assets	**416,499**	**408,524**	**393,751**	**399,319**	396,984	380,382	369,041	370,995
Liabilities and equity								
Deposits of the public	**328,693**	**317,991**	**304,043**	**305,017**	303,397	286,632	279,861	282,732
Deposits from banks	**3,859**	**3,650**	**4,581**	**6,187**	4,556	4,781	5,201	4,367
Deposits from governments	**750**	**644**	**631**	**517**	467	391	359	435
Securities loaned or sold under agreements to repurchase	**938**	**503**	**1,371**	**1,384**	1,238	1,172	747	540
Debentures, bonds and subordinated notes	**21,308**	**22,187**	**19,720**	**19,596**	23,678	23,932	24,509	24,484
Liabilities in respect of derivative instruments	**11,098**	**14,766**	**14,430**	**18,086**	15,650	15,702	12,153	12,861
Other liabilities	**20,746**	**19,873**	**20,368**	**21,591**	21,860(a)	20,729(a)	20,183(a)	19,822 (a)
Total liabilities	**387,392**	**379,614**	**365,144**	**372,378**	370,846	353,339	343,013	345,241
Non-controlling interests	**340**	**335**	**334**	**329**	340	334	323	341
Equity attributable to shareholders of the banking corporation	**28,767**	**28,575**	**28,273**	**26,612**	25,798(a)	26,709(a)	25,705(a)	25,413 (a)
Total equity	**29,107**	**28,910**	**28,607**	**26,941**	26,138	27,043	26,028	25,754
Total liabilities and equity	**416,499**	**408,524**	**393,751**	**399,319**	396,984	380,382	369,041	370,995

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